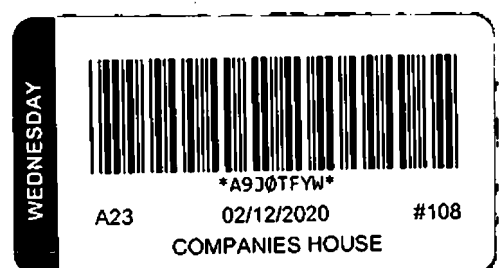


Company Number: 09083955

Coinbase UK, Ltd

**Report and Financial Statements
31 December 2019**



Coinbase UK, Ltd
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Coinbase UK, Ltd
Company Information
For the year ended 31 December 2019

Directors

Alesia Haas
Brian Brooks
Adolfo Chiu

Secretary

Brian Brooks
Halco Secretaries Ltd

Registered Office

5 Fleet Place
London
England
EC4M 7RD

Company number

09083955

Auditor

Grant Thornton UK LLP, Chartered Accountants and Statutory Auditor
30 Finsbury Square
London
EC2A 1AG

Coinbase UK, Ltd
Strategic Report
For the year ended 31 December 2019

Review of Business

Coinbase UK, Ltd (the "Company"), a wholly owned subsidiary of Coinbase Global, Inc. (the "Parent"), a United States ("US") corporation, provides digital asset brokerage and exchange services to consumers and institutions outside of the US and US territories. These services include fulfilment of digital asset buy and sell transaction orders, and digital asset wallet services.

In January 2017, the Company became a distributor of brokerage and exchange services to its customers using Coinbase, Inc.'s exchange platforms. The Company earns revenue from customer transactions and pays an exchange service fee to Coinbase, Inc. for the use of the brokerage and exchange platforms. Once purchased, Coinbase Inc. holds the digital assets on behalf of the Company's customers.

On 1 January 2018, the Company entered into a non-exclusive agreement for Electronic Money Services with CB Payments, Ltd ("CB Payments"). CB Payments holds an electronic money license issued by the Financial Conduct Authority ("FCA") and provides the customers of the Company with exchange and conversion services by receiving, storing and transmitting customer fiat currencies. As a result of this arrangement, all of the customer deposits held and the related liability were transferred to CB Payments during 2018, totalling £29.1 million and €315.8 million. In exchange for the electronic money services and related obligations undertaken by CB Payments, the Company pays CB Payments a service fee.

In April 2019, the Company announced the launch of Coinbase Card, a debit card which allows users to spend or withdraw as cash, certain crypto held in their Coinbase account. Initially, only bitcoin, ether, bitcoin cash, and litecoin was offered. In November 2019, five additional cryptocurrencies were added. As of 31 December 2019, customers in the UK, Spain, Germany, France, Italy, Ireland, and the Netherlands could apply for the card.

The Company derives revenue from trading fees assessed on each buy/sell transaction. For the year ended 31 December 2019, the Company recognised total turnover of €94.8 million and cost of sales of €86.0 million. The Company incurred total administrative expenses of €0.2 million, interest costs of €1.4 million and a tax charge of €2.1 million for the period, resulting in net income of €5.1 million.

At 31 December 2019, the Company had €22.2 million of cash on hand.

Financial Key Performance Indicators

Company key performance indicators ("KPI") for the year ended 31 December 2019 include total open accounts, total turnover, and profit before tax. These metrics provide indicators of customer satisfaction, the Company's ability to retain and grow its customer base, and the Company's ability to generate profits for the Coinbase group.

The Company sources information to measure these performance metrics from its database, through internally developed queries.

During 2019, the Company added approximately 5.3 million users for a total of 21.8 million users, representing a year over year increase of 32%.

Total turnover of the Company decreased from €153.0 million in 2018 to €94.8 million in 2019, a decrease of 38%. Profit before tax decreased from €7.8 million in 2018 to €7.2 million in 2019, a decrease of 8%.

Coinbase UK, Ltd
Strategic Report
For the year ended 31 December 2019

Principal Risks and Uncertainties

The United Kingdom's departure from the EU could adversely affect the Company.

In June 2016, voters in the United Kingdom ("UK") approved the withdrawal of the UK from the European Union (commonly referred to as "Brexit"). There is currently a significant lack of clarity over the terms of the UK's exit from the EU and the terms of the UK's future relationship with the EU. Brexit could lead to legal uncertainty and increased complexity for financial services firms as national laws and regulations in the UK start to diverge from EU laws and regulations. For the Company, if it is unable to utilise appropriate authorisations and regulator permissions, it could lose its ability to offer services on a cross-border basis to the European Economic Area markets.

The risks of regulatory changes adversely impacting the Company's position and capacity to conduct business.

International or local governments may restrict the use and exchange of digital assets in the future. There is also uncertainty regarding the current and future accounting, tax and legal treatment, as well as regulatory requirements relating to digital assets or transactions utilising digital assets. Governmental regulations, or any adverse accounting, tax, legal or regulatory treatment of digital assets or transactions could materially and adversely affect the manner in which the Company conducts its business and could continue to result in heightened regulation and oversight, increased costs and potential litigation. The Company and its affiliates proactively engage regulators to gain clarity on the evolving regulatory landscape of the industry. Additionally, the Company has a dedicated and experienced compliance team to ensure that the business is fully informed of relevant regulatory developments, financial service licensing options, and operational impacts of new regulations.

The Company's corporate network or production systems are compromised by a malicious actor or attacker due to insufficient information security controls, corporate data is improperly classified resulting in exposure to data integrity and quality risks, or unauthorised access to the Company's data exposes Company information to the risk of compromise.

All digital asset related data that is created, collected, stored, or processed by the Company, whether in electronic or non-electronic form, is classified based on its level of sensitivity, value, and criticality to the Company. The Company's cyber security foundation is derived from the synthesis of the NIST Cybersecurity Framework and SANS Institute's Critical Security Controls. Further, the Company employs strict hardware controls and password requirements on all data users and access to confidential data must be requested from, and authorised by the data owner who is responsible for the data. Further, the Company's data users are all subject to confidentiality and non-disclosure requirements.

The risk of loss resulting from inadequate or failed policies or controls, loss of key people and knowledge, inadequate systems and adverse external events in respect of new product implementations or entering new markets.

The Company actively monitors their operations, and the operations of affiliates and documents key business processes to facilitate knowledge transfers in the event of team member turnover. The compliance team has designed and implemented policies and controls that seek to mitigate the highest risks that the group is exposed to.

The risk of loss resulting from data protection or privacy failures and incomplete, inaccurate or untimely reporting of financial and operating information leading to potential fines, penalties or sanctions.

The Company and its affiliates have a robust and growing team of compliance professionals that ensure that team members across the group have sufficient training to ensure adherence to reporting and other regulatory requirements. Compliance and finance teams across the group combine efforts to ensure timely and accurate reporting to regulatory bodies.

The risk of loss resulting from employee and third party fraud risk, as well as product and engineering risks arising at service providers.

The services provided by the Company are dependent on the digital asset exchange platform provided by Coinbase, Inc., an affiliate of the Company. Digital assets and their respective protocol networks are exposed to risks due to

Coinbase UK, Ltd
Strategic Report
For the year ended 31 December 2019

fraud, technological glitches, hackers or malware and various law enforcement and regulatory interventions. As such, the loss of access to private keys, other data loss resulting in the loss of digital assets or personally identifiable information held on behalf of the Company or its customers, by Coinbase, Inc., could materially and adversely affect the Company's reputation, business, financial condition, prospects, liquidity and/or results of operations. The Company and its affiliates employ strict security protocols to ensure that customer data and assets are safeguarded. This includes ongoing monitoring of platform activity and reconciliation of transactions against platform data. The Company's affiliates also conduct regular third party penetration tests and have a well-developed bug bounty program.

Emerging issues

The Company along with the group continue to monitor the impact of Covid-19. The Company and group have adopted flexible working patterns in order to maintain uninterrupted services to its customers. Whilst it's too early to assess the long term impact, at present the Company and group have not seen a significant impact in trading activity.

Future Developments

The Company continues to monitor the status of the United Kingdom's withdrawal from the European Union ("Brexit"), which will impact the current operational structure under which the Company and its affiliates operate within the European Union. The United Kingdom officially exited the European Union on 31 January 2020, and entered an 11-month transition period ending 31 December 2020. During the transition period, the United Kingdom effectively remains in the European Union's customs union and single market and continues to obey European Union rules.

On 27 February 2020, the Coinbase leadership team has agreed to draft a plan to migrate all customers currently supported by Coinbase UK to a different entity by 30 September 2020. This plan has not been approved by the Board of Directors and is pending licence approval.

The Company continues to launch support of new digital assets on its platform, providing customers with access to a larger market.

Key elements of the Company's business strategy include:

- Support and grow the Coinbase brand outside of the US
- Provide custodial services that enhance user experience, and increase custodial service capacity as digital assets supported are expanded
- Support customer retention and growth
- Support the growth of the cryptoeconomy
- Assist in risk management and compliance through enhanced transaction monitoring, anti-money laundering and know your customer policies and procedures

By Order of the Board



Alesia Haas, Director
17 March 2020

Coinbase UK, Ltd
Report of the Directors
For the year ended 31 December 2019

The Directors present their report and the audited financial statements for the year ended 31 December 2019. The financial statements have been prepared under, and comply with, United Kingdom Generally Accepted Accounting Practice ("UK GAAP"), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland."

Please refer to the Strategic Report on pages 3 to 5 for review of business, financial key performance indicators, principal risks and uncertainties, and the likely future developments of the Company.

Principal Activity

The company's principal activity is facilitating the exchange of digital assets for non-US territory customers and allowing consumers and businesses to securely transact in digital assets. The Company provides these services by acting as a distributor of the digital asset exchange platform and services of Coinbase, Inc. The company offers various fiat payment methods, through an affiliate, and delivers digital assets to customers using just in time sourcing, with CB Payments, an affiliate of the Company, supporting the fiat wallets of the Company's customers through a tri-party user agreement.

Directors

The Directors who served during the year and since the year end were:

Alesia Haas

Adolfo Chiu (appointed 6 August 2019)

Brian Brooks (appointed 6 February 2019)

Asiff Hirji (resigned 3 June 2019)

Michael Lempres (resigned 6 February 2019)

Results and Dividends

The results for the period are shown on page 11.

The Directors do not recommend the payment of a dividend for the period. The Company did not pay a dividend in 2018.

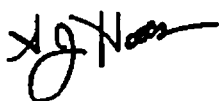
Disclosure of information to auditors

Each of the Directors who is a director at the time when the report is approved confirms that:

- a. so far as each director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- b. each director has taken all the steps that ought to have been taken as a director, in order to be aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

By Order of the Board



Alesia Haas, Director
17 March 2020

Coinbase UK, Ltd
Statement of Directors' Responsibilities
For the year ended 31 December 2019

The Directors are responsible for preparing the Strategic Report, Directors' Report, and the financial statements in accordance with applicable laws 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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Standards and applicable law) including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit 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 judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- 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.

Independent Auditor's Report to the Members of Coinbase UK, Ltd

Opinion

We have audited the financial statements of Coinbase UK, Ltd (the 'company') 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 notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; 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. 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.

The impact of uncertainties arising from the UK exiting the European Union on our audit

Our audit of the financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of Brexit. All audits assess and challenge the reasonableness of estimates made by the directors and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the company's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties when assessing the company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company associated with a course of action such as Brexit.

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.

In our evaluation of the directors' conclusions, we considered the risks associated with the company's business model, including effects arising from Brexit, and analysed how those risks might affect the company's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

Independent Auditor's Report to the Members of Coinbase UK, Ltd

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our 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 this other information, we are required to report that fact.

We have nothing to report in this regard.

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 strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matter on which we are required to report under the Companies Act 2006

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 the directors' report.

Matters on which we are required to report by exception

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 as 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.

Independent Auditor's Report to the Members of Coinbase UK, Ltd

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: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

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.

Grant Thornton UK LLP

William Pointon
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London
18 March 2020

Coinbase UK, Ltd
Statement of Comprehensive Income
For the year ended 31 December 2019
(In thousands)

		2019	2018
	Note	€	€
Turnover		94,833	153,001
Cost of sales		(86,043)	(139,428)
Gross profit		<u>8,790</u>	<u>13,573</u>
Administrative expenses		(200)	(189)
Operating profit	4	<u>8,590</u>	<u>13,384</u>
Interest expense and other similar charges from group undertakings		(1,359)	(5,544)
Profit on ordinary activities before taxation		<u>7,231</u>	<u>7,840</u>
Taxation	5	(2,138)	(1,272)
Profit for the year		<u>5,093</u>	<u>6,568</u>

There is no other comprehensive income for the year.

The notes on pages 15 to 20 form part of these financial statements.

Coinbase UK, Ltd
Statement of Financial Position
As at 31 December 2019
(In thousands)

	Note	2019 €	2018 €
Current assets			
Deferred tax	5	—	285
Amounts due from group undertakings	6	116,383	8,739
Accounts receivable	6	—	3,043
Cash held at bank	6	22,200	37,416
		<u>138,583</u>	<u>49,483</u>
Creditors: amounts falling due within one year	6	(125,248)	(41,327)
Net current assets		<u>13,335</u>	<u>8,156</u>
Provisions for liabilities	5	(86)	—
Total assets less current liabilities		<u><u>13,249</u></u>	<u><u>8,156</u></u>
Capital and Reserves			
Share capital	8	—	—
Retained earnings		13,249	8,156
Shareholder's funds		<u><u>13,249</u></u>	<u><u>8,156</u></u>

The notes on pages 15 to 20 form part of these financial statements.

The financial statements were approved and authorised for issue by the Board of Directors and were signed on its behalf on 17 March 2020.



Alesia Haas, Director
17 March 2020

Company Number: 09083955

Coinbase UK, Ltd
Statement of Changes in Equity
For the year ended 31 December 2019
(In thousands)

	Share Capital €	Retained Earnings €	Total €
Balance at 1 January 2018	—	1,588	1,588
Profit for the year	—	6,568	6,568
Balance at 31 December 2018	<u>—</u>	<u>8,156</u>	<u>8,156</u>
Profit for the year	—	5,093	5,093
Balance at 31 December 2019	<u>—</u>	<u>13,249</u>	<u>13,249</u>

Coinbase UK, Ltd
Statement of Cash Flows
For the year ended 31 December 2019
(In thousands)

	2019 €	2018 €
Cash flows from operating activities		
Profit for the year	5,093	6,568
Adjustments for:		
Provision for/(Recoveries from) transaction losses	(938)	288
Unrealised gain on foreign exchange	(486)	(1,856)
Taxation expense	2,138	1,272
Increase in amounts due from group undertakings	(107,635)	(2,074)
(Increase)/decrease in accounts receivable	3,982	(3,043)
Increase/(decrease) in creditors	83,667	(588,531)
Increase in provisions for liabilities	86	—
Taxation paid	(1,551)	(1,878)
Net cash flow from operating activities	<u>(15,644)</u>	<u>(589,254)</u>
Net decrease in cash and cash equivalents	<u>(15,644)</u>	<u>(589,254)</u>
Cash and cash equivalents, beginning of year	37,416	624,780
Effects of exchange rate on cash	428	1,890
Cash and cash equivalents, end of year	<u><u>22,200</u></u>	<u><u>37,416</u></u>

Coinbase UK, Ltd
Notes to the Financial Statements
For the year ended 31 December 2019

1. GENERAL INFORMATION

Coinbase UK, Ltd (the "Company") is a private company limited by shares and is incorporated in England and Wales under the Companies Act 2006. The Company is a wholly owned subsidiary of Coinbase Global, Inc. (the "Parent"), a corporation registered and headquartered in the United States of America. The address of the registered office of the Company is given on page 2.

2. ACCOUNTING POLICIES

a) Basis of preparation

These financial statements have been prepared in accordance with applicable United Kingdom accounting standards, including Financial Reporting Standard 102 - 'The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland' ("FRS 102"), and with the Companies Act 2006. The financial statements have been prepared on the historical cost basis.

b) Critical accounting judgements

In the application of the Company's accounting policies, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from estimates.

No judgements have been made in applying the Company's accounting policies.

Significant estimates and assumptions made by management include the determination of the recognition, measurement and valuation of current and deferred income taxes.

c) Going concern

The financial statements herein were prepared on a going concern basis which assumes that the Company will continue in operation for the foreseeable future and will be able to realise its assets and discharge its liabilities and commitments in the normal course of business. During the year ended 31 December 2019, the Company realised net profit of €5.1 million compared with a net profit of €6.6 million for the year ended 31 December 2018. The Company believes that while revenue may be inconsistent, growth in its operations will continue for the next twelve months. Drivers of this growth include adding new users to the Coinbase platform and expanding the number of assets offered on the platform. While Brexit will impact the way the Company operates, management has developed a plan, whereby fiat related services will be transferred to the Republic of Ireland and will serve customers of the Company that are domiciled outside of the UK. In addition, the Company has working capital of €13.3 million at 31 December 2019, which is a positive indicator of the Company's liquidity, efficiency and overall financial health.

On 27 February 2020, the Coinbase leadership team has agreed to draft a plan to migrate all customers currently supported by Coinbase UK to a different entity. This plan is pending Board of Directors and licence application for a fellow Group entity. In the event that the license gets approved, the Company would cease operations and become dormant. The Group will provide ongoing financial support if required, and there is sufficient cash available in the Group for the Company to continue as a going concern. The Directors have therefore adopted a going concern basis of preparation for the financial statements.

d) Foreign Currency

The Company's financial statements are presented in Euros, which is also the Company's functional currency.

Coinbase UK, Ltd
Notes to the Financial Statements (Continued)
For the year ended 31 December 2019

Foreign currency transactions are translated into the functional currency using the spot exchange rate at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income, and are included in administrative expenses.

e) Turnover

The Company derives its turnover from digital asset transactional services, where users can buy and sell digital assets for a service fee. The Company recognises turnover when the following criteria have been met: persuasive evidence of an arrangement exists, the fee is fixed or determinable, the service has been rendered and risk of loss has transferred to the customer, and collection is reasonably assured. Service is considered rendered upon purchase and transfer of the digital asset(s) ownership to the customer. The Company defers any funds received in advance of successful completion of the recognition criteria.

The Company also offers users a debit card service, whereby those users can spend their digital assets. The Company earns a service fee for each transaction. The transaction fees are recognised once the Company converts the user's digital assets to fiat and funds the related transaction.

f) Taxation

Current income tax

Current income tax assets and liabilities for the period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted, or substantively enacted at the reporting date.

Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation, and it establishes provisions where appropriate.

Deferred tax

Full provision is made for deferred tax assets and liabilities arising from all timing differences between the recognition of gains and losses in the financial statements and recognition in the tax computation.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax.

Deferred tax assets are only recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is calculated using the tax rates and laws that have been enacted or substantively enacted by the reporting date that are expected to apply to the reversal of the timing difference.

The tax expense for the period comprises of current and deferred tax. Tax is recognised in profit or loss, except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity, respectively.

Coinbase UK, Ltd
Notes to the Financial Statements (Continued)
For the year ended 31 December 2019

g) Amounts due from and owed to group undertakings

Amounts due from and owed to group undertakings arise from transactions between the Company and other affiliate companies. These receivables and payables bear interest at market related rates and are repayable on demand. Amounts owed to group undertakings are included in Creditors: amounts falling due within one year in the statement of financial position.

h) Financial instruments

A financial asset or a financial liability is recognised only when the Company becomes a party to the contractual provisions of the instrument.

Basic financial instruments are initially recognised at the transaction price, unless the arrangement constitutes a financing transaction, where it is recognised at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Financial assets that are measured at cost or amortised cost are reviewed for objective evidence of impairment at the end of each reporting date. If there is objective evidence of impairment, an impairment loss is recognised in profit or loss immediately. Any reversals of impairment are recognised in profit or loss immediately, to the extent that the reversal does not result in a carrying amount of the financial asset that exceeds what the carrying amount would have been had the impairment not previously been recognised.

i) Cash held at bank

Cash held at bank includes cash on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

3. STAFF COSTS

The Company had no staff during the current and prior year. Directors' remuneration is borne by group undertakings.

4. OPERATING PROFIT

The operating profit is stated after charging/(crediting) (in thousands):

	2019	2018
	€	€
Auditors remuneration	124	110
Foreign exchange gains	(420)	(1,185)
Professional services	94	967
Selling, general & administrative	267	246

Coinbase UK, Ltd
Notes to the Financial Statements (Continued)
For the year ended 31 December 2019

5. TAXATION

The major components of income tax expense for the years ended 31 December 2019 and 2018 are (in thousands):

	2019 €	2018 €
<u>Current income tax</u>		
Current income tax charge	1,767	1,547
Total current tax	1,767	1,547
<u>Deferred tax</u>		
Relating to origination and reversal of temporary differences	371	(275)
Total deferred tax	371	(275)
Income tax expense reported in the statement of comprehensive income	<u>2,138</u>	<u>1,272</u>

Deferred tax asset/(liability) relates to the following (in thousands):

	2019 €	2018 €
Unrealised foreign exchange adjustments	(86)	—
Disallowed interest	—	285
Total	<u>(86)</u>	<u>285</u>

Reconciliation of tax expense and the accounting profit multiplied by the Company's domestic tax rate for 2018 and 2019 (in thousands):

	2019 €	2018 €
Profit/(loss) on ordinary activities before tax	7,231	7,840
Profit/(loss) on ordinary activities multiplied by rate of tax 19.00% (2018: 19.00%)	1,374	1,490
Effects of:		
Change in realisability of deferred tax asset	706	—
Other deferred tax adjustments	31	—
Adjustment in relation to prior year	27	(218)
Total tax charge	<u>2,138</u>	<u>1,272</u>

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Reconciliation of deferred tax asset/(liability) balance (in thousands):

	2019	2018
	€	€
At 1 January	285	10
Credit/(charge) to profit	(371)	275
At 31 December	<u>(86)</u>	<u>285</u>

6. FINANCIAL INSTRUMENTS

Financial instruments held by the Company were as follows (in thousands):

	2019	2018
	€	€
Financial assets		
Financial assets measured at fair value through profit or loss		
Cash held at bank	22,200	37,416
Financial assets measured at cost		
Amounts due from group undertakings	116,383	8,739
Accounts receivable	—	3,043
	<u>138,583</u>	<u>49,198</u>
Financial liabilities		
Financial liabilities measured at fair value through profit or loss		
Custodial funds due to customers	107	493
Financial liabilities measured at amortised cost		
Amounts owed to group undertakings	123,779	39,604
Accounts payable and accrued expenses	1,362	1,230
	<u>125,248</u>	<u>41,327</u>

Amounts owed to group undertakings represents a revolving line of credit that the Company has with Coinbase, Inc. The line of credit bears interest at market related rates and is repayable on demand.

7. FINANCIAL RISK MANAGEMENT

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework and is responsible for developing and monitoring the Company's risk management strategy and policies. There was a change to the Company's exposures to liquidity risk during the prior year, as the custodial funds that were being held on behalf of customers were transferred to CB Payments, resulting in a substantial decrease in current assets and liabilities. The methods used to measure and manage these risks did not change.

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The Company mainly has exposure to liquidity risk arising from its operating activities. The Company actively monitors current cash flow requirements and continually forecasts future cash flows in order to maintain liquidity and ensure that sufficient funds are available for ongoing operations. The Directors consider current cash balances sufficient to meet cash requirements.

8. SHARE CAPITAL

Share capital consisted of the following (in thousands, except par value per share):

	2019	2018
	€	€
Allotted, issued and fully paid		
1 ordinary share of £0.0001 each	—	—

There are no restrictions on the distribution of dividends and the repayment of capital.

9. RELATED PARTY DISCLOSURES

In the opinion of the directors, there is one controlling party, Brian Armstrong, CEO of the Parent, at the balance sheet date.

In 2017, the Company was a distributor of Coinbase Inc.'s exchange services outside of the United States of America and its territories. The Company pays a fee to Coinbase, Inc. for the use of Coinbase, Inc.'s platforms. Under the agreement, Coinbase, Inc. is responsible for the receipt, delivery and transfer of digital assets purchased and sold, and holding in custody and safekeeping the digital assets of the Company's users. The aggregate Euro value of digital assets held in customer wallets was €1,493 million and €741 million, at 31 December 2019 and 2018, respectively.

On 1 January 2018, the Company entered into a non-exclusive agreement for Electronic Money Services with CB Payments. CB Payments holds an electronic money license issued by the Financial Conduct Authority ("FCA") and provides the customers of the Company with exchange and conversion services by receiving, storing and transmitting customer fiat currencies. As a result of this arrangement, all of the customer deposits held and the related liability were transferred to CB Payments during that year. In exchange for the electronic money services and related obligations undertaken by CB Payments, the Company pays CB Payments a service fee.

The Company has elected the exemption available under FRS 102, paragraph 33.1A, from the requirement to make disclosures regarding transactions with other wholly owned group companies.

10. EVENTS AFTER THE END OF THE REPORTING PERIOD

The Company has assessed events after the reporting period through 17 March 2020.

The Company along with the group continue to monitor the impact of Covid-19. The Company and group have adopted flexible working patterns in order to maintain uninterrupted services to its customers. Whilst its too early to assess the long term impact, at present the Company and group have not seen a significant impact in trading activity.