

Lending - November 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

- November 2023 continued the bullish trend in the cryptocurrency market, led by Bitcoin and Ethereum. Bitcoin rose from \$34,672 to \$37,712, an 8.8% increase, and Ethereum jumped from \$1,816.8 to \$2,051.76, a 12.9% gain. This growth was reflected in exchange volumes, soaring from \$516.43 billion in October to \$826.44 billion in November, representing a 60.0% increase.
- The increased trading volume also benefited market makers, strengthening their role in the ecosystem. The volume surge also drove higher demand for lending as traders and institutions sought more capital to leverage their market positions. This uptick in borrowing activity signals a robust trading environment and suggests an infusion of greater liquidity into the market, contributing to the overall health and dynamism of the crypto economy.

Bitcoin's continued dominance

- Several factors contributed to Bitcoin's strong performance in November. The anticipation of the approval of a spot Bitcoin ETF in the United States continued to play a significant role. Traditional finance participants amplified this

bullish sentiment by increasing their Bitcoin bets, as evidenced by the CME Open Interest reaching new all-time highs. While the FTX estate's liquidation of various token holdings somewhat balanced this optimism, the overall market dynamics stayed robust.

Regulatory and market dynamics

- The regulatory landscape remained a key driver of market sentiment. The ongoing discussions and developments around Bitcoin ETFs in the U.S. kept investor interest piqued. Moreover, the market closely monitored the Federal Reserve's monetary policy, which supported the bullish sentiment by maintaining stability in the interest rates.
- Favorable regulatory developments, especially regarding Bitcoin ETFs, combined with the Federal Reserve's stable monetary policy, fostered an environment conducive to the growth of Bitcoin, Ethereum, and the broader crypto market. Investors' confidence was reflected in the significant increase in trading volumes and the overall market capitalization of cryptocurrencies. The increased trading volume and demand for lending further underscored the robustness of the market 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 continues to demonstrate solid performance, with every borrower making scheduled interest and principal repayments on time.

Ongoing credit assessments, involving financial statement reviews, affirm the sustained high creditworthiness of the borrowers.

	12/2023 ¹	11/2023	10/2023	9/2023	8/2023
	2.00 %	2,00 %	2,00 %	2,00 %	2,00 %
	3.00 % ³	2,50 %	4,00 %²	4,00 % ²	2,50 %
	2,00 % ³	2,00 %	2,50 %²	2,50 % ²	1,50 %
	7.00 % ³	4,40 %	4,40 %	4,40 %	4,40 %
	4.40 %	4,40 %	6,00 %²	6,00 % ²	4,40 %
	8.00 % ³	4,00 %	4,00 %	4,00 %	4,00 %
	4.00 %	4,00 %	5,00 %²	5,00 % ²	4,00 %
	3.00 % ³	2,00 %	2,00 %	2,00 %	2,00 %
	2.00 %	2,00 %	3,00 %²	3,00 % ²	2,00 %

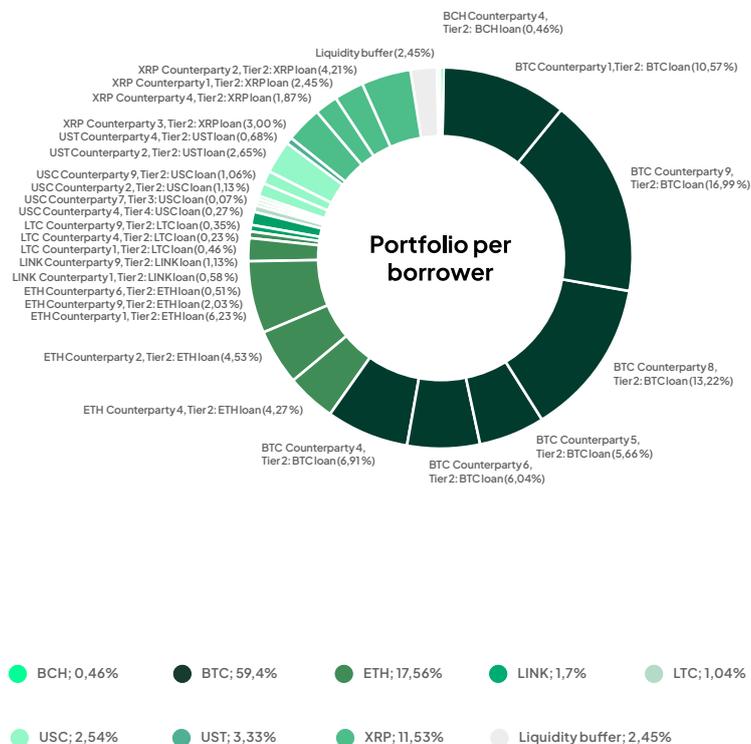
¹ Rates may change from time to time. Rate changes are communicated to the Bitstamp Earn users on the Earn product page.

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

³ The rates displayed are applicable during the promotional campaign period from November 22 to December 21.

Bitstamp Earn Portfolio concentration

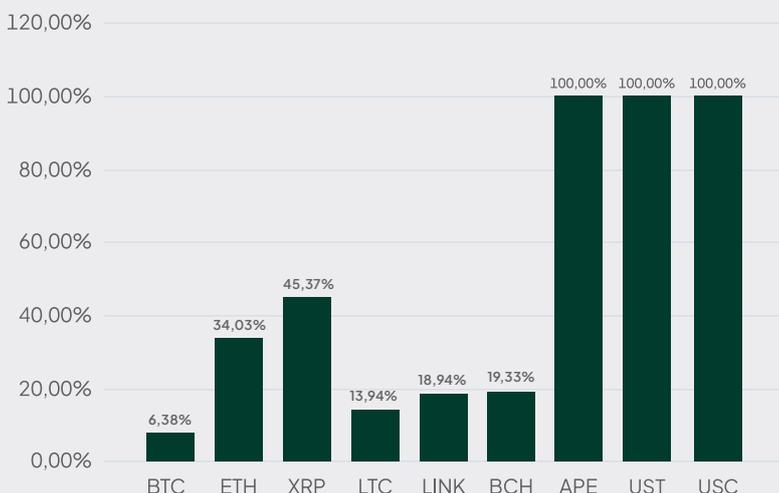
The graph shows how loans are distributed across various assets in the portfolio.



- At the end of November, the loan portfolio is diversified across 10 borrowers:
 - 2 in the Tier 1 category (Large top-tier market makers from traditional finance)
 - 6 in the Tier 2 category (Large top-tier crypto-to-native market makers)
 - 1 in the Tier 4 category (Smaller institutional borrowers). This loan represents 0.1% of the entire loan book and is 140% collateralized.
- The majority of the portfolio comprises Bitcoin (BTC), accounting for 59% of the total assets lent. Ethereum (ETH) is the second-largest asset, making up 18%, followed by Ripple (XRP) at 12%.
- 2.5% of the portfolio is currently held as a liquidity buffer, meaning it has not been lent out to borrowers. The liquidity buffer is maintained in order to meet potential withdrawal requests of the Bitstamp Earn Lend users without having to recall the open term 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 (as of November 30)

- The loan portfolio's diversification across 10 borrowers and the collateral held for each asset significantly mitigate credit risk.
- In Earn Lending, stablecoin loans (USDT & USDC) 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 (debt-to-equity ratio) our borrowers use to expand their market-making activities. Lower leverage means borrowers maintain more equity to buffer against potential business losses.

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

As of the end of November, the average debt-to-equity ratio for borrowers stands at 167%. The moderate increase from October's figures is due to slightly increased trading volumes, which have led to a higher borrowing appetite (greater leverage uptake) among market makers.

At 167%, the average debt-to-equity ratio comfortably sits below our long-term target range of 200-400% and the levels seen in Q2/Q3 of 2022. This indicates our borrowers are well-capitalized, with substantial buffers to mitigate potential losses and a low risk of loan 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.

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.

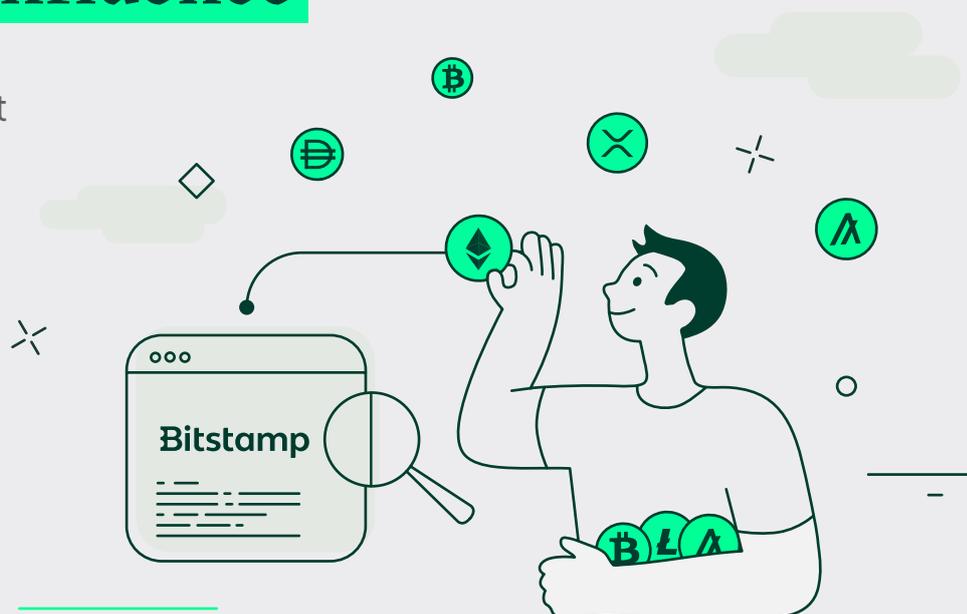
Solid financial base

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

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