

Registered number: 7973792

# **ETORO (UK) LIMITED**

## **ANNUAL REPORT AND FINANCIAL STATEMENTS**

**YEAR ENDED DECEMBER 31, 2014**

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ETORO (UK) LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

PERIOD ENDED DECEMBER 31, 2014

U.S. DOLLARS

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## COMPANY INFORMATION

### FOR THE PERIOD ENDED DECEMBER 31, 2014

Directors: Jonathan Alexander Assia  
Avi Sela  
Anthony Stephen Wollenberg  
Paul Chrimes

Registered Office: 6 New Street Square  
London  
EC4A 3LX

Business Address: Level 39  
One Canada Square  
Canary Wharf  
London  
E14 5AB

Auditor: Ernst & Young LLP  
One More London Place  
London  
SE1 2AF

Bankers: Barclays Bank PLC  
Level 11, 1 Churchill Place  
London  
E14 5HP

Coutts & Co  
440 Strand  
London  
WC2R 0QS

Bank of America N.A.,  
26 Elmfield Road  
Bromley  
Kent  
BR1 1WA

## DIRECTORS' REPORT

The directors present their annual report and financial statements for the year ended December 31, 2014.

### Principal activities and future developments

ETORO (UK) Limited (the "Company"), a private company, limited by shares, was incorporated on March 2, 2012, is based in Canary Wharf, London, and is regulated and authorised by the Financial Conduct Authority ("FCA"), from whom it was granted authorization on May 9, 2013. As at the date of this report, the Company had not yet commenced trading.

The Company intends to provide a social investment network where clients can trade contracts for differences in foreign exchange, commodities, indices and stocks primarily to retail investors. The Company's target market is clients based in the European Union. The Company will trade either as principal, with all trades being matched with offsetting trades, or as agent on behalf of clients, either with associate company eToro (Europe) Limited, incorporated in Cyprus and regulated and authorised by the Cyprus Securities and Exchange Commission, or directly with market liquidity providers & brokers. Hence the Company intends to take minimal market trading risk.

The Company's revenues will be generated primarily from mark-ups and commissions applied to market spread.

### Review of the Business

During the period of this report, the Company did not trade, but had established the infrastructure, and implemented the corporate governance structure ready for the commencement of business. The result for the period is a loss of \$878,499 (2013: loss of \$312,701).

As the revenues of the Company and a significant proportion of its costs will be denominated in USD, the Company has chosen USD as its functional currency, and reports its financial statements in USD.

In order to fund the pre-trading costs, during 2014, the Company's Board of Directors approved an additional capital injection of USD 1,050,000 (GBP 638,000) of Tier 1 equity capital through the issue of Ordinary shares to its parent company, eToro Group Limited, as follows:

- On March 24, 2014, the Company issued 120,000 Ordinary shares of £1 each to its parent company, eToro Group Limited, which remitted £120,000 (USD 200,000) on 24 March 2014 in consideration.
- On April 17, 2014, the Company issued 390,000 Ordinary shares of £1 each to its parent company, eToro Group Limited, which remitted £390,000 (USD 650,000) to the Company on 23 April 2014 in consideration.
- On November 17, 2014, the Company issued 128,000 Ordinary shares of £1 each to its parent company, eToro Group Limited, which remitted £128,000 (USD 200,000) to the Company on 17 November 2014 in consideration.

Pillar III disclosures will be available from the [www.etoro.com](http://www.etoro.com) website in due course.

## **DIRECTORS' REPORT (CONTINUED)**

### **Dividends**

No dividends were paid during the period, and directors do not recommend the payment of a dividend.

### **Directors**

The directors in office during the period and at the date of signing this report were as follows:

Jonathan Alexander Assia

Avi Sela

Anthony Stephen Wollenberg

Paul Chrimes (appointed on February 12, 2014)

### **Directors' liabilities**

During the year the company had in force an insurance policy in favour of its directors, against liability in respect of proceedings brought by third parties, subject to the conditions set out in section 234 of the Companies Act 2006.

### **Political and charitable contributions**

The company made no political or charitable donations nor incurred any political expenditure during the year.

### **Going Concern**

The Company's business activities are set out earlier in this Directors' Report. The Company at times relies on funding made available from the parent company, eToro Group Limited. The directors have satisfied themselves that there is no reason to believe that a material uncertainty exists that may cast significant doubt about the ability or willingness of the Parent to continue with the current financing arrangements. After making enquiries, the directors have a reasonable expectation that the Company and eToro Group Limited have adequate resources to continue in operational existence for the foreseeable future and that the Company has sufficient capital to meet its regulatory capital requirements for the next 12 months from the date of this report. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

### **Strategic report**

The Directors have taken advantage of the provisions of the Companies Act 2006 for small companies, in not preparing a Strategic Report.

### **Disclosure of information to the auditors**

In the case of each of the persons who are Directors of the Company at the date when this report was approved:

- so far as each of the Directors is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- each of the Directors has taken all the necessary steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

## DIRECTORS' REPORT (CONTINUED)

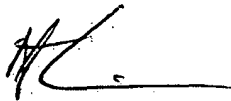
### Events since the balance sheet date

On March 10, 2015, the company issued 200,000 Ordinary shares of £1 each to its parent company, eToro Group Limited, who remitted USD 300,000 (£200,000) on 16 March 2015 in consideration.

### Auditors

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and Ernst & Young LLP will therefore continue in office.

**Approved** by the board of directors and signed on behalf of the board:



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Paul Chrimes  
Director  
April 20, 2015

## 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 International Financial Reporting Standards (IFRSs) as adopted by the European Union 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 the 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 judgments and accounting estimates that are reasonable and prudent;
- state whether applicable Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- 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.



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Paul Chrimes  
Director  
April 20, 2015

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ETORO (UK) LIMITED**

We have audited the financial statements of ETORO (UK) Limited for the year ended 31 December 2014 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and the related notes 1 to 13. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of directors and auditor**

As explained more fully in the Directors' Responsibilities Statement set out on page 7, 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.

### **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. In addition, we read all the financial and non-financial information in the Annual Report and Financial Statements 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.

### **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 2014 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Opinion on other matter prescribed by the Companies Act 2006**

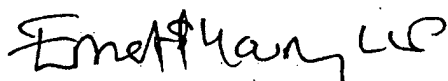
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.



### **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.



Simon Michaelson (Senior statutory auditor)  
for and on behalf of Ernst & Young LLP, Statutory Auditor  
London  
24 April 2015

### **Notes:**

1. The maintenance and integrity of the ETORO web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## STATEMENT OF COMPREHENSIVE INCOME

in U.S. dollars

	<u>Note</u>	<u>Period Ended December 31 2014</u>	<u>Period Ended December 31 2013</u>
Administrative and operating expenses	10	<u>876,147</u>	<u>303,223</u>
Total expenses		<u>876,147</u>	<u>303,223</u>
Operating loss		876,147	303,223
Finance (income)/expense	10	<u>2,352</u>	<u>9,478</u>
Net loss		<u>878,499</u>	<u>312,701</u>
Total Comprehensive Loss		<u>878,499</u>	<u>312,701</u>

\$15,329 has been reclassified from Marketing expenses to Administrative and operating expenses in the prior year comparative, to be consistent with the current year classification.

The accompanying notes on pages 14 to 27 are an integral part of the consolidated financial statements.

All activities were continuing in the current and prior periods.

# STATEMENT OF FINANCIAL POSITION

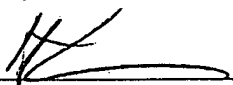
## REGISTERED NUMBER: 7973792

in U.S. dollars

	Note	December 31 2014	December 31 2013
<b>ASSETS</b>			
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents	4	1,016,888	829,339
Prepaid expenses		12,666	2,747
		<u>1,029,554</u>	<u>832,086</u>
<b>NON-CURRENT ASSETS:</b>			
Property and equipment, net of depreciation	5	5,116	3,499
		<u>5,116</u>	<u>3,499</u>
<b>TOTAL ASSETS</b>		<u>1,034,670</u>	<u>835,585</u>
<b>LIABILITIES AND EQUITY</b>			
<b>CURRENT LIABILITIES:</b>			
Accounts payable and accrued expenses	6	88,053	91,466
Amounts due to Related Parties	8	9,493	56,818
		<u>97,546</u>	<u>148,284</u>
<b>EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY:</b>			
Ordinary share capital	7	2,050,002	1,000,002
Capital Reserve for share-based payments		78,322	-
Retained earnings (deficit)		<u>(1,191,200)</u>	<u>(312,701)</u>
Total equity		<u>937,124</u>	<u>687,301</u>
<b>TOTAL LIABILITIES AND EQUITY</b>		<u>1,034,670</u>	<u>835,585</u>

The accompanying notes on pages 14 to 27 are an integral part of the consolidated financial statements.

The financial statements were approved by the Board of Directors on April 22, 2015 and signed on its behalf by:

  
 Paul Chrimes  
 Director

**STATEMENT OF CHANGES IN EQUITY****in U.S. dollars**

	<b>Ordinary Share capital</b>	<b>Capital Reserve for share- based payments</b>	<b>Retained earnings (deficit)</b>	<b>Total equity</b>
Balance as of December 31, 2012	2	-	-	2
Issue of share capital	1,000,000	-	-	1,000,000
Net loss	-	-	(312,701)	(312,701)
Balance as of December 31, 2013	1,000,002	-	(312,701)	687,301
Issue of share capital	1,050,000	-	-	1,050,000
Share based payment compensation	-	78,322	-	78,322
Net loss	-	-	(878,499)	(878,499)
Balance as of December 31, 2014	<u>2,050,002</u>	<u>78,322</u>	<u>(1,191,200)</u>	<u>937,124</u>

The accompanying notes on pages 14 to 27 are an integral part of the consolidated financial statements.

**STATEMENT OF CASH FLOWS**

in U.S. dollars

	<u>December 31</u> <u>2014</u>	<u>December 31</u> <u>2013</u>
<b>Cash flows from operating activities:</b>		
Net loss	(878,499)	(312,701)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	1,722	390
Share based payment compensation	78,322	-
Increase in prepaid expenses	(9,919)	(2,747)
Increase (decrease) in accounts payable and accrued expenses	(3,413)	91,466
Increase (decrease) in payable – Related Parties	(47,325)	56,818
Net cash used in operating activities	<u>(859,112)</u>	<u>(166,774)</u>
<b>Cash flows from investing activities:</b>		
Purchase of property and equipment	<u>(3,339)</u>	<u>(3,889)</u>
Net cash used in investing activities	<u>(3,339)</u>	<u>(3,889)</u>
<b>Cash flows from financing activities:</b>		
Issue of ordinary share capital	<u>1,050,000</u>	<u>1,000,000</u>
Net cash provided by financing activities	<u>1,050,000</u>	<u>1,000,000</u>
Increase in cash and cash equivalents	187,549	829,337
Cash and cash equivalents at beginning of year	<u>829,339</u>	<u>2</u>
Cash and cash equivalents at end of year	<u><u>1,016,888</u></u>	<u><u>829,339</u></u>

The accompanying notes on pages 14 to 27 are an integral part of the consolidated financial statements.

**NOTES TO FINANCIAL STATEMENTS**

in U.S. dollars

**NOTE 1:- GENERAL****a. Definitions:**

In these financial statements:

The Company	- ETORO (UK) Limited
The Group	- eToro Group Limited, and subsidiaries
Related parties	- As defined in IAS 24.
Dollar	- U.S. Dollar.

As at December 31, 2014, the immediate and ultimate parent company was eToro Group Limited (Registered address: Waterfront Drive, Road Town, Tortola, British Virgin Islands VG1110).

**b. Going Concern**

The Company's business activities are set out earlier in the Directors' Report. The Company at times relies on funding made available from the parent company, eToro Group Limited. The directors have satisfied themselves that there is no reason to believe that a material uncertainty exists that may cast significant doubt about the ability or willingness of the Parent to continue with the current financing arrangements. After making enquiries, the directors have a reasonable expectation that the Company and eToro Group Limited have adequate resources to continue in operational existence for the foreseeable future and that the Company has sufficient capital to meet its regulatory capital requirements for the next 12 months from the date of this report. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES****a. Basis of presentation of the financial statements:**

The Company's financial statements have been prepared on a historical cost basis.

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as adopted by the EU.

The preparation of the financial statements requires management to make estimates and assumptions that have an effect on the application of the accounting policies and on the reported amounts of assets, liabilities and expenses. These estimates and underlying assumptions are reviewed regularly. Changes in accounting estimates are reported in the period of the change in estimate. In the Directors' view, there are no areas of significant judgment or estimate in the current or prior periods

## NOTES TO FINANCIAL STATEMENTS

in U.S. dollars

**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)****b. Functional and foreign currencies:****1. Functional currency and presentation currencies:**

The financial statements are presented in U.S. Dollars, which is the Company's functional currency.

The functional currency is the currency that best reflects the economic environment in which the Company operates and conducts its transactions and is used to measure its financial position and operating results.

**2. Foreign currency transactions:**

Transactions denominated in foreign currency (other than the functional currency) are recorded on initial recognition at the exchange rate at the date of the transaction. After initial recognition, monetary assets and liabilities denominated in foreign currency are translated at the end of each reporting period into the functional currency at the exchange rate at that date.

Exchange differences, other than those capitalized to qualifying assets or recorded in equity in hedging transactions, are recognized in profit or loss. Non-monetary assets and liabilities measured at cost in a foreign currency are translated at the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currency and measured at fair value are translated into the functional currency using the exchange rate prevailing at the date when the fair value was determined. USDGBP rate used as at December 31, 2014 was 1.55 (as at December 31, 2013 was 1.65).

**c. Cash and cash equivalents:**

Cash equivalents are considered as highly liquid investments, including unrestricted short-term bank deposits with an original maturity of three months or less from the date of acquisition.

**d. Property and equipment:**

Property and equipment are stated at cost, less accumulated depreciation and accumulated impairment losses, if any. These assets are depreciated using the straight-line method over their estimated useful life:

Computers and peripheral equipment	3 years
Furniture & office equipment	14 years

The useful life, depreciation method and residual value of an asset are reviewed at least each year-end and any changes are accounted for prospectively as a change in accounting estimate.

**e. Provisions:**

Provisions are liabilities involving uncertainties in the amount or timing of payments. Provisions are recognized if there is a present obligation to transfer economic benefits, such as cash flows, as a result of past events and if a reliable estimate can be made at the balance sheet date. Provisions are estimated based on all relevant factors and information existing at the balance sheet date, and are typically discounted at the risk-free rate.

**f. Share-based payment transactions:**

eToro Group Limited, the Company's parent company, issues share options to employees and directors of the Company, and accordingly the Company recognizes the expense in its financial statements in accordance with the provisions of IFRS 2, "Share-Based Payment".

## NOTES TO FINANCIAL STATEMENTS

in U.S. dollars

**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

The cost of equity-settled transactions with employees is measured by reference at the fair value of the equity instruments granted at grant date. The fair value is determined by using the Black-Scholes option-pricing model taking into account the terms and conditions upon which the instruments were granted.

The cost of equity-settled transactions is recognized, together with a corresponding increase in capital reserve, over the period during which the relevant employees and directors become entitled to the award ("the vesting period"). The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest.

## g. Current income and deferred tax:

Tax is recognized in profit or loss, except to the extent that it relates to items recognized directly in equity, in which case, it is also recognized directly in equity. The current income tax charge is calculated on the basis of the tax laws enacted at the statement of financial position date in countries where the company operates and has a taxable presence.

- Deferred income tax is recognized in full, using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is 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 transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.
- Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.
- Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority where there is an intention to settle the balances on a net basis.

## h. Changes in accounting policies in view of the adoption of new standards:

Assessment of impact regarding prior year changes to accounting standards:

In respect of matters noted in the prior year financial statements regarding new standards which included IAS 32 Financial Instruments: Presentation regarding Offsetting Financial Assets and Financial Liabilities, IAS 36 Impairment of Assets and IAS 39 Financial Instruments: Recognition and Measurement we noted none had a material impact on the current year financial statements.

New accounting standards adopted during the year:

- IFRS 2 *Share Based Payments*

Assessment of impact of future changes to accounting standards:

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2015, and have not been applied in preparing these financial statements. None of these are expected to have an effect on the financial statements except the following set out below:



**NOTES TO FINANCIAL STATEMENTS**

in U.S. dollars

**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Company will consider the impact of this amendment when it commences trading and the recording of financial assets and liabilities during 2015.

**NOTE 3:- RISK MANAGEMENT**

The Company's business activities require a comprehensive and robust risk management framework to ensure risks are identified, measured, decided upon and monitored. Although the Company has not yet commenced trading, it has given consideration to the following risks which will exist once it does commence trading:

**1. Credit risk:**

Credit risk is defined as the risk to earnings or capital arising from an obligor's failure to meet the terms of any contract or to otherwise fail to perform as agreed. For instance, exposure to a counterparty with the potential to produce a significant amount of capital loss due to a bankruptcy or failure to pay.

The Company is exposed to banks with respect to the Company's own deposits. The Company monitors its exposure to banks.

Management estimates that the credit exposure as at December 31, 2014 is equal to the carrying value or related assets, and no impairment has been identified.

**2. Market risk:**

Market risk is the potential for loss resulting from unfavourable market movements, which can arise from changes in exchange rates.

**3. Foreign currency risk:**

Transactional foreign currency exposures represent financial assets or liabilities denominated in currencies other than the functional currency of the transacting entity. Transaction exposures arise in the normal course of business.

Foreign currency risk is managed on a Group-wide basis.

The group monitors and hedges transactional foreign currency risks including currency statement of financial position and future expected exposures.

FX translation differences booked in the Statement of Comprehensive Income for exposures for the year ended December 31, 2014 was \$382 income (2013: \$6,741 expense)

The net foreign currency exposure of assets and liabilities denominated in currencies other than USD at December 31, 2014 was in USD equivalent \$119,002 (2013: \$66,976).

## NOTES TO FINANCIAL STATEMENTS

in U.S. dollars

**NOTE 3:- RISK MANAGEMENT (Cont.)**

## 4. Interest rate risk:

Due to the current economic environment, and low interest rates, the Company does not record a material income on its bank balances. There are no interest bearing liabilities, and accordingly, the directors do not consider interest rate risk to be significant.

## 5. Liquidity risk:

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations arising from its financial liabilities that are settled by delivering cash or other financial assets.

The Company's approach to managing liquidity is to ensure it will have sufficient liquidity to meet its financial liabilities when they fall due.

Given the short-term nature of the Company's financial assets and liabilities, and the support from its parent company, the Company has sufficient liquid assets available to meet its liabilities.

## 6. Operational risk:

Operational risk means the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

The company maintains appropriate systems and controls, including utilizing the "4-eyes" principle as well as commissioning external reviews, to minimize the risk of loss from operational risk.

## 6. Compliance risk:

Compliance risk is the current and prospective risk to earnings or capital arising from violations of, or non-conformance with, laws, bylaws, regulations, prescribed practices, internal policies, and procedures, or ethical standards. This risk exposes the Company to financial loss, fines, civil money penalties, payment of damages, and the voiding of contracts.

The company takes its regulatory obligations very seriously, strives to ensure compliance at all times, and believes in an open and transparent dialogue with regulatory authorities

## 7. Capital adequacy:

ETORO (UK) Limited is required by the European Capital Requirements Regulation at all times to satisfy the following own funds requirements.

Common Equity Tier 1 Capital Ratio	4.5%
Tier 1 Capital Ratio	6.0%
Total Capital Ratio	8.0%

The Company is also required to assess its risks and any additional capital required to cover these risks (Pillar 2 capital requirement).

**NOTES TO FINANCIAL STATEMENTS**

in U.S. dollars

**NOTE 3:- RISK MANAGEMENT (Cont.)**

As of December 31, 2013 and 2014, the Company's regulatory capital was as follows:

	<u>December 31 2014</u>	<u>December 31 2013</u>
Regulatory Capital	<u>\$858,802</u>	<u>\$696,575</u>

Regulatory capital of the Company is comprised entirely of Common Equity Tier 1, being the company's share capital.

The Company has met its regulatory capital obligations throughout the period.

**NOTE 4:- CASH AND CASH EQUIVALENTS**

	<u>December 31 2014</u>	<u>December 31 2013</u>
Cash and cash equivalents	<u>\$1,016,888</u>	<u>\$829,339</u>

Cash is held in the UK with banks, or their subsidiaries, of investment grade.

The Directors and management of the company regularly assess the credit worthiness of the banks with which cash is deposited.

**NOTE 5:- PROPERTY AND EQUIPMENT**

	<u>Computer equipment</u>	<u>Furniture &amp; office equipment</u>	<u>Total</u>
<b>Cost</b>			
Balance as at January 1, 2013	-	-	-
Additions	<u>3,889</u>	<u>-</u>	<u>3,889</u>
Balance as at December 31, 2013	<u>3,889</u>	<u>-</u>	<u>3,889</u>
 Balance as at January 1, 2014	 3,889	 -	 3,889
Additions	<u>2,239</u>	<u>1,100</u>	<u>3,339</u>
Balance as at December 31, 2014	<u>6,128</u>	<u>1,100</u>	<u>7,228</u>

## NOTES TO FINANCIAL STATEMENTS

in U.S. dollars

**NOTE 5:- PROPERTY AND EQUIPMENT (Cont.)**

	<b>Computer equipment</b>	<b>Furniture &amp; office equipment</b>	<b>Total</b>
<b>Accumulated depreciation</b>			
Balance as at January 1, 2013	-	-	-
Depreciation during the period	390	-	390
Balance as at December 31, 2013	<u>390</u>	<u>-</u>	<u>390</u>
 Balance as at January 1, 2014	 390	 -	 390
Depreciation during the period	1,677	45	1,722
Balance as at December 31, 2014	<u>2,067</u>	<u>45</u>	<u>2,112</u>
 <b>Depreciated balance</b>			
Depreciated balance at December 31, 2013	3,499	-	3,499
Depreciated balance at December 31, 2014	<u>4,061</u>	<u>1,055</u>	<u>5,116</u>

**NOTE 6:- ACCOUNTS PAYABLE AND ACCRUED EXPENSES**

	<b>December 31 2014</b>	<b>December 31 2013</b>
Employee and payroll related	29,490	-
Professional Fees	41,908	56,176
Legal Fees	10,431	31,762
Rent	-	3,528
Other payables	<u>6,224</u>	<u>-</u>
	<u>88,053</u>	<u>91,466</u>

## NOTES TO FINANCIAL STATEMENTS

in U.S. dollars

**NOTE 7:- EQUITY**

	2014 Number of shares	2014 GBP	2013 Number of shares	2013 GBP
<b>Alloted, called up and fully paid</b>				
Ordinary shares of £1 each	<u>1,291,001</u>	<u>1,291,001</u>	<u>653,001</u>	<u>653,001</u>
		US\$		US\$
<b>Issued and fully paid</b>				
Balance at 1 January	653,001	1,000,002	1	2
Issue of shares	<u>638,000</u>	<u>1,050,000</u>	<u>653,000</u>	<u>1,000,000</u>
<b>Balance at 31 December</b>	<u>1,291,001</u>	<u>2,050,002</u>	<u>653,001</u>	<u>1,000,002</u>

Upon incorporation on March 2, 2012 the Company issued to the subscribers of its Memorandum of Association 1 ordinary share of £1 at par.

On June 19, 2013, the Company issued additional 653,000 ordinary shares of nominal value £1 each to its parent company, eToro Group Limited, receiving £653,000 (USD 1,000,000) on 19 June 2013.

On March 24, 2014, the company issued 120,000 Ordinary shares of £1 each to its parent company, eToro Group Limited, which remitted £120,000 (USD 200,000) to the company on 24 March 2014 in consideration.

On April 17, 2014, the company issued 390,000 Ordinary shares of £1 each to its parent company, eToro Group Limited, which remitted £390,000 (USD 650,000) to the company on 23 April 2014 in consideration.

On November 17, 2014, the company issued 128,000 Ordinary shares of £1 each to its parent company, eToro Group Limited, which remitted £128,000 (USD 200,000) to the company on 17 November 2014 in consideration.

No dividends were paid since the day of incorporation, and directors do not recommend the payment of a dividend for the current period.

## NOTES TO FINANCIAL STATEMENTS

in U.S. dollars

**NOTE 7:- EQUITY (Cont.)****Capital Reserve for Share based payment**

Share based payment compensation includes grants of share options of the parent Company eToro Group Limited, to the employees and directors of the Company.

The fair value of stock-based awards, granted in 2014, was estimated using the Black & Scholes option-pricing model with the following assumptions:

	<b>December 31 2014</b>	<b>December 31 2013</b>
Weighted average expected term (years)	6.25	-
Interest rate	1.08%	-
Volatility	72%	-
Dividend yield	0%	-

The compensation expenses in 2014 which amounted to US \$78,322 (2013 – NIL), were recorded as payroll expenses.

On January 1, 2014 and April 17, 2014 the parent Company eToro Group Limited approved respectively allocations of 31,000 and 6,000 options to employees and directors of the Company. The exercise price of the options was set at \$8.55 per option.

The changes in outstanding options were as follows:

	<b>December 31 2014</b>	<b>December 31 2013</b>
	<b>Number of options</b>	<b>Weighted average exercise price \$</b>
Options at beginning of year	-	-
Granted	37,000	8.55
Exercised	-	-
Forfeited	(4,500)	8.55
Options outstanding at end of year	32,500	8.55
Options exercisable at end of year	3,133	8.55

**NOTES TO FINANCIAL STATEMENTS**

in U.S. dollars

**NOTE 7:- EQUITY (Cont.)**

The share based payments are recorded as a capital reserve as a deemed contribution from the parent company eToro Group Limited as there is no intention for payment to be made by the Company in respect of these options.

**NOTE 8:- RELATED PARTIES**

The following table provides the amounts of transactions with related parties:

	<b>December 31 2014</b>	<b>December 31 2013</b>
eToro Group Limited - parent entity	78,332	-

The amounts referred to relate to share based payment compensation.

The following table provides the amounts due to related parties:

	<b>December 31 2014</b>	<b>December 31 2013</b>
eToro (EU) Limited - entity under common control	9,466	755
eToro Group Limited - parent entity	27	56,063
	<u>9,493</u>	<u>56,818</u>

The amounts payable to related parties were received in order to cover working capital needs. Refer also to note 9 for pledges to a related party.

**NOTE 9:- COMMITMENTS, CONTINGENT LIABILITIES AND PLEDGES**

On December 10, 2014, eToro Group Limited, the Company's parent company, signed an agreement with a bank for a revolving credit line of up to \$5,000,000 and a term loan of up to \$5,000,000. These facilities have not been drawn as of the date of this report. Under this agreement, the shares of the Company issued to eToro Group Limited have been pledged to secure the loan.

## NOTES TO FINANCIAL STATEMENTS

in U.S. dollars

**NOTE 10:- ADMINISTRATIVE AND OPERATING EXPENSES****Administrative and operating expenses included:**

	<b>December 31 2014</b>	<b>December 31 2013</b>
Payroll	581,803	52,761
Professional services	174,712	182,415
Financial statements audit	23,000	24,630
Audit-related assurance services provided by the auditor	2,000	13,535
Taxation compliance services provided by the auditor	3,000	4,276
Other services provided by the auditor	7,000	10,461
Rent	62,970	14,133
Travelling	14,437	-
Depreciation	1,722	390
Other	5,503	622
	<u>876,147</u>	<u>303,223</u>

Some 2013 balances in the prior year comparative have been reclassified to be consistent with the current year classification.

**Staff costs:**

	<b>December 31 2014</b>	<b>December 31 2013</b>
Wages / salaries	409,307	44,049
Bonus	30,766	3,204
Social security	53,204	5,508
Pension Contributions	13,249	-
Share based payment compensation	78,322	-
	<u>581,803</u>	<u>52,761</u>

During the current year, the Company's directors received total emoluments in relation to services provided to the Company in the amount of \$278,427, in salaries, bonuses and director fees (2013: Nil), and an amount of \$12,301 in pension schemes (2013: Nil). During 2014 the parent company eToro Group Limited granted two directors of the Company 30,000 share options (2013: Nil), of which non was exercised. Average number of employees during the period was 3 (2013: 3).

**Financing income (expenses), net:**

	<b>December 31 2014</b>	<b>December 31 2013</b>
Bank charges	2,734	2,737
FX retranslation	(382)	6,741
	<u>2,352</u>	<u>9,478</u>



**NOTES TO FINANCIAL STATEMENTS**

in U.S. dollars

**NOTE 11:- Taxes On Income****Income statement**

	31 December 2014	31 December 2013
UK current year current tax	-	-
Prior year adjustment current tax	-	-
<b>Total current tax expense/(credit)</b>	-	-
Origination and reversal of temporary differences	-	-
Prior year adjustment deferred tax	-	-
<b>Total deferred tax expense/(credit)</b>	-	-
<b>Total tax expense/(credit) on continuing operations</b>	-	-

**Total Tax Reconciliation**

The effective tax rate (ETR) for the period is 0%. This can be explained as follows:

	31 December 2014	31 December 2013
Loss before tax	(878,499)	(312,701)
Tax on profit/(loss) at the standard rate of UK corporation tax of 21.5% (23.25% in 2013)	188,877	72,703
Permanent differences- Disallowed expenses	(1,015)	(44,844)
Non-taxable income and gains	-	-
Temporary differences in respect of fixed assets	348	-
Temporary differences in relation to unsettled pension balances	(1,283)	-
Temporary differences in relation to share based payments	(16,839)	-
Adjustments in respect of prior periods	45,658	-
Losses carried forward to future periods	(215,746)	(27,859)
<b>Total tax charge/(credit)</b>	-	-

**NOTES TO FINANCIAL STATEMENTS**

in U.S. dollars

NOTE 11:- Taxes ON Income (Cont.)

**Balance Sheet**

	31 December 2014	31 December 2013
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Current tax asset/(liability)	-	-
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Deferred tax asset/(liability)	-	-
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The Finance Bill 2013 was substantively enacted on 2 July 2013. The reduction to the standard rate of corporation tax from 23% to 21% will be effective from 1 April 2014 and to 20% from 1 April 2015. Accordingly, the deferred tax balances at December 31 2014 have been stated at 20% (at 31 December 2013 have been stated at either 21% or 20%, depending on when the individual temporary differences are expected to reverse).

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The Company did not create tax assets with respect to tax loss carry forward and other temporary differences. Management currently does not believe it is more likely than not that the deferred tax assets regarding the loss carry forward and other temporary differences will be realized in the foreseeable future.

The deferred tax asset that was not recognized in these financial statements is made up of the following:

	31 December 2014	31 December 2013
Deferred tax liability- differences between book value and tax value of fixed assets	(1,023)	(78)
Deferred tax asset - unsettled pension balance	1,193	-
Deferred tax asset - share based payments	15,664	-
Deferred tax asset- unrecognised deferred tax on tax losses	221,461	27,859
Total unrecognised deferred tax asset	<b>237,295</b>	<b>27,781</b>

Deferred tax assets in respect of pre-trading tax losses have an expiry date of 7 years from the date of expenditure, for the other deferred tax assets, there is no expiry date.

**NOTES TO FINANCIAL STATEMENTS**

in U.S. dollars

**NOTE 11:- Taxes On Income (Cont.)**

Reconciliation of the company's movement in the deferred tax balance:

	31 December 2014	31 December 2013
Balance at the beginning of the year	27,781	-
Adjustment to tax in respect of prior years	44,922	-
Increase in unrecognised deferred tax for the year	164,592	27,781
Balance at the end of the financial year	<u>237,295</u>	<u>27,781</u>

**NOTE 12:- OPERATING LEASE COMMITMENTS**

On April 14, 2014 date, the Company entered into a lease agreement at a rent of GBP 3,780 per month, for 3 months on a rolling 3 month basis. As at the balance sheet date, the next roll-over date was January 12, 2015, from which the lease was extended for a further 6 months.

**NOTE 13:- EVENTS AFTER THE REPORTING DATE**

On March 10, 2015, the company issued 200,000 Ordinary shares of £1 each to its parent company, eToro Group Limited, who remitted USD 300,000 (£200,000) on 16 March 2015 in consideration.