

Lending - May 2023 Performance Report

The purpose of this report is to offer transparent information about the performance of Bitstamp Earn Lending product to our customers.

Welcome to the latest edition of our monthly Lending Performance Report.

We believe transparency is essential for crypto lending. This report, developed in collaboration with our lending partner, Tesseract, provides a comprehensive overview of our Lending product performance.

The Bitstamp Team

Market Commentary

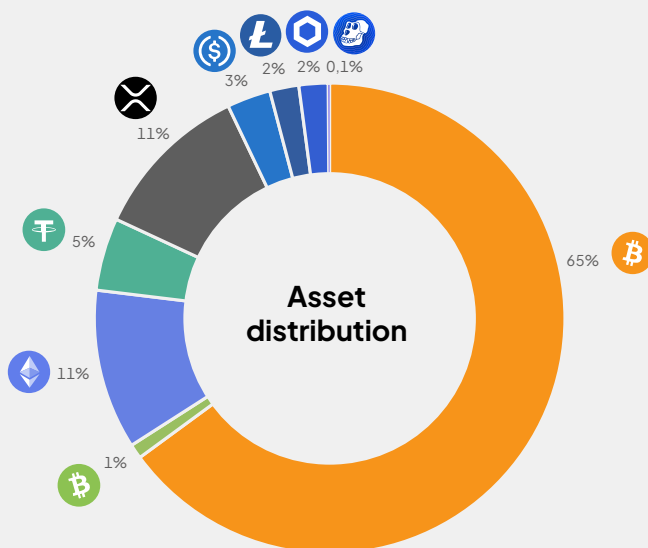
The cryptocurrency market is constantly evolving, with new developments and market shifts happening at a rapid pace. The first section of the Lending Performance Report provides insights and analysis on the current state of the market, helping crypto lenders stay up to date on the latest trends.

Key crypto market commentary:

- Throughout the month of May, the overall cryptocurrency market showed moderate development. Market prices experienced a dip, decreasing by roughly 7% compared to the previous month. In addition, trading volume and market volatility saw significant downturns, falling by 42% and 5% respectively, indicating a period of market stabilization.
- On the other hand, meme coins have seen an extraordinary surge in their trading volumes. This trend underscores a recent shift in user behavior and market dynamics, reflecting the growing influence of social media and retail users in shaping market trends.
- There has been a steady rise in borrowing demand for all crypto assets from market makers since Q4 of 2022. Significantly, these institutional borrowers are showing an increased readiness to grow the leverage within their portfolios. This trend signals a growing sense of stability in the crypto market, suggesting a foundation that market makers feel increasingly comfortable to leverage upon.
- Despite a challenging market environment, the crypto ecosystem is maturing. Key areas of growth include DeFi and Web3.

Portfolio Performance

The performance of crypto borrowing portfolios can vary based on several factors, including the quality of the borrowers and the collateral they provide. Understanding the performance and quality of such portfolios is essential for crypto lenders looking to maximize their returns while managing the risk involved. The portfolio along with its diversification is managed by our lending partner Tesseract.



Portfolio performance – key facts:

- Bitstamp Earn Lending was launched on March 8, 2023. The majority of assets in the portfolio consist of Bitcoin (BTC), which accounts for 65% of the total assets lent. Ethereum (ETH) and Ripple (XRP) each make up 11% of the portfolio.
- The loan portfolio is demonstrating strong performance, with all borrowers making timely repayments of both interest and principal as scheduled. Ongoing credit assessments, which include reviewing financial statements, confirm that the borrowers maintain a consistent level of creditworthiness.
- With no non-performing loans since initiation, the APY (Annual Percentage Yield) distributed to the users has remained steady. Rates further increased towards the end of May for the duration of the Bitstamp Earn promotional campaign.

Portfolio concentration by borrower credit rating tiers

Tesseract categorizes borrowers into 4 tiers:

TIER 1:

Top-tier market makers from traditional finance

- The borrowers are reputable traditional finance companies.
- All are registered NYSE market makers and/or licensed by the local supervisory authorities.
- Limited crypto market risk as their involvement in crypto represents a small fraction of the entire business.
- All borrowers have a long-term financial history, successfully enduring multiple crises.

TIER 2:

Crypto-native market makers

- All borrowers operate similar business models to TradFi market makers with prudent risk management.
- All borrowers have a stable multi-year performance track record.
- Rated Tier 2 because of their crypto-oriented business models.

TIERS 3 AND 4:

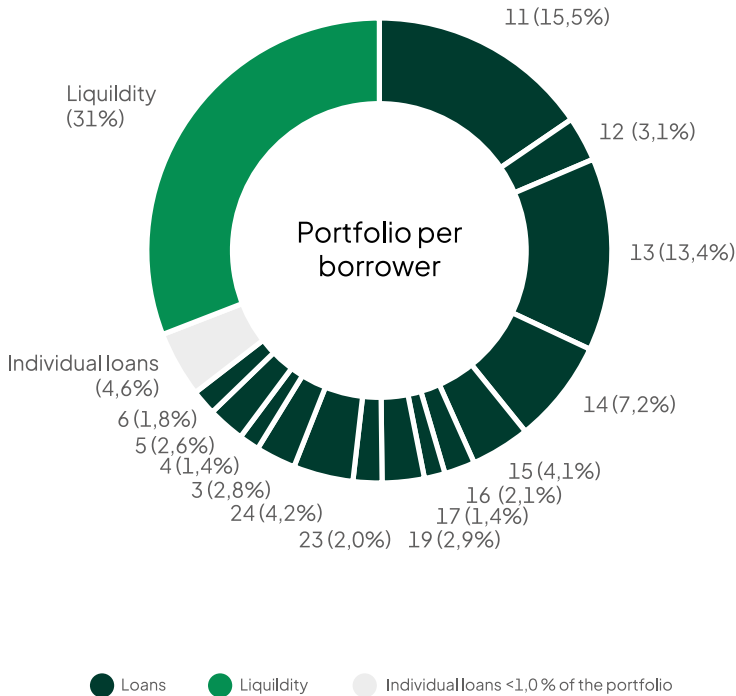
Smaller institutional borrowers

- The borrowers are similar to their Tier 2 counterparts but with smaller balance sheets, operating with lower levels of leverage.
- All borrowers are required to provide greater collateral against their loans.



Portfolio concentration by loans

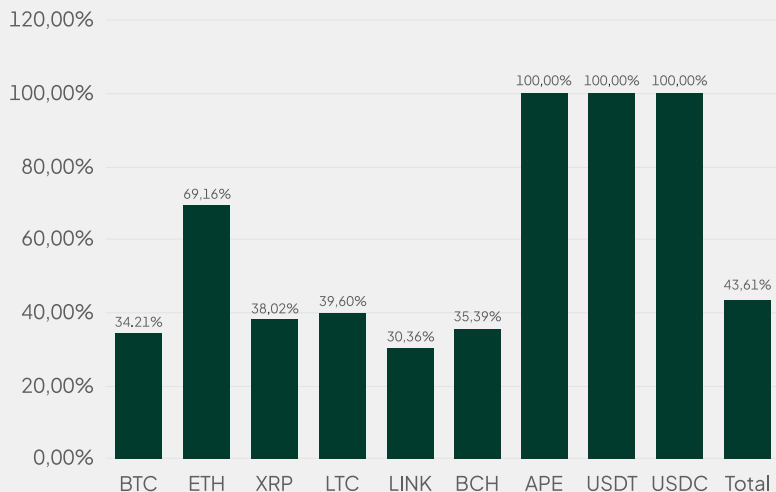
The graph illustrates the distribution of loans in the portfolio.



- In May, the loan portfolio was allocated among borrowers categorized as Tier 1, consisting of top-tier market makers from traditional finance, and Tier 2, which comprises other large top-tier market makers from traditional finance.
- As of the end of May, the loan portfolio is diversified across 22 loans.
- 31% of the portfolio is currently kept as a liquidity buffer, meaning it has not been deployed to borrowers.

Portfolio collateral ratios by asset

Key facts about the loan portfolio:



The collateral levels for crypto assets differ based on the credit ratings of the borrowers.

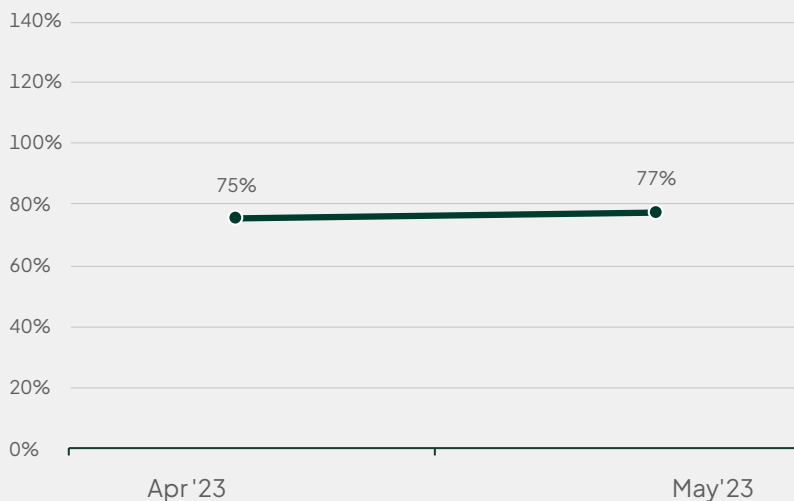
- The loan portfolio shows robust collateral levels, with an average collateral ratio of 43.6% across all assets, indicating a strong level of security for the loans.
- All stablecoin and APE loans are fully collateralized.

Borrowers' Risk Profile and Collateral

Bitstamp is partnered with Tesseract, a regulated and experienced digital asset lending company, to provide crypto lending products. Lending rewards are generated solely through lending assets to reputable and creditworthy institutions, including delta neutral market makers. Tesseract conducts thorough credit and risk due diligence on all borrowers. Delta neutral means that borrowers are not materially exposed to pricing movements of the assets they have borrowed. As delta neutral market makers, borrowers provide liquidity for exchanges. This reduces the bid-ask spread, making markets more efficient.

Borrower debt to equity ratios

The graph illustrates the average leverage, or debt-to-equity ratio, the borrowers are taking on average to expand their market-making activities. The lower the leverage, the more equity the borrowers have, serving as a protective buffer against potential business losses.



Bitstamp Earn Lending targets counterparties with modest debt-to-equity ratios ranging between 200 to 400%.

As of the end of May, the borrowers exhibit an average debt-to-equity ratio of 77%. This indicates that the borrowers are strongly capitalized, with significant reserves in place to mitigate potential losses. Consequently, the risk of borrowers defaulting on their loans is considered to be low.

Tesseract's lending credit scorecard model

The main objective of Tesseract's credit due diligence process is to ensure that all key risks that could potentially lead to the borrower defaulting on the loan are identified. These are then reflected in the credit score (Tier categorization) and collateral requirements for the borrower.

KYC/AML compliance

Assessment of borrowers' regulatory status to ensure Tesseract works with fully compliant counterparties.

Delta neutrality of investments

Assessment of the borrowers' investment strategies and risk mitigation techniques related to market-making activities ensuring delta neutrality and low risk levels.

Non-financial risk

Assessment of past performance in terms of reputation, management experience and information security and other operational risk practices.

Solid financial base

Assessment of profitability, volatility, leverage and concentration of borrowers' financial performances.

APY up, up, and away!

Crypto lending with higher yield



[Start Lending](#)

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