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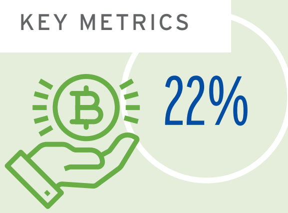
New York Digital Investment Group (NYDIG) is a full stack bitcoin platform offering trading, rewards, secure storage, education and support resources to institutions in both a white-labeled or direct fashion. NYDIG is the subsidiary of Stone Ridge Holdings Group, a well-capitalized holdings firm, and is the largest bitcoin-focused, institutional firm in the space.

STRATEGIC CONSIDERATIONS

Ask These Questions When Considering a Bitcoin-Related Offering

- What are the regulatory or compliance considerations, and can my partner help me?
- What is the cost and revenue model, and how easy will it be to integrate?
- How will the bank's staff be able to support our customers?

KEY METRICS

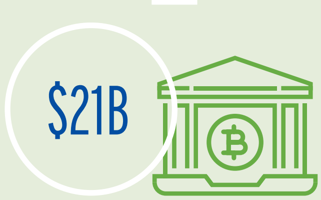


Percent of American adults who own bitcoin

Percentage of bitcoin holders who...

Would switch to a bank with secure bitcoin storage: **81%**

Would switch their primary bank to an institution that offered bitcoin-related products as well as regular bank products: **71%**



Annual opportunity for U.S. bank non-interest income with bitcoin 'buy' and 'sell' offerings

See sources on next page

Community banks across the country play a critical role in advancing the American dream, helping everyday Americans purchase assets and pursue financial freedom.

Today, that role includes helping consumers safely purchase and custody bitcoin. An estimated 46 million Americans over the age of 18 have acquired bitcoin since it was first created more than a decade ago, according to research from NYDIG. But as ownership rates have risen, banks struggled to provide bitcoin services to their customers. Concerns about safety, along with regulatory and institutional unfamiliarity, have created a gap now occupied by third-party digital asset exchanges and financial applications.

Fintech competitors are increasingly luring deposits away from traditional banks, with customers moving their money from traditional bank accounts to digital wallets on third-party sites. The experience is cumbersome, because users can't manage and view their holdings alongside other investments and credit accounts, says Patrick Sells, head of bank and fintech solutions at NYDIG. A customer's primary financial institution can still become the natural nexus for bitcoin solutions — if bank leaders are willing to take advantage of this opportunity.

The Opportunity for Banks

Five Star Bank in Warsaw, New York, plans to offer three bitcoin-tied products as a part of its response to consumer and wealth management trends, says Sean Willett, the bank's senior vice president and chief administrative officer. These products include the ability for retail customers to buy, sell and hold bitcoin through their online bank accounts and a way for wealth management customers to invest in a bitcoin-backed fund. The $5.3 billion bank believes these products will help it grow deposits, diversify revenue, manage costs efficiently and create sustainable business practices.

Plus, bitcoin could help the bank build a reputation as an innovator. "It signals to consumers that we're a forward-thinking financial institution," Willett says. "And it shows corporate customers that we are evolving very quickly with the marketplace, and we're a financial institution to grow with. We're not going to turn up our nose at the changing landscape of banking."

Banks interested in adding bitcoin products will have to answer the same crucial

- How financially robust and liquid is the prospective vendor?
- Who will be the legal custodian of customers' bitcoins?
- How established is the prospective partner in the Bitcoin space? What is its reputation?
- How will your bank approach model risk assessment when it comes to bitcoin transactions?
- How does the prospective partner prevent and respond to cybersecurity breaches and hacks?
- How is personally identifiable information (PII) managed?
- How is the solution priced, and does the bank have any say in the distribution?
- Does the prospective partner have sufficient audit and risk controls in place?

questions that arise when evaluating any new offering or technology: How difficult will this be to implement, and how much will it cost? What will the bank need to do from a risk assessment perspective?

Unlocking Bitcoin

Partnering with companies that have the requisite expertise and investments in this space can help banks quickly address those gaps — and potentially generate new sources of revenues. A vendor may also offer services like compliance guidance, tax documentation, marketing guidance and educational materials for bank staff and customers.

The regulatory landscape around financial institutions and bitcoin offers some clarity. Banks may choose to team up with a bitcoin custodian, similar to how they bring on an investment advisor or a brokerage. One of NYDIG's subsidiaries, for example, is a bitcoin custodian regulated by the New York State Department of Financial Services' rigorous standards. Further, NYDIG has created a model risk management and compliance package in conjunction with top regulatory law firms, helping chief compliance officers create appropriate and robust procedures.

Vendors that have partnered with core providers make integration even simpler with offerings that minimize complexity and customization costs. For example, NYDIG's planned partnership with Computer Services, better known as CSI, means that a turnkey bitcoin product offering will be "nearly instantaneously" available to the hundreds of community banks that use its core platform, says Derrick Bretz, CSI's vice president of payment services.

There are several vendors in the bitcoin trading space looking to work with financial services firms, but CSI sought to bring on a partner that wouldn't compete for customers through a direct-to-consumer offering.

"Banks want to partner with someone that's going to be a real partner," he says. "Not somebody that, on the side, is competing with them directly."

The Risk You Know

Sells acknowledges that new financial products, especially in an area like bitcoin, may carry additional risk for the bank. But, as he points out, not participating in bitcoin doesn't eliminate exposure to it.

Banks can see funds move between their institution and the various digital asset exchanges while having little way of knowing if those funds are clean. Further, they may be unfamiliar with those exchanges' regulators and how they approach compliance.

Conversely, partnering with a vendor that offers bitcoin products gives banks a chance to conduct thorough due diligence and compliance with Bank Secrecy Act and other anti-money laundering laws.

"Banks face the worst risk when it's an unknown risk," Sells says. "By offering bitcoin products directly, they can reduce their AML risk. They have 100% visibility into what's happening."

Innovation Made Accessible

Bitcoin's popularity reflects its maturity and increasing familiarity among investors. Bank products with bitcoin exposure could be innovative and differentiated offerings that attract new customers, increase wallet share and grow revenue. Community banks need to consider their strategy around bitcoin as consumer demand grows or risk losing out to competitors.

NYDIG has subsidiaries that hold a BitLicense and a Limited Purpose Trust Charter, authorized by the New York Department of Financial Services.

Key Metrics Source: NYDIG, based on daily trading volume across six NYDFS-licensed exchanges, 3/1-5/31/2021
NYDIG survey, conducted January 2021. The survey results are based on a poll conducted by SurveyMonkey on Jan. 6-7, 2021 among a national sample of 2,082 U.S. consumers. Respondents were selected from the nearly 3 million people who take surveys on the SurveyMonkey platform each day. Data have been weighted for age, race, sex, education and geography using the Census Bureau's American Community Survey to reflect the demographic composition of the United States. The results contained herein represent the answers of the subset of survey respondents who responded that they have financial advisors. This poll has a margin of error of +/- 2.1 percentage points.

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New York Digital Investment Group (NYDIG) is the Bitcoin subsidiary of Stone Ridge, an alternative asset manager. NYDIG offers an institutional-grade platform, including secure storage, trading, and asset management, through its partnerships with major digital banking and banking core providers.

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