CRYPTOCURRENCIES & DECENTRALIZED FINANCE

THREAT OR OPPORTUNITY?

Strategic Resource Management

Presented By:
Larry Pruss, Senior Executive Vice President

srmcorp.com
LARRY PRUSS
Senior Vice President
20+ Years of Financial Services Experience

STRATEGIC RESOURCE MANAGEMENT
Doing Business since 1992
Helps financial institutions improve performance through benchmarks, data, and analytics

$3.6 Billion in implemented cost savings/ revenue increases
• **All information found here**, including any ideas, opinions, views, predictions, forecasts, commentaries, or suggestions, expressed or implied herein, are for informational, entertainment or educational purposes only and **should not be construed as investment advice.**

• The cryptocurrency industry is extremely fast-moving. **Data/statistics become outdated quickly.** While the information provided is believed to be accurate, it may include errors or inaccuracies.
WHAT DO THESE COMPANIES HAVE IN COMMON?
It’s the basis of a decentralized cryptocurrency.

It is a distributed ledger, hosted on multiple computers (or “Nodes”), that tracks transactions between users.

Nodes also continuously cross-reference each others’ local copies to validate the blockchain.
In broad strokes, a cryptocurrency is a digital asset used as a medium of exchange.

Ownership and transaction records are recorded onto a digital ledger called a “blockchain”.

Cryptocurrencies are becoming popular with retail and institutional investors, sovereign wealth funds, and even countries.
CRYPTOCURRENCY

WHY SHOULD YOU CARE ABOUT CRYPTO?

CRYPTO HAS GONE MAINSTREAM

Ownership is Growing

22%
Of American adults own Bitcoin

Safety Concerns

80%
Of bitcoin holders would choose to store it with their FI

Relevance

>70%
Of bitcoin holders would switch their bank to one that offered bitcoin-related products

Engaging New Customers

Source – NYDIG “Bitcoin and Banking Survey” Jan 2021 Presentation
WHAT KINDS OF CRYPTO ARE THERE?

- COINS
- ALTCOINS
- STABLE COINS
- NON-FUNGIBLE TOKENS (NFTS)
- CENTRAL BANK DIGITAL CURRENCIES (CBDC)
Custodial services of crypto keys is something most banks and credit unions can easily provide.

Crypto wallets or integrations into existing mobile wallets can allow buying, selling, and using of cryptocurrencies.

Loyalty programs can be introduced with crypto-based debit and credit cards.

Lending against crypto assets are low risk as they are typically over collateralized.

Cryptography can convert sensitive data into a secure format to store on the blockchain.

Blockchain/crypto technology can be used to speed up settlement periods and provide P2P solutions.
• **Silvergate Bank** is doing digital currency (crypto) banking. Their crypto products include institutional custody, loans collateralized by Bitcoin, and real-time transfers to their crypto exchange network’s participants. They will issue Facebook’s Stablecoin: Diem currency.

• **J.P. Morgan** launched last year: JPM Coin. It is a permissioned, shared ledger system that serves as a payment rail and deposit account ledger, enabling participating J.P. Morgan clients to transfer US Dollars held on deposit with J.P. Morgan.

• **BNY Mellon, Deutsche, Citi, U.S. Bank, BBVA, Standard Charter, & Vast Bank** are just some of the banks that have announced launching crypto custody services and/or investigating crypto trading platforms for their clients.

• **FIS (Fidelity Information Services), Fiserv, Alkami, NCR, Allied Payments, and Q2** have all recently announced partnerships with crypto custody firm NYDIG. Their clients’ customers will soon be able to buy, hold and sell bitcoin through their existing accounts.
### Examples of Financial Institutions Investing in Crypto and Blockchain

<table>
<thead>
<tr>
<th>Company</th>
<th>Headquarters</th>
<th>Assets Under Management</th>
<th>Number of Investments</th>
<th>Size of Funding Rounds As a % of Investment</th>
<th>Companies Invested In</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standard Chartered</td>
<td>London, United Kingdom</td>
<td>$719B</td>
<td>6</td>
<td>$380M</td>
<td>Ripple, Cobalt, Dianrong, Metaco, Linklogis</td>
</tr>
<tr>
<td>BNY Mellon</td>
<td>New York, United States</td>
<td>$470B</td>
<td>5</td>
<td>$327M</td>
<td>Fireblocks, HQAx, R3, Finality International</td>
</tr>
<tr>
<td>Citibank</td>
<td>New York, United States</td>
<td>$2,260B</td>
<td>14</td>
<td>$279M</td>
<td>BUCK, Chain, SETL, Avon, Cobalt, Digital Asset, HQAx, R3, Kormo, Symbiont</td>
</tr>
<tr>
<td>UBS</td>
<td>Zürich, Switzerland</td>
<td>$1,260B</td>
<td>5</td>
<td>$266M</td>
<td>Avon, R3, Finality International, ConsenSys</td>
</tr>
<tr>
<td>BNP Paribas</td>
<td>Paris, France</td>
<td>$1,218B</td>
<td>9</td>
<td>$236M</td>
<td>Digital Asset, HQAx, METRON, R3, TradeX, Kormo, Token</td>
</tr>
<tr>
<td>Morgan Stanley</td>
<td>New York, United States</td>
<td>$316B</td>
<td>3</td>
<td>$234M</td>
<td>NYDX, R3, Securitize</td>
</tr>
<tr>
<td>Goldman Sachs</td>
<td>New York, United States</td>
<td>$1,163B</td>
<td>8</td>
<td>$204M</td>
<td>Avon, HQAx, R3, Coin Metrics, Circle, Blockdaemon, Veam</td>
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<tr>
<td>MUFG</td>
<td>Tokyo, Japan</td>
<td>$3,408B</td>
<td>6</td>
<td>$181M</td>
<td>Biflyer, Coinbase, Kormo, Finality International</td>
</tr>
<tr>
<td>ING</td>
<td>Amsterdam, Netherlands</td>
<td>$1,47B</td>
<td>6</td>
<td>$170M</td>
<td>HQAx, R3, Kormo, Finality International, Veam</td>
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<tr>
<td>BBVA</td>
<td>Bilbao, Spain</td>
<td>$796B</td>
<td>5</td>
<td>$167M</td>
<td>Covault, Cambridge Blockchain, Everledger, R3, Solotrade</td>
</tr>
<tr>
<td>Nomura</td>
<td>Tokyo, Japan</td>
<td>$432B</td>
<td>5</td>
<td>$146M</td>
<td>Quantstamp, Konsens, R3, Securitize</td>
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<tr>
<td>Barclays</td>
<td>London, United Kingdom</td>
<td>$1,842B</td>
<td>22</td>
<td>$12M</td>
<td>RealBlocks, SafeBox, Avenues GT, Chainalysis, R3, Chronoblock, Everledger, EtherReal, HQAx, Kave, Photosoft, Post-Quantum, Finality International, ResonanceL, The Sun Exchange, SendFriend</td>
</tr>
</tbody>
</table>
• Extremely efficient financial activities without a 3rd party intermediary – “peer-to-peer” financing using crypto.

• Open, transparent, permissionless, trustless, decentralized, and has composability.

• DeFi applications (DAPPS) are a growing list and include borrow/lending, trading, payments, and insurance.

• We’ve seen tremendous growth in the past year alone
  • ~$700MM in early 2020 to ~$89B now and growing fast!
Will expand access to banking products for the World’s nearly 1.7B unbanked.

Allows “banking” options in countries with challenged financial infrastructures.

Provides efficiency gains in offering traditional banking services – offer better rates for all involved.

Customers of DeFi never have to worry about branch access since they just need a Wi-Fi connected device.

The complexity of DeFi is being quickly solved for.
Hard to tax multiple small transactions since Crypto transactions are subject to capital gains tax.

Crypto creates some AML/KYC challenges.

Crypto fraud is not nearly as common as has been suggested.

Hard to implement capital controls since there is no administrator that can restrict trading or movement across borders.

Early adoption could be immensely profitable if crypto keeps its current growth trend.

Increasingly understanding efficiencies & ability to provide solutions to the underbanked.
Right now, there isn’t a lot.

There is no one regulatory body responsible for cryptocurrencies – it’s effectively unregulated.

Congress formed a working group for cryptocurrency and fintech policy. The Blockchain Caucus or Fintech Task Force will evaluate the current regulatory situation.

The group will have one year to deliberate and then make recommendations for future regulations.
1. Cryptocurrencies are here to stay.

2. Decentralized Finance (DeFi) is competing with traditional banking solutions.

3. Regulation won’t make cryptocurrency go away but instead will add legitimacy.

4. Developing your own solutions will be difficult.

5. You are competing with an industry that has no CEOs, no fancy offices, no marketing departments, no regulations, no borders, no limits, and is supported by a community of tens of thousands of active developers using open-source software solutions and focused on taking your business. This community has created a $2 Trillion market in less than 12 years.

6. Don’t underestimate the impact of this technology; avoid learning the hard way like Kodak, Blockbuster, and the Taxi industry.
1. **Strategy** let SRM help you develop your crypto/digital strategy.

2. **Education** stay on top of everything crypto; from new technologies, changes in protocols, decentralized finance, even regulatory updates.

3. **Compliance** crypto compliance is difficult, and guardrails are still being developed. Let SRM help guide you through, often difficult, discussions with your regulators.

4. **Product development** what’s the right solution for your clients and what will be your competitive advantage.

5. **Vendor Selection** picking the right partners and negotiating pricing can make all the difference.

6. **Voice** have an ongoing role in driving adoption in the marketplace via participation in SRM’s bi-monthly Crypto University.

7. **Marketing** those attracted to crypto solutions are a unique demographic. Let SRM help you develop a meaningful message.
The link is for a free twenty-four session, MIT Sloan School of Management course taught by Professor Gary Gensler (Current head of the SEC).

https://www.youtube.com/watch?v=a51OpyZYiA8

The second link is an interview about Decentralized Finance with Jim Bianco who is a macro markets researcher.

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THREAT OR OPPORTUNITY?

THANK YOU!

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srmcorp.com
APPENDIX
**Vast Bank** the first nationally chartered U.S. bank allowing clients to buy, sell, and hold cryptocurrency assets directly in their bank account.

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**Crypto Banking**

*We’ve taken the complexity and anxiety out of owning crypto.*

Vast Bank is the first nationally chartered U.S. bank that allows you to buy, sell, and hold cryptocurrency assets directly with your bank account. Get the benefits of crypto combined with the simplicity and security of a bank account.

**Open an account today!**

[Available on the App Store][1]

[Google Play][2]
Quontic Bank the first FDIC-insured financial institution in the U.S. to offer a Bitcoin Rewards debit card.

- Bitcoin Rewards Checking
  GET 1.5% BITCOIN ON ALL ELIGIBLE DEBIT CARD PURCHASES

Introducing Bitcoin Rewards Checking from Quontic Bank – the first of its kind. Minimum opening deposit of $500. We’re launching in select states to start.

Get Started
Silvergate Bank acquired major crypto trading exchanges as banking clients.

Crypto effect
Silvergate Bank’s services for cryptocurrency exchanges and bitcoin investors have driven a surge in growth

Source: The company
Sygnum Bank, a Switzerland-based digital asset bank, is helping institutional clients get staking rewards from the new Ethereum network.
Volt Australia's first partnership between a neobank and a cryptocurrency exchange for corporate customers,
EXHIBIT 3 | The Emerging Market Structure for Cryptocurrency Trading

**Finance-related enterprises**
- **Initiators of new currencies**
  - Mining pools and initial coin offerings (ICOs)
  - Dogecoin, Litecoin, Peercoin, Ripple, etc.
- **Private and institutional investors**
  - Registered Independent advisors, hedge funds, fund managers
  - Andreessen Horowitz, Pantera, Ceyuan Ventures, IDG Capital, etc.
- **Broker-dealers**
  - Firms that execute investments in cryptocurrencies
  - Fidelity Digital Assets, CoinFlow, GSX, Pulsar, Akuna Capital, etc.
- **Trading centers**
  - Index providers, exchanges, and clearing houses
  - Bitstamp, Seed CX, B2BX Exchange, Kraken, etc.
- **Transaction infrastructure**
  - Banks and other firms offering cryptocurrency exchange processing
  - Seba, Paxos, Ally, etc.
- **Analytics infrastructure**
  - Providers of data management and tracking technology
  - Avelacm, Caspian, Omnixx, TradeBlock, etc.
- **Storage technology**
  - Providers of wallets, custodian services, and security services
  - Binance, Coinbase, itBit, Trezor, Loopring, BitGo, Bakkt, etc.

**Source:** BCG analysis.
Blockchain Market Map