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Bitstamp

Lending - Month 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:

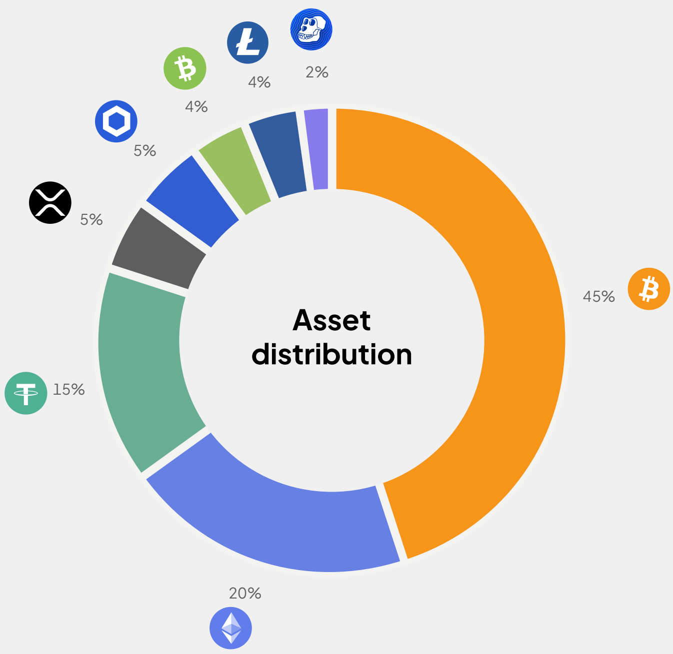
- Trading volumes in the top 20 exchanges continued to increase in February, jumping 10 % MoM compared to January. We expect the increase in trading volumes to continue to translate into higher demand for borrowing in BTC, ETH and stablecoins.

- Overall, the increased borrowing demand is further driven by the recovery in digital asset valuations and the continued increasing adoption of cryptocurrencies by institutional investors. Even though Bitcoin and Ethereum made several new 6-month highs since the beginning of the year, volatility hovered around the low levels not seen since summer 2020.

- The borrowing demand for BTC and ETH has increased since Q4 of 2022, with institutional borrowers (market makers) looking to start increasing the leverage in their books. The leverage taken by the borrowers (market makers) however remains at relatively low levels compared to pre-summer 2022. Stablecoins have also continued to see a strong growth in demand, as investors seek to hedge against potentially increasing volatility by storing value in a more stable asset. This has further resulted in a rise in borrowing demand for stablecoins.

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:

- As a sign of confidence, Assets Under Management (AUM) in the Bitstamp Earn Lending product grew in February.
- All scheduled rewards and principal repayments by the borrowers were made on time in February, and the financial statements we received from the borrowers indicate continued solid creditworthiness of all borrowers.
- Despite the somewhat subdued trading environment, the delta neutral market-making strategies used by our borrowers continued to generate respectable returns and positive cash flows.

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.

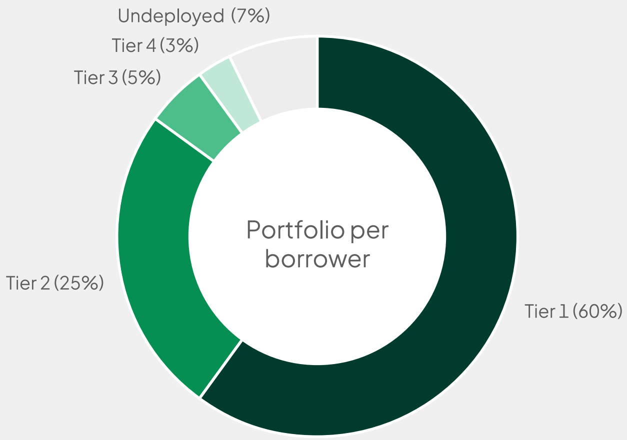
TIERS 3 AND 4:

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.

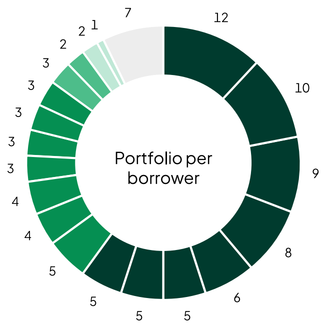
Portfolio concentration by borrower credit rating tiers

The graphs illustrate the distribution of borrowers by credit rating tier across the total portfolio and individual assets. The portfolio diversification focuses on Tier 1 and Tier 2 borrowers.



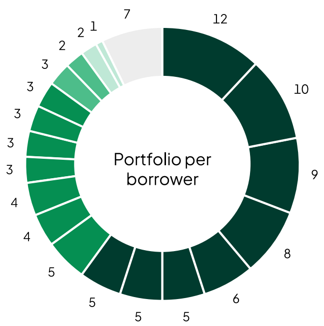
Total portfolio concentration per credit rating tier (%)

- Total portfolio is significantly focused on lending assets to Tier 1 and Tier 2 borrowers.
- Going forward, the demand from borrowers with top credit ratings is expected to remain strong.



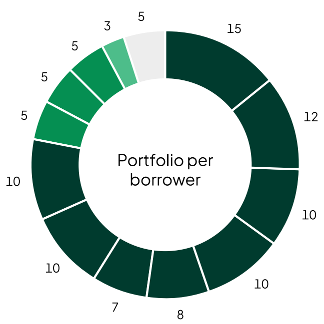
Bitcoin

- BTC assets are mostly deployed to Tier 1 traditional finance market makers with high credit scores.



Ethereum

- ETH has a relatively similar concentration profile to BTC lending.
- The loan book significantly favors reputable large market makers with high credit scores.



USDC and USDT

- The stablecoin loan book is not as diversified as BTC and ETH but collateralized values above 100% mitigate the concentration risk.

Tier 1 Tier 2 Tier 3 Tier 4 Undeployed

Portfolio collateral ratios by credit rating tier

The graphs illustrate the level of collateral secured against loans by credit rating tier.

Collaterals on crypto assets* per credit rating tier

- For crypto assets, the collateral levels vary between the credit ratings of the borrowers.
- Across the total crypto assets Portfolio, Tier 2-3 borrowers provided significant 65% collateral ratio, while large Tier 1 borrowers provided on average 20% collateral levels.

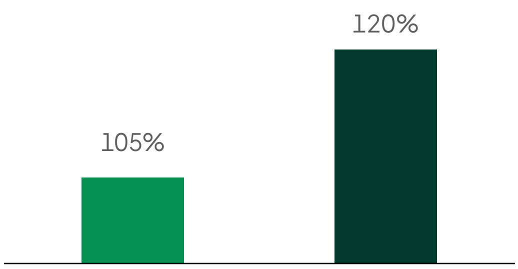
Collaterals on BTC loans per credit rating tier

- For BTC, Tier 2-4 borrowers are providing relatively high collateral levels.
- The collateral requirements for the highest rated Tier 1 borrowers are not typically high in BTC loans.

Collaterals on ETH loans per credit rating tier

- For ETH, Tier 2-3 borrowers are providing slightly higher collateral levels compared to BTC loans.
- Collateral requirements are lower for Tier 1 borrowers.

Collaterals on stablecoin assets per credit rating tier



- All stablecoin loans are always fully or over-collateralized.

* excl. stablecoins

● Tier 1 borrowers ● Tier 2-4 borrowers

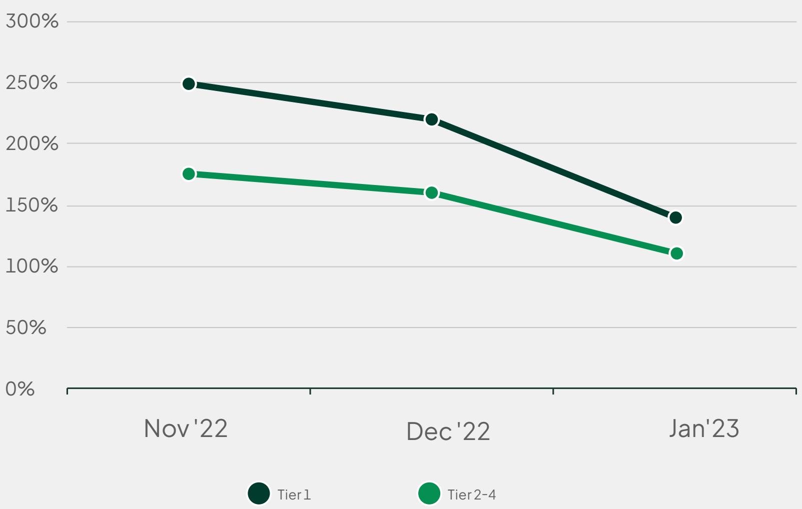
Borrower debt to equity ratios

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.

Key facts about the loan portfolio and borrowers:

- The loan portfolio is diversified and collateral requirements established across several borrowers.
- Collateral is required from the borrowers based on their credit rating.
- All stablecoin loans are at least 100 % collateralized.
- Only liquid assets are accepted as collateral (BTC, ETH, USD, USDC, USDT, XRP, ADA, AVAX and DOT).
- The collateral is stored with a third-party regulated custodian, Copper.



The graph illustrates the Debt-to-Equity ratio by borrower credit rating tier across the lending portfolio. The Earn lending product targets counterparties with modest leverage ratios, typically in the range of 200-400%.

Appendix

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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