

Registered number: 7973792

ETORO (UK) LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

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ETORO (UK) LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

U.S. DOLLARS

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COMPANY INFORMATION

FOR THE YEAR ENDED DECEMBER 31, 2016

Directors: Jonathan Alexander Assia
Avi Sela
Anthony Stephen Wollenberg
Paul Chrimes
Robert Brown (appointed 20 April 2016)

Registered Office: 5 Fleet Place
London
EC4M 7RD

Business Address: 42nd Floor
One Canada Square
Canary Wharf
London
E14 5AB

Auditor: Ernst & Young LLP
25 Churchill Place
Canary Wharf
London
E14 5EY

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

Coutts & Co
440 Strand
London
WC2R 0QS

DIRECTORS' REPORT

The directors present their annual report and financial statements for the year ended December 31, 2016.

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 authorised and regulated by the Financial Conduct Authority ("FCA"), from whom it was granted authorization on May 9, 2013. On 23 November 2015 the Company commenced trading.

The Company provides an online social trading platform where customers can trade contracts for differences (CFDs) in currencies, commodities, indices, ETFs, and stocks online in a simple, transparent way. Customers are able to follow other customers using the platform and automatically copy their investments.

The Company connects the traditional investing world with the new world of social networks. Customers buy and sell financial products on the platform whilst exchanging information with other customers. A customer's portfolio, risk score, and trading performance are visible to other customers on the platform. By following a financial instrument or another customer, a feed of information and trading activity is received into a customers' own feed. By copy trading, a customer can allocate a sum of money that will be invested to copy proportionally the amount invested in either another customer's existing portfolio or any new trades made by that customer, and automatically execute the same transaction, in proportion to the amount invested.

Following the successful commencement of trading operations in November 2015 and onboarding of customers during 2016, in 2017 the Company intends to expand by growing its customer base as well as by developing its product range. This is expected to include offering cash equities and ETFs in addition to CFDs.

The Company executes trades in an agency capacity, and uses an associate company, eToro (Europe) Limited, to execute its clients' trades, including to provide the automated execution of copy trades. eToro (Europe) Limited is incorporated in Cyprus and authorised and regulated by the Cyprus Securities and Exchange Commission (CySEC).

The Company's revenues are generated primarily from commission earned from buying and selling contracts for differences, net of execution costs paid to the executing broker, and revenues received from parent company eToro Group Ltd ("eToro Group"), in respect of intermediary services and the recharge of marketing costs.

For further details, please refer to: <https://www.etoro.com/>

Review of the Business

The Company commenced trading in November 2015 and receives client trading commission, as well as payment for intermediary services from eToro Group. The result for the year ended December 31, 2016 is a profit of \$106,276 (2015: loss of \$716,965).

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
Robert Brown (appointed 20 April 2016)

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 Directors have prepared the financial statements on a going concern basis which requires the Directors to have a reasonable expectation that the Company has adequate resources to continue its operational existence for the foreseeable future. After making enquiries, the Directors have a reasonable expectation that the Company has 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 at least 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:

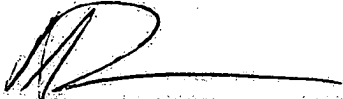
- so far as each of the Directors is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- each of the Directors has taken all the necessary steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish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

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.

DIRECTORS' REPORT (CONTINUED)

Approved by the board of directors on April 19, 2017 and signed on behalf of the board:

A handwritten signature in black ink, appearing to be 'P. Chrimes', written over a horizontal line.

Paul Chrimes
Director
April 19, 2017

STATEMENT OF DIRECTORS' RESPONSIBILITIES

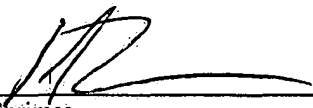
The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

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.



Paul Chrimes
Director
April 19, 2017

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 2016 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 14. 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 2016 and of its profit 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, based on the work undertaken in the course of the audit:

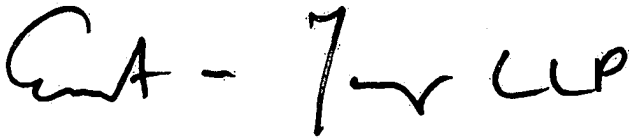
- ▶ the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.
- ▶ the Directors' Report have been prepared in accordance with applicable legal requirements;

Matters on which we are required to report by exception

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have identified no material misstatements in the Directors' Report.

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.

A handwritten signature in black ink, appearing to read 'GA - 7-4-17'.

Gary Adams (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
26 April 2017

Notes:

1. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

ETORO (UK) LIMITED

STATEMENT OF COMPREHENSIVE INCOME

in U.S. dollars

	Note	Year Ended December 31 2016	Year Ended December 31 2015
Net Trading Commissions	9	77,490	2,930
Intermediary Services	9	899,820	186,006
Trading Costs	9	41,646	2,129
Other Commissions	9	912,092	349,791
Net Income		1,847,756	536,598
Administrative and operating expenses	11	1,726,842	1,231,552
Operating Profit/(Loss)		120,914	(694,954)
Finance expense	11	14,638	22,010
Net Profit/ (Loss)		106,276	(716,964)
Total Comprehensive Profit/ (Loss)		106,276	(716,964)

There were no items recorded through Other Comprehensive Income in 2015 or 2016.

The accompanying notes on pages 14 to 33 are an integral part of the financial statements.

All activities were continuing in the current and prior periods.

NOTES TO FINANCIAL STATEMENTS

in U.S. dollars

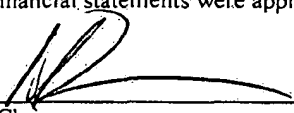
STATEMENT OF FINANCIAL POSITION

REGISTERED NUMBER: 7973792

	Note	2016	2015
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	4	863,443	817,881
Amounts due from Related Parties	9	40,587	96,818
Other Receivables and prepaid expenses	5	162,731	7,787
		<u>1,066,761</u>	<u>922,486</u>
NON-CURRENT ASSETS:			
Property and equipment, net of depreciation	6	<u>117,304</u>	<u>102,795</u>
TOTAL ASSETS		<u><u>1,184,065</u></u>	<u><u>1,025,281</u></u>
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Accounts payable and accrued expenses	7	166,696	181,154
Amounts due to Related Parties	9	<u>35,925</u>	<u>11,768</u>
		<u>202,621</u>	<u>192,922</u>
NON CURRENT LIABILITIES:			
Accounts payable and accrued expenses	7	<u>11,262</u>	<u>2,763</u>
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY:			
Ordinary share capital	8	2,600,002	2,600,002
Capital Reserve for share-based payments		172,068	137,758
Retained earnings (deficit)		<u>(1,801,888)</u>	<u>(1,908,164)</u>
Total equity		<u>970,182</u>	<u>829,596</u>
TOTAL LIABILITIES AND EQUITY		<u><u>1,184,065</u></u>	<u><u>1,025,281</u></u>

The accompanying notes on pages 14 to 33 are an integral part of the financial statements.

The financial statements were approved by the Board of Directors on April 19, 2017 and signed on its behalf by:


 Paul Chrimes
 Director

NOTES TO FINANCIAL STATEMENTS

in U.S. dollars

STATEMENT OF CHANGES IN EQUITY

	Note	Ordinary Share capital	Capital Reserve for share- based payments	Retained earnings (deficit)	Total equity
Balance as of December 31, 2014		2,050,002	78,322	(1,191,200)	937,124
Issue of share capital		550,000	-	-	550,000
Share based payment compensation		-	59,436	-	59,436
Total Comprehensive (Loss)		-	-	(716,964)	(716,964)
Balance as of December 31, 2015	8	2,600,002	137,758	(1,908,164)	829,596
Issue of share capital		-	-	-	-
Share based payment compensation		-	34,310	-	34,310
Total Comprehensive Profit		-	-	106,276	106,276
Balance as of December 31, 2016	8	<u>2,600,002</u>	<u>172,068</u>	<u>(1,801,888)</u>	<u>970,182</u>

The accompanying notes on pages 14 to 33 are an integral part of the financial statements.

NOTES TO FINANCIAL STATEMENTS

in U.S. dollars

STATEMENT OF CASH FLOWS

	Note	December 31 2016	December 31 2015
Cash flows from operating activities:			
Net Profit / (Loss)		106,276	(716,964)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation	6	52,921	5,169
Share based payment compensation	8	34,310	59,436
Decrease / (increase) in Other receivables and prepaid expenses	5	(154,944)	4,879
Decrease / (Increase) in Amount due from related parties		56,231	(196,818)
Increase / (decrease) in Accounts payable and accrued expenses		(5,959)	95,864
Increase / (decrease) in Amount due to related parties		24,157	2,275
Net cash flow from/ (used) in operating activities		112,992	(746,159)
Cash flows from investing activities:			
Purchase of property and equipment		(67,430)	(2,848)
Net cash used in investing activities		(67,430)	(2,848)
Cash flows from financing activities:			
Issue of ordinary share capital		-	550,000
Net cash provided by financing activities		-	550,000
(Decrease) / Increase in cash and cash equivalents		45,562	(199,007)
Cash and cash equivalents at beginning of year	4	817,881	1,016,888
Cash and cash equivalents at end of year	4	863,443	817,881
Significant non cash transactions:			
Purchase of property and equipment on credit		-	(100,000)

The accompanying notes on pages 14 to 33 are an integral part of the 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, 2016, 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 Directors have prepared the financial statements on a going concern basis which requires the Directors to have a reasonable expectation that the Company has adequate resources to continue its operational existence for the foreseeable future. After making enquiries, the directors have a reasonable expectation that the Company has 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 as modified by the revaluation of assets and liabilities held at fair value and on the basis of Company's accounting policies.

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, other than the Capital Reserve for Share based payments (refer to note 8), 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, 2016 was 1.23 (as at December 31, 2015 was 1.48).

c. Revenue Recognition:

Revenues earned by the Company are recognised on the following bases:

(i) Net Trading commissions

Revenue is recognised when the right to receive payment is established.

When trading as agent on behalf of clients, revenue includes the commission earned from buying and selling contracts for differences, net of execution costs deducted by the executing broker.

(ii) Intermediary Services

Intermediary Service Fee is between the Company and its Parent Company, eToro Group Ltd. The Intermediary services include, amongst others, seeking and negotiating with customers who are interested in receiving financial services from the Company, and the provision of customer support. The Intermediary Service Fee is calculated so as to leave the Company with an operating profit margin, which may result in a fee payable by eToro Group Ltd. to the Company.

(iii) Other commissions

Other commissions include the recharge of marketing costs to eToro Group Ltd (refer also note 9), and fees charged to clients on the withdrawal of funds, markups applied on the conversion of deposits and withdrawals made in currencies other than US Dollars, and inactivity fees.

NOTES TO FINANCIAL STATEMENTS

in U.S. dollars

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

Trading costs consist of the cost of incentive bonuses and intercompany fees charged in respect of copytrading services charged by a related party (also refer note 9).

Incentive bonuses include: (1) incentive rebates given to clients with respect to transaction volume (representing discounts provided on commission revenues earned on such transactions), and (2) credits provided to clients that become redeemable and withdrawable by clients.

e. 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.

f. 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, Software 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.

g. 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.

h. 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 Payments".

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.

NOTES TO FINANCIAL STATEMENTS

in U.S. dollars

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

i. 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.

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

Assessment of the 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.

k. Assessment of the impact regarding future changes to accounting standards

At the date of approval of these financial statements certain new standards, interpretations and amendments to existing standards have been published by the International Accounting Standards Board which were not yet effective. Some of them were adopted by the European Union and others not yet. The Company is assessing the impact of these although is not expecting that their adoption in future periods will have a material impact on the financial statements of the Company. These include:

<u>International Accounting Standards and interpretations</u>	<u>Effective Date</u>
Amendment to IAS 7, 'Statement of cash flows' on changes in liabilities arising from financing activities	1 January 2017
Amendment to IAS 12, 'Income taxes' on recognition of deferred tax assets for unrealised losses	1 January 2017
Amendment to IFRS 2, 'Share-based payment' on classification and measurement of share-based payment transactions	1 January 2018
IFRS 9, 'Financial instruments' on classification and measurement and amendments regarding general hedge accounting	1 January 2018
IFRS 15, 'Revenue from contracts with customers'	1 January 2018

NOTES TO FINANCIAL STATEMENTS

in U.S. dollars

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. The Company has given consideration to the following risks:

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 and deposits of customer funds. The Company monitors its exposure to banks.

The Company is also exposed to its affiliate companies with respect to intercompany balances not cleared as of the balance sheet date. The Company monitors this exposure as well.

Management estimates that the credit exposure as at December 31, 2016 is equal to the carrying value of related assets, and no past-due assets nor impairment have 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 or other market factors. The Company executes trades in an agency capacity, thus is not exposed to market risk in the instruments in which its customers trade.

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, 2016 was \$778 profit (2015: \$16,734 loss).

The net foreign currency exposure of assets and liabilities denominated in currencies other than USD at December 31, 2016 was in USD equivalent \$226,892 receivable (2015: \$42,293 payable).

The Company has considered movements in the GBP over the year ended 31 December 2016 and period ended 31 December 2015, and has concluded that a 10% movement in rate is a reasonable level to measure the risk of the Company. The impact on net profit and equity for the year ended 31 December is set out in the table below. There are also insignificant assets denominated in other non-USD currencies, which have an immaterial foreign currency exposure risk.

NOTES TO FINANCIAL STATEMENTS

in U.S. dollars

NOTE 3:- RISK MANAGEMENT (Cont.)

	31 December 2016		31 December 2015	
	Net Profit	Equity	Net Loss	Equity
GBP weaken	83,587	806,907	(713,823)	832,737
GBP strengthen	128,965	992,871	(720,105)	826,455

This reflects foreign exchange gains or losses on translation of GBP denominated receivables, payables and Cash & Cash Equivalents.

4. Interest rate risk:

Due to the current economic environment, and low interest rates, the Company does not generate material income from 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, the Company has sufficient liquid assets available to meet its liabilities.

The analysis of the Company's financial assets and financial liabilities by remaining contractual maturity is presented below:

ETORO (UK) LIMITED

NOTES TO FINANCIAL STATEMENTS

in U.S. dollars

NOTE 3:- RISK MANAGEMENT (Cont.)

	On demand and up to one month \$	Between one month and one year \$	Between one and five years \$	Over five years \$	Total \$
2016					
Financial Assets					
Cash and cash equivalents	863,443	-	-	-	863,443
Due from related Parties	40,587	-	-	-	40,587
Other receivables & prepaid expenses	162,731	-	-	-	162,731
Total financial assets	1,006,761	-	-	-	1,006,761
Financial Liabilities					
Payables & Accrued Expenses	166,696	-	-	-	166,696
Due to related Parties	35,925	-	-	-	35,925
Total financial liabilities	202,621	-	-	-	202,621
Net position	804,140	-	-	-	804,140
	On demand and up to one month \$	Between one month and one year \$	Between one and five years \$	Over five years \$	Total \$
2015					
Financial Assets					
Cash and cash equivalents	817,881	-	-	-	817,881
Due from related Parties	96,818	-	-	-	96,818
Other receivables & prepaid expenses	7,787	-	-	-	7,787
Total financial assets	922,486	-	-	-	922,486
Financial Liabilities					
Accounts Payable & Accrued Expenses	181,154	-	-	-	181,154
Due to related Parties	11,768	-	-	-	11,768
Total financial liabilities	192,922	-	-	-	192,922
Net position	729,564	-	-	-	729,564

NOTES TO FINANCIAL STATEMENTS

in U.S. dollars

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

The Company is highly dependent on outsourced services to its affiliate companies, and has systems and controls in place to provide oversight over, and to supervise, the outsourced units

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:

The Company 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).

As of December 31, 2015 and 2016, the Company's regulatory capital was as follows:

	December 31 2016	December 31 2015
Regulatory Capital	\$691,838	\$691,838

Regulatory capital of the Company is comprised entirely of Common Equity Tier 1, being the company's share capital. 2016 retained profits of \$106,276 are not included within Regulatory Capital until they have been audited.

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

NOTES TO FINANCIAL STATEMENTS

in U.S. dollars

NOTE 4:- CASH AND CASH EQUIVALENTS

	December 31 2016	December 31 2015
Cash and cash equivalents	<u>\$863,443</u>	<u>\$817,881</u>

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

As of December 31, 2016 segregated client funds in the amount of \$804,574 (2015 - \$61,151) are recorded off-balance sheet, of which \$798,873 (2015 - \$61,151) are held with Barclays Bank PLC and Coutts & Company and \$5,701 (2015 - nil) with eToro (Europe) Limited for providing margin on clients' transactions

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

NOTE 5:- OTHER RECEIVABLES AND PREPAID EXPENSE

	December 31 2016	December 31 2015
Vat refund claim	137,867	-
Prepaid expenses	<u>24,864</u>	<u>7,787</u>
	<u>162,731</u>	<u>7,787</u>

The carrying amount of Other Receivables and Prepaid Expenses is a reasonable approximation of fair value.

NOTES TO FINANCIAL STATEMENTS

in U.S. dollars

NOTE 6:- PROPERTY AND EQUIPMENT

	Software & Computer equipment	Furniture & office equipment	Total
Cost			
Balance as at January 1, 2015	6,128	1,100	7,228
Additions	102,543	305	102,848
Balance as at December 31, 2015	108,671	1,405	110,076
Balance as at January 1, 2016	108,671	1,405	110,076
Additions	67,030	400	67,430
Balance as at December 31, 2016	175,701	1,805	177,506
Accumulated depreciation			
Balance as at January 1, 2015	2,067	45	2,112
Depreciation during the period	5,091	78	5,169
Balance as at December 31, 2015	7,158	123	7,281
Balance as at January 1, 2016	7,158	123	7,281
Depreciation during the period	52,863	58	52,921
Reclassification	93	(93)	-
Balance as at December 31, 2016	60,114	88	60,202
Depreciated balance			
Depreciated balance at December 31, 2015	101,513	1,282	102,795
Depreciated balance at December 31, 2016	115,587	1,717	117,304

The carrying amount of Property & Equipment is a reasonable approximation of fair value.

ETORO (UK) LIMITED

NOTES TO FINANCIAL STATEMENTS

in U.S. dollars

NOTE 7:- ACCOUNTS PAYABLE AND ACCRUED EXPENSES

	December 31 2016	December 31 2015
Employee and payroll related*	119,513	86,404
Professional fees	54,794	89,152
Legal fees	3,294	2,668
Rent	-	5,296
Other payables	357	397
	<u>177,958</u>	<u>183,917</u>

*Including \$11,262 non-current liability to employees (2015 \$2,763) – refer to note 11.

NOTE 8:- EQUITY

	2016 Number of shares	2016 GBP	2015 Number of shares	2015 GBP
Allotted, called up and fully paid				
Ordinary shares of £1 each	<u>1,649,698</u>	<u>2,056,698</u>	<u>1,649,698</u>	<u>2,056,698</u>
		US\$		US\$
Issued and fully paid				
Balance at 1 January	1,649,698	2,600,002	1,291,001	2,050,002
Issue of shares	-	-	358,697	550,000
Balance at 31 December	<u>1,649,698</u>	<u>2,600,002</u>	<u>1,649,698</u>	<u>2,600,002</u>

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 8:- 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 eToro Group Ltd. 2007 Employee Share Option Plan ("ESOP") was adopted by eToro Group on May 14, 2007. Effective as of October 10, 2013, Option allocations vest on quarterly basis following a one year cliff and all retention options vest on a quarterly basis. Options expire 10 years after the date of grant.

The fair value of stock-based awards, granted in 2015 and 2016, was estimated using the Black & Scholes option-pricing model with the assumptions below. The significant inputs into the model are the share price at grant date which is valued by an independent accounting firm, expected volatility, dividend yield, and annual risk-free interest rate. The volatility assumption is based on the historical 6 year average volatility of similar companies which are registered for trading. The risk-free interest rate represents the yield available on a US zero-coupon government bond on the date of grant for a term commensurate with the vesting period of the reward.

	December 31 2016	December 31 2015
Weighted average expected term (years)	5.93	6.25
Interest rate	1.503%	1.53%
Volatility	69.35%	58.56%
Dividend yield	0%	0%

The compensation expenses in 2016 which amounted to US \$34,310 (2015 – \$59,436), were recorded as payroll expenses.

On April 14, 2016 and November 30, 2016 eToro Group Limited approved respectively allocations of 19,000 and 10,000 options to employees of the Company. The exercise price of the options was set at \$8.55 per option.

The changes in outstanding options were as follows:

NOTES TO FINANCIAL STATEMENTS

in U.S. dollars

NOTE 8:- EQUITY (Cont.)

	December 31 2016		December 31 2015	
	Number	Weighted	Number	Weighted
	of options	average	of options	average
		exercise		exercise
		price		price
		\$		\$
Options at beginning of year	45,000	-	32,500	-
Granted	29,000	8.55	26,000	8.55
Options relating to employee transfers	2,499	8.55	-	-
Exercised	-	-	-	-
Expired	-	-	-	-
Forfeited	(22,000)	8.55	(13,500)	8.55
Options outstanding at end of year	<u>54,499</u>	<u>8.55</u>	<u>45,000</u>	<u>8.55</u>
Options exercisable at end of year	<u>27,377</u>	<u>8.55</u>	<u>15,692</u>	<u>8.55</u>

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 9:- RELATED PARTIES

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

	Year ended	Year ended
	December 31	December 31
	2016	2015
eToro (Europe) Limited (1) – Execution Fees (netted within trading commissions)	(51,660)	(1,892)
eToro Group Limited (2) – Intermediary Fees	899,820	186,006
eToro (Europe) Limited (1) – Copy Trading Fees (included in trading costs)	(3,911)	(115)
eToro Group Limited (2) – Marketing Service Fees (included in other commissions)	906,409	349,791
eToro Group Limited (2) – Share based payment compensation	(34,310)	(59,436)

NOTES TO FINANCIAL STATEMENTS

in U.S. dollars

NOTE 9:- RELATED PARTIES (Cont.)

eToro Group Limited (2) – Customer Service Fees (note 10)	(4,536)	(96)
eToro Group Limited (2) – Software License Fees (note 10)	(27,000)	(2,250)
eToro (Europe) Limited (1) – Support Service Fees (note 10)	(85,322)	(8,275)
eToro (Europe) Limited (1) – Payment Service Fees (note 10)	(20,611)	(252)
	<u>(1,578,879)</u>	<u>(463,481)</u>
eToro (Europe) Limited - entity under common control (1)		
eToro Group Limited - parent entity (2)		

The following table provides the amounts due to related parties:

	<u>December 31 2016</u>	<u>December 31 2015</u>
eToro (Europe) Limited Payable - entity under common control (1)	(35,925)	(11,768)
eToro Group Limited Receivable - parent entity (2)	<u>40,587</u>	<u>96,818</u>
Net Receivable	<u>4,662</u>	<u>85,050</u>

The amounts receivable (payable) to related parties were received in order to cover working capital needs and as part of intercompany agreements signed between the related parties above during 2016 and 2015.

During 2016 and 2015, no contracts of significance were entered into by the Company in which the Directors had a material interest, except as disclosed in the tables in this note 11.

Breakdown of the services given by each of the related parties:

(1) eToro (Europe) Limited (payable)

	<u>December 31 2016</u>	<u>December 31 2015</u>
Support Services Agreement	8,343	8,275
Payment Services Agreement	2,856	252
CopyTrading Services Agreement	381	115
Execution Services Agreement	24,345	2,135
Other	<u>-</u>	<u>991</u>
	<u>35,925</u>	<u>11,768</u>

NOTES TO FINANCIAL STATEMENTS

in U.S. dollars

NOTE 9:- RELATED PARTIES (Cont.)

	December 31 2016	December 31 2015
(2) eToro Group Limited (receivable)		
Marketing Services Agreement	90,502	13,933
Intermediary Services Agreement	(48,127)	186,006
Software License Agreement	(1,788)	(102,250)
Other	-	(871)
	<u>40,587</u>	<u>96,818</u>

Compensation for directors of the Company and key management personnel who have authority for planning, directing and controlling the Company:

	December 31 2016	December 31 2015
Wages / salaries / fees	382,491	236,586
Bonus	25,790	32,798
Social security	47,540	32,395
Pension Contributions	4,920	16,941
Share based payment compensation	17,834	51,834
	<u>478,575</u>	<u>370,554</u>

Certain directors of the Company benefit from an indemnification agreement with eToro Group Ltd whereby eToro Group Ltd will indemnify, and advance expenses on behalf of, the director to the fullest extent permitted by applicable law in respect of service to eToro Group Ltd and its subsidiaries.

The Company provides trading accounts to employees, and pays bonuses into these accounts which cannot normally be withdrawn. Departing employees (not for cause) that have completed 5 years of employment with the eToro Group, may, upon the meeting of certain volume requirements and subject to the Company's discretion, be able to use up to 100% of their equity in their trading accounts to exercise their vested stock options in eToro Group Ltd. The Group uses an internal model for calculating its liability to employees derived from this plan. As of December 31, 2016 the liability to employees is \$11,262 (2015 \$2,763).

NOTE 10:- 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. The original term for the withdrawal of the term loan has expired. As of the date of this report neither of these facilities have been drawn. 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 11:- ADMINISTRATIVE AND OPERATING EXPENSES

Administrative and operating expenses included:

	December 31 2016	December 31 2015
Staff Costs	1,123,333	812,612
Professional services	61,462	176,140
Financial statements audit	40,650	51,000
Audit-related assurance services provided by the auditor	9,000	9,000
Taxation compliance services provided by the auditor	5,046	5,223
Other services provided by a related party of the auditor	-	9,070
Other Services provided by the Auditors	31,547	-
Rent and property related expenses	191,186	94,947
Travel	24,031	35,409
Depreciation	52,922	5,169
Intercompany Fees (note 9)	137,469	10,873
Other	50,196	22,109
	<u>1,726,842</u>	<u>1,231,552</u>

Staff costs:

	December 31 2016	December 31 2015
Wages / salaries	894,804	594,151
Bonus	98,056	66,735
Social security	83,498	71,588
Pension Contributions	12,665	20,702
Share based payment compensation	34,310	59,436
	<u>1,123,333</u>	<u>812,612</u>

During the current year, the Company's directors received total emoluments in relation to services provided to the Company in the amount of \$349,450 in salaries, bonuses and director fees (2015: \$353,613), and an amount of \$2,540 in pension schemes (2015: \$16,941). During 2016 the parent company eToro Group Limited did not grant share options to the directors of the Company (2015: Nil). Average number of employees during the period was 7 (2015: 5).

NOTES TO FINANCIAL STATEMENTS

in U.S. dollars

NOTE 11:- ADMINISTRATIVE AND OPERATING EXPENSES (Cont.)

Financing income (expenses), net:

	December 31 2016	December 31 2015
Bank charges	13,860	5,276
FX retranslation	778	16,734
	<u>14,638</u>	<u>22,010</u>

NOTE 12:- Taxes On Income

Income statement

	31 December 2016	31 December 2015
UK current year current tax	-	-
Prior year adjustment current tax	-	-
Total current tax expense/(credit)	<u>-</u>	<u>-</u>
Origination and reversal of temporary differences	-	-
Prior year adjustment deferred tax	-	-
Total deferred tax expense/(credit)	<u>-</u>	<u>-</u>
Total tax expense/(credit) on continuing operations	<u>-</u>	<u>-</u>

ETORO (UK) LIMITED

NOTES TO FINANCIAL STATEMENTS

in U.S. dollars

NOTE 12:- Taxes On Income (Cont.)

Total Tax Reconciliation

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

	31 December 2016	31 December 2015
Profit/ (Loss) before tax	106,276	(716,964)
Tax on profit/(loss) at the standard rate of UK corporation tax of 20% (2015: 20.25%)	21,255	145,185
Permanent differences- Disallowed expenses	4,098	(2,144)
Non-taxable income and gains	-	-
Temporary differences in respect of fixed assets	6,651	(81)
Temporary differences in relation to unsettled pension balances	(1,254)	(61)
Temporary differences in relation to share based payments	3,586	(10,534)
Temporary differences in relation to vacation & employees long term accruals	2,798	(1,403)
Adjustments in respect of prior periods	39	4,541
Other unrecognized deferred tax assets	(37,172)	(135,503)
Total tax charge/(credit)	-	-

Balance Sheet

	31 December 2016	31 December 2015
Current tax asset/(liability)	-	-
Deferred tax asset/(liability)	-	-

NOTES TO FINANCIAL STATEMENTS

in U.S. dollars

NOTE 12:- Taxes On Income (Cont.)

The current UK corporation tax rate for the 2016/17 tax year is 20%. The rate will fall to 19% for the year beginning 1 April 2017, and to 17% for the year beginning 1 April 2020. The deferred tax balances at 31 December 2016 have been stated at 20% (31 December 2015 20%).

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. As at 31 December 2016 the company has an unrecognised deferred tax asset of \$314,575. The deferred tax asset has not been recognised as the business is in start-up phase, and therefore recognition of the deferred tax asset is not considered appropriate at this time.

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

	31 December 2016	31 December 2015
Deferred tax asset / (liability)- differences between book value and tax value of fixed assets	(8,023)	(944)
Deferred tax asset / (liability)- unsettled pension balance	60	1,254
Deferred tax asset / (liability) - unsettled vacation & long term employees accruals	4,183	1,385
Deferred tax asset / (liability) - share based payments	15,455	26,069
Deferred tax asset / (liability)- unrecognised deferred tax on tax losses	302,900	356,514
Total unrecognised deferred tax asset / (liability)	314,575	384,278

There is no expiry date to any of the temporary differences which generate (unrecognised) deferred tax.

NOTES TO FINANCIAL STATEMENTS

in U.S. dollars

NOTE 12:- Taxes On Income (Cont.)

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

	31 December 2016	31 December 2015
Balance at the beginning of the year	384,278	237,295
Adjustment to tax in respect of prior years	(31,048)	4,541
(Decrease)/ Increase in unrecognised deferred tax for the year	(38,655)	142,442
Balance at the end of the financial year	<u>314,575</u>	<u>384,278</u>

NOTE 13:- OPERATING LEASE COMMITMENTS

On May 23, 2016, the Company entered into a 12 month lease agreement at a rent of GBP 11,250 per month. The next roll-over date, from which the lease could be extended for a further 12 months, is May 23, 2017.

NOTE 14:- EVENTS AFTER THE REPORTING DATE

There were no material events after the reporting period, which have a bearing on the understanding of the financial statements.