

## Digital Assets Risk Disclosure

This Digital Assets Risk Disclosure provides a description of certain risks associated with the Service and Digital Assets, but DOES NOT DISCLOSE OR EXPLAIN ALL THE RISKS INVOLVED IN THE INVESTMENT IN DIGITAL ASSETS AND/OR THE USE OF THE SERVICE. There may be additional risks that are not foreseen or identified in the Contract or in this Digital Assets Risk Disclosure. **THE BANK STRONGLY RECOMMENDS THAT THE CLIENT SEEKS PROFESSIONAL ADVICE BEFORE TAKING INVESTMENT DECISIONS.**

### 1. Incorporation by reference

1.1 All risk disclosures and similar disclaimers set out in the Offer Documents and/or Subscription Documents are incorporated herein by reference.

1.2 Capitalized terms used in this Digital Assets Risk Disclosure and not otherwise defined shall have the meaning ascribed to them in the Digital Asset Contract and in the Trading Account documentation. For ease of reading, the masculine form refers to any gender.

### 2. Risk profile of Digital Assets

2.1 Digital Assets may incorporate a large number of financial and non-financial rights, claims and/or assets, including rights and obligations not usually found in (traditional) financial markets instruments such as equity and fixed income securities. **Investors wishing to acquire Digital Assets must carefully review the rights and obligations incorporated in the Digital Assets before taking any investment decisions.**

2.2 Digital Assets may, for example, grant their holders the right to request the performance of services (e.g., access to a platform), or serve as means of payment. The fair value of Digital Assets may consequently be extremely difficult to assess and may ultimately prove to be much lower than anticipated. This may in particular be the case for Digital Assets that incorporate a right to the supply of goods or performance of services, as many investors in such Digital Assets will have little need for such goods or services but only acquire the Digital Assets with the expectation that they will be able to sell the Digital Assets back at a profit.

2.3 The value of the Digital Assets is understood to derive primarily from the rights incorporated therein. Because the Client may not be able to exercise such rights, the Client may potentially derive very little benefits from the Digital Assets as long as the Client holds such Digital Assets through the Bank. The Client may, in particular, be unable to seize opportunities, e.g. to redeem the Digital Assets and/or to pay for products and/or services offered by the Issuer or third parties. To the extent the Bank does not offer the possibility to exercise all or part of the rights incorporated in the Digital Assets, the Client may be able to exercise such rights only by first transferring the Digital Assets to the Client's own DLA. Such transfers may be subject to restrictions, as detailed in the Contract, the Offer Documents and/or the Subscription Documents.

2.4 In addition, the technical functionalities of a Digital Asset (e.g., the ability to transfer them, to create new Digital Assets, the number of decimals up to which a Digital Asset may be traded, etc.) depend on the Smart Contract for the relevant Digital Asset. Smart Contracts are non-trivial pieces of computer code and their interactions with the relevant Distributed Ledger network are complex. Investors should review and ensure that they understand the

functioning of the relevant Smart Contracts before they invest in a particular Digital Asset.

2.5 There is no guarantee that Smart Contracts, or even the Distributed Ledger network on which they operate, are bug-free and will function according to the Digital Asset issuer's or the investors' expectations. Furthermore, a Digital Asset issuer may retain the possibility to amend the code of the Smart Contract at any time. Depending on the rights and obligations incorporated therein, Issuers have considerable discretion to manage their Digital Assets and may decide to cancel the Digital Assets and replace such Digital Assets with other forms of evidence or with paper certificates, for example. **The Bank is under no obligation to provide custody services for any Digital Asset, paper certificate or other replacement for the Digital Assets.**

### 3. Status of the Issuers: limited disclosures and regulation

3.1 The Digital Assets may not be listed on a securities exchange, and their issuer may consequently not be subject to the regime that applies to listed companies. **Issuers of Digital Assets may not be subject to a number of important rules designed to protect investors.** In particular, issuers may not be subject to the obligation to:

- publish their financial statements in accordance with a recognized accounting standard;
- publish quarterly or half-yearly financial statements;
- inform the public as soon as events susceptible of affecting the price of the Digital Assets occur; and
- disclose transactions by company insiders (e.g., senior management of the issuer).

3.2 Because they may not be listed or admitted to trading on a regulated exchange, multilateral or organized trading facility, the Digital Assets may not be subject to insider trading and market manipulation regulation. Accordingly, the market for the Digital Assets (to the extent one such market develops for the Digital Assets) may be more prone to fraud or insider trading.

### 4. Valuation issues | Volatility | No or limited liquidity

4.1 The value of Digital Assets may change significantly (even on an intraday basis) and movements on the price of the Digital Assets may be unpredictable.

4.2 While the volatility of the value of Digital Assets is (perceived as) high, changes and advances in technology, fraud, theft and cyber-attacks and regulatory changes, among others, may increase volatility further – elevating the potential of investment gains and losses. In addition, Digital Assets lack the historical track record of other financial instruments, currencies or commodities such as gold that could guide if current levels of volatility are typical or atypical.

4.3 Investments in Digital Assets and in cryptocurrencies are deemed **highly speculative** investments. Digital Assets and cryptocurrencies are subject to **high volatility**, i.e. the price of Digital Assets or of cryptocurrencies may rapidly go down as well as up, on any given day. The movements of the Digital Assets and of cryptocurrencies are unforeseeable. The Client acknowledges that Digital Assets and cryptocurrencies are not supervised by authorities or institutions such as central banks and that, therefore, there is no authority or institution which may intervene to stabilize the value of Digital Assets or cryptocurrencies and/or prevent or mitigate irrational price developments. **The risk of substantial or total loss in purchasing or selling Digital Assets exists. The Client acknowledges and agrees that he shall access and use the Service at his own risk.**

- 4.4 Investments in Digital Assets and in cryptocurrencies are susceptible to irrational bubbles or loss of confidence, which could collapse demand relative to supply, e.g. because of unexpected changes imposed by the software developers or others, a government crackdown, the creation of superior competing alternative currencies, or a deflationary or inflationary spiral. Confidence might also collapse because of technical problems, for instance if significant amounts of Digital Assets are lost or stolen or if hackers or governments are able to prevent any transactions from settling.
- 4.5 **The market for the relevant Digital Assets may experience periods of decreased liquidity or even periods of illiquidity.** The prices made available by the Bank via the System for the Client to purchase or sell Digital Assets are based on feeds provided by one or several Liquidity Providers. **One single Liquidity Provider may be the sole source of liquidity for the trading of Digital Assets via the System, creating a higher illiquidity risk. In the event that the Bank is unable to trade the Digital Assets at a certain time or permanently (if the Bank has not found a suitable market, trading venue or counterparty to trade Digital Assets), the Client will not be able to purchase or sell Digital Assets.** Furthermore, a lower liquidity may result in very rapid and hectic price movements, in wider spreads and/or in higher rejection rates. Under certain market conditions, the Client may find it difficult or impossible to liquidate a position. This can occur, for example, if there is insufficient liquidity in the market and the Bank is consequently not able to (a) provide prices for the Client to purchase or sell Digital Assets and/or (b) execute any Orders or Transactions. The Client's ability to purchase or sell Digital Assets as well as to compare the prices of Digital Assets may consequently be limited.
- 5. Interdependence with Cryptocurrencies | Technology Risks**
- 5.1 Digital Assets are instruments that rely on the Distributed Ledger technology to be recorded and transferred. The acquisition of Digital Assets, as well as their transfer on a Distributed Ledger may be subject to fees payable in cryptocurrencies. Digital Assets are therefore usually in a relationship of interdependence with cryptocurrencies.
- 5.2 The Distributed Ledger technology, on which the functioning of the Digital Assets and cryptocurrencies is based, is still at an early stage and best practices are still to be determined and implemented. The Distributed Ledger technology is likely to undergo significant changes in the future. Technological advances in cryptography, code breaking or quantum computing etc. may pose a risk to the security of Digital Assets and cryptocurrencies. In addition, alternative technologies to certain cryptocurrencies could be established, making the relevant cryptocurrency less relevant or obsolete. If the Digital Assets are traded on a Distributed Ledger that becomes less relevant or obsolete, this could negatively affect the price and the liquidity of the Digital Assets.
- 5.3 The functioning of the Digital Assets and of cryptocurrencies relies on open-source software. Developers of such open-source software are not employed or controlled by the Bank or the Sub-custodians. Developers may introduce weaknesses and programming errors into the open-source software or may stop developing the open-source software (potentially at a critical stage where a security update is required), keeping Digital Assets or cryptocurrencies exposed to weaknesses, programming errors and threats of fraud, theft and cyber-attacks.
- 5.4 Distributed Ledger networks have experienced a surge in the number of transactions over the last few years. An increasing number of transactions coupled with the inability to implement changes to Distributed Ledger technology may result in a slower processing time of Transactions (potentially days to verify a Digital Asset transaction) and/or a substantial increase in the transaction fees paid to so called "miners" of cryptocurrencies for facilitating the processing of Digital Asset transactions. This may limit the Bank's ability to process Transactions and lead to an increase of the fees.
- 5.5 Since there is no central body (e.g. a central bank or a government agency) overseeing the development of the Distributed Ledger technology, the functioning of Distributed Ledgers, as well as further improvements of such functioning (e.g. ability to increase number of transactions, reduce processing time, reduce transaction fees, implement security updates), relies on the collaboration and consensus of various stakeholders, among others, developers enhancing the open-source software related to cryptocurrencies or so called "miners" facilitating the processing of transactions. Any disagreement among stakeholders may result in a Hard Fork. Hard Forks may lead to the instability of a specific version of a relevant Distributed Ledger. In addition, Hard Forks or the threat of a potential Hard Fork may prevent the establishment of Digital Assets as a viable alternative to the way assets are traditionally traded. Hard Forks or the potential of a Hard Fork may limit the Bank's ability to process Transactions and lead to an increase of the fees.
- 5.6 The particular characteristics of Digital Assets (e.g., they only exist virtually on a computer network, transactions in Digital Assets are usually not reversible and are done largely anonymously) make it an attractive target for fraud, theft and cyber-attacks. Various tactics have been developed (or weaknesses identified) to steal Digital Assets or disrupt the underlying Distributed Ledger technology, including e.g. the "51% attack" where persons with malicious intents may take control over a relevant Distributed Ledger network by providing 51% of the computer power in the relevant Distributed Ledger network, or the "denial of service attack" where persons with malicious intents attempt to make the relevant Distributed Ledger network's resources unavailable by overwhelming it with service requests. The Client is directly exposed to fraud, theft and cyber-attacks for the following reasons: (i) any high profile losses as a result of such events (e.g. bankruptcy of the then largest bitcoin exchange Mt. Gox in February 2014) may raise skepticism over the long-term future of Digital Assets and may prevent the establishment of Digital Assets as an accepted way to represent assets, and may increase the volatility and illiquidity of the relevant Digital Assets; (ii) as provided in clause 7.6 any loss resulting from a Loss Event shall be borne exclusively by the Client.
- 5.7 Digital Assets and cryptocurrencies only exist virtually on a computer network and have no physical equivalent. Establishing a value for Digital Assets is difficult as the value depends on the expectation and trust that cryptocurrencies can be used for future payment transactions and as a medium of exchange. Among others, persistent high volatility, changes and advances in technology, fraud, theft and cyber-attacks and regulatory changes may prevent the establishment of cryptocurrencies as an accepted long-term medium of exchange potentially rendering cryptocurrencies worthless. Due to the relationship of interdependence between the Digital Assets and cryptocurrencies, this could affect the price and liquidity of the Digital Assets.
- 5.8 Digital Assets and cryptocurrencies have been in existence for only a few years and various regulatory bodies in

Switzerland and globally have or are in the process of taking a view on required regulatory actions relating to Digital Assets (e.g. regulation concerning money laundering, taxation, consumer protection, publication requirements or capital flows). Any forthcoming regulatory actions may result in the illegality of Digital Assets or cryptocurrencies or the implementation of controls relating to the trading (and therefore liquidity) of the relevant Digital Assets. In addition, control mechanisms may increase Digital Assets' transaction fees significantly. By using the Service and trading Digital Assets, the Client bears the risk related to the uncertainty as to the legal, regulatory and fiscal characterization of Digital Assets and/or Transactions.

## **6. Privacy | Public nature of Distributed Ledgers**

- 6.1 Investors should be aware that any purchase and sale of Digital Assets may be stored in a public Distributed Ledger and may therefore be visible to the public.
- 6.2 Distributed Ledgers on which Digital Assets are issued and/or recorded is neither the property of, nor under any control of the Bank or the Sub-custodians. Information available on the Distributed Ledgers may be exploited or misused in unforeseen ways.