

# Lending - October 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:

### Market Overview

- In October 2023, the cryptocurrency market saw a notable surge, with Bitcoin at the forefront of this upward movement. Bitcoin, the flagship cryptocurrency, jumped by an impressive 28.5%, outpacing many other assets. Ethereum also enjoyed a healthy 8.7% increase. Accompanying this bullish trend, monthly exchange volumes surged by 60%, reaching \$497.98 billion USD.
- Part of Bitcoin's strong performance stems from the rising anticipation of Bitcoin ETF approvals in the United States. The market reacted favorably to the D.C. Circuit Court of Appeals ruling in Grayscale's favor, directing the SEC to reconsider its rejection of Grayscale's spot Bitcoin ETF application. This legal victory has been perceived as a pivotal step towards the potential approval of Bitcoin ETFs, injecting optimism into the market.
- As the month progressed, demand for borrowing by market makers saw an uptick as volatility in the crypto markets increased. This surge in borrowing activity signals a robust trading environment and suggests an infusion of greater liquidity into the market.

### Regulatory and market dynamics

- October's regulatory landscape proved to be especially significant. The SEC's stance on Bitcoin ETFs appeared to be softening, with

market analysts predicting a significant inflow into the sector upon the approval of a spot Bitcoin ETF. This sentiment was reinforced by expert predictions that the SEC may approve all pending applications for spot Bitcoin ETFs simultaneously, following the precedent set by the approval of multiple Ether ETFs.

### Interest rate decisions and crypto response

- The Federal Reserve's interest rate decision in October also played a crucial role in shaping market sentiment. The risk asset markets welcomed the Fed's decision to hold rates steady at 5.25%-5.5%. This pause in rate hikes, after a period of aggressive increases to combat inflation, was interpreted by investors as a sign that the Fed might be nearing the end of its tightening cycle. The crypto market responded enthusiastically, with the stability in interest rates seen as a relief that likely contributed to the bullish sentiment and increased trading volumes.
- Overall, the mix of promising regulatory developments, especially regarding Bitcoin ETFs, and the Federal Reserve's decision on interest rates, fostered a positive environment for the crypto market's strong performance in October 2023. Investors' "buy and hold" strategy seemed to pay off, as the market capitalized on the positive developments and the more predictable economic environment.










# 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:

The loan portfolio remains strong with all borrowers making timely repayments of both interest and principal as scheduled.

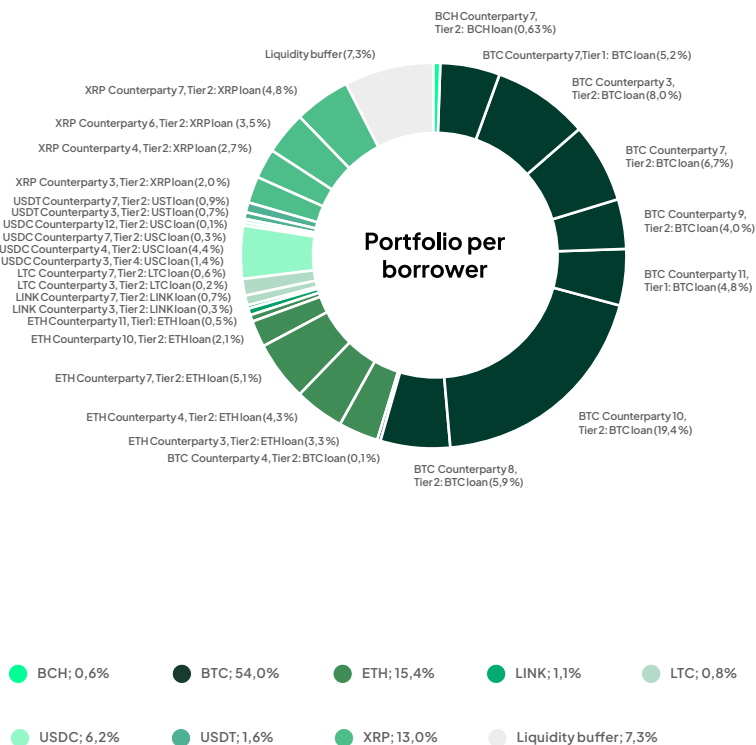
Ongoing credit assessments, which include reviewing financial statements, confirm that the borrowers maintain robust levels of creditworthiness.

	11/2023 (current yield <sup>1</sup> )	10/2023	9/2023	8/2023
	2,00 %	<b>2,00 %</b>	2,00 %	2,00 %
	2,50 %	<b>4,00 %<sup>2</sup></b>	4,00 % <sup>2</sup>	2,50 %
	2,00 %	<b>2,50 %<sup>2</sup></b>	2,50 % <sup>2</sup>	1,50 %
	4,40 %	<b>4,40 %</b>	4,40 %	4,40 %
	4,40 %	<b>6,00 %<sup>2</sup></b>	6,00 % <sup>2</sup>	4,40 %
	4,00 %	<b>4,00 %</b>	4,00 %	4,00 %
	4,00 %	<b>5,00 %<sup>2</sup></b>	5,00 % <sup>2</sup>	4,00 %
	2,00 %	<b>2,00 %</b>	2,00 %	2,00 %
	2,00 %	<b>3,00 %<sup>2</sup></b>	3,00 % <sup>2</sup>	2,00 %

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

<sup>2</sup> The rates displayed were applicable during the promotional campaign period from 13 September to 15 October.

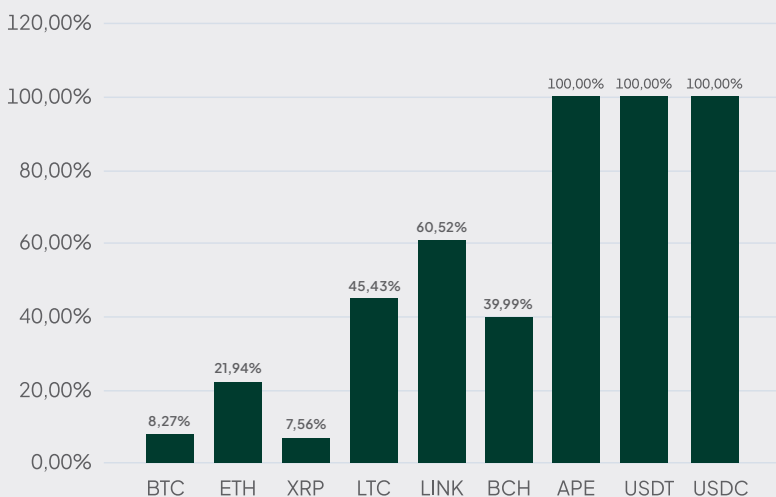
The graph shows how loans are distributed across various assets in the portfolio.



- At the end of October, the loan portfolio spans 10 diverse borrowers:
  - 2 in the Tier 1 category, which include large, top-tier market makers from traditional finance.
  - 7 in the Tier 2 category, which include large, top-tier crypto-native market makers.
  - 1 in the Tier 4 category, which include smaller institutional borrowers. This loan accounts for 0.1% of the total loan book and is 140% collateralized.
- Bitcoin (BTC) comprises the majority of the portfolio's assets, representing 54% of the total assets lent. Ethereum (ETH) is the second-largest asset, making up 15.4%, followed by Ripple (XRP) at 13%.
- Currently, 7% of the portfolio serves as a liquidity buffer and has not been lent out to borrowers. We maintain a liquidity buffer to fulfil potential withdrawal requests from Bitstamp Earn Lend users, thereby avoiding the need to recall loans from the borrowers, such as market makers.

## Portfolio collateral ratios by asset

### Key facts about the loan portfolio:



Collateral levels for each asset in the loan portfolio (as of October 31)

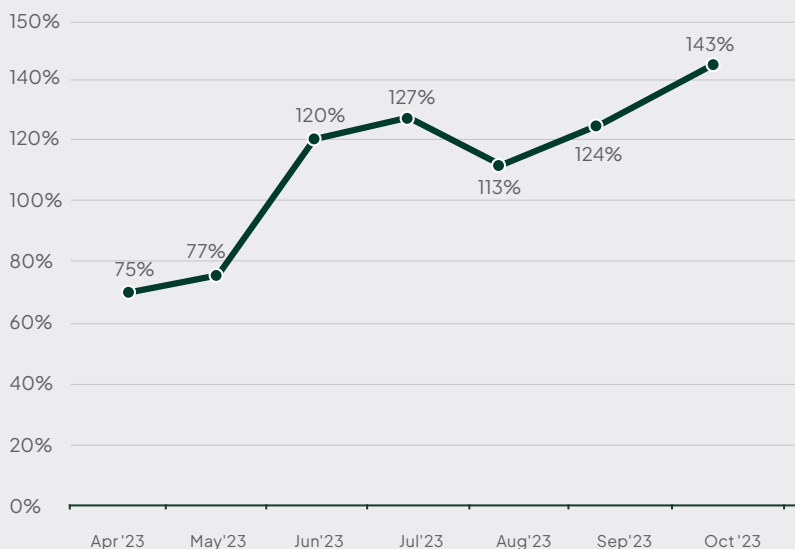
- With the loan portfolio being well-diversified across 10 borrowers, the collateral levels held for each asset further mitigate the credit risk in the portfolio.
- In our Earn lending program, stablecoin loans (USDT & USDC) are fully collateralized, at 100% or above.

## 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 graph displays the average leverage (debt-to-equity ratio) borrowers are using to expand 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.

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

As of the end of October, the borrowers' average debt-to-equity ratio stands at 143%. The moderate increase in October is explained by the slightly increased trading volumes which has translated into increased borrowing appetite (i.e. taking on leverage) amongst the market makers.

At 143%, the average debt-to-equity ratio remains well below the long-term target range of 200-400% and well beneath the levels seen in Q2/Q3 of 2023, indicating that the borrowers remain well capitalized and have sizeable buffers for mitigating any potential losses, hence resulting in a low risk of the borrowers ultimately defaulting on their loans.

## 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.

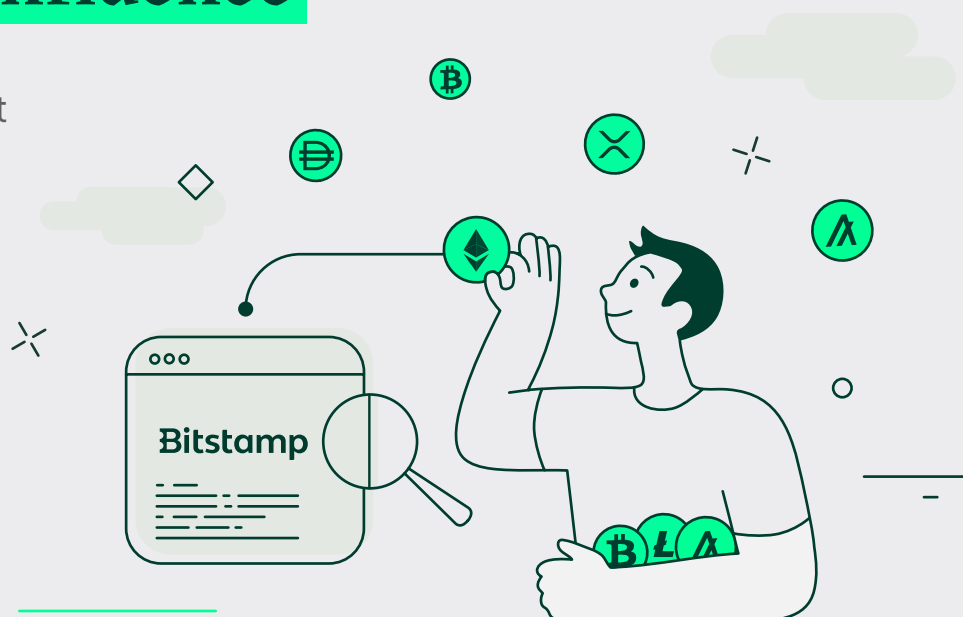
### Solid financial base

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

## Bitstamp crypto lending - Earn with confidence

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