

Registered number 7973792

# **ETORO (UK) LIMITED**

## **ANNUAL REPORT AND FINANCIAL STATEMENTS**

**YEAR ENDED DECEMBER 31, 2013**

TUESDAY



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**ETORO (UK) LIMITED**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**PERIOD ENDED DECEMBER 31, 2013**

**U.S. DOLLARS**

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## COMPANY INFORMATION

### FOR THE PERIOD ENDED DECEMBER 31, 2013

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 directors' report and financial statements for the year ended December 31, 2013

### **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 online trading in contracts for difference, including currencies, stocks, indices, and commodities primarily to private clients. The company's target market is primarily the European Union. The company will trade with its clients as principal, with all trades being matched with offsetting trades either with associate company eToro (Europe) Limited, or directly with market liquidity providers. Hence the company intends to take minimal market trading risk.

The company's revenues will be generated 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 and systems and controls ready for the commencement of business. The result for the period is a loss of \$312,701 (2012 Nil).

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, on June 19, 2013 the company raised GBP 653,000 (USD 1,000,000) of Tier 1 equity capital through the issue of 653,000 Ordinary shares of £1 each to its parent company, eToro Group Limited.

### **Dividends**

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

### **Directors**

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

Jonathan Alexander Assia (appointed on March 2, 2012)  
Avi Sela (appointed on March 2, 2012)  
Anthony Stephen Wollenberg (appointed on March 2, 2012)  
Paul Chrimes (appointed on February 12, 2014)

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

### **Prior period comparatives**

The results of the company in the prior period, from 2 March to 31 December 2013, were unaudited. The company was dormant during this period, within the meaning of section 480 of the Companies Act 2006. The directors were satisfied that under the provisions of section 480(1) of the Companies Act 2006, that the company was exempt from the obligation to appoint auditors for this prior period

The directors engaged Ernst & Young LLP on 7 June 2012 as the company's auditor for the current financial year (ended 31 December 2013)

### **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 the group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

The Board of Directors will also ensure that the company prior to launch of trading has sufficient capital to meet its regulatory capital requirements for the next 12 months from the date of this report.

### **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**

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors, each director has taken all the steps that he is obliged to take as a director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

## DIRECTORS' REPORT (CONTINUED)

### Events since the balance sheet date

On March 24, 2014, the company's Board of Directors approved an additional capital injection of USD 850,000 (GBP 510,000) 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, receiving £120,000 (USD 200,000) on 24 March 2014

- On April 17, 2014 the company issued 390,000 Ordinary shares of £1 each to its parent company, eToro Group Limited, who remitted £390,000 (USD 650,000) to the company on 23 April 2014 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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Jonathan Alexander Assia  
Chairman of the Board of Directors  
April 23, 2014

## 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 and 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 profit or loss of the company for that period.

In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make 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;<sup>2</sup>
- 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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Jonathan Alexander Assia  
Chairman of the Board of Directors  
April 23, 2014

## **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 2013 which comprise the Statement of Comprehensive Income, 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 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 Directors' Report to identify material inconsistencies with the audited financial statements. 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 2013 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**

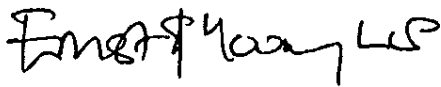
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.



**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

25.4.14

**Notes:**

- 1 The maintenance and integrity of the ETORO (UK) Limited 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

ETORO (UK) LIMITED

**STATEMENT OF COMPREHENSIVE INCOME**  
**REGISTERED NUMBER: 7973792**

in U.S. dollars

	<u>Note</u>	<u>December 31,</u> <u>2013</u>	<u>Period from</u> <u>March 2 to</u> <u>December 31,</u> <u>2012</u> <u>Unaudited</u>
Marketing expenses	10	15,329	-
Administrative and operating expenses	10	<u>287,894</u>	<u>-</u>
Total expenses		<u>303,223</u>	<u>-</u>
Operating income loss		303,223	-
Finance expenses	10	<u>9,478</u>	<u>-</u>
Net loss		<u>312,701</u>	<u>-</u>
Total Comprehensive Loss		<u>312,701</u>	<u>-</u>

The accompanying notes on pages 14 to 26 are an integral part of the consolidated financial statements

All activities were continuing in the current and prior periods

ETORO (UK) LIMITED.

**STATEMENT OF FINANCIAL POSITION**

**REGISTERED NUMBER: 7973792**

**in U.S. dollars**

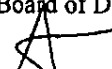
		<b>December 31,</b>	
	<b>Note</b>	<b>2013</b>	<b>2012</b>
			<b>Unaudited</b>
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	4	829,339	2
Prepaid expenses		2,747	-
		832,086	-
<b>NON-CURRENT ASSETS</b>			
Property and equipment, net of depreciation	5	3,499	-
		3,499	-
<b>TOTAL ASSETS</b>		<b>835,585</b>	<b>2</b>
<b>LIABILITIES AND EQUITY</b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable and accrued expenses	6	91,466	-
Payable – Related Parties	8	56,818	-
		148,284	-
<b>EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY:</b>			
Ordinary share capital	7	1,000,002	2
Retained earnings (deficit)		(312,701)	-
Total equity		687,301	2
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>835,585</b>	<b>2</b>

The accompanying notes on pages 14 to 26 are an integral part of the consolidated financial statements

The financial statements were approved by the Board of Directors on X and signed on its behalf by.

April 23, 2014

Date of approval of  
the financial statements

  
Jonathan Alexander Assia  
Chairman of the Board of  
Directors

**STATEMENT OF CHANGES IN EQUITY**  
**REGISTERED NUMBER: 7973792**

**in U.S. dollars**

	<u>Share capital</u>	<u>Accumulated deficit</u>	<u>Total equity</u>
Balance as of March 2, 2012	-	-	-
Issue of share capital	<u>2</u>	<u>-</u>	<u>2</u>
Balance as of December 31, 2012	2	-	2
Issue of share capital	1,000,000	-	1,000,000
Net loss	<u>-</u>	<u>(312,701)</u>	<u>(312,701)</u>
Balance as of December 31, 2013	<u>1,000,002</u>	<u>(312,701)</u>	<u>687,301</u>

The accompanying notes on pages 14 to 26 are an integral part of the consolidated financial statements

**STATEMENT OF CASH FLOWS****REGISTERED NUMBER: 7973792****in U.S. dollars**

	<b>December 31, 2013</b>	<b>Period from March 2 to December 31, 2012</b>
<b>Cash flows from operating activities:</b>		
Net loss	(312,701)	-
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Depreciation	390	-
Increase in prepaid expenses	(2,747)	-
Increase in accounts payable and accrued expenses	91,466	-
Increase in payable – Related Parties	56,818	-
Net cash used in operating activities	(166,774)	-
<b>Cash flows from investing activities:</b>		
Purchase of property and equipment	(3,889)	-
Net cash used in investing activities	(3,889)	-
<b>Cash flows from financing activities:</b>		
Issue of ordinary share capital	1,000,000	2
Net cash provided by financing activities	1,000,000	-
Increase in cash and cash equivalents	829,337	2
Cash and cash equivalents at beginning of year	2	-
Cash and cash equivalents at end of year	829,339	2

The accompanying notes on pages 14 to 26 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

The ultimate parent company is eToro Group Limited (Registered address Waterfront Drive, Road Town, Tortola, British Virgin Islands VG1110)

**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES**

a Basis of presentation of the financial statements

**1. Measurement basis:**

The Company's financial statements have been prepared on a cost basis, except for the following.

Financial instruments at fair value through profit or loss,

Provisions,

**2. Basis of preparation of the financial statements:**

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

- a) International Financial Reporting Standards (IFRS)
- b) International Accounting Standards (IAS)
- c) Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and by the Standing Interpretations Committee (SIC).
- d) Estimates and assumptions.

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, 2013 was 1.65 (as at December 31, 2012 was 1.62)

**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**

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

## NOTES TO FINANCIAL STATEMENTS

in U.S. dollars

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

**g Changes in accounting policies in view of the adoption of new standards**

Amendments to IAS 32, "Financial Instruments: Presentation regarding Offsetting Financial Assets and Financial Liabilities"

The IASB issued amendments to IAS 32 ("the amendments to IAS 32") regarding the offsetting of financial assets and financial liabilities. The amendments to IAS 32 clarify, among others, the meaning of "currently has a legally enforceable right of set-off" ("the right of set-off"). Among others, the amendments to IAS 32 prescribe that the right of set-off must be legally enforceable not only during the ordinary course of business of the

parties to the contract but also in the event of bankruptcy or insolvency of one of the parties. The amendments to IAS 32 also state that in order for the right of set-off to be currently available, it must not be contingent on a future event, there may not be periods during which the right is not available, or there may not be any events that will cause the right to expire.

The amendments to IAS 32 are to be applied retrospectively from the financial statements for annual periods beginning on January 1, 2014 or thereafter. Earlier application is permitted.

The Company will consider the impact of this amendment when it commences trading and the recording of financial assets and liabilities during 2014.

**IFRS 9, "Financial Instruments"**

- 1 The IASB issued IFRS 9, "Financial Instruments", the first part of Phase I of a project to replace IAS 39, "Financial Instruments: Recognition and Measurement". IFRS 9 ("IFRS 9") focuses mainly on the classification and measurement of financial assets and it applies to all financial assets within the scope of IAS 39.



## NOTES TO FINANCIAL STATEMENTS

in U.S. dollars

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

According to IFRS 9, all financial assets (including hybrid contracts with financial asset hosts) should be measured at fair value upon initial recognition. In subsequent periods, debt instruments should be measured at amortized cost only if both of the following conditions are met.

- The asset is held within a business model whose objective is to hold assets in order to collect the contractual cash flows.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Notwithstanding the aforesaid, upon initial recognition, the Company may designate a debt instrument that meets both of the abovementioned conditions as measured at fair value through profit or loss if this designation eliminates or significantly reduces a measurement or recognition inconsistency ("accounting mismatch") that would have otherwise arisen

Subsequent measurement of all other debt instruments and financial assets should be at fair value. When an entity changes its business model for managing financial assets, it shall reclassify all affected financial assets. In all other circumstances, reclassification of financial instruments is not permitted.

Financial assets that are equity instruments should be measured in subsequent periods at fair value and the changes recognized in profit or loss or in other comprehensive income (loss), in accordance with the election by the Company on an instrument-by-instrument basis (amounts recognized in other comprehensive

income cannot be subsequently reclassified to profit or loss). If equity instruments are held for trading, they should be measured at fair value through profit or loss

The IASB did not set a mandatory effective date for IFRS 9. Early application is permitted. Upon initial application, IFRS 9 should be applied retrospectively by providing the required disclosure or restating comparative figures, except as specified in IFRS 9. The Company believes that the amendments to IFRS 9 are not expected to have a material impact on the financial statements.

- 2 Amendments regarding derecognition and financial liabilities (Phase 2) were published. According to those amendments, the provisions of IAS 39 will continue to apply to derecognition and to financial liabilities for which the fair value option has not been elected (designated as measured at fair value through profit or loss), that is, the classification and measurement provisions of IAS 39 will continue to apply to financial liabilities held for trading and financial liabilities measured at amortized cost.

Pursuant to the amendments, the amount of the adjustment to the liability's fair value that is attributable to changes in credit risk should be presented in other comprehensive income. All other fair value adjustments should be presented in profit or loss. If presenting the fair value adjustment of the liability arising from changes in credit risk in other comprehensive income creates an accounting mismatch in profit or loss, then that adjustment should also be presented in profit or loss rather than in other comprehensive income

The IASB did not set a mandatory effective date for IFRS 9. Early application is permitted provided that the Company also adopts the provisions of IFRS 9 regarding the classification and measurement of financial assets (the first part of Phase 1). Upon initial application, the amendments are to be applied retrospectively by providing the required disclosure or restating comparative figures, except as specified in the amendments

## NOTES TO FINANCIAL STATEMENTS

in U.S. dollars

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

- 2 In November 2013, the IASB issued Phase 3 of IFRS 9 ("Phase 3 of IFRS 9") as part of the complete version of IFRS 9. Phase 3 of IFRS 9 includes the new hedge accounting requirements and related amendments to IFRS 9, IFRS 7 and IAS 39

Below are the significant principles of hedge accounting under IFRS 9 (2013):

- Hedge accounting can be applied to the risk components of financial hedged items and non-financial hedged items provided that risk component is separately identifiable and can be reliably measured.
- The hedge effectiveness test is to be made only on a qualitative basis and the quantitative effectiveness test of the 80%-125% range is eliminated. The test focuses on achieving the hedge objectives and the economic relationship between the hedged item and the hedging instrument and the effect of credit risk on that relationship.
- Adjustments of interaction between hedging instrument and hedged item can be made also after inception of the hedge if changes in hedging are required as part of risk management objective. In such case, no re-designation of the hedge is required.
- The time value of an option, the forward element of a forward and foreign currency basis spread can be excluded from the designation of a financial instrument as the hedging instrument and accounted for as costs of hedging transaction. This means that, instead of affecting profit or loss like a trading instrument (speculative) these amounts are carried as transaction costs in other comprehensive income and amortized to profit or loss over the hedge period.

The IASB did not set a mandatory effective date for Phase 3 of IFRS 9. Entities may apply Phase 3 of IFRS 9 early provided that they also adopt the other provisions of IFRS 9.

As part of the amendments included in Phase 3 of IFRS 9, the provisions of Phase 2 regarding measurement of liabilities at fair value and presenting fair value changes in own credit risk in other comprehensive income can be applied before applying any other requirements in IFRS 9.

The Company believes that IFRS 9 (including all its phases) is not expected to have a material impact on the financial statements.

#### Amendments to IAS 36, "Impairment of Assets"

In May 2013, the IASB issued amendments to IAS 36, "Impairment of Assets" ("the amendments") regarding the disclosure requirements of fair value less costs of disposal. The amendments include additional disclosure requirements of the recoverable amount and fair value. The additional disclosures include the fair value hierarchy, the valuation techniques and changes therein, the discount rates and the principal assumptions underlying the valuations.

The amendments are effective for annual periods beginning on January 1, 2014 or thereafter. Earlier application is permitted.

The appropriate disclosures will be included in the Company's financial statements upon the first-time adoption of the amendments.

Amendment to IAS 39, "Financial Instruments: Recognition and Measurement" regarding "Novation of Derivatives and Continuation of Hedge Accounting".

**NOTES TO FINANCIAL STATEMENTS**

in U.S. dollars

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

The Amendment to IAS 39 ("IAS 39") provides an exception to the requirement to discontinue hedge accounting. The amendment added conditions that must be met so replacement or rollover of a hedging instrument with another hedging instrument will not be considered an expiration or termination.

The amendment is effective for annual periods beginning on January 1, 2014 or thereafter. Earlier application is permitted.

The company is not intending to apply hedge accounting, and accordingly, there is no expected impact of the above amendment.

**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's risk encompasses several types of risk:

**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 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, 2013 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 unfavorable market movements, which can arise from changes in exchange rates or other market factors.

**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 to the in the Statement of Comprehensive Income for exposures for the year ended December 31, 2013 was \$6,741 (prior period \$0).

The net foreign currency exposure of assets and liabilities denominated in currencies other than USD at December 31, 2013 was in USD equivalent \$66,976 (2012: \$2).

**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.

## NOTES TO FINANCIAL STATEMENTS

in U.S. dollars

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

**4 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.

**5 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. The company is establishing a robust risk and control framework to meet regulatory requirements, in advance of trading

**6 Capital adequacy**

ETORO (UK) Limited is required by the Financial Conduct Authority to maintain at all times capital resources in excess of capital requirements. As a Limited License firm, the Pillar 1 capital requirement is the higher of the fixed overhead capital requirement and the sum of market and credit risk capital requirements. ETORO (UK) Limited is also required to assess its risks and any additional capital required to cover these risks (Pillar 2 capital requirement). As of December 31, 2013 the company's Pillar 1 capital adequacy position was as follows (at December 31, 2012 the company was not authorized)

Capital Resources: Tier 1 capital	\$696,575
Capital Requirement	\$554,000
Surplus of own funds	\$142,575

Tier 1 capital is comprised of the company's share capital.

## NOTES TO FINANCIAL STATEMENTS

in U.S. dollars

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

	<b>December 31,</b>	
	<b>2013</b>	<b>2012</b>
Cash and cash equivalents	<u>829,339</u>	<u>2</u>

As of December 31, 2013 all cash held with Barclays Bank PLC

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

**NOTE 5:- PROPERTY AND EQUIPMENT**

	<b>Computer equipment</b>	<b>Total</b>
<b>Cost</b>		
Balance as at January 1, 2013	-	-
Additions	<u>3,889</u>	<u>3,889</u>
Balance as at December 31, 2013	<u>3,889</u>	<u>3,889</u>
<b>Accumulated depreciation</b>		
Balance as at January 1, 2013	-	-
Charge for the year	<u>(390)</u>	<u>(390)</u>
Balance as at December 31, 2013	<u>(390)</u>	<u>(390)</u>
Depreciated balance at December 31, 2013	<u>3,499</u>	<u>3,499</u>

## NOTES TO FINANCIAL STATEMENTS

in U.S. dollars

**NOTE 6:- OTHER ACCOUNTS PAYABLE**

	December 31,	
	2013	2012
Professional Fees	56,176	-
Legal Fees	31,762	-
Rent	3,528	-
	<u>91,466</u>	<u>-</u>

**NOTE 7:- EQUITY**

	2013 Number of shares	2013 GBP	2012 Number of shares	2012 GBP
<b>Alloted, called up and fully paid</b>				
Ordinary shares of £1 each	<u>653,001</u>	<u>653,001</u>	<u>1</u>	<u>1</u>
		US\$		US\$
<b>Issued and fully paid</b>				
Balance at 1 January / date of incorporation	1	2	1	2
Issue of shares	<u>653,000</u>	<u>1,000,000</u>	<u>-</u>	<u>-</u>
<b>Balance at 31 December</b>	<u>653,001</u>	<u>1,000,002</u>	<u>1</u>	<u>2</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 the existing shareholder, eToro Group Limited.

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

## NOTES TO FINANCIAL STATEMENTS

in U.S. dollars

**NOTE 8:- RELATED PARTIES**

The following table provides the amounts due to related parties

	December 31,	
	2013	2012
eToro (EU) Limited - entity under common control	755	-
eToro Group Limited - parent entity	56,063	-
	<u>56,818</u>	<u>-</u>

The amounts payable to related parties were received in order to cover working capital needs

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

The Company has no contingent liabilities as at December 31, 2013

**NOTE 10:- SELECTED STATEMENT OF INCOME DATA**

Staff costs

	December 31, 2013	Period from March 2 to December 31, 2012
Wages / salaries	44,049	-
Bonus	3,204	-
Social security	5,508	-
	<u>52,761</u>	<u>-</u>

During the current year and prior period, the company did not pay any emoluments to any directors, or make any related pension or other post-retirement contributions

The average number of employees during the period was 3 (PY Nil)

Other marketing, administrative and operating expenses included

	December 31, 2013	Period from March 2 to December 31, 2012
Depreciation	390	-
Financial statements audit	24,630	-
Audit-related assurance services	13,535	-
Taxation compliance services	4,276	-
Other non-audit services	10,461	-
	<u>53,292</u>	<u>-</u>

## NOTES TO FINANCIAL STATEMENTS

in U.S. dollars

**NOTE 10:- SELECTED STATEMENT OF INCOME DATA (Cont.)**

Financing income (expenses), net

	December 31, 2013	Period from March 2 to December 31, 2012
Bank charges	2,737	-
Currency differences	6,741	-
	<u>9,478</u>	<u>-</u>

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

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



## NOTES TO FINANCIAL STATEMENTS

in U.S. dollars

**NOTE 11:- Taxes On Income (continued)**

## Total Tax Reconciliation

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

	31 December 2013
Loss before tax	(312,701)
Tax on profit/(loss) at the standard rate of UK corporation tax of 23.25%	72,703
Permanent differences- Disallowed expenses	(44,844)
Non-taxable income and gains	-
Adjustments in respect of prior periods	
Other- Unrecognized deferred tax assets	(27,859)
<b>Total tax charge/(credit)</b>	<b>-</b>

**Balance Sheet**

	31 December 2013
Current tax asset/(liability)	-
Deferred tax asset/(liability)	-

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 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.

**NOTES TO FINANCIAL STATEMENTS**

in U.S. dollars

**NOTE 11:- Taxes on Income (continued)**

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

	<b>31-Dec 2013</b>
Deferred tax liability- differences between book value and tax value of fixed assets	(78)
Deferred tax asset- unrecognized deferred tax on tax losses	27,859
Total unrecognized deferred tax asset	<u><u>27,781</u></u>

**NOTE 12:- OPERATING LEASE COMMITMENTS**

On July 24, 2013 date, the Company entered into a lease agreement at a rent of GBP1,400 per month, for 6 months. This lease expired on January 23, 2014.

The lease was rolled-forward on a monthly basis until a new agreement was signed on April 14, 2014.

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

On April 14, 2014 date, the Company entered into a lease agreement at a rent of GBP3,150 per month, for 3 months.

On March 24, 2014, the company's Board of Directors approved an additional capital injection of USD 850,000 (GBP 510,000) 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, receiving £120,000 (USD 200,000) on 24 March 2014.
- On April 17, 2014, the company issued 390,000 Ordinary shares of £1 each to its parent company, eToro Group Limited, who remitted £390,000 (USD 650,000) to the company on 23 April 2014 in consideration.