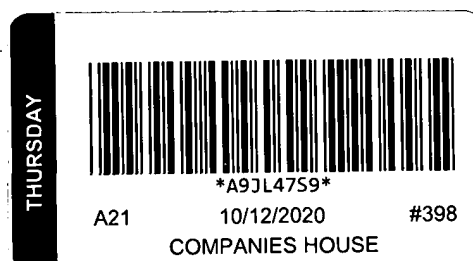


Registered number: 7973792

**ETORO (UK) LIMITED**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**YEAR ENDED 31 DECEMBER 2019**



**ETORO (UK) LIMITED**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**YEAR ENDED 31 DECEMBER 2019**

**U.S. DOLLARS**

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**COMPANY INFORMATION**

**FOR THE YEAR ENDED 31 DECEMBER 2019**

Directors: Jonathan Alexander Assia  
Avi Sela  
Anthony Stephen Wollenberg  
Paul Andrew Chrimes  
Robert James Brown  
Shalom Berkovitz  
Iqbal Gandham

Registered Office: 5 Fleet Place  
London  
EC4M 7RD

Business Address: 24<sup>th</sup> Floor  
One Canada Square  
Canary Wharf  
London  
E14 5AB

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

Principal Banker: Coutts & Co  
440 Strand  
London  
WC2R 0QS

## DIRECTORS' REPORT

The directors present their annual report and financial statements for the year ended 31 December 2019.

### 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 a multi-asset social investment network where clients can see, follow and copy other social investors and trade contracts for differences ("CFDs") in foreign exchange, commodities, indices, exchange traded funds ("ETFs"), stocks and cryptoassets. Clients also have the option to purchase the underlying asset in both stocks and cryptoassets.

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 customer's 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.

In October 2018, the firm commenced a trial for clients to on-board directly to the UK entity. Prior to this date clients could only migrate to the UK entity if their net equity was greater than \$5k and they had been fully verified for know your client ("KYC") and anti-money laundering ("AML") by compliance.

Due to the successful completion of the trial to on-board clients directly into the Company, this contributed to a significant increase in 2019 in customer activity in both its CFD business, real stock investment and in crypto currencies.

The Company executes trades with its retail and professional clients 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).

During 2019, the Company also executed trades in stocks and ETFs on behalf of eToro (Europe) Limited with a 3<sup>rd</sup> party broker, trading on a matched-principal basis.

The Company's revenue is generated from client commissions earned from buying and selling CFDs and purchasing the underlying assets. Revenue is also derived from eToro group companies, in respect of execution services and the recharge of costs for marketing and account management services provided to other group entities based on a profit split analysis.

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

### Review of the Business

During 2019, the Company recorded net trading revenues of \$3.1m (2018: \$2.1m), net inter-company revenue of \$2.1m (2018: \$5.4m) and a loss before tax amounting to \$0.5m (2018: profit \$2.98m). eToro (UK) Limited 2019 inter-company revenues were generated from revenues received from eToro Ltd, in respect of the recharge of sales and marketing costs.

**DIRECTORS' REPORT (Cont.)**

The result for the year ended 31 December 2019 is a net loss after tax of \$519,858 (2018: \$2,595,267).

Although the Company has seen an increase in the number of clients in 2019, the loss attributed in the year reflects a redistribution of the Group's overall operating profitability. In 2019 the Group's investment in marketing activities was significantly increased compared to 2018 which overall reduced the Group's EBITDA in 2019. This is reflected by the lower distribution of intercompany revenues in 2019 of \$2.1m (2018: \$5.4m). This investment in marketing activities in 2019 has seen a significant increase in the Companies and Group's operating profit in 2020.

In 2019 no additional capital was required to be injected into the Company. During 2018, the Company's Board of Directors approved additional capital injections amounting to USD 1,800,000 (£1,356,935) of Tier 1 equity capital through the issue of Ordinary shares to its parent Company, eToro Group Limited, as follows:

- On March 19, 2018, the Company issued 570,623 Ordinary shares of £1 each to its parent Company, eToro Group Limited, who remitted USD 800,000 (£570,623) on 21 March 2018 in consideration.

- On November 29, 2018, the Company issued 786,312 Ordinary shares of £1 each to its parent Company, eToro Group Limited, which remitted USD 1,000,000 (£786,312) to the Company on 3<sup>rd</sup> December 2018 in consideration.

**Dividends**

No dividends were paid during the period, and the 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 Andrew Chrimes  
Robert James Brown  
Iqbal Gandham (Resigned 30 June 2020)  
Shalom Berkovitz

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

**DIRECTORS' REPORT (Cont.)****Subsequent Events**

With the recent and rapid development of the Coronavirus disease (COVID-19) outbreak the world economy entered a period of unprecedented health care crisis that has already caused considerable global disruption in business activities and everyday life. Many countries have adopted extraordinary and economically costly containment measures. Certain countries have required companies to limit or even suspend normal business operations. Governments, including the United Kingdom, have implemented restrictions on travelling as well as strict quarantine measures.

Management has considered the unique circumstances that could have a material impact on the business operations and the risk exposures of the Company and has concluded that COVID-19 did not negatively affect the Company or the Group in terms of operations, liquidity and profitability. The Management has already taken the necessary measures to ensure that the Company's activity will continue as normal and be able to meet the needs of its customers.

Management will continue to monitor the situation closely and assess additional measures. If significant events do materially affect the operations of Company, the directors are confident that the company can take actions to limit exposures and liabilities. The most significant event risks posed by COVID-19 include the failure to attract new clients/loss of market share to competitors or an operational failure. The former risk is mitigated through the Group's strategy for market positioning, innovation, product offering and brand investment. The latter risk is mitigated through the Group's business continuity planning and internal controls.

The event is considered as a non-adjusting event and is therefore not reflected in the recognition and measurement of the assets and liabilities in the financial statements as at 31 December 2019.

**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**

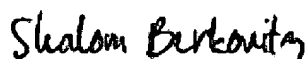
In the case of each of the persons who are Directors of the Company at the date when this report was approved:

- 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.

Approved by the board of directors on the 16 October 2020 and signed on behalf of the board:



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Shalom Berkovitz  
Director  
16 October 2020

## 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 profit of the Company for that period.

In preparing these financial statements, the directors are required to:

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

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



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Shalom Berkovitz  
Director  
16 October 2020

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

**Opinion**

We have audited the financial statements of eToro (UK) Limited for the year ended 31 December 2019 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 16, including a summary of significant accounting policies. 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.

In our opinion, the financial statements:

- give a true and fair view of the Company's affairs as at 31 December 2019 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

**Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Emphasis of matter – Impact of COVID-19**

We draw attention to notes 1 and 16 of the financial statements, which describes the economic disruption the Company is facing as a result of COVID-19, which is impacting financial markets and personnel available for work and or being able to access offices. Our opinion is not modified in respect of this matter

**Conclusions relating to going concern**

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

**Other information**

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.



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

**Opinions on other matters 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; and
- the directors' report has been prepared in accordance with applicable legal requirements

**Matters on which we are required to report by exception**

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which 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

**Responsibilities of directors**

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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

**Auditor's responsibilities for the audit of the financial statements**

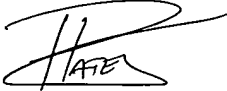
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

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

**Use of our report**

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.

A handwritten signature in black ink, appearing to read 'Hitesh Patel', with a stylized flourish above the name.

Hitesh Patel (Senior statutory auditor)  
for and on behalf of Ernst & Young LLP, Statutory Auditor  
London  
16 October 2020

## STATEMENT OF COMPREHENSIVE INCOME

in U.S. dollars

	Year Ended 31 December	Year Ended 31 December	
	Note	2019	2018
Trading commissions	2c	3,054,661	2,073,228
Trading costs	2c	(78,382)	(446,285)
Other commissions	2c	2,146,208	5,400,802
Net income		5,122,487	7,027,745
Administrative and operating expenses	12	(5,663,287)	(4,016,737)
Operating (loss)/profit		(540,800)	3,011,008
Bank charges		(12,870)	(6,839)
Interest income		14,925	25,018
FX gains/(loss)		18,887	(48,388)
(Loss)/profit before tax		(519,858)	2,980,799
Tax		-	(385,532)
Net (loss)/profit for the year		(519,858)	2,595,267
Total comprehensive (loss)/income		(519,858)	2,595,267

There were no items recorded through Other Comprehensive Income in 2018 or 2019.

The accompanying notes on pages 15 to 40 are an integral part of the financial statements.

All activities were continuing in the current and prior periods.

## ETORO (UK) LIMITED

STATEMENT OF FINANCIAL POSITION  
REGISTERED NUMBER: 7973792

	<u>Note</u>	<u>2019</u>	<u>2018</u>
<b>ASSETS</b>			
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents	5	3,817,773	2,334,081
Amounts due from related parties	10	1,833,523	5,294,373
Corporation tax	13	106,620	-
Other receivables and prepaid expenses	6	6,413,388	4,202,124
		<u>12,171,304</u>	<u>11,830,578</u>
<b>NON-CURRENT ASSETS:</b>			
Property and equipment, net of depreciation	7	164,439	47,724
		<u>164,439</u>	<u>47,724</u>
<b>TOTAL ASSETS</b>		<u><u>12,335,743</u></u>	<u><u>11,878,302</u></u>
<b>LIABILITIES AND EQUITY</b>			
<b>CURRENT LIABILITIES:</b>			
Accounts payable and accrued expenses	8	1,007,380	747,632
Corporation tax	13	-	385,532
Amounts due to related parties	10	6,006,822	5,032,426
		<u>7,014,202</u>	<u>6,165,590</u>
<b>NON CURRENT LIABILITIES:</b>			
Accounts payable and accrued expenses	8	16,109	34,329
		<u>16,109</u>	<u>34,329</u>
<b>EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY:</b>			
Ordinary share capital	9	4,400,002	4,400,002
Capital reserve for share-based payments		489,802	342,895
Retained profit / (accumulated deficit)		415,628	935,486
		<u>5,305,432</u>	<u>5,678,383</u>
<b>Total equity</b>		<u>5,305,432</u>	<u>5,678,383</u>
<b>TOTAL LIABILITIES AND EQUITY</b>		<u><u>12,335,743</u></u>	<u><u>11,878,302</u></u>

The accompanying notes on pages 15 to 40 are an integral part of the financial statements.

The financial statements were approved by the Board of Directors on 16 October 2020 and signed on its behalf by:

*Shalom Berkovitz*

\_\_\_\_\_  
Shalom Berkovitz  
Director

## STATEMENT OF CHANGES IN EQUITY

	Note	Ordinary Share Capital	Capital Reserve for Share- based payments	Retained Profit / (deficit)	Total Equity
Balance as of December 31, 2017		2,600,002	205,831	(1,659,782)	1,146,051
Issue of share capital	9	1,800,000	-	-	1,800,000
Share based payment compensation	12	-	137,064	-	137,064
Total comprehensive income		-	-	<u>2,595,268</u>	<u>2,595,268</u>
Balance as of December 31, 2018		4,400,002	342,895	935,486	5,678,383
Issue of share capital	9	-	-	-	-
Share based payment compensation	12	-	146,907	-	146,907
Total comprehensive income		-	-	<u>(519,858)</u>	<u>(519,858)</u>
Balance as of December 31, 2019		<u>4,400,002</u>	<u>489,802</u>	<u>415,628</u>	<u>5,305,432</u>

The accompanying notes on pages 15 to 40 are an integral part of the financial statements.

## ETORO (UK) LIMITED

## STATEMENT OF CASH FLOWS

	Note	December 31 2019	December 31 2018
<b>Cash flows from operating activities:</b>			
Net profit before tax		(519,858)	2,595,267
Adjustments to reconcile net income profit to net cash provided by operating activities:			
Depreciation	7	38,495	65,835
Share based payment compensation	9	146,907	137,064
Interest received		(14,925)	(25,018)
Decrease/(increase) in amount due from related parties		3,460,850	(5,179,327)
Increase in other receivables and prepaid expenses	6	(2,211,264)	(4,185,536)
Corporation tax paid		(492,152)	-
Net foreign exchange differences		(292)	(45,651)
Increase in accounts payable and accrued expenses		241,528	535,325
Increase in amount due to related parties		974,396	3,482,215
Net cash inflow/(outflow) from operating activities		1,623,685	(2,619,826)
<b>Cash flows from investing activities:</b>			
Purchase of property and equipment	7	(155,210)	(45,795)
Net cash used in investing activities		(155,210)	(45,795)
<b>Cash flows from financing activities:</b>			
Increase in ordinary share capital	9	-	1,800,000
Interest received		14,925	25,018
		14,925	1,825,018
(Decrease)/increase in cash and cash equivalents		1,483,400	(840,603)
Net foreign exchange differences		292	45,651
Cash and cash equivalents at beginning of year	5	2,334,081	3,129,033
Cash and cash equivalents at end of year	5	3,817,773	2,334,081

The accompanying notes on pages 15 to 40 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.
Functional and presentational currency	- U.S. Dollar.

As at December 31, 2019, 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.

## c. Subsequent events

With the recent and rapid development of the Coronavirus disease (COVID-19) outbreak the world economy entered a period of unprecedented health care crisis that has already caused considerable global disruption in business activities and everyday life. Many countries have adopted extraordinary and economically costly containment measures. Certain countries have required companies to limit or even suspend normal business operations. Governments, including the United Kingdom, have implemented restrictions on travelling as well as strict quarantine measures.

Management has considered the unique circumstances that could have a material impact on the business operations and the risk exposures of the Company and has concluded that COVID-19 did not negatively affect the Company or the Group in terms of operations, liquidity and profitability. The Management has already taken the necessary measures to ensure that the Company's activity will continue as normal and be able to meet the needs of its customers.

Management will continue to monitor the situation closely and assess additional measures. If significant events do materially affect the operations of Company, the directors are confident that the company can take actions to limit exposures and liabilities. The most significant event risks posed by COVID-19 include the failure to attract new clients/loss of market share to competitors or an operational failure. The former risk is mitigated through the Group's strategy for market positioning, innovation, product offering and brand investment. The latter risk is mitigated through the Group's business continuity planning and internal controls.

The event is considered as a non-adjusting event and is therefore not reflected in the recognition and measurement of the assets and liabilities in the financial statements as at 31 December 2019.

**NOTES TO FINANCIAL STATEMENTS**

**in U.S. dollars**

**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 and income. 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 estimate for the Capital Reserve for Share based payments (refer to note 9), there are no other areas of significant judgment or estimate in the current or prior periods.

**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. USD/GBP rate used as at December 31, 2019 was 1.32 (as at December 31, 2018 was 1.28).

**c. Revenue Recognition:**

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

**(i) Trading commissions**

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

When trading on behalf of clients, including affiliated companies, revenue includes the commission earned from contracts for differences, stocks, and crypto assets, net of execution costs, if any, deducted by the executing broker.



**NOTES TO FINANCIAL STATEMENTS****in U.S. dollars****NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

Where the executing broker is an affiliated company, execution costs are only payable if the Company records an operating profit before consideration of inter-company transactions. If the Company records an operating loss before inter-company transactions, any execution costs that would have been payable by the Company are not payable until the Company records an operating profit before inter-company transactions.

**(ii) Intermediary Services**

With effect from 1 January 2018, the eToro group reorganised the provision of certain inter-company services, and the pricing thereof. As a result, the intermediary service provided in prior years by parent Company eToro Group Ltd was provided in 2018 and 2019 by eToro Ltd, an associate Company incorporated in Israel.

The Intermediary services include, amongst others, seeking and negotiating with customers who are interested in receiving financial services from the Company. The Intermediary Service Fee is calculated in 2019 so that the Company pays to eToro Ltd a % of its operating profit, based on an analysis of the Company's key functions & risks to the eToro group overall, but only to the extent that the Company records an operating profit before consideration of inter-company fees. If the Company records an operating loss before inter-company fees, any amount that would

have been payable by the Company becomes payable only once the Company records an operating profit before inter-company fees.

Intermediary Service Fee, to the extent payable, is generally recorded on accrual basis over the period in which the services is being provided.

**(iii) Other commissions**

Other commissions are generally recorded on accrual basis over the period in which the services is being provided.

Other commissions include commission for marketing services provided by eToro UK to the Group and is based on distribution of global profit. The profit split analysis 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.

**d. Trading costs:**

Trading costs consist of the cost of incentive bonuses, other payments to clients and intercompany fees charged in respect of copy trading services charged by a related party (also refer note 10).

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.

The incentive bonuses are recognised in the financial statements when they become redeemable and withdrawable by the client. Copy trading services are accrued quarterly based on the value of services provided during each quarter.

**e. Cash and cash equivalents:**

Cash and 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.

**NOTES TO FINANCIAL STATEMENTS****in U.S. dollars****NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Cont.)****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 to the fair value of the equity instruments 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 other comprehensive income or equity, in which case, it is also recognized directly in other comprehensive income or 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 and where there is an intention to settle the balances on a net basis.

**j. Adoption and impact of new accounting standards and interpretations:**

During the current year the Company adopted all the new and revised International Financial Reporting Standards (IFRS) that are relevant to its operations and are effective for accounting periods beginning on 1 January 2018: IFRS 15 "Revenue from contracts with customers" and IFRS 9 "Financial instruments". The impact of adopting the new standards did not have a material effect on the financial statement of the Company.

**IFRS 15 Revenue from contracts with customers – Impact of adoption**

On January 2018, the Company adopted IFRS 15 "Revenue from contracts with customers" (IFRS 15). This new standard creates a single model for revenue recognition from contracts with customers. eToro (UK) Limited revenue are composed of revenues from trading which is recorded under trading commissions in the statement of comprehensive income. Revenues from trading include the spread between buying and selling contracts for different in foreign currencies, commodities, indices, stocks, exchange traded funds and cryptoassets. The spread is calculated on price quoted presented on the trading platform which uses the prices quotes database of several vendors. In addition, revenues from trading includes fees for positions held overnight, fees charged for non- US Dollars deposits & withdrawals, client withdrawals fees and other fees. eToro (UK) Limited recognise the revenue and payment from fees on the transaction date which under IFRS 15 is treated as one performance obligation.

The rules set out in IFRS 15 have been adopted prospectively from 1 January 2018 under the modified retrospective approach, and consequently the comparative amounts remain unchanged and are reported under IAS 18. The adoption of IFRS 15 resulted in no material changes to the measurement or timing of revenue recognition in the income statement for the Company.

**NOTES TO FINANCIAL STATEMENTS****in U.S. dollars****NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Cont.)****IFRS 9 Financial Instruments – Impact of adoption**

On 1 January 2018, the Company adopted IFRS 9 ‘Financial Instruments’ and applied the standard retrospectively. There were no material changes in the values of any of the Company’s financial assets and liabilities on transition.

The new standard requires financial instruments to be classified as fair value through profit or loss (FVPL) or amortised cost, each of which are explained further below. The classification depends on the Company’s business model for managing its financial instruments and whether the cash flows generated are “solely payments of principal and interest” (SPPI).

- Financial assets at amortised cost are assets that are held in order to collect the contractual cash flows (solely payments of principal and interest); this includes the Company’s cash and cash equivalents, amounts due from related parties and other receivables. There was no change on the previous treatment for these instruments.
- Financial liabilities at fair value through profit or loss (FVPL): this category includes five years bonus recorded under non-current accounts payable and accrued expenses. There was no change on the previous treatment for these instruments.
- Financial liabilities at amortised cost: this category includes all financial liabilities that are not included within financial liabilities at fair value through profit or loss and comprises the Company’s account payable, accrued expenses and amounts due to related parties. There was no change on the previous treatment for these instruments.

IFRS 9 adopts a new approach to calculating impairment losses on financial instruments, with the Company required to adopt a forward-looking approach to estimate expected credit losses (ECLs). ECLs are based on the difference between the contractual cash flows due and the expected cash flows, the difference is then discounted at the asset’s original effective interest rate. The impact of the new approach on the Company’s financial statements is as follows:

Financial assets at amortised cost – the ECL for amounts due from related parties, other receivables and cash and cash equivalents are calculated using IFRS 9’s simplified approach using lifetime ECL and will follow the application guidance provided by IFRS 9. Management estimates that the ECL for cash and cash equivalents, for amounts due from related parties and other receivables is nil and there is no significant impact from the application of the provision of IFRS 9 regarding impairment for these items.

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

**NOTES TO FINANCIAL STATEMENTS****in U.S. dollars****NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Cont.)****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.

The following standards and interpretations were issued by the IASB and IFRIC, but have not been adopted either because they were not endorsed by the EU at 31 December 2019 or they are not yet mandatory and the Company has not chosen to early adopt. The Company plans to adopt these standards and interpretations when they become effective. The impact on the Company's financial statements of the future standards, amendments and interpretations is still under review, and where appropriate, a description of the impact of certain standards and amendments is provided below:

<b>International accounting standards and interpretations</b>	<b>Effective date</b>
Amendments to IAS 37: Provisions, Contingent Liabilities and Contingent Assets	1 January 2022
Amendments to IAS 1: Presentation of Financial Statements	1 January 2022
Amendments to IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors.	1 January 2020

The adoption of these standards will not have a material impact on the results of the Company.

**l. Financial assets**

The Company classifies its financial assets as loans and receivables, and comprise cash and cash equivalents, amounts due from related parties and other receivables. Management determines the classification of its financial assets at initial recognition. Subsequent to initial recognition, financial assets at amortised cost are measured using the effective interest rate method, with gains and losses recognised in finance income and expenses respectively.

A provision for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or will be subject to a financial reorganisation and/or default on or be delinquent on its payment obligations are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of the portion deemed recoverable. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of comprehensive income. Subsequent recoveries of amounts previously written off are credited in the statement of comprehensive income.

**NOTES TO FINANCIAL STATEMENTS**

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**in U.S. dollars**

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

**m. Financial liabilities**

The Company classifies its financial liabilities as either financial liabilities at amortised cost or financial liabilities at fair value through profit or loss. Financial liabilities at amortised cost are comprised of accounts payable, accrued expenses and amounts due to related parties. Financial liabilities at fair value through profit and loss include five years bonus recorded under non-current accounts payable and accrued expenses.

Subsequent to initial recognition, financial liabilities at amortised cost are measured using the effective interest rate method, with gains and losses recognised in finance income and expenses respectively.

Changes in the value of financial liabilities measured at fair value are recorded in the statement of comprehensive income, within administrative and operating expenses.

Financial liabilities are derecognised when the obligation under the liability is discharged, cancelled or expires.

**n. Significant judgements and estimates**

In the Directors' view, other than the estimate for the Capital Reserve for Share based payments (refer to note 9), there are no other areas of significant judgment or estimate in the current or prior periods.

The accounting policies that are deemed critical to the Company's results and financial position in terms of the materiality of the items to which the policy is applied, and which involve a high degree of judgement including the use of assumptions and estimation, are discussed below.

*Going concern and operating environment of the Company*

The Board of Directors and management have made an assessment of the Group's ability to continue as a going concern and are satisfied that it has the resources to continue in business for the foreseeable future.

Due to the fact that the Company's overall equity amounts to \$5,305,432 (2018: \$5,678,383) and the Company's loss after tax amount to only \$519,858 (2018: profit \$2,595,267) combined with surplus capital 7.6% (2018: 4.8%) above the minimum required (including the current year post tax loss) as at the year end, the Board of Directors believes that the Company is able to manage its business risks successfully despite the current uncertain Brexit economic outlook.

Thus, they adopt the going concern basis of accounting in preparing the annual financial statements.

*Share based payments*

The Company participates in the eToro Group's share-based scheme, whereby employees of the Company have an option to buy equity shares of the Holding Company at a discounted price in return for their services to the Company. The Employee Share Ownership Plan ("ESOP") is entirely managed by eToro Group Ltd. The assumptions and estimates used to determine the cost to the Company is disclosed in note 9.

**NOTES TO FINANCIAL STATEMENTS**

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**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 exposed to 3<sup>rd</sup> party brokers with whom it executes trades on behalf of eToro (Europe) Ltd, an affiliated company. The Company monitors its exposure to 3<sup>rd</sup> party brokers. 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, 2019 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 either in an agency capacity or on a back-to-back matched principal basis, and in either case 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.

**NOTES TO FINANCIAL STATEMENTS**

in U.S. dollars

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

FX translation differences booked in the Statement of Comprehensive Income for exposures for the year ended December 31, 2019 was \$18,887 gain (2018: \$48,388 loss).

The net foreign currency exposure of assets and liabilities denominated in currencies other than USD at December 31, 2019 was in USD equivalent \$1,447,152 receivable (2018: \$575,595 receivable).

The Company has considered movements in the GBP over the year ended 31 December 2019 and period ended 31 December 2018 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.

	31 December 2019		31 December 2018	
	Increase / (decrease) Net Profit	Equity	Increase / (decrease) Net Profit	Equity
GBP weaken	(141,151)	5,164,282	(60,541)	5,617,842
GBP strengthen	149,784	5,455,218	53,916	5,732,299

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 \$
<b>2019</b>					
<b>Financial Assets</b>					
Cash and cash equivalents	3,817,773	-	-	-	3,817,773
Due from related parties	1,833,523	-	-	-	1,833,523
Other receivables	6,520,008	-	-	-	6,520,008
<b>Total financial assets</b>	<b>12,171,304</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>12,171,304</b>
<b>Financial Liabilities</b>					
Payables & accrued expenses	1,007,380	-	16,109	-	1,023,489
Due to related parties	6,006,822	-	-	-	6,006,822
<b>Total financial liabilities</b>	<b>7,014,202</b>	<b>-</b>	<b>16,109</b>	<b>-</b>	<b>7,030,311</b>
<b>Net position</b>	<b>5,157,102</b>	<b>-</b>	<b>(16,109)</b>	<b>-</b>	<b>5,140,993</b>
	On demand and up to one month \$	Between one month and one year \$	Between one and five years \$	Over five years \$	Total \$
<b>2018</b>					
<b>Financial Assets</b>					
Cash and cash equivalents	2,334,081	-	-	-	2,334,081
Due from related parties	5,294,373	-	-	-	5,294,373
Other receivables	4,202,124	-	-	-	4,202,124
<b>Total financial assets</b>	<b>11,830,578</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>11,830,578</b>
<b>Financial Liabilities</b>					
Payables & accrued expenses	1,133,164	-	34,329	-	1,167,493
Due to related Parties	5,032,426	-	-	-	5,032,426
<b>Total financial liabilities</b>	<b>6,165,590</b>	<b>-</b>	<b>34,329</b>	<b>-</b>	<b>6,199,919</b>
<b>Net position</b>	<b>5,664,988</b>	<b>-</b>	<b>(34,329)</b>	<b>-</b>	<b>5,630,659</b>

**ETORO (UK) LIMITED****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.

## 7. 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.

## 8. 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 at 31 December 2019 and 2018, the Company’s regulatory capital was as follows:

	<b>December 31</b>	<b>December 31</b>
	<b>2019</b>	<b>2018</b>
Regulatory Capital	<u>4,815,630</u>	<u>5,335,488</u>

Regulatory capital of the Company is comprised entirely of Common Equity Tier 1, being the Company's share capital. 2019 retained loss of \$519,858 (2018: profit \$2,595,267) is included within Regulatory Capital.

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

**ETORO (UK) LIMITED****NOTES TO FINANCIAL STATEMENTS**

in U.S. dollars

**NOTE 4: - CAPITAL MANAGEMENT**

During 2019, the legal and regulatory framework under which the Company operated stipulated that the Company must maintain a minimum capital adequacy ratio of 8%. The method of calculation is set up by the relevant regulatory authority. The Company aims to always maintain a high capital adequacy ratio well above the required minimum. During 2018, the capital adequacy ratio was reported to the Company's regulatory authority on a quarterly basis.

The companies' objective when managing capital is to maintain an optimal capital structure that reduces the cost of capital, safeguards the Company's ability to continue as a going concern, meets regulatory capital requirements, and enables appropriate returns to shareholders.

The Company's regulatory capital is made of Tier 1 capital: share capital and retained earnings.

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature of the assets and reflecting an estimate of credit, market and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees.

The Company's capital adequacy ratio for the year ended 31 December 2019 complies with the regulatory capital requirements.

**NOTE 5: - CASH AND CASH EQUIVALENTS**

	<b>December 31</b>	<b>December 31</b>
	<b>2019</b>	<b>2018</b>
Cash at bank – own funds	3,817,773	2,334,081
	<u>3,817,773</u>	<u>2,334,081</u>

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

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

**NOTE 6: - OTHER RECEIVABLES AND PREPAID EXPENSE**

	<b>December 31</b>	<b>December 31</b>
	<b>2019</b>	<b>2018</b>
VAT refund claim	32,485	43,043
Prepaid expenses	171,251	55,522
Margin held with liquidity providers	6,209,652	4,101,907
Other	-	1,652
	<u>6,413,388</u>	<u>4,202,124</u>

## ETORO (UK) LIMITED

## NOTES TO FINANCIAL STATEMENTS

in U.S. dollars

## NOTE 7: - PROPERTY AND EQUIPMENT

	Software & computer equipment	Furniture & office equipment	Total
<b>Cost</b>			
Balance as at January 1, 2018	183,150	1,805	184,955
Additions	45,795	-	45,795
Balance as at December 31, 2018	<u>228,945</u>	<u>1,805</u>	<u>230,750</u>
Balance as at January 1, 2019	228,945	1,805	230,750
Additions	130,284	24,926	155,210
Balance as at December 31, 2019	<u>359,229</u>	<u>26,731</u>	<u>385,960</u>

Included in Software & Computer equipment is \$100,000 carrying value of license fees which is fully depreciated (2018: \$100,000).

	Software & Computer equipment	Furniture & office equipment	Total
<b>Accumulated depreciation</b>			
Balance as at January 1, 2018	116,976	215	117,191
Depreciation during the period	65,710	125	65,835
Balance as at December 31, 2018	<u>182,686</u>	<u>340</u>	<u>183,026</u>
Balance as at January 1, 2019	182,686	340	183,026
Depreciation during the period	37,323	1,172	38,495
Balance as at December 31, 2019	<u>220,009</u>	<u>1,512</u>	<u>221,521</u>
<b>Depreciated balance</b>			
Depreciated balance at December 31, 2018	<u>46,259</u>	<u>1,465</u>	<u>47,724</u>
Depreciated balance at December 31, 2019	<u>139,220</u>	<u>25,219</u>	<u>164,439</u>

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 8: - ACCOUNTS PAYABLE AND ACCRUED EXPENSES**

	<b>December 31</b>	<b>December 31</b>
	<b>2019</b>	<b>2018</b>
Employee and payroll related*	642,060	352,549
Professional fees	288,307	320,016
Other payables	93,122	109,396
	<u>1,023,489</u>	<u>781,961</u>

\*Including \$16,109 non-current liability to employees (2018: \$34,329) – refer to note 10.

The carrying amount of account payable is a reasonable approximation of fair value.

## ETORO (UK) LIMITED

## NOTES TO FINANCIAL STATEMENTS

in U.S. dollars

## NOTE 9: - EQUITY

## Ordinary Share capital

	2019 Number of shares	2019 GBP	2018 Number of shares	2018 GBP
<b>Authorised, called up and fully paid</b>				
Ordinary shares of £1 each	3,006,633	3,006,633	3,006,633	3,006,633
		US\$		US\$
<b>Issued and fully paid</b>				
Balance at 1 January	3,006,633	4,400,002	1,649,698	2,600,002
Issued during the year	-	-	1,356,935	1,800,000
<b>Balance at 31 December</b>	<b>3,006,633</b>	<b>4,400,002</b>	<b>3,006,633</b>	<b>4,400,002</b>

On March 19, 2018, the Company issued 570,623 Ordinary shares of £1 each to its parent company, eToro Group Limited, who remitted USD 800,000 (£570,623) on 21 March 2018 in consideration.

On November 29, 2018, the Company issued 786,312 Ordinary shares of £1 each to its parent company, eToro Group Limited, which remitted USD 1,000,000 (£786,312) to the Company on 3<sup>rd</sup> December 2018 in consideration.

The Company did not issue any shares in 2019.

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

**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 2018 and 2019, 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, 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.

## ETORO (UK) LIMITED

**NOTES TO FINANCIAL STATEMENTS**

in U.S. dollars

**NOTE 9: - EQUITY (Cont.)**

	<u>December 31</u> <u>2019</u>	<u>December 31</u> <u>2018</u>
Weighted average expected term (years)	5.87	5.99
Interest rate	2.12%	2.12%
Volatility	53.40%	52.39%
Dividend yield	0%	0%

The compensation expenses in 2019 which amounted to US \$146,907 (2018: \$137,064), were recorded as payroll expenses.

The changes in outstanding options were as follows:

	<u>December 31 2019</u>		<u>December 31 2018</u>	
	<u>Number</u> <u>of options</u>	<u>Weighted</u> <u>average</u> <u>exercise</u> <u>price</u> <u>\$</u>	<u>Number</u> <u>of options</u>	<u>Weighted</u> <u>average</u> <u>exercise</u> <u>price</u> <u>\$</u>
Options at beginning of year	81,874	4.48	59,499	8.55
Dividend paid	-	-	-	(5.33)
Granted	7,000	26.80	29,500	26.80
Exercised	(8,831)	3.22	-	-
Expired	(1,825)	3.22	(4,812)	17.92
Forfeited	(2,250)	24.18	(2,313)	3.22
Options outstanding at end of year	<u>75,918</u>	<u>13.00</u>	<u>81,874</u>	<u>10.85</u>
Options exercisable at end of year	<u>49,732</u>	<u>8.29</u>	<u>46,624</u>	<u>4.48</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.

**ETORO (UK) LIMITED****NOTES TO FINANCIAL STATEMENTS**

in U.S. dollars

**NOTE 10: - RELATED PARTIES****Transaction with related parties**

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

	<b>Year ended December 31 2019</b>	<b>Year ended December 31 2018</b>
<b>Income / (Expense)</b>		
eToro (Europe) Limited (1) – Execution Fees (included within trading commissions and costs)	144,426	707,769
eToro Limited (3) – Marketing Service Fees (included in other commissions)	1,738,323	5,334,605
eToro Group Limited (2) – Share based payment compensation	(146,908)	(137,064)
eToro Group Limited (2) – Customer Service Fees	(26,744)	(7,832)
eToro Group Limited (2) – Financial Services Fees	(59,411)	(12,267)
eToro Group Limited (2) – Software License Fees	(27,000)	(27,000)
	<u>1,622,686</u>	<u>5,858,211</u>
eToro (Europe) Limited - entity under common control (1)		
eToro Group Limited - parent entity (2)		
eToro Limited – entity under common control (3)		

The following table provides the amounts due to/from related parties:

	<b>December 31 2019</b>	<b>December 31 2018</b>
eToro (Europe) Limited Payable - entity under common control (1)	(6,006,822)	(2,948,345)
eToro Limited Receivable – entity under common control (3)	1,625,168	5,294,373
eToro Group Limited Payable - parent entity (2)	208,355	(2,084,081)
	<u>(4,173,299)</u>	<u>261,947</u>
Net (Payable)/Receivable		



## ETORO (UK) LIMITED

**NOTES TO FINANCIAL STATEMENTS**

in U.S. dollars

**NOTE 10: - RELATED PARTIES (Cont.)**

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 2019 and 2018.

During 2019 and 2018, 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 10.

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

## (1) eToro (Europe) Limited receivable/(payable)

	<b>December 31 2019</b>	<b>December 31 2018</b>
Support Services Agreement	-	58,894
Payment Services Agreement	-	154,614
CopyTrading Services Agreement	-	19,109
Execution Services Agreement	144,426	567,835
Trading Services	-	(4,275,650)
Other	-	526,583
	<u>144,426</u>	<u>(2,948,615)</u>

## (2) eToro Group Limited receivable/(payable)

	<b>December 31 2019</b>	<b>December 31 2018</b>
Marketing Services Agreement	-	(1,292,344)
Intermediary Services Agreement	-	(820,926)
Software License Agreement	(27,000)	29,189
Trading Services	(86,155)	270
	<u>(113,155)</u>	<u>(2,083,811)</u>

## ETORO (UK) LIMITED

**NOTES TO FINANCIAL STATEMENTS**

in U.S. dollars

**NOTE 10: - RELATED PARTIES (Cont.)**

(3) eToro Limited receivable/(payable)	<b>December 31 2019</b>	<b>December 31 2018</b>
Marketing Services Agreement	1,738,323	5,334,605
Support services	-	(20,099)
Software License Agreement	-	(27,000)
Trading Services	-	6,750
Other	-	117
	<u>1,738,323</u>	<u>5,294,373</u>

**Key management and Directors compensation**

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

	<b>December 31 2019</b>	<b>December 31 2018</b>
Wages / salaries / fees	463,616	621,315
Bonus	111,135	125,080
Social security	74,545	100,391
Pension Contributions	8,193	5,526
Share based payment compensation	89,010	112,485
	<u>746,499</u>	<u>964,797</u>

The total emoluments of the highest paid director in 2019 were \$440,188 (2018: \$396,526), including an accrued bonus of \$100,000 as at 31 December 2019 (2018: \$51,527).

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. Employees 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 at 31 December 2019 the liability to employees is \$16,108 (2018: \$34,329). The key inputs into the valuation of the fair value of the trading accounts program plan are:

- (a) the expected net worth amount at the end of 5 years which is set at 90% on a yearly basis;
- (b) the exercise price of vested option which is set at \$8.55;
- (c) probability of reaching five years of employment and which is set at 49% on average. The higher the probability is the higher the liability is;
- (d) time of employment as at the year-end date out of the five years which is measured on an individual basis

**ETORO (UK) LIMITED****NOTES TO FINANCIAL STATEMENTS****in U.S. dollars****NOTE 10: - RELATED PARTIES (Cont..)**

The liability is categorized as level 3 in the fair value hierarchy.

Certain Directors have trading accounts with the company, in respect of which, the revenue earned by the Company in respect of such accounts during the year totalled \$4,555 (2018: \$15,386).

In 2019 a contribution of \$37,204 (2018: nil) was made to GoodDollar a non-profit initiative sponsored by the eToro Group.

**Ultimate parent company and group companies**

eToro Group Limited is the ultimate and immediate parent company of the Company and the largest and smallest group that prepares consolidated accounts.

Copies of the consolidated financial statements for eToro Group Limited for the year ended 31 December 2019 are available from the Company Secretary at the registered office.

**NOTE 11: - COMMITMENTS AND CONTINGENT LIABILITIES**

The company has nil commitments or contingent liabilities as at 31 December 2019 (2018: nil).

**NOTE 12: - ADMINISTRATIVE AND OPERATING EXPENSES****Administrative and operating expenses included:**

	<b>December 31 2019</b>	<b>December 31 2018</b>
Staff costs	3,370,048	2,426,680
Depreciation	38,495	65,835
Rent and property related expenses	518,143	402,527
Travel	63,404	39,233
Audit Fees		
- Financial statements audit	192,666	73,959
- Audit-related assurance services provided by the auditor	39,053	36,846
- Taxation compliance services provided by the auditor	1,500	691
- Other services provided by the auditor	-	108
Intercompany fees (note 10)	113,155	47,099
Professional services	516,979	589,144
Other	809,844	334,615
	<u>5,663,287</u>	<u>4,016,737</u>

## ETORO (UK) LIMITED

**NOTES TO FINANCIAL STATEMENTS**

in U.S. dollars

**Staff costs:**

	<b>December 31 2019</b>	<b>December 31 2018</b>
Wages / salaries	2,040,127	1,570,015
Bonus	793,849	429,013
Social security	332,441	257,418
Pension contributions	56,724	33,170
Share based payment compensation	146,907	137,064
	<u>3,370,048</u>	<u>2,426,680</u>

During the current year, the Company's directors received total emoluments in relation to services provided to the Company in the amount of \$574,750 in salaries, bonuses and director fees (2018: \$531,436), and an amount of \$8,193 in pension schemes (2018: \$0). During 2019 the parent company eToro Group Limited granted nil share options to the directors of the Company (2018: 20,000). Average number of employees during the period was 26 (2018: 19).

**NOTE 13: - TAXES ON INCOME****Income statement**

	<b>31 December 2019</b>	<b>31 December 2018</b>
UK current year current tax	-	385,532
Prior year adjustment current tax	-	-
<b>Total current tax expense/(credit)</b>	<u>-</u>	<u>385,532</u>
Origination and reversal of temporary differences	-	-
Prior year adjustment deferred tax	-	-
<b>Total deferred tax expense/(credit)</b>	<u>-</u>	<u>-</u>
<b>Total tax expense/(credit) on continuing operations</b>	<u>-</u>	<u>385,532</u>

## ETORO (UK) LIMITED

**NOTES TO FINANCIAL STATEMENTS**

in U.S. dollars

**NOTE 13: - TAXES on INCOME (Cont.)****Total Tax Reconciliation**

The effective tax rate (ETR) for the period is nil (2018: 12.9%). This can be explained as follows:

	<b>31 December 2019</b>	<b>31 December 2018</b>
(loss)/profit before tax	(519,858)	2,980,799
Tax on profit at the standard rate of UK corporation tax of 19% (2018: 19%)	(99,773)	566,352
Permanent differences- Disallowed expenses	40,819	11,270
Temporary differences in relation to share based payments	24,975	(1,415)
Other unrecognized deferred tax assets	33,979	(190,675)
<b>Total tax charge/(credit)</b>	<b>-</b>	<b>385,532</b>

**Balance Sheet**

	<b>31 December 2019</b>	<b>31 December 2018</b>
Current tax asset/(liability)	106,620	(385,532)

On 11 March 2020 it was announced (and received Royal Assent on 22 July 2020) that the UK corporation tax rate would remain at 19% and not reduce to 17% (the previously enacted rate) from 1 April 2020. The deferred tax balances included within the accounts have been calculated with reference to the rate of 17%, as required under IFRS. However, following the substantive enactment of the rate of 19%, it is anticipated that the reversal of temporary differences will occur at this rate and that the maximum impact on the quantum of the net deferred tax asset not recognised will be \$12,091.

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 2019 the company has an unrecognised deferred tax asset of \$102,777 (2018: \$47,729). 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.

## ETORO (UK) LIMITED

**NOTES TO FINANCIAL STATEMENTS**

in U.S. dollars

**NOTE 13: - TAXES on INCOME (Cont.)**

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

	<b>31 December 2019</b>	<b>31 December 2018</b>
Deferred tax (liability)/asset- differences between book value and tax value of fixed assets	(20,974)	400
Deferred tax asset - unsettled pension balance	-	1,979
Deferred tax asset - share based payments	70,309	45,350
Deferred tax asset - unrecognised deferred tax on tax losses	53,442	-
Total unrecognised deferred tax asset.	<b>102,777</b>	<b>47,729</b>

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

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

	<b>31 December 2019</b>	<b>31 December 2018</b>
Balance at the beginning of the year	47,729	208,991
Adjustment to tax in respect of prior years	-	-
Increase/(decrease) in unrecognised deferred tax for the year	55,048	(161,262)
Unrecognised deferred tax asset at the end of the financial year	<b>102,777</b>	<b>47,729</b>

## ETORO (UK) LIMITED

**NOTES TO FINANCIAL STATEMENTS**

in U.S. dollars

**NOTE 14: - OPERATING LEASE COMMITMENTS**

On December 1, 2019, the Company entered into a 12 month lease agreement at a rent of GBP 33,600 per month.

The total future minimum lease payments under non-cancellable operating leases are due as follows:

	<b>31 December 2019</b>	<b>31 December 2018</b>
Less than one year	487,872	478,368
	<b>487,872</b>	<b>478,368</b>

Operating lease payments of \$518,143 (2018: \$402,527) were charged to the income statement in the year.

**NOTE 15: - OFF BALANCE SHEET ITEMS**

The Company is acting in a fiduciary capacity for clients executing trades on its platform. At 31 December 2019 the total amount of clients' assets and clients' money administrated by the Company were as follows:

	<b>31 December 2019</b>	<b>31 December 2018</b>
<i>Clients' money:</i>		
Coutts & Co	3,705,378	2,367,416
Investec Bank	505,000	2,005,000
Standard Chartered Bank	208,947	1,007,851
Signature Bank	100,000	-
	<b>4,519,325</b>	<b>5,380,267</b>
<i>Client Custody Asset:</i>		
Interactive Brokers	<b>982,786</b>	<b>48,899,651</b>

**NOTES TO FINANCIAL STATEMENTS**

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**in U.S. dollars**

**NOTE 16: - EVENTS AFTER THE REPORTING DATE**

With the recent and rapid development of the Coronavirus disease (COVID-19) outbreak the world economy entered a period of unprecedented health care crisis that has already caused considerable global disruption in business activities and everyday life. Many countries have adopted extraordinary and economically costly containment measures. Certain countries have required companies to limit or even suspend normal business operations. Governments, including the United Kingdom, have implemented restrictions on travelling as well as strict quarantine measures.

Management has considered the unique circumstances that could have a material impact on the business operations and the risk exposures of the Company and has concluded that COVID-19 did not negatively affect the Company or the Group in terms of operations, liquidity and profitability. The Management has already taken the necessary measures to ensure that the Company's activity will continue as normal and be able to meet the needs of its customers.

Management will continue to monitor the situation closely and assess additional measures. If significant events do materially affect the operations of Company, the directors are confident that the company can take actions to limit exposures and liabilities. The most significant event risks posed by COVID-19 include the failure to attract new clients/loss of market share to competitors or an operational failure. The former risk is mitigated through the Group's strategy for market positioning, innovation, product offering and brand investment. The latter risk is mitigated through the Group's business continuity planning and internal controls.

The event is considered as a non-adjusting event and is therefore not reflected in the recognition and measurement of the assets and liabilities in the financial statements as at 31 December 2019.