

Registered number: 05197592

Zopa Limited

Annual Report and Financial Statements for the year ended 31 December 2016

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Zopa Limited

Annual Report and Financial Statements for the year ended 31 December 2016

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Directors and professional advisers

Directors

Giles Andrews
Greg Jackson
Jaidev Janardana

Secretary

Giles Andrews

Registered office

1st Floor Cottons Centre
Cottons Lane
London
England
SE1 2QG

Bankers

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

Lawyers

Morgan, Lewis and Bockius LLP
Condor House
5-10 St Paul's Churchyard
London
EC4M 8AL

Independent auditors

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

Strategic Report for the year ended 31 December 2016

Principal activities

The principal activity of Zopa Limited ("the Company") is the provision of an on-line marketplace lending platform which allows individuals in the United Kingdom to access unsecured loans, facilitated by funds provided by both individuals and institutions.

Business review

The results of the Company for the year show an increase in revenue of 61% to £33.2 million (2015: 20.6 million), and an operating loss of £5.9 million (2015: £8.9 million). This reflects a combination of losses through to Q3 and a profitable Q4. The growth in revenue reflects an increase in loan origination of 30% to £689 million (2015: £532 million).

The results reflect continued and significant investment in the Company, in particular in technology and operational systems, and in governance infrastructure through strengthening risk, legal and compliance functions. Investment in these areas will ensure the Company is both viable and sustainable as it moves towards its next stage of growth. This investment has provided for an increase of 69% in the average headcount of 188 for 2016. In turn this expansion in headcount has necessitated a move to new and more modern premises better able to accommodate a technology based business, and which will provide sufficient accommodation and flexibility for the Company for the immediate future.

Towards the end of the reporting period it was announced that the Group that owns the Company intended to apply for a banking licence using a subsidiary in order to expand the range of financial products that the Group was able to offer to its customers.

In 2016, Zopa received recognition from a number of external organisations. The Company was Ranked 36th in 2016's Sunday Times Tech Track 100, a list of Britain's 100 private tech companies with the fastest-growing sales over the latest three years, and won the Award of Best Peer-to-Peer Lender at the Investors Chronicle Investment and Wealth Management Awards. Other Awards included: MoneySupermarket Best Loan Provider 2016, Moneywise Customer Service Awards: Most Trusted Loan Provider 2016 (for the 7th year in a row), Consumer Moneyfacts Awards Winner 2016: Personal Loan Provider of the Year (for the 3rd year in a row) and AltFi Awards Winner 2016: Best Clarity of Data.

As at 31 December 2016, the Company had net assets of £11.7 million (2015: £13.6 million).

Strategic Report for the year ended 31 December 2016 (continued)

Business environment and future development

The directors anticipate the alternative finance sector, and within that the Peer-to-Peer lending sector, will continue to expand along with more general expansion of the personal loans market. Market data analysed by AltFi indicates that United Kingdom originations in the marketplace lending sector ended 2016 at £3.9bn compared with £2.8bn in 2015, a growth of 36%. Within the wider personal loans market, market research indicates a growth of 10-12%. There are concerns associated with continuing growth of consumer unsecured debt, particularly in light of rising inflation in the UK. The company continues to monitor credit performance and indebtedness trends closely and will act consistently with its prudent approach to credit risk management and responsible lending.

New competitors can be expected to enter the market and market shares between competitors may change. Greater competition should also be expected from traditional financial service providers as they react to customer demand.

Following the Financial Conduct Authority taking responsibility for regulating consumer credit in April 2014, Zopa Limited's application for full permission was submitted within the designated window in 2015. At the end of the reporting period full authorisation had not been granted, though was on 11th May 2017.

Principal risks and uncertainties

The principal risks and uncertainties that the Company faces include consumer credit risk, operational risk specifically information security, financial crime, service disruption and conduct and compliance risk. Additionally, there is the possibility of increased competitive pressure from both new entrants to the sector as well as established retail financial services providers.

Strategic Report for the year ended 31 December 2016 (continued)

Principal risks and uncertainties (continued)

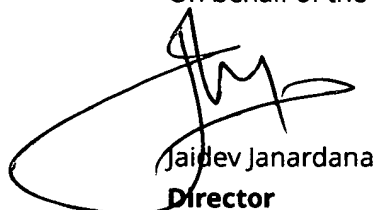
Zopa continues to have a prudent and proactive approach towards risk management. Key aspects of this approach include:

- having a culture that puts the customer first and seeks to provide them with better value, better service and thus better outcomes;
- attracting the best talent possible;
- continually reviewing product performance, service levels and macro-economic environment;
- creating and maintaining appropriate processes and controls for robust governance while maintaining agility to react to adverse changes;
- maintaining close engagement in public policy formulation with respect to the financial finance sector.

Governance remains a key priority for the Board and the Company's leadership team, and investment in this area will continue at an appropriate level, including seeking new and appropriately qualified and experienced senior headcount, both at Board and leadership levels, as necessary in response to the Company's growth and competitive opportunities.

The Directors believe that Zopa Limited is well positioned to continue to provide great value and service to its customers.

On behalf of the board



Jaidev Janardana
Director

21 June 2017

Directors' report for the year ended 31 December 2016

The directors present the annual report and the audited financial statements of the company for the year ended 31 December 2016. Details of future developments are included in the Strategic report. The directors do not recommend the payment of a dividend in the current year (2015: £nil).

Directors

The directors who held office during the year and up to the date of the approval of these financial statements, unless otherwise noted, are listed below:

Giles Andrews
Greg Jackson
Jaidev Janardana

Going concern

The financial statements have been prepared on a going concern basis, which the Directors believe to be appropriate. 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.

Management of financial risk

The company's management of financial risk is detailed in the notes to the financial statements in note 3 on pages 22-24.

Statement of Directors Responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

Directors' report for the year ended 31 December 2016 (continued)

Statement of Directors Responsibilities (continued)

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.

The directors 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.

Statement of disclosure of information to auditors

In the case of each director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Directors' indemnities

As permitted by the Articles of Association, the Directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force. The Company also purchased and maintained throughout the financial year Directors' and Officers' liability insurance in respect of itself and its Directors.

Independent auditors

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

On behalf of the board



Jaidev Janardana
Director
21 June 2017

Independent auditors' report to the members of Zopa Limited

Report on the financial statements

Our opinion

In our opinion, Zopa Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), comprise:

- Statement of Financial Position as at 31 December 2016;
- the Statement of Comprehensive Income for the year then ended;
- the Statement of Cash Flows for the year then ended;
- the Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is IFRSs as adopted by the European Union, and applicable law.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' report. We have nothing to report in this respect.

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

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, 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.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on pages 5-6, 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) ("ISAs (UK & 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.

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

Responsibilities for the financial statements and the audit (continued)

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). 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.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Directors' report, we consider whether those reports include the disclosures required by applicable legal requirements.



Leighton Thomas (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
21 June 2017

Statement of Comprehensive Income for the year ended 31 December 2016

	Note	2016 £	2015 £
Revenue	4	33,220,454	20,640,429
Cost of sales		(10,894,377)	(9,947,344)
Gross profit		22,326,077	10,693,085
Distribution expenses		(7,784,827)	(6,858,396)
Administrative expenses		(20,408,253)	(12,757,848)
Operating loss	6	(5,867,003)	(8,923,159)
Other interest receivable and similar income	5	50,455	68,456
Loss before taxation		(5,816,548)	(8,854,703)
Taxation	9	-	-
Loss for the year		(5,816,548)	(8,854,703)
Other comprehensive income		-	-
Total comprehensive expense attributable to owners of the parent		(5,816,548)	(8,854,703)

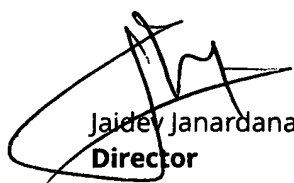
The notes on pages 14-33 form part of these financial statements.

Statement of Financial Position as at 31 December 2016

	Note	2016 £	2015 £
Non-current assets			
Property, plant and equipment	10	1,358,905	671,220
Intangible assets	11	1,218,021	-
Investment in subsidiary		1	1
		<u>2,576,927</u>	<u>671,221</u>
Current assets			
Trade and other receivables	12	3,521,543	1,260,000
Cash and cash equivalents		9,801,290	13,559,339
		<u>13,322,833</u>	<u>14,819,339</u>
Total assets		<u>15,899,760</u>	<u>15,490,560</u>
Current liabilities			
Trade and other payables	13	(4,203,576)	(1,893,438)
Net current assets		9,119,257	12,925,901
Net assets		<u>11,696,184</u>	<u>13,597,122</u>
Equity			
Share capital	16	199,824	199,824
Share premium		5,815,640	5,815,640
Other reserves	17	42,667,680	38,752,070
Accumulated losses		(36,986,960)	(31,170,412)
Total equity		<u>11,696,184</u>	<u>13,597,122</u>

The notes on pages 14-33 form part of these financial statements.

The financial statements of Zopa Limited (Registered number 05197592) on pages 14-33 were approved by the directors on 21 June 2017 and were signed on its behalf by:


 Jaidev Janardana
 Director
 21 June 2017

Statement of Changes in Equity for the year ended 31 December 2016

	Share capital £	Share premium £	Other reserves £	Accumulated losses £	Total Equity £
Balance as at 1 January 2015	199,824	5,815,640	31,516,181	(22,315,709)	15,215,936
Comprehensive expense					
Loss for the year	-	-	-	(8,854,703)	(8,854,703)
Total comprehensive expense	-	-	-	(8,854,703)	(8,854,703)
Transactions with owners					
Capital contribution	-	-	5,676,822	-	5,676,822
Share based payment charge	-	-	1,559,067	-	1,559,067
Total transactions with owners	-	-	7,235,889	-	7,235,889
Balance as at 31 December 2015 and 1 January 2016	199,824	5,815,640	38,752,070	(31,170,412)	13,597,122
Comprehensive expense					
Loss for the year	-	-	-	(5,816,548)	(5,816,548)
Total comprehensive expense	-	-	-	(5,816,548)	(5,816,548)
Transactions with owners					
Capital contribution	-	-	2,000,000	-	2,000,000
Share based payment charge	-	-	1,915,610	-	1,915,610
Total transactions with owners	-	-	3,915,610	-	3,915,610
Balance as at 31 December 2016	199,824	5,815,640	42,667,680	(36,986,960)	11,696,184

Other reserves consist of a capital contribution reserve and share based payment reserve. Please see note 17 for details.

The notes on pages 14-33 form part of these financial statements.

Statement of Cash Flows for the year ended 31 December 2016

		2016	2015
	Note	£	£
Cash flows from operating activities			
Cash used in operations	15	<u>(3,188,977)</u>	<u>(5,154,004)</u>
Net cash used in operating activities		(3,188,977)	(5,154,004)
Cash flows from investing activities			
Additions to property, plant and equipment	10	(1,261,914)	(362,899)
Additions to intangible assets	11	(1,357,613)	-
Investment in subsidiary		-	(1)
Interest received		<u>50,455</u>	<u>68,456</u>
Net cash used in investing activities		(2,569,072)	(294,444)
Cash generated from financing activities			
Capital contribution from Parent		2,000,000	5,676,822
Net (decrease)/increase in cash and cash equivalents		(3,758,049)	228,374
Cash and cash equivalents at 1 January		13,559,339	13,330,965
Cash and cash equivalents at 31 December		<u>9,801,290</u>	<u>13,559,339</u>

Cash and cash equivalents is entirely made up of cash at bank and in hand.

The notes on pages 14-33 form part of these financial statements.

Notes to the financial statements for the year ended 31 December 2016

1 General information

The Company is incorporated and domiciled in the United Kingdom under the Companies Act 2006. The Company is limited by shares. The address of the registered office is detailed on page 1. The principal activities of the Company are disclosed in the Strategic report on page 2.

2 Principal accounting policies

Basis of preparation

These financial statements are presented in GB Pound Sterling (£) and in conformity with United Kingdom laws and regulations. They are prepared in accordance with EU adopted IFRS and interpretations issued by the IFRS Interpretations Committee and the Companies Act 2006 applicable to companies reporting under IFRS.

The financial statements contain information about Zopa Limited as an individual company and do not contain consolidated financial information as the parent of a group. The Company is exempt under sections 402 and 405 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as its only subsidiary undertaking is not material.

The financial statements have been prepared under the historical cost convention and as per the Directors Report on a going concern basis. The principal accounting policies, which have been consistently applied, are set out below:

New and amended standards adopted by the Company

Amendments to IAS 16 and IAS 38, clarification of acceptable methods of depreciation and amortisation.

The requirements of IAS 16 are amended to clarify that a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate. The requirements of IAS 38 are amended to introduce a rebuttable presumption that a revenue-based amortisation method for intangible assets is inappropriate.

Annual Improvements to IFRS 2012-2014 Cycle

The issues addressed in this cycle cover IFRS5, IFRS7, IAS19 and IAS34. The Annual Improvements are effective for accounting periods beginning on or after 1 January 2016.

There is also a Disclosure Initiative which incorporates amendments to IAS1 which is effective for accounting periods beginning on or after 1 January 2016.

Notes to the financial statements for the year ended 31 December 2016 (continued)

2 Principal accounting policies (continued)

New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2016 and not early adopted

Annual Improvements to IFRS 2014-2016 Cycle

The issues addressed in this cycle cover IFRS1, IFRS12, and IAS28. The amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after 1 January 2018, the amendment to IFRS 12 for annual periods beginning on or after 1 January 2017.

IFRS 2 Share Based Payments

The amendment clarifies the measurement basis for cash-settled, share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled. The changes are effective for accounting periods beginning on or after 1 January 2018. The company is yet to assess the full impact of the amendment.

IFRS 9 Financial instruments

The Standard includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting. It also includes an expected credit losses model that replaces the current incurred loss impairment model. The Standard is effective for accounting periods beginning on or after 1 January 2018. The company is yet to assess the full impact of the standard.

IFRS 15 Revenue from Contracts with Customers

The Standard sets out at what point and how revenue is recognised and also requires enhanced disclosures. Revenue contracts should be recognised in accordance with a single, principles based five-step plan. The Standard is effective for accounting periods beginning on or after 1 January 2018. The company is yet to assess the full impact of the standard.

IFRS 16 Leases

The Standard assesses the use of off-balance sheet leases, bringing most lessee leases on-balance sheet and eliminating the distinction between operating and finance leases. The Standard is effective for periods beginning on or after 1 January 2019. The company is yet to assess the full impact of the standard.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the company.

Notes to the financial statements for the year ended 31 December 2016 (continued)

2 Principal accounting policies (continued)

Revenue

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of rebates and amounts collected on behalf of third parties.

The company recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the company's activities as described below. The company bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

The company's main types of revenue arise from the principal activity and represent the commission charged to borrowers and lenders for the use of the on-line lending and borrowing exchange. Revenue from servicing fees is recognised over the term of the loan. The borrower fee is recognised when the borrower accepts the loan.

Finance income and expenses

Interest income and expenses are recognised on a time proportion basis using the effective income interest method.

Investment in subsidiaries

Investments in subsidiaries are initially recognised at cost. Investments are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). An impairment loss is recognised in the income statement as the amount by which the asset's carrying amount exceeds its recoverable amount.

Notes to the financial statements for the year ended 31 December 2016 (continued)

2 Principal accounting policies (continued)

Property, plant and equipment and depreciation

Property, plant and equipment are stated as historic purchase cost less accumulated depreciation. The cost of tangible assets is their purchase cost together with incidental costs of acquisition. Incidental costs only include those that are necessary to bring the asset into the location and condition necessary for it to be capable of operating in the manner intended by management.

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.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss.

Intangible assets

Intangible assets relate to development costs, including employee costs, and are recognised if all of the following criteria are met:

- it is technically feasible to complete the intangible asset so that it will be available for use;
- there is an intention and the ability to use or sell the intangible asset;
- adequate technical, financial and other resources are available to complete the development and to use or sell the intangible asset;
- it is probable that the asset will result in a flow of future economic benefits; and
- the expenditure attributable to the asset can be reliably measured.

Intangible assets are amortised on a straight-line basis over their useful life, which does not exceed 4 years. The residual value of intangible assets is assumed to be zero. Impairment reviews are carried out at the end of each reporting period. Assets are stated at cost less accumulated amortisation and any recognised impairment.

Expenditure on research is charged to the statement of comprehensive income in the year in which it is incurred.

Notes to the financial statements for the year ended 31 December 2016 (continued)

2 Principal accounting policies (continued)

Leases

Leases of property, plant and equipment where the company, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the company will obtain ownership at the end of the lease term.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the company as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

Lease income from operating leases where the company is a lessor is recognised in income on a straight-line basis over the lease term. The respective leased assets are included in the statement of financial position based on their nature.

Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position. Client assets in the form of loans and client money are not recognised in the statement of financial position.

Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Impairment is recognised through the income statement.

Notes to the financial statements for the year ended 31 December 2016 (continued)

2 Principal accounting policies (continued)

Trade and other payables

These amounts represent liabilities for goods and services provided to the company prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost.

Provisions

Provisions for legal claims, service warranties and make good obligations are recognised when the company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

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 reporting date and any differences arising are generally recognised in profit or loss. They are deferred in equity if they relate to qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Foreign exchange gains and losses that relate to borrowings are presented in the income statement, within finance costs. All other foreign exchange gains and losses are presented in the income statement on a net basis within other income or other expenses.

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in GB Pound Sterling (£), which is Zopa Limited's functional and presentation currency.

Notes to the financial statements for the year ended 31 December 2016 (continued)

2 Principal accounting policies (continued)

Income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The company may be entitled to claim special tax deductions for investments in qualifying assets or in relation to qualifying expenditure (e.g. the Research and Development Tax Incentive regime in the UK or other investment allowances). The financial statements for such allowances as tax credits, which means that the allowance reduces income tax payable and current tax expense. A deferred tax asset is recognised for unclaimed tax credits that are carried forward as deferred tax assets.

Notes to the financial statements for the year ended 31 December 2016 (continued)

2 Principal accounting policies (continued)

Employee benefits

Liabilities for wages and salaries, including non-monetary benefits and accumulating sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the statement of financial position.

Pension obligations

For defined contribution plans, the company pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. It has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Share-based payments

Share-based compensation benefits are provided to employees via options granted under the 2005 Stock Incentive Plan and the 2015 Stock Incentive Plan.

The fair value of options granted is recognised as an employee benefits expense with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the options granted.

The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each period, the entity revises its estimates of the number of options that are expected to vest based on the non-market vesting and service conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Rounding of amounts

All amounts disclosed in the financial statements and notes have been rounded off to the nearest pound unless otherwise stated.

Notes to the financial statements for the year ended 31 December 2016 (continued)

2 Principal accounting policies (continued)

Critical accounting judgements and estimates

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Share based payments

Significant estimates and judgements include the estimation of the fair value of share based payments. The company has used the Black Scholes valuation model to determine the fair value of share based payments. Any changes to assumptions made by management will impact the valuation. See note 21 for additional information.

Safeguard fees

Management has assessed the appropriate revenue recognition treatment for Safeguard fees, specifically in relation to agent versus principle and subsequent presentation on a gross or net basis. Based on the facts and circumstances, and contractual arrangements, it is the judgement of management that the company believes it is appropriate to disclose these fees on a gross basis.

Intangible assets

Intangible assets are recognised only when it is probable that the future economic benefits that are attributable to the asset will flow to Zopa. Future economic benefits are dependent on management estimates being met.

3 Management of financial risks

In the course of its business, the company is exposed to a variety of financial risks such as credit risk, liquidity risk and market risk (including interest rate risk). The company's overall risk management programme seeks to minimise potential adverse effects on its financial performance.

Foreign exchange risk

Foreign exchange risk arises from the company entering into transactions denominated in a currency other than its functional currency. These transactions typically relate to trade payables due within 30 days, due to the limited exposure to this risk hedging is not used.

Notes to the financial statements for the year ended 31 December 2016 (continued)

3 Management of financial risks (continued)

Liquidity Risk

Liquidity risk is the risk that the company will not be able to meet its financial obligations as they fall due. This is managed by ensuring that there is always sufficient liquidity to meet liabilities when due both under normal and stressed conditions. The liquidity position is monitored on an ongoing basis.

The maturity analysis of financial instruments as at reporting dates is as follows:

	2016 £	2015 £
Financial assets available on demand and less than 1 month		
Trade debtors	99,105	78,867
Cash and cash equivalents	<u>9,801,290</u>	<u>13,559,339</u>
	<u>9,900,395</u>	<u>13,638,206</u>
Current liabilities		
Trade and other payables	<u>3,833,242</u>	<u>1,607,586</u>

Credit Risk

Credit risk arises from trade receivables and cash and cash equivalents. The company has implemented certain operational processes and policies to address its credit related risks around counterparty risk and transactional bad debt. The credit quality of the financial assets has been assessed and no impairment is required.

Counterparty risk in relation to the cash and cash equivalents held is managed by selecting and working only with appropriate financial institutions. The financial stability of partners will be assessed prior to and at regular intervals during the relationship. Where available external credit rating of partners will be monitored.

Transactional bad debt, or loss, risk is managed by regular monitoring. Revenue is largely due to fees collected in the Zopa platform with no transactional bad debt risk. The risk relates to the small amounts invoiced with the outstanding balance at year end displayed in trade receivables.

Notes to the financial statements for the year ended 31 December 2016 (continued)

3 Management of financial risks (continued)

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will be subject to fluctuating market prices. The company has no price risk with respect to financial instruments as it does not hold marketable securities. It has no external borrowings and so is not exposed to interest rate risk.

Sensitivity analysis of these risks has not been performed due to the lack of exposure.

Capital management

The company's objective when managing capital is to safeguard its ability to continue as a going concern and to meet the FCA regulatory capital requirements. Capital consists of shareholders' equity. The company has no debt.

4 Revenue

Revenue and loss on ordinary activities before taxation derive from the principal activity and arise wholly in the United Kingdom.

5 Other interest receivable and similar income

	2016	2015
	£	£
Interest receivable on bank deposits	<u>50,455</u>	<u>68,456</u>

Notes to the financial statements for the year ended 31 December 2016 (continued)

6 Operating loss

Operating loss is stated after charging:

	2016	2015
	£	£
Services provided by the company's auditors:		
Fees payable for audit services	44,160	46,695
Fees payable for audit related assurance services	46,800	-
Fees payable for taxation services	13,380	6,000
Fees payable for assurance services	80,428	-
Amortisation of intangible assets	139,592	-
Depreciation of owned property, plant and equipment	574,229	367,135
Operating lease payments	<u>1,425,860</u>	<u>303,455</u>

7 Directors' emoluments

Total emoluments in respect of all directors, who are the only key management personnel were:

	2016	2015
	£	£
Short-term employee benefits	618,332	533,941
Post-employment benefits	4,276	1,113
Share-based payment benefits	787,752	305,786
	<u>1,410,360</u>	<u>840,840</u>
Highest paid Director aggregate emoluments	1,129,570	622,168

The highest paid Director did not exercise any share options during the year.

8 Employee information

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

By activity:	2016	2015
	Number	Number
Selling and distribution	62	35
Administration	<u>126</u>	<u>76</u>
	<u>188</u>	<u>111</u>

Notes to the financial statements for the year ended 31 December 2016 (continued)

8 Employee information (continued)

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

	2016	2015
	£	£
Staff costs		
Wages and salaries	8,933,407	5,327,005
Social security costs	965,617	554,689
Share based payments	1,915,610	1,559,067
	<u>11,814,634</u>	<u>7,440,761</u>

9 Taxation

	2016	2015
	£	£
Loss on ordinary activities before taxation	<u>(5,816,548)</u>	<u>(8,854,703)</u>
Accounting loss multiplied by the UK standard corporation tax of 20.00% (2015 20.25%)	(1,163,310)	(1,793,077)
Expenses not deductible for tax purposes	8,653	17,218
Losses for which no deferred tax asset is recognised	<u>1,154,657</u>	<u>1,775,859</u>
Total tax charge	<u>-</u>	<u>-</u>
	2016	2015
	£	£
Deferred tax asset	Unrecognised	Unrecognised
Origination and reversal of temporary differences	227,853	145,277
Tax losses available in future years	<u>5,361,297</u>	<u>5,491,436</u>
Total	<u>5,589,150</u>	<u>5,636,713</u>

The deferred tax assets are not recognised as of 31 December 2016 and will be recognised at such time as it becomes likely that they will be realised in the foreseeable future.

Changes to the UK Corporation Tax rates were substantively enacted as part of the Finance Bill 2015 on 26 October 2015. These included reductions to the main rate of Corporation Tax to 19% from 1 April 2017 and 18% from 1 April 2020. At the Budget 2016 a further reduction from 1 April 2020 to 17% was announced and substantively enacted on 6 September 2016. Deferred taxes at the reporting date have been measured using these expected tax rates and reflected in these statements.

Notes to the financial statements for the year ended 31 December 2016 (continued)

10 Property, plant and equipment

	Office equipment	Fixtures and fittings	Total
	£	£	£
Cost			
At 1 January 2015	811,862	220,593	1,032,455
Additions	316,725	46,174	362,899
	<hr/>	<hr/>	<hr/>
At 31 December 2015	1,128,587	266,767	1,395,354
Additions	535,521	726,393	1,261,914
Disposals	(208,129)	(173,265)	(381,394)
	<hr/>	<hr/>	<hr/>
At 31 December 2016	1,455,979	819,895	2,275,874
Accumulated depreciation			
At 1 January 2015	267,052	89,947	356,999
Charge for the financial year	286,863	80,272	367,135
	<hr/>	<hr/>	<hr/>
At 31 December 2015	553,915	170,219	724,134
Charge for the financial year	393,691	180,538	574,229
Charge for disposals	(208,129)	(173,265)	(381,394)
	<hr/>	<hr/>	<hr/>
At 31 December 2016	739,477	177,492	916,969
Net book value			
31 December 2016	716,502	642,403	1,358,905
31 December 2015	<u>574,672</u>	<u>96,548</u>	<u>671,220</u>
1 January 2015	<u>544,810</u>	<u>130,646</u>	<u>675,456</u>

Notes to the financial statements for the year ended 31 December 2016 (continued)

11 Intangible Assets

	Purchased	Internally Generated	Total
	£	£	£
Cost			
At 1 January 2015	-	-	-
Additions	-	-	-
	<hr/>	<hr/>	<hr/>
At 31 December 2015	-	-	-
Additions	184,815	1,172,798	1,357,613
	<hr/>	<hr/>	<hr/>
At 31 December 2016	184,815	1,172,798	1,357,613
Accumulated amortisation			
At 1 January 2015	-	-	-
Charge for the financial year	-	-	-
	<hr/>	<hr/>	<hr/>
At 31 December 2015	-	-	-
Charge for the financial year	18,120	121,472	139,592
	<hr/>	<hr/>	<hr/>
At 31 December 2016	18,120	121,472	139,592
Net book value			
31 December 2016	166,695	1,051,326	1,218,021
	<hr/>	<hr/>	<hr/>
31 December 2015	-	-	-
	<hr/>	<hr/>	<hr/>
1 January 2015	-	-	-
	<hr/>	<hr/>	<hr/>

Intangible assets relate to software and databases both purchased and internally generated. Amortisation is recognised within administrative expenses in the Statement of Comprehensive Income.

Notes to the financial statements for the year ended 31 December 2016 (continued)

12 Trade and other receivables

	2016 £	2015 £
Trade debtors	99,105	78,867
Amounts due from group undertakings	301,322	-
Other debtors	1,927,689	153,472
Loans	64,958	57,513
Prepayments	693,954	619,343
Accrued income	434,515	350,805
	<u>3,521,543</u>	<u>1,260,000</u>

Loans relate to the outstanding loans to a key supplier and season ticket loans to employees. Other debtors principally relates to rental and other deposits. None of the amounts shown are considered to be past due or impaired. Amounts due from group undertakings are unsecured, interest free and payable on demand.

13 Trade and other payables

	2016 £	2015 £
Trade creditors	1,525,487	603,207
Amounts owed to group undertakings	1	1
Other taxation and social security	370,334	285,852
Other creditors	246,215	316,577
Accruals and deferred income	2,061,539	687,801
	<u>4,203,576</u>	<u>1,893,438</u>

The amounts owed to group undertakings are unsecured, have no fixed date for repayment and are non-interest bearing.

Other creditors relates to amounts provided for dilapidations and amounts owed to the defined contribution pension scheme.

Notes to the financial statements for the year ended 31 December 2016 (continued)

14 Financial instruments

Trade and other receivables and Cash and cash equivalents are considered to be the Company's financial assets. Trade and other payables are considered to be the Company's financial liabilities. Financial assets and liabilities are recorded at their fair value with any changes recorded through profit or loss. Management consider the carrying value to be the fair value.

15 Cash used in operations

	2016 £	2015 £
Loss before taxation	(5,816,548)	(8,854,703)
Adjustments for:		
Depreciation of property, plant and equipment	574,229	367,135
Interest received	(50,455)	(68,456)
Share based payments	1,915,610	1,559,067
Amortisation of intangible assets	139,592	-
Changes in working capital:		
Movement in trade and other receivables	(2,261,543)	995,945
Movement in trade and other payables	2,310,138	847,008
Cash used in operations	<u>(3,188,977)</u>	<u>(5,154,004)</u>

Notes to the financial statements for the year ended 31 December 2016 (continued)

16 Share capital

	2016 £	2015 £
Authorised:		
200,000 ordinary shares of £1 each (2015: 200,000)	<u>200,000</u>	<u>200,000</u>
Allotted and fully paid:		
199,824 ordinary shares of £1 each (2015: 199,824)	<u>199,824</u>	<u>199,824</u>

17 Other Reserves

	Capital Contribution Reserve £	Share Based Payment Reserve £
Balance as at 1 January 2015	31,016,945	499,236
Transactions with owners		
Capital contribution	5,676,822	-
Share based payment charge	-	1,559,067
Total transactions with owners	<u>5,676,822</u>	<u>1,559,067</u>
Balance as at 31 December 2015 and 1 January 2016	<u>36,693,767</u>	<u>2,058,303</u>
Transactions with owners		
Capital contribution	2,000,000	-
Share based payment charge	-	1,915,610
Total transactions with owners	<u>2,000,000</u>	<u>1,915,610</u>
Balance as at 31 December 2016	<u>38,693,767</u>	<u>3,973,913</u>

Notes to the financial statements for the year ended 31 December 2016 (continued)

18 Financial commitments

Leases

The company had total commitments under non-cancellable operating leases, payable as follows:

	2016 £	2015 £
Land and buildings		
Under 1 year	694,430	367,865
Between 2 and 5 years	5,555,440	-
Over 5 years	2,576,684	-
Total	<u>8,826,554</u>	<u>367,865</u>

Purchase commitments

The company had total minimum spend commitments relating to credit checks, payable as follows:

	2016 £	2015 £
Purchase agreements		
Under 1 year	1,352,403	418,320
Between 2 and 5 years	2,054,768	488,040
Total	<u>3,407,171</u>	<u>906,360</u>

19 Company Related party transactions

At 31 December 2016 £1 is due to the subsidiary company, P2PS Cars Limited. (2015: £1).

At 31 December 2016 £301,322 is due from the parent company, Zopa Holdings Inc. (2015: £nil).

During the year a capital contribution of £2,000,000 (2015: £5,676,822) was received from the parent company, Zopa Holdings Inc.

20 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 2016 and is therefore regarded as the immediate and ultimate parent undertaking. See note 22 for subsequent events.

The only subsidiary of Zopa Limited is P2PS Cars Limited. P2PS Cars Limited is a UK company 100% owned by Zopa Limited.

The Directors do not consider there to be one single ultimate controlling party.

Notes to the financial statements for the year ended 31 December 2016 (continued)

21 Share based payment arrangements

The company operates 2 equity-settled share-based compensation plans, the 2005 Stock Incentive Plan and 2015 Stock Incentive Plan. Both are established under the Enterprise Management Initiative ("EMI"), for certain employees under which the entity receives services from employees as consideration for equity option instruments (share options) of the Parent. The fair value of the employee services received in exchange for the grant of options is expensed on the equity basis each reporting period, based on the company's estimate of shares that will eventually vest and the value of the options as at the date of grant.

	Options	Weighted Average Exercise Price
Outstanding options at 31 December 2015	2,087,628	0.8433
Granted during 2016	813,049	3.6541
Exercised during 2016	(264,043)	0.2874
Lapsed during 2016	(153,194)	1.1100
Outstanding options at 31 December 2016	<u>2,483,440</u>	<u>1.8067</u>
Exercisable options at 31 December 2016	889,417	0.8549

The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions.

A Black Scholes option pricing model has been used to calculate the fair value of the options granted in the year.

The share based payment charge in the year was £1,915,610 (2015: £1,559,067).

22 Subsequent events

In May 2017 Zopa Group Limited (UK company number 10624955) acquired 100% of Zopa Holdings Inc. becoming the ultimate parent undertaking. Following this the Directors do not consider there to be one single ultimate controlling party.