

# Lending - September 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

- September 2024 was a turbulent month for cryptocurrencies. The total crypto market capitalization started at \$2.16 trillion, dipped below \$2 trillion, but ended the month strong, climbing to \$2.40 trillion. The month began negative, mirroring the equities market, but recovered in the latter half after the U.S. Federal Reserve's decision on September 18 to cut interest rates by 50 basis points, against the market's expectation of 25 basis points. However, other indicators remained weak, including on-chain activity for Bitcoin and Ethereum, reduced stablecoin trading volumes, and the continued decline in NFT activity. On the positive side, crypto ETF inflows reached a record high since June, with BlackRock's ownership share of all Bitcoin growing to a notable 1.75%.
- September, historically a gloomy month for Bitcoin, recorded its largest gain ever, with Bitcoin rising 11.5%. Ethereum (ETH) continued to weaken against Bitcoin, gaining 7.3%. Other major cryptocurrencies also posted positive returns, including Solana (SOL) at +12.7% and XRP at +11.1%. Among smaller coins, Avalanche (AVAX) surged by 29.3%, while SUI led the gains with an impressive 113% increase.

- Monthly exchange volumes fell below \$1 billion for the first time since November 2023, marking an 18% month-to-month decrease. This drop was driven by the negative performance in the first half of September and a noticeable decline in investors' appetite for speculation.

### Outlook

- October has historically been a strong month for cryptocurrencies, often referred to as 'Uptober.' Investors are especially optimistic about the possibility of further rate cuts and stimulus measures from the U.S. and China. The political landscape appears less risky after Kamala Harris expressed support for the crypto industry in the U.S. However, potential risks that could turn 'Uptober' into 'Uptobear' include escalating tensions in the Middle East.

# 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 <sup>1</sup>	9/2024	8/2024	7/2024
	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 repayments of both interest and principal as scheduled.

Ongoing credit assessments, including financial statement reviews, confirm that borrowers maintain strong levels of creditworthiness.

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

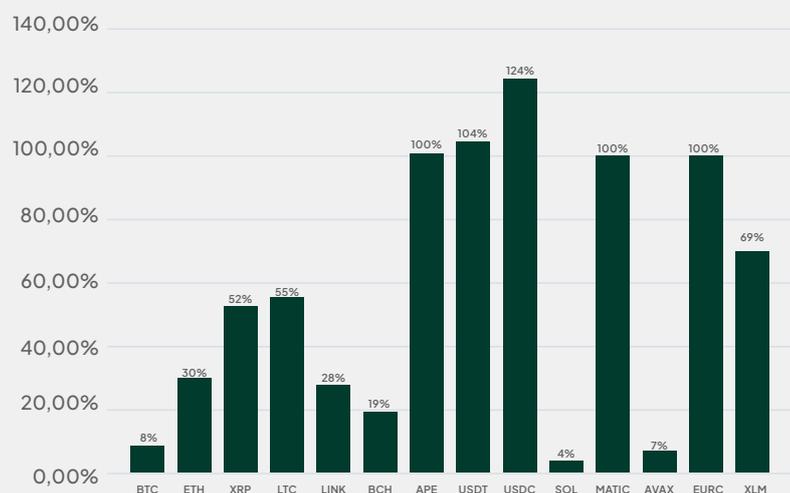
The table shows how loans are distributed across various assets in the portfolio.

<b>BCH</b>	<b>0.8%</b>	<b>LTC</b>	<b>0.3%</b>
Counterparty 3, Tier 2: BCH loan	0.2%	Counterparty 3, Tier 2: LTC loan	0.2%
Counterparty 7, Tier 2: BCH loan	0.6%	Counterparty 10, Tier 2: LTC loan	0.1%
<b>BTC</b>	<b>69.3%</b>	<b>XRP</b>	<b>3.9%</b>
Counterparty 1, Tier 2: BTC loan	12.2%	Counterparty 3, Tier 2: XRP loan	1.1%
Counterparty 3, Tier 2: BTC loan	7.1%	Counterparty 7, Tier 2: XRP loan	1.7%
Counterparty 7, Tier 2: BTC loan	4.3%	Counterparty 16, Tier 2: XRP loan	1.1%
Counterparty 9, Tier 2: BTC loan	9.4%		<b>8.8%</b>
Counterparty 13, Tier 2: BTC loan	3.4%	Liquidity buffer	8.8%
Counterparty 15, Tier 2: BTC loan	4.2%	<b>SOL</b>	<b>3.5%</b>
Counterparty 6, Tier 2: BTC loan	0.4%	Counterparty 7, Tier 2: SOL loan	3.5%
Counterparty 10, Tier 2: BTC loan	11.5%	<b>USDC</b>	<b>1.2%</b>
Counterparty 11, Tier 1: BTC loan	2.8%	Counterparty 3, Tier 2: USDC loan	0.5%
Counterparty 2, Tier 1: BTC loan	14.0%	Counterparty 9, Tier 2: USDC loan	0.3%
<b>ETH</b>	<b>8.1%</b>	Counterparty 7, Tier 4: USDC loan	0.4%
Counterparty 3, Tier 2: ETH loan	3.2%	<b>USDT</b>	<b>2.5%</b>
Counterparty 7, Tier 2: ETH loan	0.7%	Counterparty 9, Tier 2: USDT loan	2.5%
Counterparty 10, Tier 2: ETH loan	0.4%	<b>AVAX</b>	<b>0.5%</b>
Counterparty 9, Tier 2: ETH loan	1.3%	Counterparty 16, Tier 2: AVAX loan	0.3%
Counterparty 12, Tier 2: ETH loan	0.2%	Counterparty 7, Tier 2: AVAX loan	0.2%
Counterparty 15, Tier 2: ETH loan	0.6%	<b>XLM</b>	<b>0.1%</b>
Counterparty 6, Tier 2: ETH loan	0.9%	Counterparty 16, Tier 2: XLM loan	0.1%
Counterparty 1, Tier 2: ETH loan	0.7%	<b>Grand Total</b>	<b>100,00%</b>
<b>LINK</b>	<b>0.9%</b>		
Counterparty 3, Tier 2: LINK loan	0.3%		
Counterparty 10, Tier 2: LINK loan	0.6%		

- The graph shows the distribution of loans in the portfolio across all assets.
- At end of September, the loan portfolio is well-diversified across 13 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)
  - **1** in the **Tier 4** category (smaller institutional borrowers). This loan constitutes less than 0,4% of the entire loan book and is > 100% collateralized
- Most assets in the portfolio consist of Bitcoin (BTC), which accounts for 53% of the total assets lent. Ethereum (ETH) is the next largest asset with 12% followed by Ripple (XRP) at 5%. 20 % of the portfolio was undeployed at month-end.

## Portfolio collateral ratios by asset

Key facts about the loan portfolio:



Collateral levels for each asset in the loan portfolio at the end of September

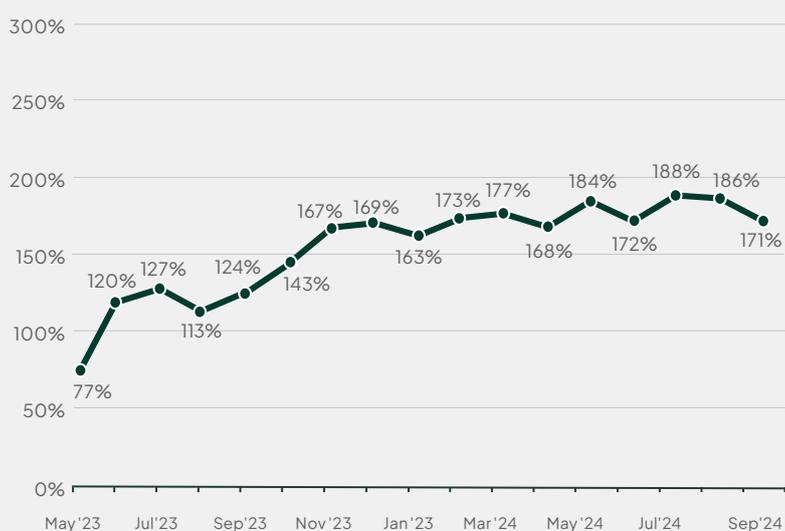
- With the loan portfolio well-diversified across 13 borrowers, the collateral levels for each asset further reduce credit risk in the portfolio.
- In Earn Lending, stablecoin loans (USDT, USDC, and EUROCC) are fully collateralized ( $\geq 100\%$ ).

## 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 average leverage (i.e., debt-to-equity ratio) that borrowers are using to grow their market-making activities. Lower leverage means borrowers have more equity as a buffer against potential business losses.

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

At the end of September, borrowers' average debt-to-equity ratio was 171%. This remains below the long-term target range of 200% to 400%, indicating that borrowers are well-capitalized and have significant buffers to mitigate potential losses. As a result, the risk of the borrowers ultimately defaulting on their loans is 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.

### Solid financial base

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

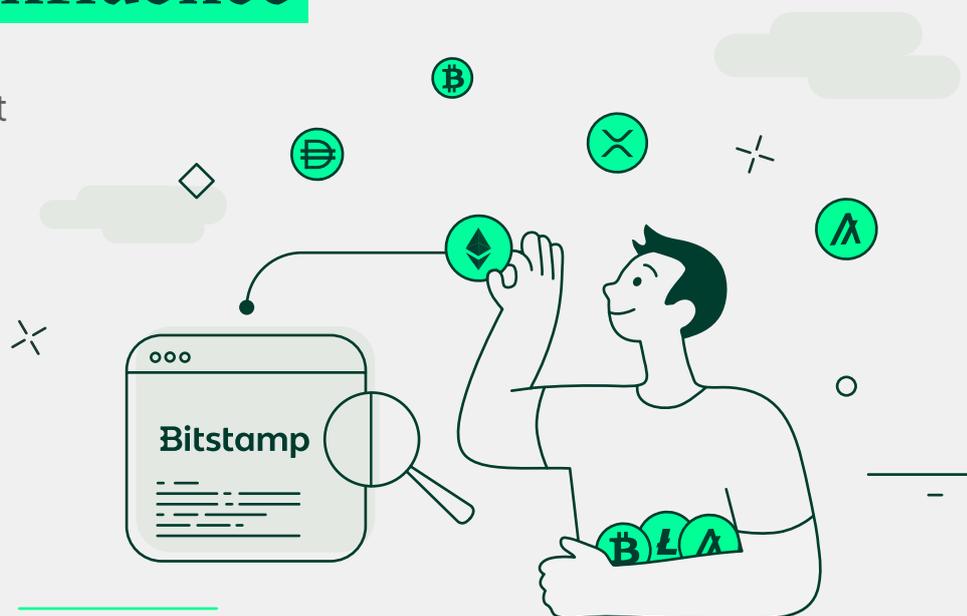
### Non-financial risk

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

## Bitstamp crypto lending - Earn with confidence

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