PAYWARD LTD

CRYPTO ASSET RISK DISCLOSURE

Stable Mint United States Dollar (USDSM)

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Disclaimer

Please note that this risk disclosure is not exhaustive of all risks associated with trading USDSM. Investors should perform their own assessment to determine the appropriate level of risk for their personal circumstances. Be sure to do your own research and due diligence while taking into account your own financial situation and risk tolerance. Please review the Risk Summary for additional discussion of general risks associated with the assets made available in the platform. These materials are for general information purposes only and are not investment advice or a recommendation or solicitation to buy, sell or hold any crypto asset or to engage in any specific trading strategy. The information contained in this risk disclosure is based on publicly available information that may be inaccurate, incomplete, or change at any time.

What is USDSM and how does it work?

Stable Mint United States Dollar (USDSM) is a US dollar-denominated stablecoin used within Stable Mint's regulated payment platform. Stable Mint Ltd is a financial technology company based in Malta and operates as an authorised electronic money institution overseen by the Malta Financial Services Authority, which requires customer funds to be safeguarded and sets capital and governance standards similar to other regulated payment firms.

USDSM is designed so that each token is backed 1:1 by US dollars or very low risk, highly liquid US dollar assets held in segregated accounts or equivalent arrangements. When eligible fiat funds are sent to Stable Mint (or an integrated partner) and exchanged for USDSM, new tokens are created and the corresponding cash is added to the reserve; when USDSM is redeemed, tokens are destroyed and the underlying funds are paid out, so the total supply expands and contracts with demand rather than being capped.

Who is behind USDSM

USDSM was founded and led by James Bennett, and the issuer is Stable Mint.

Tokenomics of USDSM

USDSM is a USD-denominated e-money token fully backed 1:1 by cash and high-quality liquid assets. The circulating supply matches the total value of reserves held with regulated financial institutions and in liquid instruments. The token has no staking or governance features and is issued only for value stability and payments. Supply is not capped and increases or decreases through minting and burning depend on demand, which are centrally managed by Stable Mint Ltd, a licensed Electronic Money Institution.

General Risks

Like all other digital assets, there are some general risks to investing in USDSM. These include short history risk, volatility risk, liquidity risk, demand risk, forking risk, code defects, cryptography risk, regulatory risk, concentration risk, electronic trading risk and cyber security risk. For more information on general risks associated with smart contracts and digital assets, see Kraken's Risk Statement.

Risks specific to USDSM

Depegging Risk

At any given point in time, the price of USDSM may not be aligned to the value of USD. This risk arises because the price of USDSM is determined by supply and demand in the secondary market, rather than the actual value of the US Dollar. If demand for USDSM exceeds the available supply, the price of USDSM may increase, leading to a higher price relative to the US Dollar. Conversely, if there is a surplus of USDSM tokens and insufficient demand, the price may decrease, causing USDSM to be worth less than the US Dollar.

Risk of Asset Freezing

Stable Mint Ltd. retains the ability to freeze USDSM associated with specific wallet addresses under certain conditions. This includes compliance with Office of Foreign Assets Control (OFAC) sanctions, suspected fraud, or legal orders. Affected users may be unable to transfer or redeem USDSM in such cases.

Redemption Risk

The value of USDSM is backed by a reserve of US Dollar and secure, low-risk assets held by its custodian. However, there is a risk that Stable Mint Ltd may be unable to meet redemption demands in a timely manner at some point in the future. If the issuer is unable to meet redemption requests due to insufficient reserves, it could lead to a loss of confidence in the asset, negatively impacting its value.

Due Diligence

Prior to listing on the Kraken platform, Kraken performed due diligence on USDSM and determined that USDSM is unlikely to be a security or derivative under UK securities legislation. Our analysis generally includes, but is not limited to, reviewing publicly available information on the following:

- The creation, governance, usage and design of USDSM, including the source code, security and roadmap for growth in the developer community and, if available, the background of the developer(s) that created USDSM;
- The supply, demand, maturity, utility and liquidity of USDSM;
- Material technical risks associated with USDSM, including any code defects, security breaches and other threats concerning USDSM and its supporting blockchain (such as the susceptibility to hacking and impact of forking), or the practices and protocols that apply to them; and
- Legal and regulatory risks associated with USDSM, including (i) any pending, potential, or prior civil, regulatory, criminal, or enforcement action relating to the issuance, distribution, or use of USDSM, and (ii) consideration of statements made by any regulators or securities regulatory

authorities in the UK, other regulators of the International Organization of Securities Commissions, or the regulator with the most significant connection to USDSM about whether USDSM, or generally about whether the type of crypto asset, is a security and/or derivative.