PAYWARD LTD
CRYPTO ASSET RISK DISCLOSURE
Balancer (BAL)

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Last updated on August 08, 2025

Disclaimer

Please note that this risk disclosure is not exhaustive of all risks associated with trading BAL. 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 Balancer and how does it work?

Balancer is a decentralised-finance protocol launched on Ethereum in 2020. It incentivises an open network of computers to operate a non-custodial exchange where anyone can swap ERC-20 tokens. Liquidity providers deposit their assets into Balancer Pools and earn a share of trading fees plus BAL governance tokens. Balancer pools resemble self-balancing index funds, smart contracts automatically adjust token weights as prices move so each pool keeps its target proportions without manual rebalancing.

The protocol offers three pool families that address different risk profiles. Public pools have immutable parameters and allow anyone to add or withdraw liquidity, suiting smaller holders who prefer the deepest markets. Smart pools let the pool creator update certain parameters, the best-known variant is the Liquidity Bootstrapping Pool (LBP), which starts with a high project-token weight that declines over time to facilitate fair price discovery with minimal upfront capital. Private pools restrict deposits and parameter changes to the creator, appealing to professional managers who wish to earn fees on specific portfolios.

Balancer’s governance token, BAL, can be locked in an 80/20 BAL-WETH pool to receive veBAL, which confers voting power and a pro-rata share of protocol fees, aligning long-term incentives. Balancer V2 further separates pool logic from token custody, allowing multiple chains, including Polygon, Arbitrum, Optimism and Avalanche, to share a single vault for improved gas efficiency.

Who is behind the project?

Balancer was developed by BlockScience and the Interchain Foundation, co-founded by Fernando Martinelli, the current CEO, and Mike McDonald, the current CTO.

Tokenomics of BAL

The supply of BAL tokens is limited, meaning that there will only ever be 94 million BAL.

Every week, approximately 145,000 BAL will be minted and distributed to liquidity providers. These emissions will lower with the halving that will take place every 4 years. These emissions will equate to a maximum of 65 million BAL. 25 million tokens were allocated to founders, core devs, advisors and investors, 5 million were allocated to the ecosystem fund and another 5 million for a fundraising fund for future funding.

General Risks

Like all other digital assets, there are some general risks to investing in BAL. 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 BAL

Competition

The Balancer network faces competition from other decentralised exchanges such as Uniswap and Curve. If Balancer fails to achieve sufficient adoption compared to alternative platforms, the value of BAL could decline.

Developer Dependence

While many developers contribute to Balancer, there is no guarantee that they will continue to do so. An inability to retain or attract contributors could negatively affect BAL.

Novel Technical Risk

Past incidents, such as the January 2021 pool exploit that enabled illicit BAL minting, show that unforeseen flaws can arise despite audits, potentially leading to loss of funds or dilution.

Regulatory Scrutiny
A regulatory crackdown on DeFi, for example, through legislation akin to the U.S. Digital Commodities Consumer Protection Act, could impede decentralised-exchange operations and reduce BAL's value.

Due Diligence
Prior to listing on the Kraken platform, Kraken performed due diligence on BAL and determined that Kraken was permitted to make BAL available for trading to UK users, in compliance with UK law. This process generally consists of reviewing publicly available information on the following:

- The creation, governance, usage and design of BAL, including the source code, security and roadmap for growth in the developer community and, if available, the background of the developer(s) that created BAL;
- The supply, demand, maturity, utility and liquidity of BAL;
- Material technical risks associated with BAL, including any code defects, security breaches and other threats concerning BAL 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 BAL, including (i) any pending, potential, or prior civil, regulatory, criminal, or enforcement action relating to the issuance, distribution, or use of BAL, 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 BAL about whether BAL, or generally about whether the type of crypto asset, is a security and/or derivative.