

Risk Disclosure – Trading and Custody of Digital Assets

1. Introduction

The “Risk Disclosure – Trading and Custody of Digital Assets” (hereinafter “Risk Disclosure”) provides a general overview of the risks associated with Digital Assets, also referred to as “crypto-assets”, insofar as the risks may be relevant to the account holder in connection with the account holder’s business relationship with Neue Bank AG (hereinafter “Bank”) or the services provided by the Bank.

The following explanations do not constitute an exhaustive list or description of all risks associated with Digital Assets or investments in crypto-assets and the underlying distributed ledger and blockchain technologies (collectively “Blockchain,” see Glossary). The Risk Disclosure supplements the contractual documentation between the account holder and the Bank and must be read and interpreted in conjunction with it.

The risks described may adversely affect the value of Digital Assets and lead to a partial or complete loss of the account holder’s investment, as well as foregone profits. Investments in Digital Assets and the holding, trading, and processing of transactions in Digital Assets involve specific risks for the account holder. These risks may differ from those associated with traditional financial instruments, other currencies, and traditional asset classes.

The Bank does not provide advisory services in connection with Digital Assets. The Risk Disclosure does not include information on tax or other legal matters related to Digital Assets and the services provided by the Bank in any jurisdiction. It is recommended that the account holder seek appropriate legal and/or tax advice from a third party.

Further information on investments in Digital Assets can be found in the brochure “Risks in Securities Trading” published by the Liechtenstein Bankers Association. The version in force is available at www.neuebankag.li or can be obtained from the Bank.

2. Technology risks

2.1 Dependence on digital ledger technology

Digital Assets are based on distributed ledger technology (hereinafter “DLT,” see Glossary), an umbrella term for decentralised technologies such as blockchain. DLT is still undergoing continuous development, making significant technological changes and advancements (hereinafter “Developments”) possible. These Developments are entirely beyond the control of the Bank and the brokers it engages and may pose a risk to the security of Digital Assets if misused by third parties (e.g. theft, loss, or depreciation of Digital Assets). As a result, investments in Digital Assets are dependent on technologies and external parties within the decentralised network, which the Bank cannot influence.

2.2 Programming errors, security gaps

The infrastructure, systems, and software, including smart contracts (see Glossary) on which Digital Assets are based are exposed to the risk of programming errors, bugs, and other security vulnerabilities, over which the Bank has no influence due to the decentralised structure. The principle of Digital Assets is often based on open-source software (see Glossary). The software code is freely accessible and can therefore be legally copied, used, or modified. Neither the Bank

nor the brokers it engages commission or control the developers of open-source software. As a result, developers may independently discontinue Developments in open-source software (e.g. security updates) at a critical moment. This creates a risk of security gaps and programming errors in open-source software, which third parties may exploit (e.g. through cyberattacks or theft).

2.3 Adaptation of Digital Assets

Digital Assets can be adapted at any time to improve certain functionalities, security aspects, or other characteristics. These adaptations may be made by updating the technology platform, modifying a consensus mechanism, or introducing new protocols. The Bank or any third parties involved have no influence over these adaptations or their effects.

2.3.1 Technological Developments

Developments in DLT and blockchain technologies are generally not subject to monitoring by a supervisory authority (e.g. regulatory authority) and are therefore largely dependent on the cooperation and consensus of various participants, such as open-source software developers and miners, to process transactions. Disagreements among these participants can lead to unforeseen technological developments (e.g. forks, see section 2.3.2 and Glossary) that may negatively impact investments in the affected Digital Assets. The Bank or the brokers it engages have no influence over such Developments.

2.3.2 Forks

A hard fork (see Glossary) can lead to instability and/or impairment of the functionality of the affected DLT, of transaction processing (including increased transaction fees), of the convertibility of Digital Assets, and to a loss of value of a Digital Asset (e.g. due to the emergence of a new or competing type of Digital Asset).

Forks are beyond the control of the Bank and the brokers it engages. Upon the occurrence of such an event, the Bank decides at its sole discretion whether to support any of the forked ledgers or one or more Digital Assets newly created by or in connection with such an event. The occurrence of such an event may result in a loss or foregone profit for the account holder, and the account holder may not derive any claim against the Bank from such an event.

2.4 Airdrops

It is possible for Digital Assets or tokens to be sent unsolicited to a wallet address. Such airdrops (see Glossary) may contain malicious code, be linked to dubious projects, or be incompatible with the Bank’s offering for other reasons (e.g. technical, economic, or legal). The Bank decides at its sole discretion how to handle airdrops. The account holder has no claim to the Digital Asset in question.

2.5 Hacking attacks / Attempted fraud

Digital Assets are exposed to various cybersecurity risks, including hacking attacks (see Glossary) and attempted fraud such as data and identity theft, phishing, malware, and ransomware. Hackers and cybercriminals may attempt to gain unauthorised access to private keys (see Glossary), wallets (see Glossary), or systems, which can result in the theft of Digital Assets or the manipulation of transactions.

2.6 Irrevocability of transactions

Once a transaction with Digital Assets is confirmed and recorded in the blockchain, it is irreversible and final. Transactions confirmed on the blockchain cannot be reversed or cancelled, meaning that erroneous or fraudulent transactions can result in financial losses.

2.7 Significant disruption to the DLT network

A significant disruption to the DLT network may require the Bank to partially, temporarily, or completely discontinue its services related to this network.

3. Market risks

3.1 No intrinsic value and lack of objective valuation

In contrast to traditional currencies, financial instruments, and commodities, Digital Assets have no intrinsic value and exist only virtually. Digital Assets do not represent assets such as shares, bonds, derivatives, structured products, or debt rights in relation to specific shares in real assets, companies, or income. This can make the objective valuation of Digital Assets difficult or impossible, given that no recognised standard indicators or valuation models exist. The value of Digital Assets is primarily determined by the trust and expectations of participants (e.g. security or future potential uses).

3.2 Unpredictable pricing (price volatility, correlations, external factors)

Digital Assets can experience significant price fluctuations even within a single day, and those fluctuations may not follow the patterns or established pricing mechanisms of traditional financial instruments. Due to this considerable and unpredictable volatility, trading in Digital Assets is considered speculative. In addition to various other factors (e.g. open-source software updates), the price of Digital Assets can be influenced by correlations (similar price movements) between different Digital Assets. If a particular Digital Asset is affected by negative events or market conditions, a contagion effect may occur, causing other Digital Assets to lose significant value. Even events that are not directly related to a specific Digital Asset can lead to a decline in its value.

3.3 Illiquidity

Digital Assets may have limited liquidity or even periods of illiquidity in the market. Low liquidity increases the risk of rapid price movements, unusually large spreads (i.e. the difference between buy and sell prices), and the rejection of orders (e.g. if no prices can be provided for the Digital Asset). As a result, the account holder may be unable or only partially able to place buy or sell orders for Digital Assets, or placed orders may not be executed.

4. Legal, regulatory and tax risks

4.1 Legal uncertainties / Lack of regulation of Digital Assets

There are no uniform national or international rules governing Digital Assets, their regulation, or taxation. These rules are also constantly and rapidly evolving. This can create significant uncertainty regarding the legal, regulatory, and tax classification of Digital Assets.

National and international regulatory and tax authorities, as well as policymakers, may change the rules and qualification criteria applicable to Digital Assets and the taxation of related services at their sole discretion and independently of one another. Amended laws or regulations, along with related measures concerning Digital Assets, may restrict or even prohibit tradability and transferability (e.g. if a Digital Asset is classified as illegal), transactions (transferability or convertibility), or the provision of related services. This can lead to significant market disruptions. The account holder may lose the ability to trade Digital Assets in whole or in part and suffer a loss.

In light of these far-reaching uncertainties, there is a risk that the Bank will adjust the contractual documentation and Risk Disclosure relating to Digital Assets more frequently to comply with the applicable legal and regulatory requirements.

4.2 Lack of investor protection

Digital Assets are neither considered investment services or ancillary services nor financial instruments within the meaning of the EU Markets in Financial Instruments Directive (hereinafter "MiFID II") or the Liechtenstein Banking Act or Investment Services Act, along with the associated European and national implementing

provisions. As a result, the investor protection provisions applicable to financial instruments and securities (e.g. suitability and appropriateness assessments) do not apply to the Bank's offering for trading Digital Assets (see also section 5.3). Likewise, the legal provisions for packaged investment products for retail investors, the organisational requirements for preventing market abuse, and the transparency and reporting obligations for financial statements are also not applicable.

4.3 Lack of central governance

Digital Assets are generally based on decentralised networks, with no central institution controlling or regulating their development and use. This lack of central governance can create risks, particularly in the case of software upgrades to the corresponding blockchain. There is also a risk that the proper operation and maintenance of the blockchain may be discontinued.

4.4 Misleading statements about Digital Assets

Because Digital Assets are not regulated as financial instruments, there is a lack of specific client protection provisions and regulatory oversight to prevent misleading statements, in particular false promises of profit, which could lead account holders to make unfavourable investments.

5. Risks in relation to trading in Digital Assets

5.1 Limited range of services

The Bank's current range of services and the Digital Assets that can be traded via the Bank are limited to the services and Digital Assets published and described at www.neuebankag.li. The range of services does not include the account holder's right to transfer Digital Assets from a private wallet to the Bank, transfer them to the account holder's safe custody account, or have the Bank deliver them to a private wallet (even in the event of termination of the business relationship with the Bank). The account holder may also not use Digital Assets for payment purposes. The purpose of the Digital Assets held by the account holder in the safe custody account as an asset/Valor is therefore limited to participation in any potential performance. Additionally, certain technology-specific functions of Digital Assets are not offered by the Bank and cannot be used by the account holder.

The Bank may change or restrict its range of services at any time. This may result in Digital Assets no longer being held or traded via the Bank. In such a case, it may be necessary to liquidate the account holder's relevant Digital Assets at an inopportune time.

5.2 Settlement of client orders

Transactions involving Digital Assets (processing, placement, execution, confirmation, correction of orders, etc.) may be delayed, not performed at all, or performed incorrectly, particularly due to an error in the transaction or trading systems or in the communication channels between the Bank and the account holder or between the Bank and the broker.

These circumstances may result in an account holder being unable or restricted in the ability to place orders to buy or sell Digital Assets, or such orders may be delayed or not executed. Due to high market volatility, this may lead to a loss of value or foregone profit for the account holder.

5.3 Application of the execution principles

The Bank executes client orders carefully and in accordance with the account holder's instructions. The Bank's execution principles apply mutatis mutandis to the purchase and sale of Digital Assets. The Bank's buy and sell transactions with the broker are subject to the broker's contractual terms and conditions, particularly – but not exclusively – regarding the prices of Digital Assets, system availability, settlement limits, cooling-off periods (e.g. short-term restrictions on the acceptance of transactions), and so on.

The Bank passes on the price charged or credited to it by the broker for the corresponding transaction, including the fees charged by the broker. The broker determines pricing at its sole discretion, considering various factors such as price, probability of execution, and transaction size. Additionally, the broker may apply risk and liquidity adjustments.

5.4 Processing of orders

There is no guarantee that orders will be processed around the clock or immediately after entry. This depends, among other factors, on the trading hours of the Bank and the broker and may be restricted by other circumstances (e.g. limits to mitigate the Bank's settlement risks, technical disruptions on weekends outside normal support hours).

It is possible that orders to buy or sell Digital Assets received by the Bank outside trading hours may not be processed until the next bank working day. Due to high market volatility, the inability to trade Digital Assets at any time may result in a loss or foregone profit for the account holder.

5.5 Dependence on external brokers

The execution of client orders is carried out through an external broker and is subject to that broker's terms and conditions, including the execution of transactions, price determination, trading hours, modification, rejection, and reversal of transactions, discontinuation of the service, and compliance with local legal and regulatory requirements, including sanctions.

In addition, there are operational risks related to the external broker, including those associated with the systems and technologies the broker uses, as well as risks concerning trading restrictions. The Bank may not be able to engage an alternative broker and is not obliged to do so.

The unavailability of a broker or the discontinuation or restriction of services by the broker could result in orders to buy or sell Digital Assets being executed late or not at all. Due to high market volatility, the inability to trade Digital Assets may lead to a loss or foregone profit for the account holder.

5.6 Suspension of trading

Trading in Digital Assets may be suspended, particularly in the event of market disruptions and distortions, to comply with legal or regulatory provisions and sanctions, or in cases of force majeure (e.g. unrest, war, and natural disasters). Suspension may also occur due to technical risks not caused by the Bank (e.g. power grid or internet failures), systemic risks, or requirements imposed by the external broker.

During this time, no transactions will be possible, or the processing of transactions may be delayed. Due to high market volatility, the inability to trade Digital Assets may result in a loss or foregone profit for the account holder.

5.7 Lack of sustainability and environmental impact

The mining (see Glossary) of Digital Assets in particular often requires significant computing power, leading to increased CO₂ emissions. This can negatively impact the market value of Digital Assets.

6. Amendments

The Bank has the right to amend this Risk Disclosure at any time. No prior announcement by the Bank is required for changes to the Risk Disclosure. The version in force is published at www.neuebankag.li or can be obtained from the Bank.

7. Glossary

Airdrop

An airdrop is a process, usually part of a marketing strategy, in which a Digital Asset or token is distributed to wallet addresses unsolicited and free of charge. Airdrops usually have little or no market value.

Blockchain

A blockchain is a decentralised and distributed database that stores a list of transactions in blocks. Each block is linked to the previous block by a cryptographic hash, creating an immutable and transparent record of transactions. A hash is a data record used to verify data or data transfers.

DLT (distributed ledger technology)

Distributed ledger technology (DLT) is an umbrella term for technologies that enable the decentralised and distributed recording of transactions. Blockchain is a form of DLT.

Forks

A fork occurs when changes or upgrades are made to the open-source software on which a Digital Asset is based. This creates two separate and possibly competing versions of the blockchain or the underlying protocol of the Digital Asset. Forks can also lead to the creation of a new or competing type of Digital Asset.

In practice, forks are divided into two main types:

- Soft fork: A soft fork is a backward-compatible change in which the older rules underlying the blockchain remain compatible with the new rules (due to changes in the open-source software). In this case, no new blockchain is created.
- Hard fork: In contrast to a soft fork, a hard fork results in an incompatible change, meaning that the new rules do not work with the old rules. This creates two separate, competing blockchains.

Hacking

Hacking refers to unauthorised and illegal activities in which an individual or group of individuals attempts to gain unauthorised access to computer systems, networks, software, or data.

Mining

Mining refers to the process of validating a blockchain and generating new Digital Assets or tokens.

Open-source software

Open-source software is a type of software in which the source code is freely accessible, viewable, and modifiable by anyone.

Private keys

Private keys are cryptographic keys used to sign transactions of a Digital Asset or token. They serve as proof of ownership of a wallet and must be kept secret, as access to them enables access to the Digital Assets or tokens they contain.

Smart contract

A smart contract is a self-executing contract based on blockchain technology. It is a code that contains predefined conditions and is automatically executed when these conditions are met.

Wallet

A wallet is a software application or device used to manage and transfer Digital Assets or tokens. Access to the Digital Assets or tokens in the wallet requires the corresponding private key.