Registered number 05197592

Zopa Limited

Annual report and Financial Statements

for the year ended 31 December 2010

Zopa Limited

Annual report and Financial Statements for the year ended 31 December 2010

Directors and advisers

Directors
Giles Andrews
Rowan Gormley

Company Secretary
Giles Andrews

Registered Office
2nd Floor
40-44 Newman Street
London
W1T 1QD

Bankers
The Royal Bank of Scotland
London Cavendish Square Branch
28 Cavendish Square
London
W1G 0DB

Lawyers
Wilmer Cutler Pickering Hale and Dorr LLP
Alder Castle
10 Noble Street
London
EC2V 7QJ

Independent Auditors
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
1 Embankment Place
London
WC2N 6RH

Directors' report for the year ended 31 December 2010

Registered number 05197592

The directors present the annual report and the audited financial statements of the company for the year ended 31 December 2010

Principal activity and business review

The principal activity of Zopa Limited is the development and provision of an on-line lending and borrowing exchange

The results of the company show a pre-tax loss of £0 4 million (2009 £0 3 million) (The director does not recommend the payment of a dividend in the current year (2009 £nil))

As at 31 December 2010, the company has net assets of £0 4 million (2009 £0 8 million)

The Directors anticipate the entry of new competitors to, and growth of existing competitors in our sector but are confident we will continue to show strong growth

Directors

The directors who held office during the year and up to the date of the approval of these financial statements are listed below
Giles Andrews
Douglas Dolton (resigned 9th November 2010)
Rowan Gormley (Appointed 17th November 2010)

Exceptional item

A reduction in the provision made against intercompany balances of £311,264 (2009 £798,678 offset by the impairment of two investments (£237,755) due to the company)

Statement of directors' responsibilities

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006 They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

Directors' report for the year ended 31 December 2010 (continued)

Statement of Disclosure of Information to Auditors

In the case of each director in office at the date the director's report is approved

(a) so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware, and

(b) the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information

Independent Auditors

The auditors, PricewaterhouseCoopers LLP have indicated their willingness to continue in office

This report has been prepared in accordance with the special provisions of Part 15 of the Companies Act 2006 relating to small companies

On behalf of the board

Giles Andrews
Director
24 March 2011

Independent auditors' report to the members of Zopa Limited

We have audited the financial statements of Zopa Limited for the year ended 31 December 2010 which comprise the Profit and Loss Account, the Balance Sheet, and the related notes The financial reporting framework that has been applied in their preparation is applicable law and the Financial Reporting Standard for Smaller Entities (Effective April 2008) (United Kingdom Generally Accepted Accounting Practice applicable to Smaller Entities)

Respective responsibilities of directors and auditors
As explained more fully in the Statement of the Directors' Responsibilities set out on page 2, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors and the overall presentation of the financial statements

Opinion on financial statements
In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2010 and of its loss for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice applicable to Smaller Entities, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Independent auditors' report to the members of Zopa Limited (continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit, or
- the directors were not entitled to prepare the financial statements in accordance with the small companies regime and take advantage of the small companies' exemption in preparing the Directors' Report

Brian Henderson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
25 MARCH 2011

Zopa Limited

Profit and loss account for the year ended 31 December 2010

	Notes	2010	2009
		£	£
Fee income		**1,687,369**	863,483
Franchise income		**-**	25,000
Turnover	1,2	**1,687,369**	888,483
Cost of sales		**(123,120)**	(157,688)
Gross profit		**1,564,249**	730,795
Distribution costs		**(615,469)**	(368,273)
Administrative expenses		**(1,345,131)**	(701,842)
Operating loss before exceptional item		**(707,615)**	(900,242)
Exceptional item	4	**311,264**	560,922
Operating loss		**(396,351)**	(339,320)
Interest receivable and Similar	3	**4,062**	4,950
Loss on ordinary activities before taxation		**(392,289)**	(334,370)
Tax on loss on ordinary activities	7	**-**	-
Loss for the financial year	14	**(392,289)**	(334,370)

Zopa Limited

Balance sheet
as at 31 December 2010

	Notes	2010	2009
		£	£
Fixed assets			
Tangible assets	8	**59,840**	63,980
		59,840	63,980
Current assets			
Debtors	9	**189,978**	135,249
Cash at bank and in hand		**536,302**	902,920
		726,280	1,038,169
Creditors: falling due within one year	10	**(260,900)**	(237,844)
Net current assets		**465,380**	800,325
Total assets less current liabilities		**525,220**	864,305
Provisions for liabilities and charges	11	**(105,875)**	(52,671)
Net assets		**419,345**	811,634
Capital and reserves			
Called up share capital	13	**199,824**	199,824
Share premium account	14	**5,815,640**	5,815,640
Capital contribution	14	**8,093,020**	8,093,020
Profit and loss account	14	**(13,689,139)**	(13,296,850)
Total shareholders' funds	15	**419,345**	811,634

These financial statements have been prepared in accordance with the special provisions relating to small companies within Part 15 of the Companies Act 2006, 'The small companies and Groups (Accounts and Directors' Report) Regulations 2008', and with the Financial Reporting Standard for Smaller Entities (effective April 2008)

The financial statements, which comprises the profit and loss account, the balance sheet and the related notes were approved by the Directors on 2011 and were signed on its behalf by

Giles Andrews

Director

24 MARCH 2011

Notes to the financial statements for the year ended 31 December 2010

1 Principal accounting policies

These financial statements are prepared on a going concern basis, under the historic cost convention and in accordance with the Financial Reporting Standard for Smaller Entities (effective April 2008) and the Companies Act 2006 The principal accounting policies, which have been consistently applied, are set out below

Going concern

The financial statements have been prepared on a going concern basis, which the Directors believe to be appropriate as the company raised the additional funding necessary from its third party investors during 2010 and are forecasting to start achieving net cash inflows by the end of 2011 The Directors have prepared cash flow projections for the company covering a period of at least 12 months from the date of their approval of these financial statements and the Directors consider the company will be able to operate within its available facilities

Exceptional items

Exceptional items are events that fall within the ordinary activities of the Company, but which by virtue of size or incidence, have been separately disclosed in order to improve a reader's understanding of the financial statements These include one-off events or transactions

Tangible assets and depreciation

Tangible assets are stated as historic purchase cost less accumulated depreciation The cost of tangible assets is their purchase cost together with any incidental costs of acquisition

Depreciation is calculated so as to write off the cost of tangible fixed assets less their estimated residual values on a straight-line basis over the expected useful economic lives of the assets concerned being

Office equipment	3-4 years
Fixtures and fittings	3-4 years

Residual values and useful economic lives for tangible assets are reviewed regularly and revised when necessary

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date

A net deferred tax asset is recognised as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date Deferred tax is measured on a non-discounted basis

Research and development expenditure

Expenditure on research and development is charged to the profit and loss account in the year in which it is incurred

Notes to the financial statements for the year ended 31 December 2010 (continued)

Turnover

Turnover arises from the principal activity and represents the commission charged to borrowers and lenders for the use of the on-line lending and borrowing exchange Turnover from lender fees is recognised over the term of the loan The fixed borrower fee is recognised when the borrower accepts the loan

Franchise fees are charged on an annual basis and are recognised on a straight line basis in the profit and loss account over the franchise period

Cash flow statement

The company has prepared the financial statements under the Financial Reporting Standard for Smaller Entities (effective April 2008) and as such is not required to prepare a cash flow statement

Operating leases

Costs in respect of operating leases are charged to the profit and loss account on a straight line basis over the lease term

Foreign currencies

Transactions denominated in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction Monetary assets and liabilities are translated at the rates of exchange ruling on the balance sheet date and any differences arising are taken to the profit and loss account

Provisions

Provisions have been made in respect of loan subsidies and against the loan run-off Provisions are recognised when a present obligation exists as the result of a past event and it is probable that this will result in an outflow of economic benefit, the size of which can be reliably estimated, Provisions are measured on a non-discounted basis

2 Turnover

Turnover and profit before tax all derive from the principal activity and wholly arise in the United Kingdom

The split of these fees can be shown as -

	2010	2009
	£	£
Fee income	1,687,369	863,483
Franchise income	-	25,000
Turnover	1,687,369	888,483

Notes to the financial statements for the year ended 31 December 2010 (continued)

3 Interest receivable and Similar Income

	2010	2009
	£	£
Interest receivable on bank deposits	4,062	4,950

4 Operating loss

Operating loss is stated after charging/(crediting)

	2010	2009
	£	£
Services provided by the company's auditor:		
Fees payable for the audit	15,600	14,100
Fees payable for other services – tax compliance	8,494	2,416
Depreciation of owned tangible assets	42,481	36,638
Operating lease payments – land and buildings	85,669	45,235
Provision against intercompany balance	(311,264)	(798,678)
Impairment of investment	-	237,755
Gain/(Loss) on disposal of fixed assets	214	(352)

The exceptional item relates to a reduction to the provision made in 2007 against the intercompany balances £311,264 (2009 £798,678 offset by the impairment of two investments (£237,755) due to the company)

5 Director's emoluments

Total emoluments in respect of all directors were

	2010	2009
	£	£
Aggregate emoluments	124,707	124,000

The aggregate emoluments of £124,707 pertained to one director (2009 £124,000)

Notes to the financial statements for the year ended 31 December 2010 (continued)

6 Employee information

The average monthly number of persons (including directors) employed by the company during the year was

	Number	Number
	£	£
Selling and distribution	**5**	6
Administration	**17**	12
	22	18

Employment costs for all of the above employees, including directors, were

	2010	2009
	£	£
Staff costs		
Wages and salaries	**874,725**	646,199
Social security costs	**91,450**	69,831
	966,175	716,030

7 Tax on loss on ordinary activities

(a) Analysis of tax in the year	**2010**	**2009**
	£	**£**
Current tax	-	-
Total current tax	-	-

(b) Deferred tax asset	**2010**	**2009**
	£	**£**
Deferred tax	**Un-provided**	**Un-provided**
Origination and reversal of timing differences	26,064	13,939
Tax losses available in future years	3,206,698	3,089,545
Total	**3,232,762**	**3,103,484**

Notes to the financial statements for the year ended 31 December 2010 (continued)

The un-provided deferred tax assets are not recognised as of 31 December 2010 as it is not considered likely that such deferred assets would be realised in the foreseeable future

A number of changes to the UK corporation tax system were announced in the June 2010 Budget Statement The Finance (No 2) Act 2010, which was substantively enacted on 20 July 2010, included legislation reducing the main rate of corporation tax from 28% to 27% from 1 April 2011 Further reductions to the main rate are proposed to reduce the rate by 1% per annum to 24% by 1 April 2014 These changes had been substantively enacted at the balance sheet date and therefore are reflected in these financial statements Unprovided deferred tax has therefore been recognised at 27% (2009 28%)

8 Tangible assets

	Office equipment	Fixtures and fittings	Total
	£	£	£
Cost			
At 1 January 2010	159,745	9,101	168,846
Additions	37,857	698	38,555
Disposals	(43,890)	-	(43,890)
At 31 December 2010	**153,712**	**9,799**	**163,511**
Depreciation			
At 1 January 2010	96,215	8,651	104,866
Charge for the financial year	41,977	504	42,481
Eliminated on disposal	(43,676)	-	(43,676)
At 31 December 2010	**94,516**	**9,155**	**103,671**
Net book value			
31 December 2010	**59,196**	**644**	**59,840**
31 December 2009	63,530	450	63,980

9 Debtors

	2010	2009
	£	£
Other debtors	**54,179**	47,024
Prepayments	**135,799**	88,225
	189,978	135,249

The amounts due from group companies are unsecured, have no fixed date for repayment and are non-interest bearing

10 Creditors: amounts falling due within one year

	2010	2009
	£	£
Amounts due to group companies	**28,484**	56,222
Trade creditors	**108,657**	67,098
Other taxation and social security	**25,350**	23,390
Accruals and other creditors	**98,409**	91,134
	260,900	237,844

The amounts due to group companies are unsecured, have no fixed date for repayment and are non-interest bearing

11 Provisions for liabilities

	Loan run-off	Loan subsidies	Total
	£	£	£
At 1 January 2010	52,541	130	52,671
Charged to the profit and loss account	53,334	-	53,334
Utilised during the year	-	(130)	(130)
At 31 December 2010	**105,875**	**-**	**105,875**

The loan run-off provision was established to cover the risk that there would not be sufficient future lender fee income from the loan book to pay for the collection of repayments in the event of Zopa ceasing to trade At the year-end, funds to an equivalent value of that provision were maintained in a segregated bank account

Following the growth in the loan book and the associated rise in the level of future lender fee income, the risk that this income would be insufficient to cover collection of repayments has been mitigated Management has prepared calculations to support this conclusion and accordingly the provision will be released in full in 2011

Notes to the financial statements for the year ended 31 December 2010 (continued)

12 Share based payment arrangements

Durng the year ended 31 December 2010, Zopa Lımıted had a sıngle share based payment arrangement wıth 12 employees for shares of Zopa Holdıngs Inc, the ultımate parent undertakıng In accordance wıth the FRSSE, no share based payments charge has been recognısed ın the financıal statements The detaıls of the arrangement are descnbed below

Arrangement	Share options granted
Number of ınstruments granted	1,439,334
Exercıse prıce	£0 0466
Share prıce at the date of grant	£0 0466
Vestıng condıtıons	Contınuous employment sınce grant date to exercıse date (3 years)
Settlement	Equıty shares

Durıng the year 12,389 share optıons were exercısed The above ınformatıon applıes to optıons outstandıng at the end of the year

All of the 1,439,334 shares outstandıng as at 31 December 2010 were granted on 2 October 2009 replacıng any share optıons prevıously granted

13 Called up share capital

	2010	2009
	£	£
Authorised:		
200,000 ordınary shares of £1 each (2009 200,000)	**200,000**	200,000
Allotted and fully paıd:		
199,824 ordınary shares of £1 each (2009 199,824)	**199,824**	199,824

Notes to the financial statements for the year ended 31 December 2010 (continued)

14 Reserves

	Share Premium	Capital Contribution	Profit and Loss Account
	£	£	£
At 1 January 2010	5,815,640	8,093,020	(13,296,850)
Loss for the financial year	-	-	(392,289)
At 31 December 2010	**5,815,640**	**8,093,020**	**(13,689,139)**

15 Reconciliation of movements in shareholders' funds

	2010	2009
	£	£
Loss for the financial year	**(392,289)**	(334,370)
Opening shareholders' funds	**811,634**	1,146,004
Closing shareholders' funds	**419,345**	811,634

16 Financial commitments

The company had annual commitments under non-cancellable operating leases, expiring as follows

	Land and buildings	
	2010	2009
	£	£
Under 1 year	-	-
Between 2 and 5 years	**63,000**	61,100
Total	**63,000**	61,100

17 Related party transactions

During the year, the company obtained funding in the amount of £nil (2009 £nil) from its parent entity, Zopa Holdings Inc in the form of a non-distributable capital contribution

At the year end, £1,178,854 (2009 £1,490,118), against which there is a provision of £1,178,854 (2009 £1,490,118), is due from a fellow group company, Zopa Incorporated

At the year end, £28,484 is due to the parent company, Zopa Holdings Inc (2009 £56,222)

The provisions were created due to the winding up of Zopa Incorporated which is now dormant, and the increased risk of recoverability of the balances

Notes to the financial statements for the year ended 31 December 2010 (continued)

18 Ultimate parent undertaking and controlling party

Zopa Holdings Inc (incorporated in the U S) continues to hold 100% of the issued capital of Zopa Limited at 31 December 2010 and is therefore regarded as the immediate and ultimate parent undertaking