

# Lending - June 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 changing, 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:

### Robust Growth in Crypto Market

- June 2023 was a month of significant price movements in the crypto market. Bitcoin saw an increase of 11.9%, continuing its upward trend and solidifying its position as the leading digital asset. Ethereum also experienced a modest gain of 3.2%. However, the standout performer was Bitcoin Cash, which skyrocketed by a staggering 170.8%. This surge was primarily driven by its listing on EDX Markets, a new crypto exchange backed by Fidelity, Charles Schwab, and Citadel.

### Volatility Spiked by SEC News and Blackrock ETF Filing

- Markets saw a spike in volatility during June, primarily due to news from the U.S. Securities and Exchange Commission (SEC) and the filing of a Bitcoin ETF by BlackRock. The SEC's lawsuits against Binance and Coinbase on June 6 sent prices down 7% over the following 10 days, as investors feared that an increasingly

restrictive U.S. regulatory environment could negatively impact the crypto market. However, prices rebounded by 20% after BlackRock, Invesco, and WisdomTree filed applications for a spot BTC ETF. BlackRock's inclusion of a "surveillance-sharing agreement" in its application was seen as a positive sign by investors, despite the SEC's historical reluctance to approve crypto ETFs.

- The narrative of "institutions are coming" has been a recurring theme in the crypto market, and June was no exception. The month saw significant institutional interest in crypto, particularly after BlackRock applied for the spot BTC ETF. This move was seen as a major endorsement of Bitcoin and the crypto market more broadly.
- Borrowing demand increased in June with the surge of volatility in blue chip assets, as it provides market makers with more opportunities.

# 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.

	7/2023 (expected yield <sup>1</sup> )	6/2023 <sup>2</sup>	4/2023	3/2023
	2,00 %	4,00 %	2,00 %	2,00 %
	2,50 %	4,50 %	2,50 %	2,50 %
	1,50 %	3,00 %	1,50 %	1,50 %
	4,40 %	5,50 %	4,40 %	4,40 %
	4,40 %	5,50 %	4,40 %	4,40 %
	4,00 %	8,00 %	4,00 %	4,00 %
	4,00 %	5,00 %	4,00 %	4,00 %
	2,00 %	3,00 %	2,00 %	2,00 %
	2,00 %	3,00 %	2,00 %	2,00 %

## Portfolio performance – key facts:

The APY (Annual Percentage Yield) distributed to the users has remained the same across all assets in June, with no non-performing loans since initiation of the Bitstamp Earn Lending product.

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 robust levels of creditworthiness.

<sup>1</sup>Rates may change from time to time. Rate changes are communicated to the Bitstamp Earn Lending users on the Earn product page.

<sup>2</sup>The rates displayed for May and June were applicable during the promotional campaign period from May 22nd to June 21st.

# Portfolio concentration by borrower credit rating tiers

## Tesseract categorizes borrowers into 4 tiers:

### TIER 1:

#### Large 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:

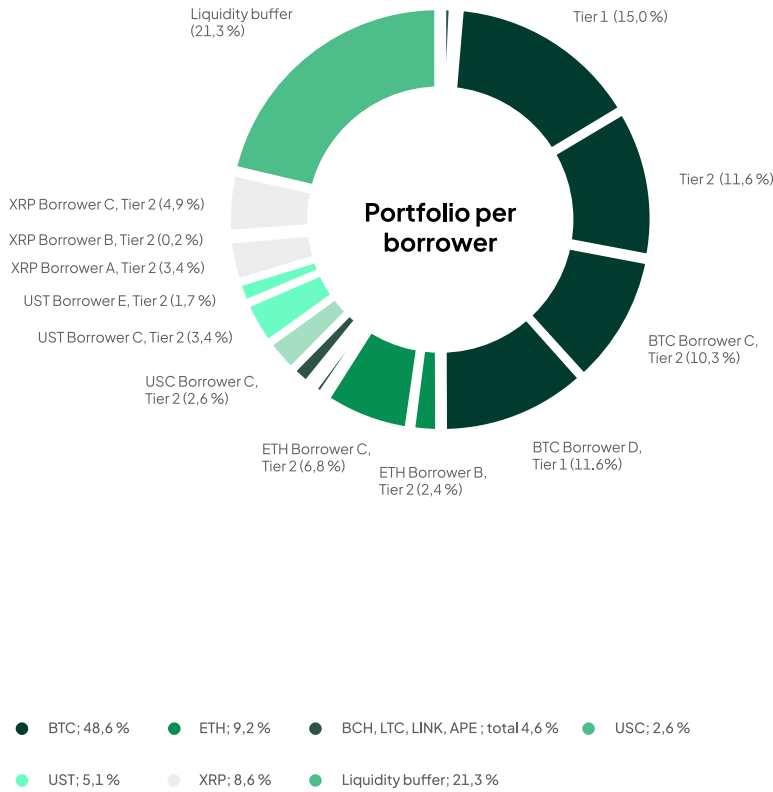
#### Smaller institutional borrowers

- 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

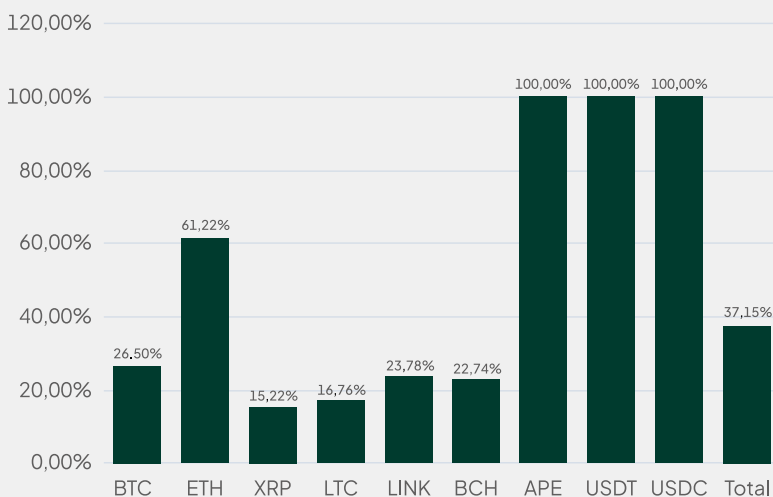
The graph illustrates the distribution of loans in the portfolio.



- At the end of June, the loan portfolio is deployed across one borrower in the Tier 1 category (Large top-tier market makers from traditional finance) and 4 borrowers in the Tier 2 category (Large top-tier crypto-native market makers).
- The assets under management (AUM) experienced a twofold increase in the month of June.
- The majority of assets in the portfolio consist of Bitcoin (BTC), which accounts for 49% of the total assets lent. Ethereum (ETH) is the next largest asset with 9% followed by Ripple (XRP) at slightly below 9%.
- 21% of the portfolio is currently kept as a liquidity buffer, meaning it has not been deployed to borrowers. The liquidity buffer is maintained in order to meet potential withdrawal requests of the Bitstamp Earn Lending users without having to recall loans back from the borrowers (i.e., market makers).

# Portfolio collateral ratios by asset

## Key facts about the loan portfolio:



Collateral levels for each asset in the loan portfolio (on June 30, 2023)

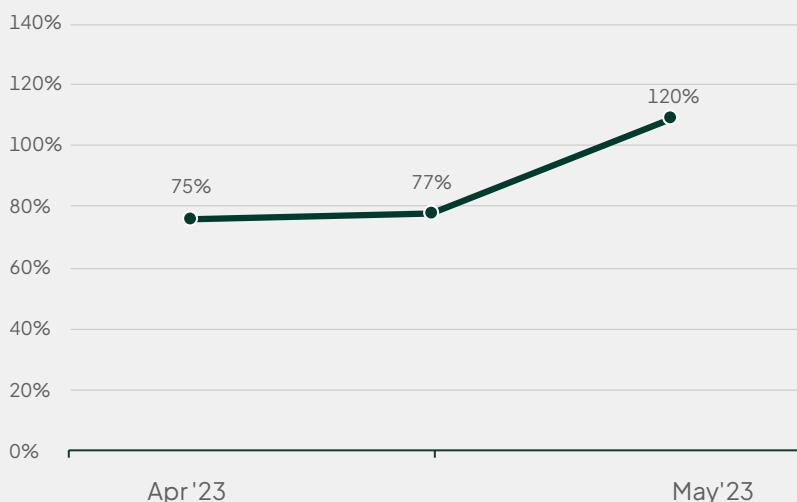
- The loan portfolio maintains robust collateral levels, with an average collateral ratio of 37% observed across all assets.

## 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 how much leverage (i.e., Debt-to-Equity) the borrowers are taking on average in order to grow their market making activities. The lower the leverage, the more equity the borrowers have as a buffer against any potential losses arising from their business.



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

The debt-to-equity ratios of the borrowers are on average at 120% at the end of June. The increase observed since May can be attributed to the favorable market conditions characterized by heightened volatility, which encouraged market makers to increase their leverage from previously low levels, thus fostering a greater appetite for growth.

The 120% average Debt-to-Equity ratio still remains below the targeted range of 200-400% and is clearly below the levels of Q2/Q3 of 2022, indicating that the borrowers remain well capitalized and have sizeable buffers for mitigating any potential losses. The likelihood of the borrowers defaulting on their loans is, therefore, minimal, indicating a low level of risk.

## 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.

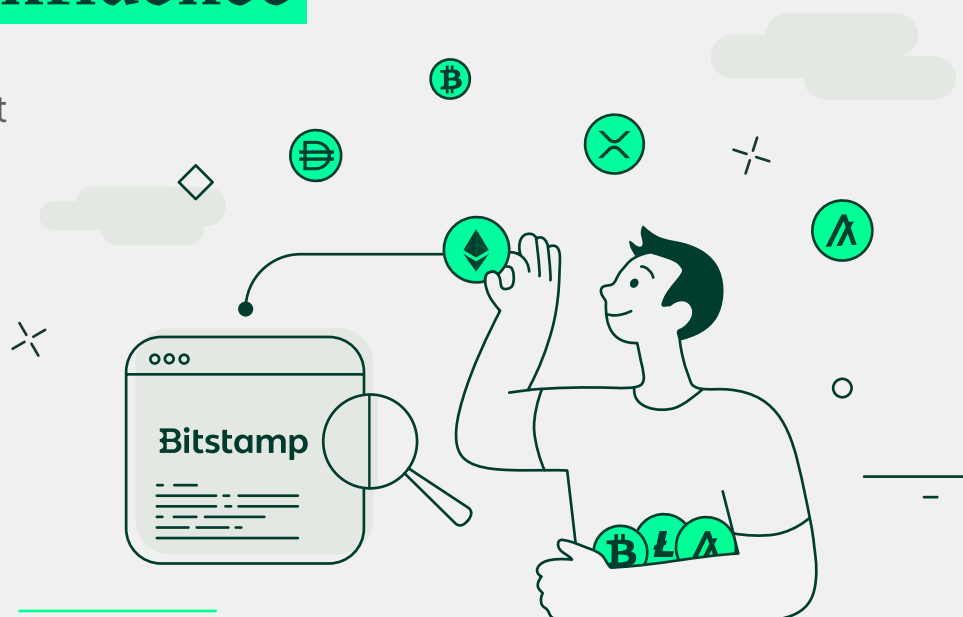
### Solid financial base

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

## Bitstamp crypto lending - Earn with confidence

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