Client Assets Safeguarding Policy and Plan- Revolut Digital Assets Europe Limited (RDAEL)

1. Introduction

1.1 - Purpose and scope

RDAEL recognises the critical importance of safeguarding and protecting client assets in its operating model. For the purposes of this policy, references to client assets refer to crypto assets. RDAEL does not process or hold any fiat for or on behalf of its clients. The Client Asset Safeguarding Policy and Plan (the "Policy') seeks to address the below areas:

- To outline RDAEL's business model and related risks in respect of the safeguarding of client assets and the controls in place to mitigate these;
- To demonstrate how RDAEL's systems and controls meet the principles of the client asset regime;
- To enable the Board of RDAEL (the "Board") to document and monitor material changes to RDAEL's business model, changes to controls and processes and any changes regarding the associated risks to safeguarding client assets; and
- To make information readily available to assist in the prompt distribution of client assets, particularly in the event of RDAEL's insolvency.

The Policy is a "living" document which is continuously reassessed and evolves with the business. The Policy documents key judgements regarding the business model, materiality and risk framework in relation to the safeguarding of client assets.

Given the purpose of the Policy, as that is identified above, RDAEL is considered to be in a good position to provide an in-depth analysis and breakdown of the relationship it will have with third party exchanges and custodians in terms of safeguarding and protecting client assets.

RDAEL's operating model in relation to crypto assets is based on operating an omnibus wallet with third party exchanges and custodians.

1.2 - Authorisation
RDAEL plans to become an authorised crypto asset service provider under the EU Regulation 2023/1114 on markets in crypto assets ("MiCA"), to provide the following crypto asset services and activities relating to any crypto asset:

(a) providing custody and administration of crypto-assets on behalf of clients;
(b) execution of orders for crypto-assets on behalf of clients;

(c) placing of crypto-assets;
(d) reception and transmission of orders for crypto-assets on behalf of clients; and
(e) providing transfer services for crypto-assets on behalf of clients.

For the purposes of this Policy, 'providing custody and administration of crypto-assets on behalf of clients' means the safekeeping or controlling, on behalf of clients, of crypto-assets or of the means of access to such crypto-assets, where applicable in the form of private cryptographic keys.

The scope of RDAEL's services related to safeguarding (custody) of the crypto assets will include:

● Making settlements of executed orders received from clients;
● Processing certain actions (e.g. changes in response to a fork event); ● Recording and accounting of the crypto assets in the personal wallet of the client; ● Providing statements of the crypto asset wallets and other reports to clients and/or to authorities (e.g. the Cyprus Securities and Exchange Commission).

2. Safeguarding of clients' crypto assets

2.1 General requirements

RDAEL shall take adequate measures to protect and safeguard the assets belonging to its clients, including:

● Keep records and accounts in a way that RDAEL is capable, at any time and without delay, to distinguish the assets held for one client from the assets held for any other client and from the assets of RDAEL;
● Maintain records and accounts in a way that ensures their accuracy, and their correspondence to the assets held for the clients, and in a way that such records and accounts can be used as an audit trail;
● Conduct monthly reconciliations between the internal information, records and accounts of RDAEL and those of third parties by whom assets are held; ● Take necessary steps to ensure that assets of the clients, deposited with a third party, are identifiable separately from the assets belonging to RDAEL and to that third party and have the same level of protection as in RDAEL in accordance with this Policy, noting that RDAEL does not hold crypto assets in proprietary assets; ● Take relevant organisational measures to minimise the risk of the loss or diminution of the assets belonging to the client, or of rights in connection with those crypto assets, as a result of misuse of the assets, fraud, poor administration, inadequate record-keeping or negligence.

2.2 Separation and segregation of clients assets

Assets belonging to a client shall be kept separate from the assets belonging to RDAEL.

RDAEL shall inform the clients via T&C or otherwise, that RDAEL may hold the assets belonging to a client:

- Together with the assets belonging to other client(s); and/or

- In an omnibus wallet.

Where RDAEL keeps the clients' assets in an omnibus wallet or in a wallet opened in the name of RDAEL, then it shall always keep separate records of the crypto assets belonging to each client.

RDAEL may deposit crypto assets of the clients into one or more of the following wallets: (a) self custody wallets, (b) hot wallets, and (c) cold wallets. This applies to RDAEL's Retail and Business clients opening a crypto account in the Revolut App and/or opening an account in the Revolut X trading platform.[1]

Self Custody wallets

This encompasses the crypto assets RDAEL holds with Fireblocks, where RDAEL holds the private keys. This solution is largely used to facilitate remittances, moving crypto assets between exchanges, such as Coinbase and trading with Wintermute, RDAEL's market maker.

Fireblocks is a provider of the relevant IT infrastructure and as such does not need to be licensed under MiCA as it does not provide any services of custody and administration of crypto-assets on behalf of clients.

Hot Wallets

This encompasses the crypto assets RDAEL holds with third party exchanges such as Coinbase Exchange and Kraken. A hot wallet is defined as a wallet that has active internet connectivity and where the legal owner or trustee of the crypto assets (i.e. RDAEL) does not own the private keys. While it is less secure than a cold wallet solution, it allows for immediate access to the crypto assets to facilitate trading orders and therefore hot wallets are used to facilitate buy and sell orders received from RDAEL clients.

For RDAEL to be able to hold clients' crypto assets into hot wallets with third party exchanges, such third party exchanges need to be licensed under MiCA. RDAEL is currently in the process of negotiating agreements with the soon-to-be MiCA licensed legal entities of the said third party exchanges.

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[1] RDAEL is not the operator of the Revolut X trading platform, however RDAEL clients will have the ability to access Revolut X, via RDAEL. Where an RDAEL client wishes to place an order on Revolut X, they will access an interface provided by RDAEL which displays the Revolut X exchange, market data relating to orders open and executed, and other information. Through that RDAEL interface the client will be able to place an order with RDAEL, based on the data the client can see through the interface. When the client places an order through the RDAEL interface, that order will be received by RDAEL and transmitted by RDAEL to Revolut Ltd for execution, which in the case of Revolut X will involve it being placed within the central limit order book and matched appropriately with corresponding orders from other market participants.

<u>Cold Wallets</u>

This encompasses the crypto assets RDAEL holds with Coinbase Cold Custody. A cold wallet is defined as a wallet that has no internet connection and where the legal owner or trustee of the crypto assets (i.e. RDAEL) does not own the private keys. Such wallets are used for security reasons as they are less prone to cyber attacks given the lack of internet connection. In order to leverage these crypto assets to facilitate clients' buy and sell orders, crypto assets on cold wallets first need to be moved to a hot wallet. This operation is requested by the Crypto Department and is executed by the Treasury team, whereby 2FA is required, which is administered by yet another team (i.e. Network Management) for additional security. The majority of client crypto assets are kept on cold wallets.

RDAEL does not at any time hold any client funds (fiat currency).

<u>2.3 Due Diligence of third parties</u>

RDAEL may deposit crypto assets belonging to a client into wallets opened with a third party only if it exercises due skill, prudence and diligence in:

- selection and appointment of such third party;
- periodic review over such third party; and
- periodic review over the arrangements of the holding of the crypto assets.

RDAEL shall evaluate the following criteria when selecting suitable third parties:

- The expertise and reputation of such third party;
- Legal requirements or market practices related to the holding of specific crypto assets that could adversely affect clients' rights; and
- That such third party must be itself licensed under MiCA to provide custody and administration of crypto-assets on behalf of clients.

RDAEL shall perform the verification and evaluation of the third party and record the results in writing and/or electronically every time before entering into an agreement with a third party.

When necessary, RDAEL shall initiate an exhaustive assessment of the impact of the third party and the legal system of its member state of establishment and potential insolvency on the clients' crypto assets.

Third parties where crypto assets belonging to clients will be deposited will be approved by RDAEL's Executive Risk Committee.

Group Third Party Risk Management Policy shall also be applied when depositing crypto assets belonging to the client with a third party.

RDAEL shall monitor, on a regular basis, the economic ratios of the third party holding the clients' crypto assets and at least once in a year perform the evaluation of third parties.

Operations shall inform RDAEL risk and compliance units about any noticed deficiencies in the third parties' operation and in performance of their functions related to custody of crypto assets.

In case it is found out at any time that the third party does not comply with the requirements of the legislative acts, RDAEL shall take the following actions:

- Initiate the termination of the agreement with the third party;
- Initiate signing of an agreement with another third party pre-identified by RDAEL that complies with the requirements provided for in MiCA;
- Organise signing of the agreement with a third party; and
- Take other actions, which it considers necessary, to maintain the clients' crypto assets and avoid damages and losses.

2.4 Use of crypto assets of clients

RDAEL may not pledge the crypto assets of clients in its own interest or in the interest of a third party. RDAEL may not use crypto-assets belonging to the clients for its own account in any way.

To ensures that clients' crypto assets are not used for RDAEL's own account, a number of controls are in place and documented in the Cryptocurrency Risk Management policy. These include key risk indicators, treasury controls and transaction reconciliation process, as detailed below.

- A Key Risk Indicator that monitors and compares the crypto asset balances held by clients and the balances held across all crypto asset workspaces (e.g. Fireblocks, crypto exchanges and cold custody).
- Treasury controls to prevent bad actors from moving crypto assets to unapproved accounts. All accounts involved in crypto-related transactions require whitelisting involving a maker / checker approval process. The initial movement of funds between accounts requires test transitions and maker / checker approval on these transactions to validate the sending and reconciliation of these test flows.
- Transaction reconciliation process to ensure all transactions are reconciled against the above tested flows. A 'break' in transactions will occur if there is a difference in e.g. values, dates of transactions and accounts from which the transactions were sent to and from, between the actual transaction and the intended transaction that Revolut records internally to ensure accuracy of movements.

2.5 Creation and safeguarding of cryptographic keys

Creation of safeguarding keys

Revolut has a robust and secure protocol for the creation of safeguarding keys, specifically designed to mitigate risks associated with potential loss of access or subsequent loss of funds held within the Fireblocks platform.
This protocol involves the use of an offline laptop, which undergoes annual testing and has a designated backup to address any potential hardware malfunctions. Revolut has established a documented key generation process in alignment with Fireblocks requirements to ensure enhanced security.

To initiate the safeguarding key generation, Revolut first downloads the required recovery software from Fireblocks, our self-custody wallet provider, which is essential for generating both the recovery public and private keys. The public key is then securely transmitted to Fireblocks. Following this, designated Fireblocks representatives conduct a verification process, directly contacting Revolut personnel to confirm the integrity and authenticity of the key, thereby ensuring it remains unaltered.

Upon successful verification, Fireblocks generates a backup file that contains key information, which is encrypted using the recovery passphrase established during the initial setup of Revolut's Fireblocks account.

For quality assurance, Revolut subsequently performs a verification procedure, conducting a sanity test with the generated keys to identify any potential issues

Safeguarding of cryptographic keys

Fireblocks Vault is a secure multi-party computation (MPC) based wallet. With Fireblocks' MPC, the wallet's private key, used to execute transactions, is fragmented across multiple devices thus eliminating the single point of failure for all transactions.

For each signing device, one key share is generated on the device and two corresponding key shares are generated on separate Fireblocks secured SGX hardware (one on IBM cloud, one on Azure). If any of these three key shares for a particular signing device is lost, that device will lose signing privileges. If all signing devices lose signing privileges or Fireblocks suspends operations, then access to the vault's funds is lost.

To prevent this from being even a remote possibility, Fireblocks provides a solution to securely back up and recover Revolut key shares.

In addition to the above controls, Revolut runs annual sanity tests and has a disaster recovery process in place which has been aligned with Information Security and requires its involvement for oversight.

2.6 Maintenance of assets

Revolut does not segregate clients' crypto-assets. From an inter-company assets flow perspective, RDAEL applies an executing broker model. This means that once an order is placed by a client, it will immediately be sent from RDAEL to Revolut Ltd for execution, where it will be executed with Revolut Ltd acting as a principal.

As a result of this process, RDAEL's clients assets are combined with Revolut Ltd clients assets into either a centralised omnibus account/wallet held at Revolut Ltd or at a partner crypto exchange in order to achieve operational and financial efficiencies.
Although RDAEL's clients assets are co-mingled with Revolut Ltd clients assets, RDAEL maintains a register of positions and is able to determine at any given moment the outstanding balance of its clients' assets. Although these funds are co-mingled, RDAEL maintains a high degree of oversight and control over the custody of its clients' assets to ensure compliance with MiCA requirements.

The register of positions maintains a record of each user's balance per token, updated multiple times per hour. This process ensures that, in the event of an insolvency, assets can be accurately and promptly returned to clients. Additionally, the register enables comprehensive oversight of balances by user, currency, and entity.

The register is managed by a dedicated data team and is accessible in a non-PII format to authorized personnel, specifically members of the crypto team, treasury colleagues, and market-making staff.

To ensure continuity, the database supporting this register is monitored for uptime, with alerts configured to notify relevant teams in the event of any downtime.

Finally, should there be any event that creates or modifies the rights of a client, this will also be recorded in a timely manner in this register. Such scenarios include a coin/token split or a change in ticker of a crypto asset.

2.7 Entitlements of clients

When placing buy orders on Revolut's platforms, users appoint us as their nominee to hold cryptoassets on their behalf. We hold legal title to the cryptoassets, while users retain beneficial ownership, granting them full rights to their financial value. Users have control over their cryptoassets through instructions given to Revolut via the relevant app to only sell, transfer, or withdraw, although transactions cannot be executed directly by them.

For staking transactions, users agree via our terms that we or our partners (staking providers) are solely responsible for all staked assets' governance decisions regarding the staking services, and instruct us or our partners to exercise any voting right(s) on their behalf.

Similarly, for scenarios such as airdrops, we do not guarantee that ownership of a token entitles users to participate in such events.

2.8 Information provided to clients

RDAEL includes in its Terms and Conditions a clear and concise summary in a non-technical language about the key aspects of RDAEL's systems and policies and procedures to comply with its safeguarding obligations.

<u>2.9 Procedures in place to return assets to clients</u>

There are two scenarios in which Revolut may return crypto assets to a user:

1. **User-Initiated Return of Funds to Their Wallet**

   In a non-stressed scenario, a user may request to sell their crypto asset for fiat or another currency through the Revolut platform. Requests are transmitted by RDAEL to Revolut Ltd for execution. In such cases, Revolut will verify that the requested transaction value does not exceed the value of the crypto assets the user intends to sell. Provided this condition is met, and there are no account limits in place, the transaction will proceed. This balance verification process is conducted in near real-time.

   Alternatively, a user may request the transfer of crypto assets to an external wallet not held by Revolut. For this scenario, a similar balance check will be performed. If the account holds sufficient balances and no restrictions are active, the transaction will be executed as requested.

2. **Revolut-Initiated Return of Funds to a User**

   Revolut may initiate the return of funds to a user in certain circumstances. Such requests are initiated by RDAEL and executed by Revolut Ltd. These include, but are not limited to, situations where Revolut is delisting a specific token, closing a user's account, or complying with an order from a regulatory body to cease support for a particular token.

   In such stressed scenarios, Revolut, via RDAEL, will endeavor to provide users with advance notice regarding the upcoming liquidation of assets. For example, Revolut typically aims to give 14 calendar days' notice, allowing users the opportunity to sell the token, convert it into another token, or withdraw it from the platform. Should the user fail to take action by the liquidation date, Revolut, via Revolut Ltd will proceed to liquidate the holdings, converting them to the user's local currency, and will credit this amount to the user's account. In cases where the value of the holdings is less than the smallest denomination of the user's local currency, Revolut will credit the account with the smallest unit (e.g., £0.01 for users in the UK)

3. Business Model

The below provides an overview and the plan on how clients' assets safeguarding requirements are to be observed by RDAEL in the course of its operations.

<u>3.1 Regulated services</u>

RDAEL provides execution-only crypto services to clients based within the EEA. RDAEL also provides execution-only crypto services to clients based in Switzerland on a reverse solicitation basis. The execution-only services listed in section 1.2 above are provided to Retail and Business clients opening a crypto account in the Revolut App and/or opening an account in the Revolut X trading platform.[2] All orders received by all clients are handled on an agency-only basis and therefore there is no dealing on RDAEL's own account.

3.2 Omnibus Account

From an inter-company assets flow perspective, RDAEL applies an executing broker model. This means that once an order is placed by a client, it will immediately be sent from RDAEL to Revolut Ltd for execution, where it will be executed with Revolut Ltd acting as a principal.

As a result of this process, RDAEL's clients assets are combined with Revolut's clients assets into either a centralised omnibus account/wallet held at Revolut Ltd or at a partner crypto exchange in order to achieve operational and financial efficiencies.

Although RDAEL's clients assets are co-mingled with Revolut Ltd clients assets, RDAEL maintains a register of positions and is able to determine at any given moment the outstanding balance of its clients' assets.

3.3 Transactional Activity

Clients must first open a bank account with Revolut Bank UAB (RBUAB), as all activities the client undertakes with RDAEL are funded from the balance of the client's money account with RBUAB. The creation of the client money account and the onboarding process are completed using the Revolut App. Once onboarded into the Revolut App, an RBUAB client can access RDAEL's crypto services through the Revolut App by clicking on the Crypto widget. The client can then become an RDAEL client by following the crypto onboarding steps, including accepting new terms and conditions relating to RDAEL's crypto services offering. Once onboarded into the Revolut App, an RBUAB client can also set up a separate crypto account on Revolut X via this link. The client can then become an RDAEL client by following the crypto onboarding steps, including accepting new terms and conditions relating to RDAEL's crypto services offering via Revolut X.

Clients must have sufficient funds on their account (Revolut App and/or Revolut X) in order to facilitate a purchase order. Funds can be debited directly from clients' bank account held with RBUAB main account in-app.

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Clients must have sufficient crypto on their account (Revolut App and/or Revolut X) in order to facilitate a sell order.

Clients can then submit an order (buy or sell) via the Revolut App or Revolut X. RDAEL will arrange for the client orders to be routed to Revolut Limited in its own name but on the clients' behalf for execution. At no point in time does RDAEL interpose itself between the buyer and seller in a manner that would give rise to matched principal trading or back to back trading.

3.4 Custody and Payment of Gas Fees

Custody

As noted in the 'Omnibus Account' subsection, RDAEL and Revolut Ltd hold client funds within omnibus treasury vaults (i.e. Fireblocks) and transfer client funds to wallets (e.g. Coinbase) in order to manage liquidity between Revolut Ltd wallets.

Payment of Gas Fees

When funds are transferred between wallets, transaction fees may be applied to facilitate this movement. Because Revolut Ltd holds minimal crypto on its balance sheet, these transaction fees are paid from funds held in the wallet from where the assets are transferred. On an intraday basis, in order to make these balances whole again, internal market making teams will perform a 'PNL swipe'. This involves buying the same amount of crypto that was used throughout the day to facilitate the movement of funds and crediting the account from where the fees were paid.

By way of example:

Revolut Ltd spends 0.0001 BTC on a transaction fee to move funds from Coinbase to Fireblocks, with the above amount being debited from the Coinbase account. This 0.0001 BTC goes into PNL Swipe and, at a later time during the same day, Revolut Ltd buys 0.0001 BTC in the market to cover for the fact that it spent that small amount from the Coinbase account.

3.5 Reconciliation Procedures

Internal Reconciliation

● **Process**: RDAEL conducts internal reconciliations of digital assets by comparing the internal records of client balances with the amounts recorded in the RDAEL's ledger. ● **Frequency**: This reconciliation is conducted daily, based on the close of business on the previous day.
● **Systems Used**: The reconciliation utilizes the RDAEL's main accounting system (NetSuite) and is compared against the Daily Pocket Balances Database for crypto. ● **Discrepancies**: Any discrepancies identified are addressed and resolved immediately. If discrepancies cannot be resolved within five business days, they are escalated

immediately to the Financial Controller for further action.

External Reconciliation

● **Process**: External reconciliation involves comparing the RDAEL's internal records with those of third-party custodians or exchanges where client digital assets are held. RDAEL obtains balance confirmations from Revolut Ltd to verify the accuracy of these records.External reconciliation is conducted by RDAEL's external auditors.
● **Frequency**: This external reconciliation is performed on a yearly basis.
● **Discrepancies**: Discrepancies identified during the external reconciliation are investigated immediately, with corrective actions taken within ten business days. If corrective actions are not taken within ten business days, then the escalation process described below is followed.

Responsibilities of Teams Involved

● **Reconciliation Team**: Responsible for performing daily and monthly reconciliations, identifying discrepancies, and ensuring the accuracy of records.
● **Compliance Team**: Ensures that reconciliation processes comply with regulatory requirements and internal policies.
● **Finance Team**: Provides accurate records to support the reconciliation process and assists in resolving discrepancies.
● **IT Team**: Ensures that the systems used for reconciliation are secure, reliable, and functioning correctly.
● **Risk Management Team**: Ensures that Key Risk Indicators (KRIs) are sufficient to minimize risk and reviews each corrective action when it occurs.

Escalation Process

● **Level 1 Escalation**: Any discrepancy that cannot be resolved within five business days is reported to the Financial Controller. There is also KRI in place to monitor any discrepancy between client liabilities and daily pocket balances.
● **Level 2 Escalation**: Discrepancies unresolved for more than ten business days are escalated to the Chief Financial Officer and reported to the RDAEL Executive Risk Committee.
● **Level 3 Escalation**: Discrepancies unresolved for more than 60 days require a verification report from Internal Audit once remediated.

Audit by Independent Third Party

The reconciliation process is subject to an annual audit by an independent third party to ensure compliance with the policy and accuracy in financial reporting. The findings of this audit are presented to the Board of Directors.

Management Information and Reporting

● **Board of Directors**: The Reconciliation Team provides quarterly reports to the Board

of Directors, summarizing the reconciliation activities, discrepancies identified, and resolutions.

3.6 Client Statements

Accurate, complete and up-to-date statements of balances can be viewed by clients via the Revolut App and RevolutX and at any point in time.