

Lending - August 2024 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 and exchange volumes

- August 2024 was a turbulent month for cryptocurrencies, marked by a significant price decline. Various macroeconomic concerns contributed to the total cryptocurrency market capitalization dropping from \$2.43 trillion to \$2.16 trillion. The beginning of the month saw widespread fears of a U.S. recession, which triggered a global equities sell-off that extended into the crypto market. A large Japanese yen carry trade sell-off also added to the selling pressure. Despite negative market signals, institutional confidence remained high, as Bitcoin's open interest hit a record \$39 billion, and whales continued accumulating Bitcoin. Additionally, Goldman Sachs revealed a \$420 million stake in Bitcoin ETFs. Positive news included Oman's government investing in Bitcoin mining and the launch of Europe's first spot Bitcoin ETF.

- Major cryptocurrencies (BTC and ETH) saw price drops of 10%, MATIC and LINK fell by 20%, and Litecoin was the biggest dropper with a 30% price decrease.
- Despite the downturn in prices, market volumes on exchanges increased, reaching \$1.21 trillion in July compared to \$1.12 trillion in June.

Outlook

- Looking ahead, the cryptocurrency market remains poised for further developments and price movements. The potential for U.S. Federal Reserve rate cuts in September could inject liquidity into the market and support positive price trends, further backed by the growing stablecoin market capitalization, which often acts as an intermediary for overall crypto market liquidity. However, potential market risks include U.S. government Bitcoin sell-offs, Ethereum Foundation sales of ETH, and a decline in the U.S. dollar index.

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.

	Current yield ¹	8/2024	7/2024	6/2024
	2,00 %	2,00 %	2,00 %	2,00 %
	2,50 %	2,50 %	2,50 %	2,50 %
	2,00 %	2,00 %	2,00 %	2,00 %
	4,40 %	4,40 %	4,40 %	4,40 %
	4,40 %	4,40 %	4,40 %	4,40 %
	4,00 %	4,00 %	4,00 %	4,00 %
	4,00 %	4,00 %	4,00 %	4,00 %
	2,00 %	2,00 %	2,00 %	2,00 %
	2,00 %	2,00 %	2,00 %	2,00 %
	3,80 %	3,80 %	3,80 %	3,80 %
	2,50 %	2,50 %	2,50 %	2,50 %
	2,00 %	2,00 %	2,00 %	2,00 %
	3,80 %	3,80 %	3,80 %	3,80 %
	3,50 %	3,50 %	3,50 %	3,50 %

Portfolio performance – key facts:

The loan portfolio continues to perform well, with all borrowers making timely payments of both interest and principal as scheduled.

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

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

Bitstamp Earn portfolio concentration

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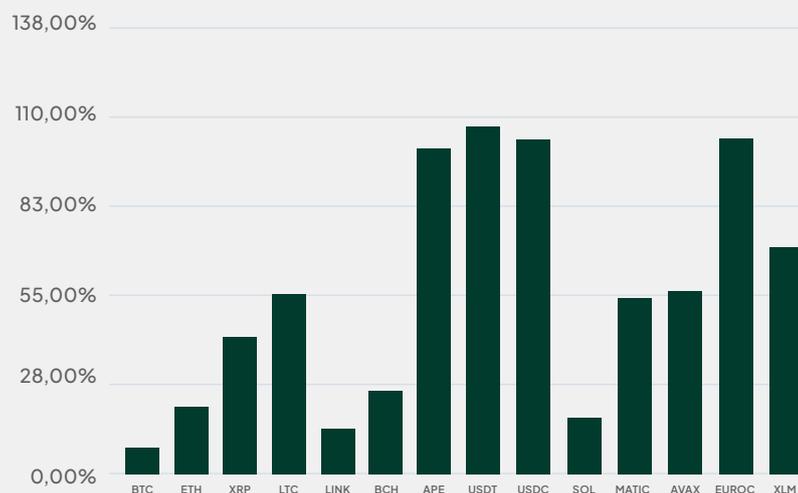
The table shows how loans are distributed across various assets in the portfolio.

BCH	0,7%	Counterparty 12, Tier 2: LINK loan	0,6%
Counterparty 03, Tier 2: BCH loan	0,2%	LTC	0,4%
Counterparty 01, Tier 2: BCH loan	0,5%	Counterparty 03, Tier 2: LTC loan	0,2%
BTC	69,5%	Counterparty 12, Tier 2: LTC loan	0,2%
Counterparty 01, Tier 2: BTC loan	4,4%	XRP	4,8%
Counterparty 03, Tier 2: BTC loan	7,3%	Counterparty 03, Tier 2: XRP loan	1,1%
Counterparty 07, Tier 2: BTC loan	8,1%	Counterparty 16, Tier 2: XRP loan	1,1%
Counterparty 09, Tier 2: BTC loan	0,4%	Counterparty 01, Tier 2: XRP loan	2,6%
Counterparty 15, Tier 2: BTC loan	4,3%	SOL	2,8%
Counterparty 06, Tier 2: BTC loan	3,5%	Counterparty 01, Tier 2: SOL loan	2,8%
Counterparty 16, Tier 2: BTC loan	0,4%	USDC	0,9%
Counterparty 05, Tier 2: BTC loan	12,5%	Counterparty 03, Tier 2: USDC loan	0,5%
Counterparty 12, Tier 2: BTC loan	11,7%	Counterparty 07, Tier 2: USDC loan	0,3%
Counterparty 08, Tier 1: BTC loan	2,9%	USDT	2,8%
Counterparty 10, Tier 1: BTC loan	14,3%	Counterparty 07, Tier 2: USDT loan	2,8%
ETH	9,6%	MATIC	0,1%
Counterparty 03, Tier 2: ETH loan	3,4%	Counterparty 01, Tier 2: MATIC loan	0,1%
Counterparty 07, Tier 2: ETH loan	1,6%	AVAX	0,3%
Counterparty 09, Tier 2: ETH loan	1,0%	Counterparty 16, Tier 2: AVAX loan	0,3%
Counterparty 12, Tier 2: ETH loan	0,4%	XLM	0,1%
Counterparty 15, Tier 2: ETH loan	0,6%	Counterparty 16, Tier 2: XLM loan	0,1%
Counterparty 1, Tier 2: ETH loan	0,9%	EURC	0,1%
Counterparty 5, Tier 2: ETH loan	1,6%	Counterparty 01, Tier 2: EURC loan	0,1%
LINK	1,0%	Liquidity buffer	7,0%
Counterparty 03, Tier 2: LINK loan	0,3%	Grand Total	100,00%
Counterparty 01, Tier 2: LINK loan	0,1%		

- The graph shows the distribution of loans in the portfolio across all assets.
- At end of August, the loan portfolio is well-diversified across 12 borrowers:
 - 2 in the Tier 1 category (large top-tier market makers from traditional finance)
 - 10 in the Tier 2 category (large top-tier crypto-native market makers)
- Most of the portfolio consists of Bitcoin (BTC), which accounts for 75% of the total assets lent. Ethereum (ETH) is the next largest asset at 10%, followed by Ripple (XRP) at 5%. Seven percent of the portfolio remained undeployed at the end of the month.

Portfolio collateral ratios by asset

Key facts about the loan portfolio:



Collateral levels for each asset in the loan portfolio as of August 31

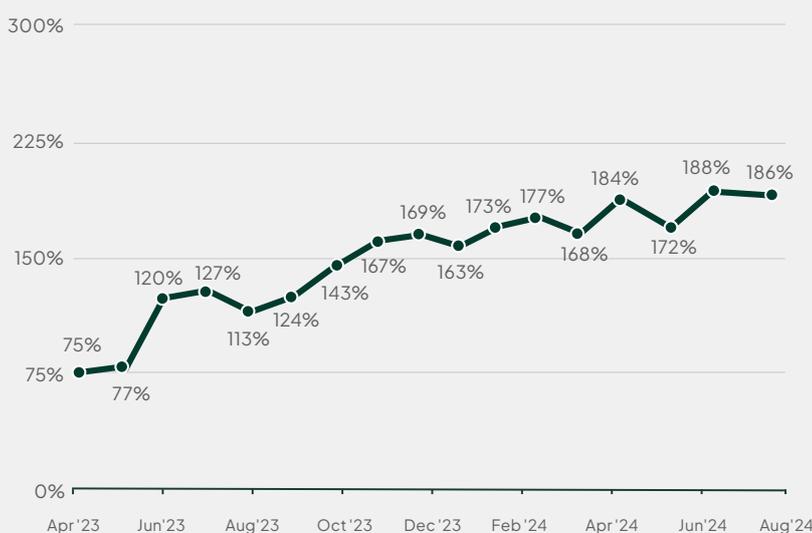
- With the loan portfolio being well-diversified across 12 borrowers, the collateral levels held for each asset further mitigate the credit risk in the portfolio.
- In Earn Lending, the stablecoin loans (USDT, USDC, and EUROCC) are fully collateralized ($\geq 100\%$).

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 shows the leverage (debt-to-equity) taken on by borrowers to grow their market-making activities. Lower leverage means borrowers have more equity as a buffer against potential losses.

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

The average debt-to-equity ratio of borrowers was 186% at the end of August. This is below the long-term target range of 200%-400%, indicating that borrowers remain well-capitalized with sizeable buffers to mitigate potential losses, reducing the risk of default.

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.

Solid financial base

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

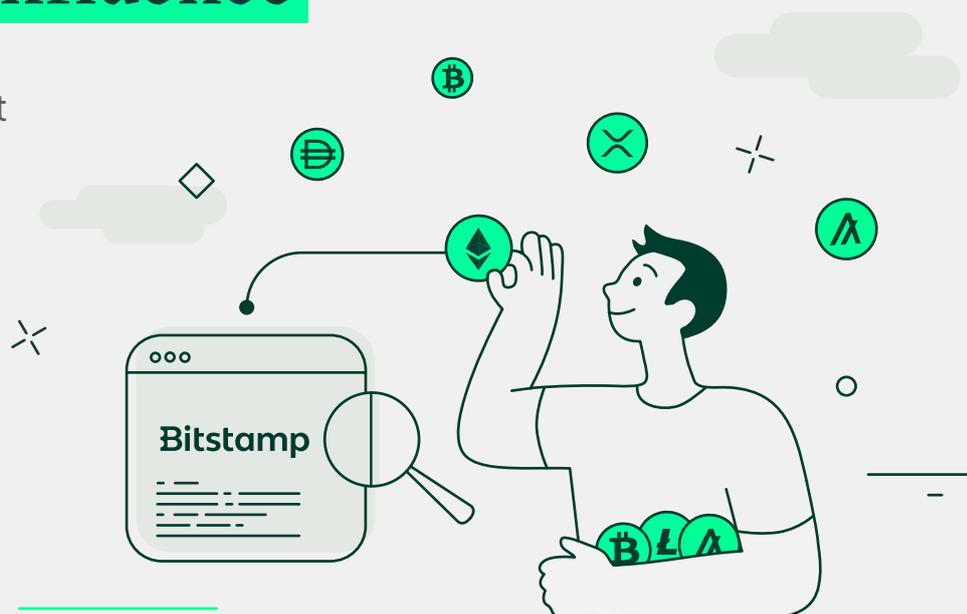
Non-financial risk

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

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