

Spark

Tokenholder Report

(SPK)

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Q1 2026

Blockworks Advisory

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Executive Summary

Spark closed Q1 2026 with a positive net income, demonstrating resilience and profitability despite a clearly weakening DeFi lending environment. This reflects the continued scaling of USDS-based savings infrastructure across chains and products, and shows the strength of Spark’s allocation infrastructure in periods where lending activity softens. At the same time, the Spark Liquidity Layer (SLL) maintained disciplined capital allocation across a diversified set of venues, remaining net-positive even as spreads compressed, and was not impacted by hacks.

Overall, Q1 demonstrated the resilience and adaptability of Spark’s model. While unfavorable lending conditions compressed SLL spreads, the protocol’s allocation into higher yield avenues like institutional lending improved margins. For the first time, excess treasury was allocated to buybacks.

As a result, Spark exits the quarter in a stronger state as one of the most resilient lending protocols in DeFi.

Key highlights:

- USDS in treasury: \$36.36M (+ 23% QoQ)
- Distribution Rewards: \$3.42M (-25% QoQ)
- Net income: \$3.74 (-35% QoQ)
- Buybacks: ~\$986,000



Management Commentary

Spark closed Q1 2026 in a profitable position. The quarter was characterized by a shift in revenue composition, with distribution rewards emerging as the protocol's largest net return contributor, reflecting the continued scaling of USDS distribution infrastructure across multiple chains and products. The Spark Liquidity Layer maintained disciplined capital allocation across a diversified venue set under tighter spread conditions, while SparkLend continued to support institutional-grade borrowing activity, including the expansion of its USDT Savings Vault, built on Spark's allocation infrastructure.

Overall, Q1 demonstrated the diversification and resilience of Spark's protocol-level revenue streams. While unfavorable DeFi lending conditions compressed SLL spreads, Spark's distribution business scaled meaningfully, with USDS well positioned as a scalable savings based return mechanism within the SKY ecosystem under precisely these market conditions. Spark remains well positioned to benefit from an eventual recovery in lending activity while continuing to grow its distribution footprint.

How Spark Works


Spark operates as a DeFi liquidity and lending engine designed to route stablecoin liquidity across the Ethereum ecosystem and adjacent networks. It functions as a super lending protocol that manages multiple DeFi facilities simultaneously, allocating capital across lending markets, liquidity venues, and structured strategies to optimize yield, liquidity depth, and capital efficiency.

At its core, Spark programmatically manages stablecoin liquidity, minting and sourcing capital, routing it across chains, and deploying it into yield-generating opportunities, while maintaining strict risk management.

Operationally, Spark sources capital from Sky's allocation system, routes liquidity cross-chain, and deploys it into DeFi strategies. As a Prime Agent SubDAO, Spark operates with significant strategic and operational autonomy under the Sky Atlas governance framework. While remaining aligned with the Sky ecosystem, Spark independently manages product development, partnerships, and liquidity strategies to drive USDS adoption and capital efficiency across DeFi.

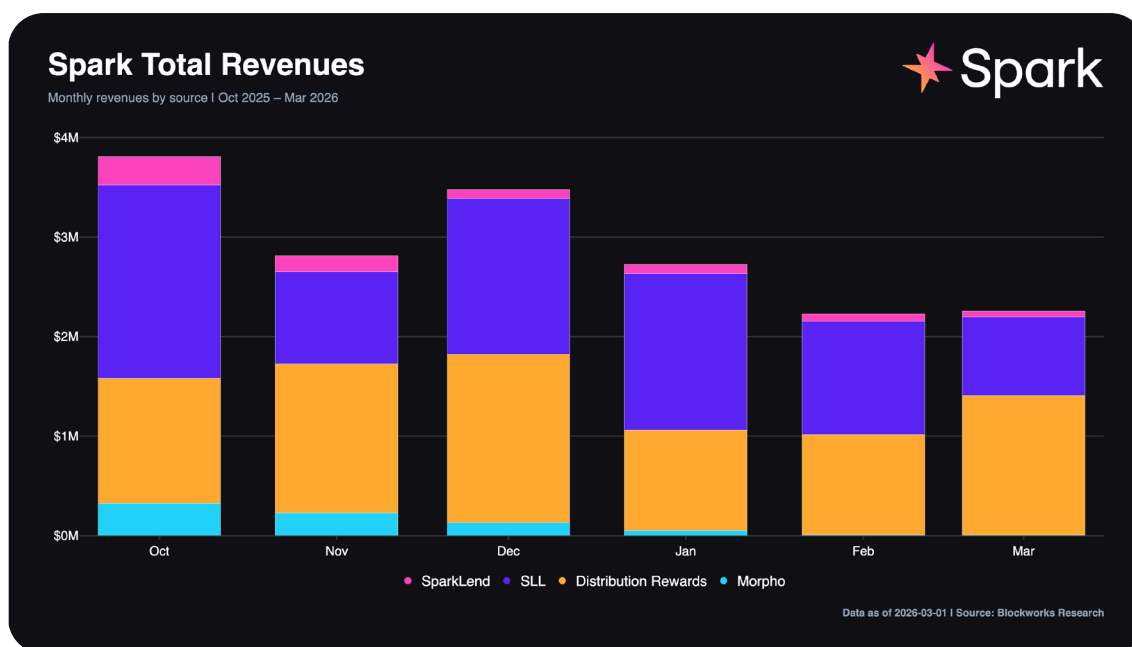
Financials

Income Statement

Spark Income Statement					
	Q1 2026	Q4 2025	Q3 2025	Q2 2025	
Total Revenue	\$7,041,268	\$10,105,876	\$13,639,004	\$2,884,211	
Net Interest Income	\$3,558,967	\$4,974,265	\$9,175,692	\$2,744,739	
Spark Liquidity Layer Income	\$27,900,652	\$39,838,004	\$48,649,491	\$0	
Spark Liquidity Layer Expense	-\$24,566,124	-\$35,400,735	-\$39,980,004	\$0	
Sparklend Interest Income	\$10,188,287	\$17,508,644	\$20,379,701	\$13,873,126	
Sparklend Interest Expense	-\$9,963,847	-\$16,971,648	-\$19,873,496	-\$11,128,386	
Non-Interest Income	\$3,482,301	\$5,131,611	\$4,463,312	\$396,442	
Fees	\$64,038	\$682,967	\$1,469,379	\$396,442	
Morpho Vault Performance Fees	\$64,014	\$682,931	\$1,467,649	\$137,907	
Sparklend Liquidation Fees	\$25	\$35	\$1,730	\$1,564	
Rewards	\$3,418,262	\$4,448,644	\$2,993,933	\$0	
SKY Distribution Rewards	\$3,418,262	\$4,448,644	\$2,993,933	\$0	
Expenses	-\$3,300,000	-\$4,400,000	-\$1,600,000	-\$800,000	
Operating Expenses	-\$3,300,000	-\$4,400,000	-\$1,600,000	-\$800,000	
Net Income	\$3,741,244	\$5,705,841	\$12,037,274	\$2,339,617	

Spark Income Statement. Source: [Blockworks](#)

Compared to Q4'25, Spark's Q1'26 results reflect a step-down in activity and profitability, with total revenue (net revenue after funding costs) declining ~30% QoQ (\$10.10M → \$7.04M), driven primarily by a drop in net interest income (\$4.97M → \$3.55M) and continued compression in liquidity layer net yields. Distribution rewards reached \$3.42M during the quarter, surpassing net SLL net interest income (\$3.33M) to become the protocol's primary net return contributor. A substantial part of Distribution Rewards comes from the growing market share on USDT yield: Spark savings USDT (backed by high-quality USDS reserves) grew from \$150M to \$850M during the quarter, becoming the largest USDT vault on Ethereum.

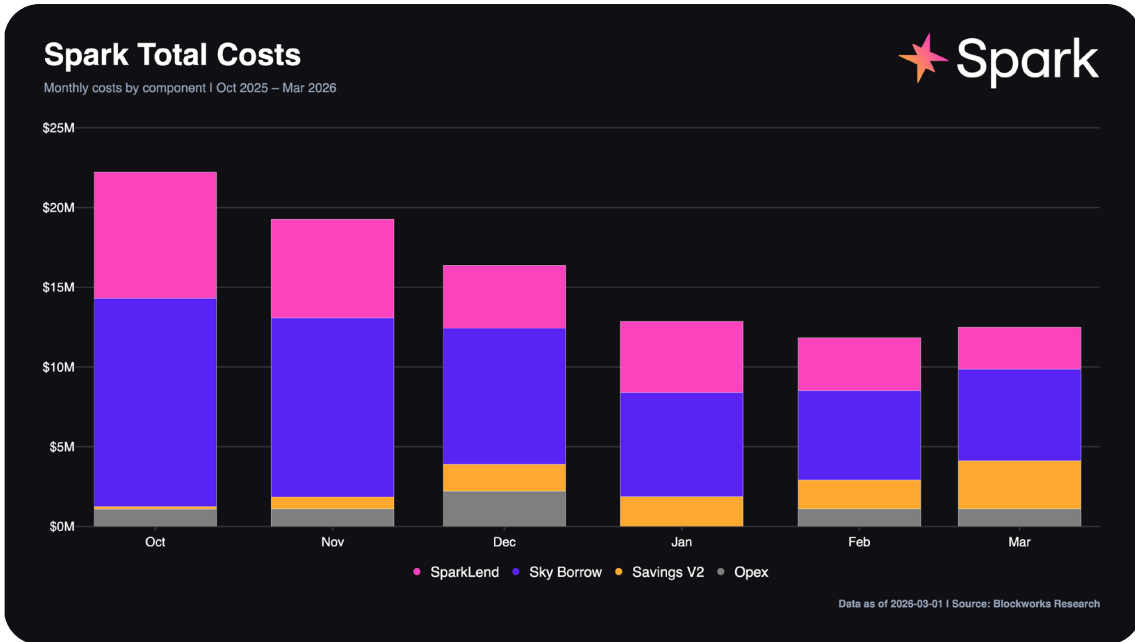


Spark Total Revenue. Source: [Blockworks](#)

From a composition standpoint, Spark remains concentrated in two core sources (SLL + Distribution Rewards), but with some meaningful shifts:

- SLL interest: \$4.43M → \$3.33M (-21.0% QoQ), share rises from ~43.9% to ~48.6%
- Distribution Rewards: \$4.45M → \$3.42M (-23.2% QoQ), share ~44.0% to ~47.4%
- SparkLend reserve factor: \$0.54M → \$0.22M (-58.2% QoQ), now a smaller contributor.
- Morpho: \$0.68M → \$0.06M (-90.6% QoQ) contribution largely fades in Q1, as Spark is undergoing an overhaul of its curator model.

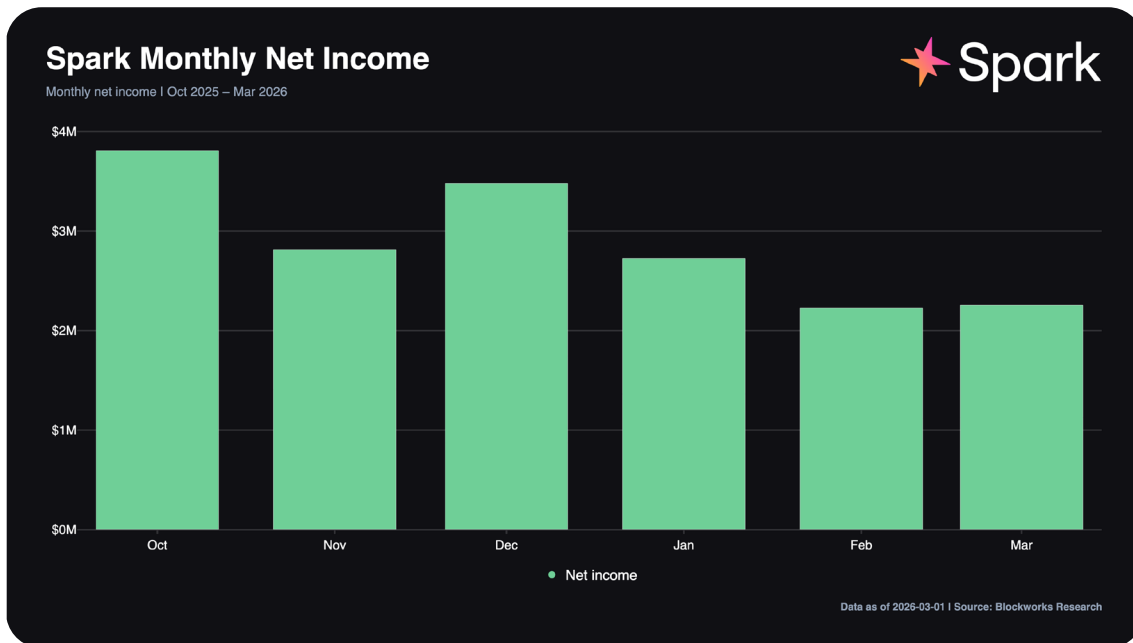
Q1 reflects lower absolute revenue versus Q4, but still a solid multi-million quarterly base, with revenues increasingly concentrated in SLL and Distribution Rewards. SparkLend and Morpho revenues declined, reflecting both sector-wide deleveraging and a deliberate reallocation of capital toward higher-yield, more capital-efficient strategies like Anchorage institutional lending.



Spark Total Costs. Source: [Blockworks](#)

Q1 2026 shows a clear cost reduction versus Q4 2025, with total costs down 35.8% QoQ. The core driver is lower interest costs (Sky Borrow + SparkLend + Savings V2), which declined from \$53.45M in Q4 to \$34.97M in Q1 (-34.6% QoQ). Sky loan represents funding costs due to debt to Sky, Savings V2 represents the reward fees paid to users, and SparkLend the interest paid to users. Opex is stable on an underlying basis. The monthly pattern clusters around a roughly \$1.1M monthly run-rate.

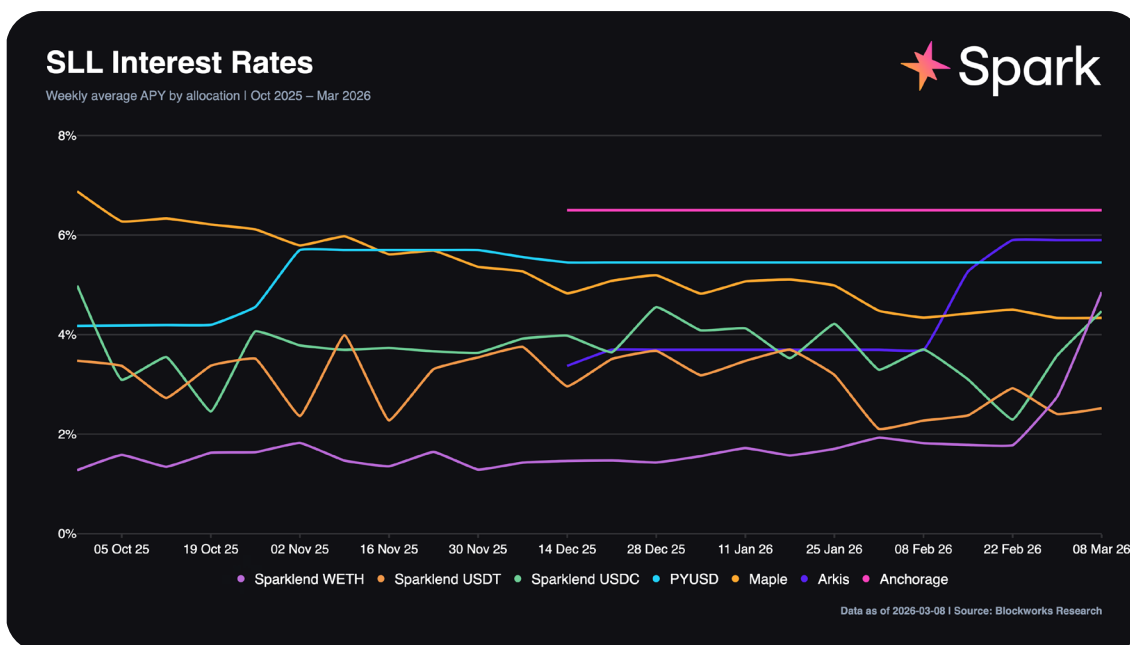
Overall, the quarter reflects de-risking of the cost base with a funding-mix transition: lower aggregate financing burden, reduced dependence on Sky Borrow/SparkLend costs, and higher contribution from Savings V2.



Spark Monthly Net Income. Source: [Blockworks](#)

Spark’s monthly net income trend reinforces the QoQ slowdown observed in Q1’26, with earnings declining from a strong Q4’25 baseline (\$6.2M quarterly total) into a weaker Q1’26 profile (Jan \$2.7M, Feb \$2.2M, Mar \$2.3M; \$4.1M total), representing a ~34% QoQ drop; the pattern shows a clear downshift post-December, with February marking the trough and only a modest stabilization in March, consistent with a bear market regime where lower leverage demand, compressed lending spreads, and reduced onchain activity collectively pressure earnings.

Spark’s profitability is sensitive to macro crypto conditions, transitioning from a Q4 environment of elevated activity and yields to a Q1 environment defined by structurally lower revenue generation.

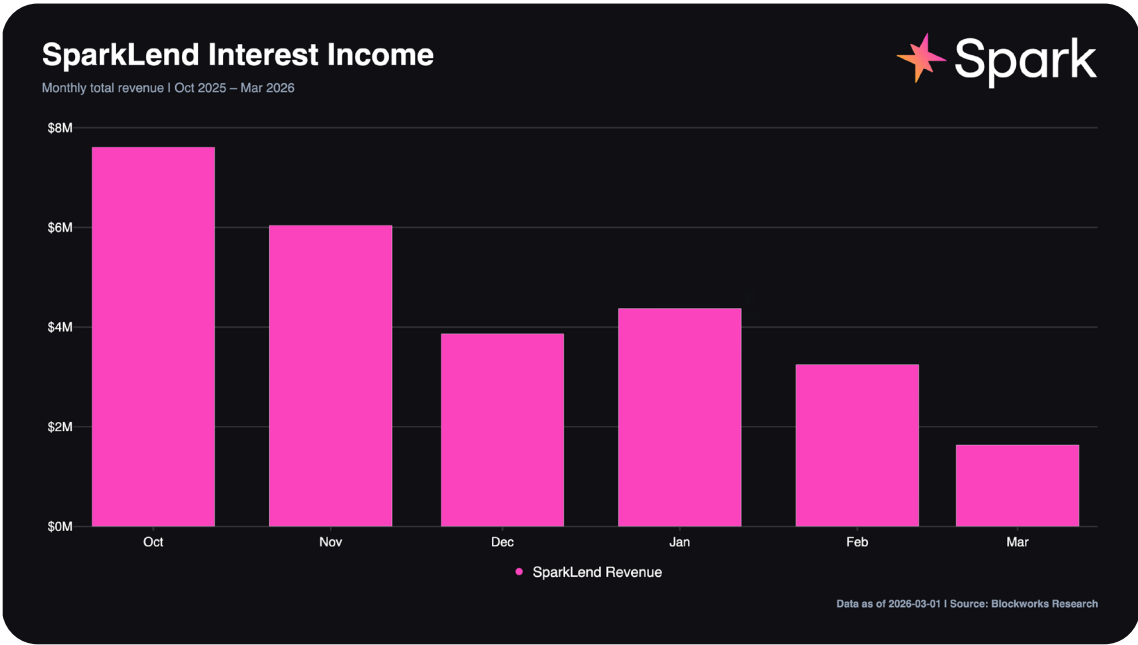


SLL Interest Rates. Source: [Blockworks](#)

SLL’s rate profile indicates a strategy shift toward higher-yield channels, with Anchorage and pyUSD entering the allocation materially:

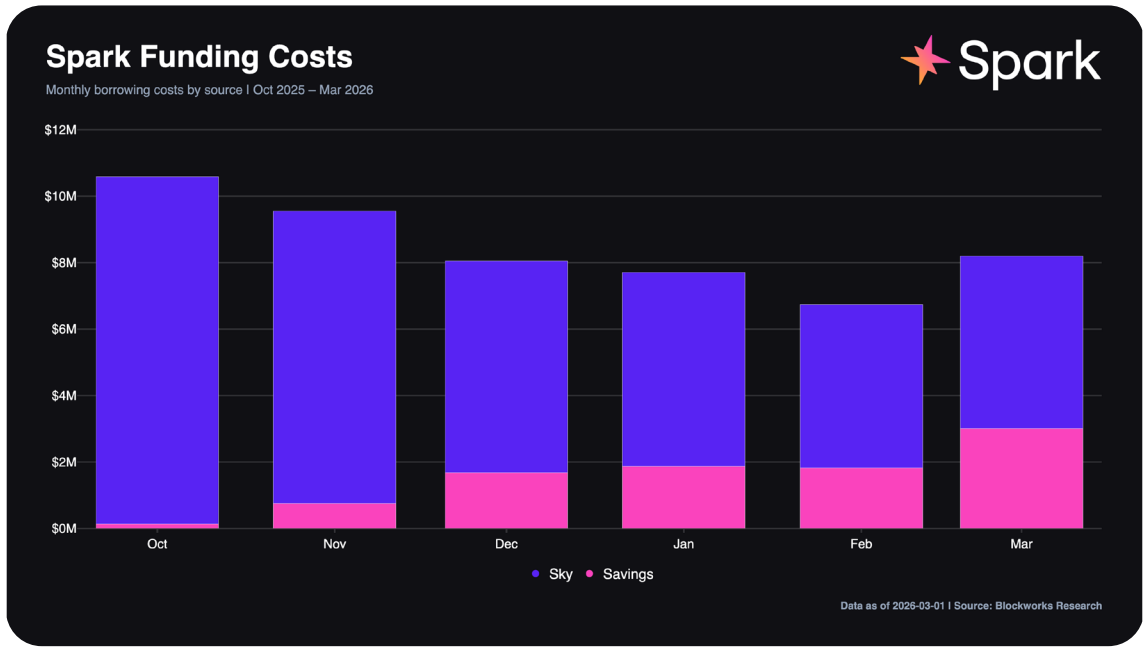
- Anchorage APY (\$150M allocated): 6.50% in Q4 and 6.50% in Q1 (stable, highest tier). Anchorage provides fixed rate lending with higher LTV than traditional non-custodial lending markets.
- pyUSD (\$550M allocated): 5.80% in Q1, due to PayPal incentivizing adoption of pyUSD

In a softer market backdrop, SLL has repositioned toward higher-yield venues (notably Anchorage and pyUSD), supporting yield resilience and helping protect profitability.

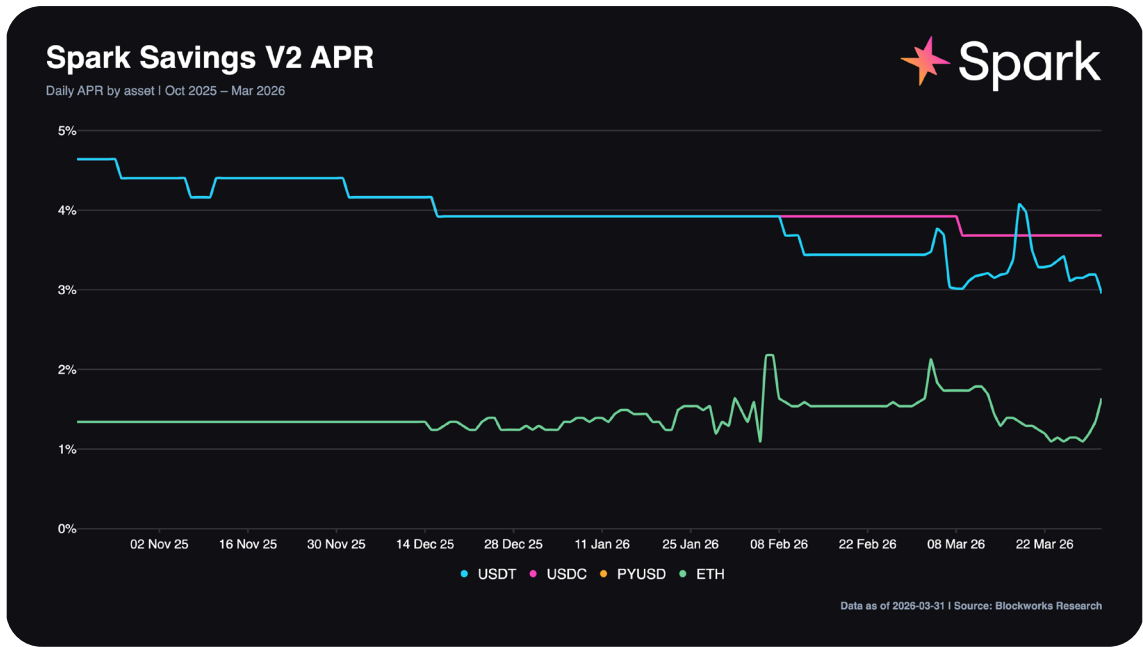


SparkLend Interest Income. Source: [Blockworks](#)

SparkLend interest income fell sharply from \$18M in Q4'25 to \$10.4M in Q1'26 (-42% QoQ), with monthly levels trending down to less than \$2M in March. The decline reflects a weaker lending backdrop (lower utilization/risk appetite), which compressed lending revenue across the period.



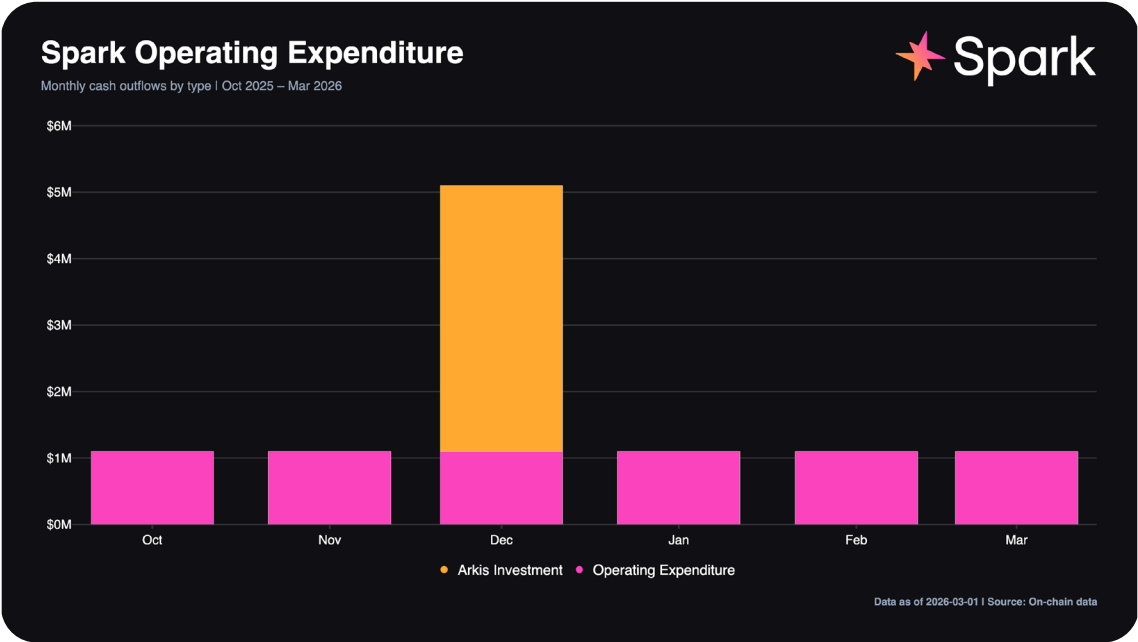
Spark Funding Costs. Source: [Blockworks](#)



Spark Savings V2 APR. Source: [Blockworks](#)

Spark's Q1 funding evolution reflects a shift toward a more diversified liability structure. Total funding costs declined from \$28.2M in Q4'25 to \$22.6M in Q1'26 (-19.7% QoQ), driven by a sharp reduction in Sky funding costs (-37.8% QoQ) and a parallel ramp in Savings V2 funding (+161.8% QoQ). As a result, Savings' share of the funding stack increased from 9.1% to 29.6%, stronger asset/funding diversification, as Sky loans are USDS denominated, while Savings v2 supports USDC, USDT and ETH.

Savings V2 rates remained broadly stable in a conservative range through Q1 (roughly 3.6–3.9% for stablecoin sleeves), with an automated rate-setting mechanism benchmarked to low-risk DeFi opportunities. This supports positioning Savings V2 as a low-risk, high-liquidity vault layer.



Spark Operating Expenditure. Source: [Blockworks](#)

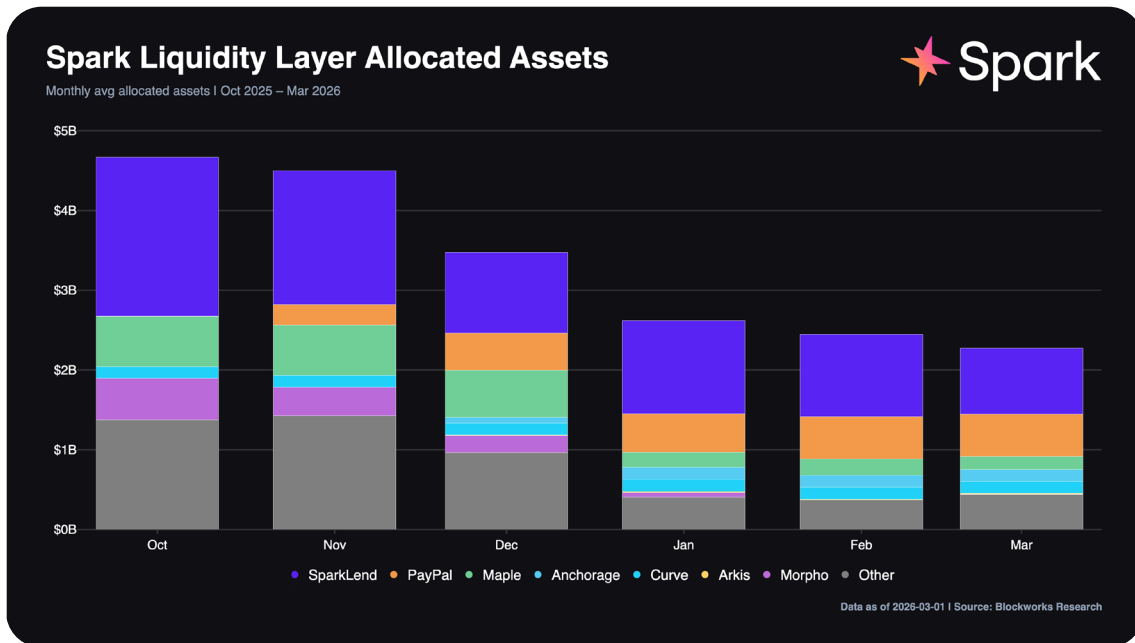
Recurring Operating Expenditure remains stable at about \$1.1M per month (Oct–Mar), indicating that underlying operating costs are controlled and predictable.

Balance Sheet

Spark Balance sheet Statement		Spark		
	Q1 2026	Q4 2025	Q3 2025	
Total Assets	\$3,620,682,041	\$2,810,414,826	\$3,121,405,301	
Spark Liquidity Layer Assets	\$3,555,228,128	\$2,754,812,292	\$3,044,563,745	
Treasury	\$61,453,914	\$51,602,535	\$76,841,557	
Arkis Investment	\$4,000,000	\$4,000,000	\$0	
Total Liabilities	-\$3,555,228,128	-\$2,754,812,292	-\$3,044,563,745	
Sky and Savings V2 Borrows	-\$3,555,228,128	-\$2,754,812,292	-\$3,044,563,745	
Total Equity	\$65,453,914	\$55,602,535	\$76,841,557	

Spark Balance Sheet Statement. Source: [Blockworks](#)

Allocated Asset Composition

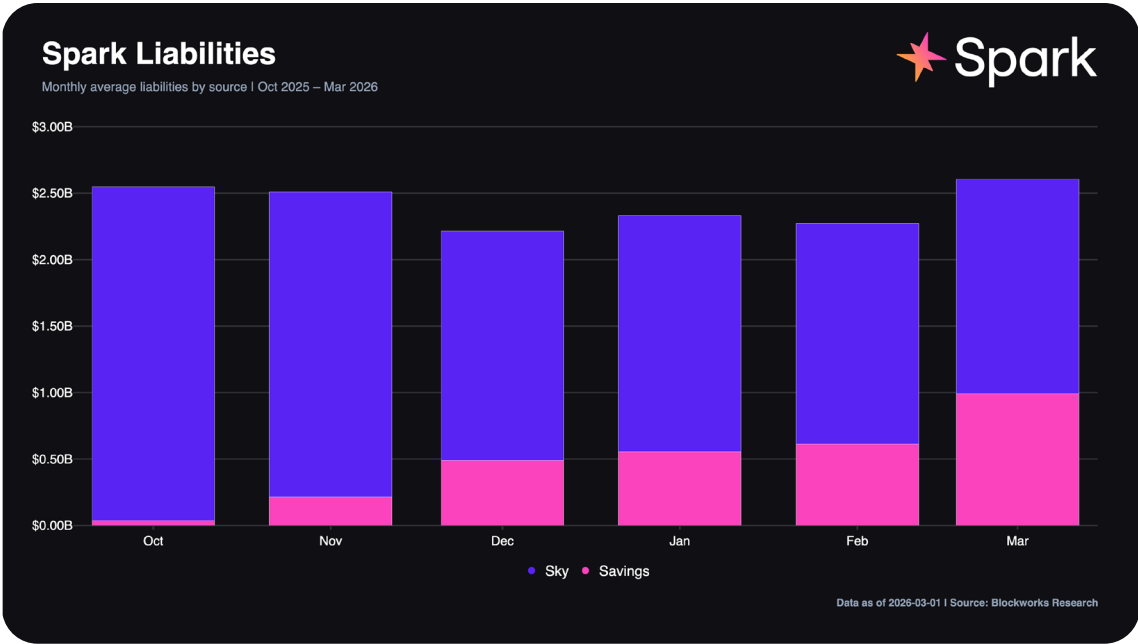


Allocated Assets. Source: [Blockworks](#)

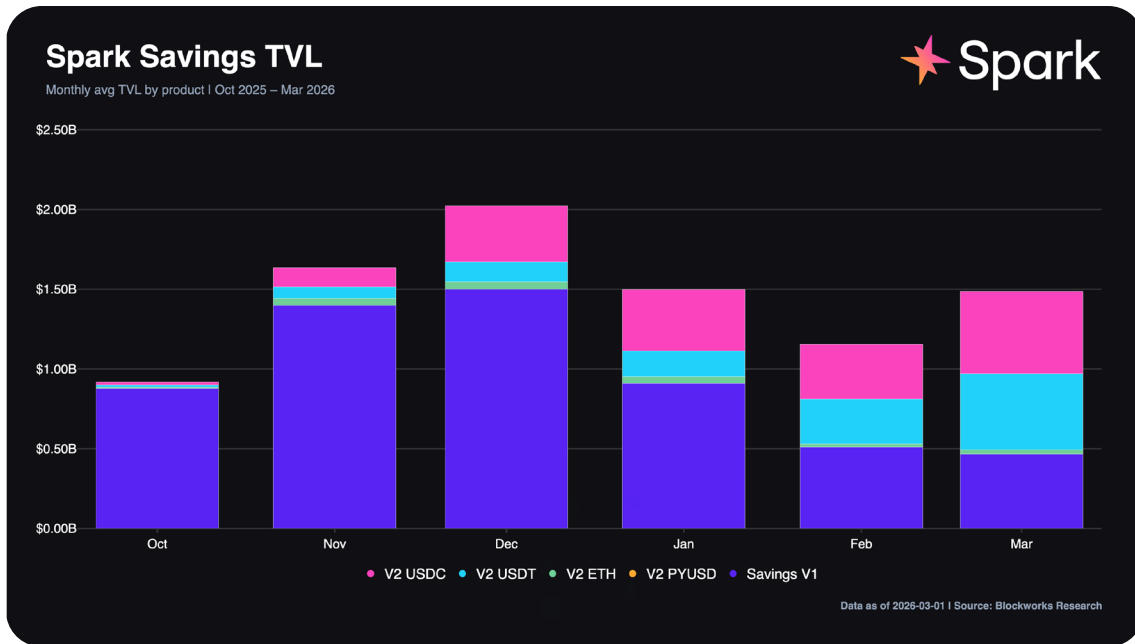
Average allocated assets declined to an average of \$2.09B Q1 2026 (from \$3B in Q4 2025), which is consistent with a more conservative risk posture in a weaker market environment. Rather than signaling retrenchment alone, the composition data shows this was an active portfolio rotation: Spark reduced exposure to legacy sleeves (notably Maple, Morpho) while scaling selected external channels such as PayPal, Anchorage, and Arkis.

Within the mix, SparkLend remained the largest allocation in Q1, but at lower absolute size (-35.4% QoQ), while PayPal more than doubled and became a meaningful secondary pillar (~21% of Q1 average allocation). Anchorage and Arkis, although still smaller in absolute terms, expanded materially from Q4 levels, reinforcing the trend toward a broader counterparty set.

Total Liabilities (Sky vs. Savings)



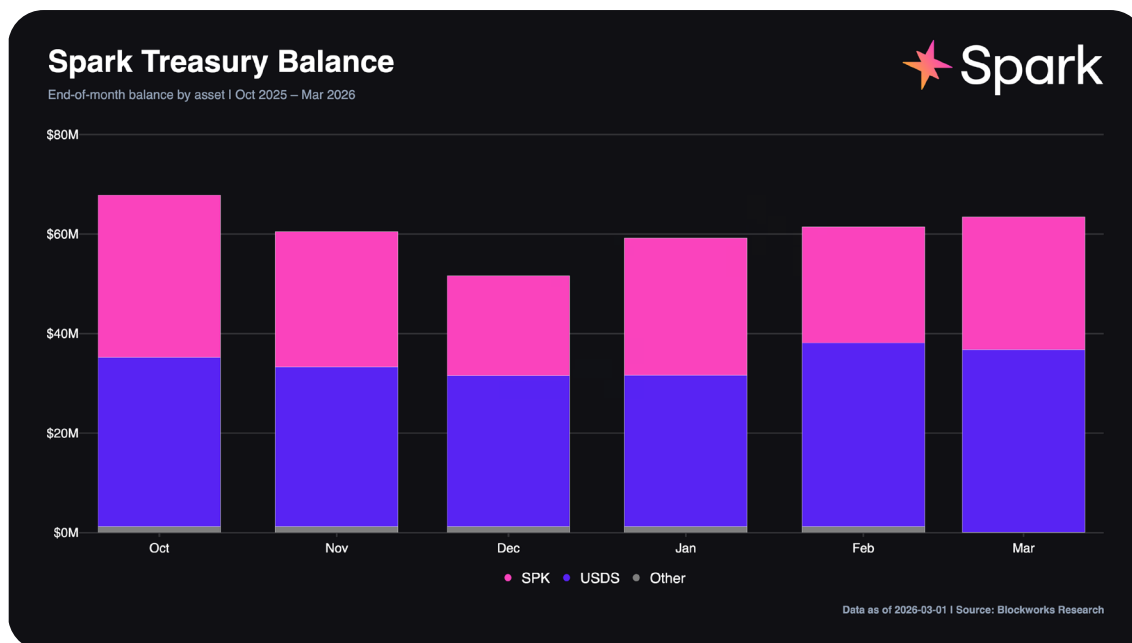
Spark Liabilities. Source: [Blockworks](#)



Spark Savings TVL. Source: [Blockworks](#)

Total liabilities were essentially stable QoQ (about \$2.42B to \$2.40B), but the funding mix shifted materially away from Sky borrow and toward Savings v2. Savings-backed liabilities nearly tripled and rose from ~10% to ~30% of total liabilities, while Sky exposure declined, signaling lower concentration risk and improved funding diversification.

Treasury Developments



Spark Treasury Balance. Source: [Blockworks](#)

After bottoming in late Q4, Spark treasury rebuilt through Q1, with end-of-month balances rising from roughly \$51.6M (Dec) to \$63.4M (Mar) (about +22.9%). The USDS in the treasury went from \$30.38M in December to \$36.36M at the end of Q1. Spark enters post-Q1 with a solid treasury buffer and runway.

Arkis Investment

Spark has invested in q4 2025 in Arkis, a prime brokerage for digital assets. This is a strategic investment for Spark, that is also using Arkis to lend to institutions that are running strategies like delta neutral. The investment into Arkis is valued at cost (\$4m invested at \$45m valuation).

Token Financials

Spark maintains a disciplined treasury management policy similar to how public companies allocate excess cash. The protocol sets a conservative operating reserve target of approximately \$35 million to cover risk buffers, operations, and growth initiatives. Any funds above this target are considered surplus capital.

These are Spark Buyback conditions:

- Allocation: Each month, 10% of treasury funds exceeding the \$35 million target is automatically directed toward repurchasing SPK tokens on the open market.
- Acceleration Trigger: If the treasury balance exceeds 200% of the target, 100% of the amount above that threshold is allocated to buybacks.
- Execution: Purchases are executed gradually through time-weighted orders to minimize price impact.
- Token Treatment: Repurchased SPK tokens are held in the protocol's treasury rather than burned, providing flexibility for future use (e.g., governance, incentives, or additional capital management).

Spark deployed ~\$986,000 of surplus capital to repurchase SPK.

The program is expected to run for an initial 12-month period, with size scaling automatically as Spark generates sustainable revenue. The policy is designed for long-term capital efficiency and alignment with SPK holders.

Product Updates

Institutional Lending Push (Announced/Expanded in Early 2026). Spark deepened its focus on bridging DeFi with traditional finance through products like Spark Prime (a CeDeFi margin lending framework) and Spark Institutional Lending. These enable institutions to access Spark's large stablecoin liquidity pools with off-chain custody and risk controls. The partnership with Anchorage Digital supported tri-party loans and institutional infrastructure. This built on 2025 plans but saw active rollout and reporting in Q1 2026, and allocations will likely scale.

Arkis roll-out. Spark integration with Arkis allows the protocol to get exposure to the funding rate, expanding the opportunities for yield. Arkis allocation is still low (less than \$20m), but expected to scale as the funding environment changes.

Risk Ratings Integration (March 2026). In early March, independent, daily-updated risk grades from Credora went live on Spark Savings vaults. Six Savings products received these ratings at deposit time, using quantitative models and historical default data. This adds TradFi-style transparency to DeFi yields, marking a step toward more risk-aware features.

Token Buyback Activation (Early March 2026). Following a governance proposal (e.g., SAEP-09 from late 2025/early 2026), Spark activated an enhanced \$SPK token buyback mechanism funded by treasury surpluses. Onchain activity showed ongoing repurchases (e.g., thousands of SPK bought via gradual TWAP orders), with a structured approach allocating a portion of monthly excess funds over ~12 months.

Savings Liquidity Intents (March 2026). Spark Savings V2 now supports "Savings Liquidity Intents," a new, intent-based functionality approved in March 2026. This capability allows users to signal and execute substantial withdrawals that exceed the standard Target Liquidity buffer in a single transaction via the Spark Liquidity Layer infrastructure. The upgrade provides additional flexibility for users needing large withdrawals from Spark Savings vaults and represents a significant enhancement to Spark's liquidity management capabilities, allowing the protocol to better serve varying withdrawal needs while maintaining efficient capital allocation.

Other Ecosystem Activity. Spark's Savings V2 continued supporting multi-asset yields (USDC, USDT, ETH, PYUSD), with TVL in the hundreds of millions and competitive APYs. Integrations appeared in third-party tools (e.g., Superlend aggregating Spark markets for cross-chain deposits). No major new Savings V2 expansions were noted beyond ongoing optimizations, as core institutional/prime features dominated the quarter.

Governance Updates

During Q1 2026, Spark implemented several updates aimed at strengthening risk controls, improving governance processes, and optimizing treasury management as the protocol scaled.

Risk Management

One of the goals has been making Sparklend safer by increasing risk guardrails. Risk monitoring mechanisms were expanded through updates to the oracle-based kill switch system (new loans are frozen after a 5% peg deviation), which now covers additional assets including weETH, rETH, cbBTC, WBTC, and LBTC. In addition, Cap Automators were upgraded to v1.1, introducing authorization controls designed to mitigate potential denial-of-service risks.

Governance Framework

Governance processes continued to evolve toward structured multisig-based management with formal safeguards. As part of this transition, Morpho vault governance moved to a multisig curator model with 10-day timelocks and guardian oversight, introducing additional review and control over parameter changes. Overall, these updates focused on incrementally strengthening risk controls, governance procedures, and treasury efficiency as the protocol expanded its integrations and capital deployment.

Lending

The lending market in Q1 2026 showed clear signs of a bear-market environment, with falling rates, declining borrowing demand, and shrinking revenues across DeFi. The data points to low speculative appetite and reduced leverage. Net interest margins remained relatively stable early in the quarter but compressed toward the end. Ethereum lending NIM started around ~0.43% in early January, peaked near ~0.47% in mid-February, and fell to roughly ~0.37–0.38% by mid-March, reflecting weaker borrowing demand relative to available liquidity.

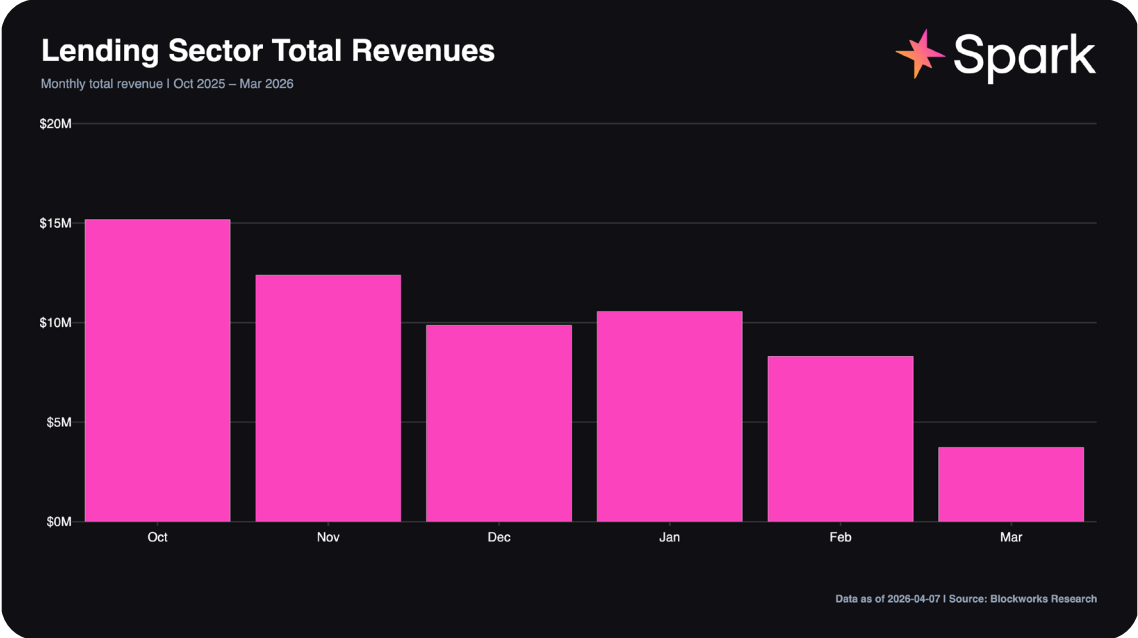
At the same time, stablecoin rates declined sharply. Average borrow APY fell from ~4.8–4.9% in early January to ~3.3% by early March, while supply APY dropped from ~3.2% to ~2.0%. This ~150 bps decline in borrowing costs signals a cooldown in leverage demand.

Capital utilization also contracted. Outstanding loans peaked around ~\$560B in mid-January, then steadily declined to about ~\$420B by early March, before dropping further to roughly ~\$240B in the latest reading, indicating broad deleveraging across lending markets. Lending sector outstanding loans declined from a Q4'25 average of ~\$84.0B to a Q1'26 average of ~\$66.9B, a ~20.4% q/q drop. Point-in-time balances moved from ~\$77.8B in Dec to ~\$61.6B in Mar (-20.8%).



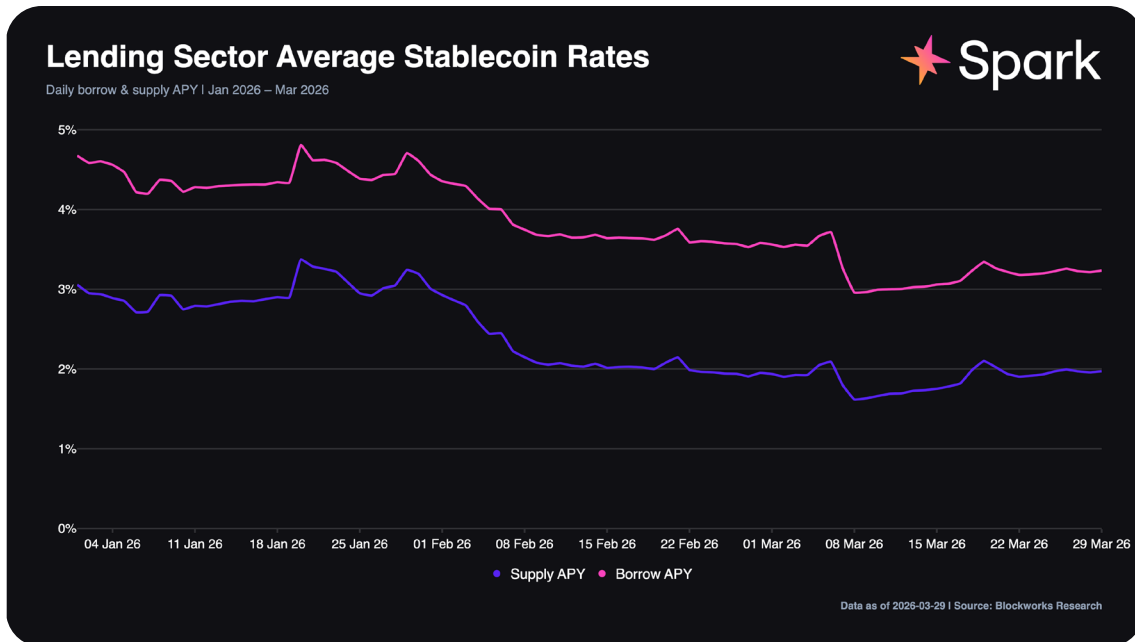
Lending Sector Outstanding Loans. Source: [Blockworks](#)

This is a broad deleveraging pattern consistent with a risk-off cycle, lower borrower demand, tighter risk appetite, and less balance-sheet utilization across lending venues. In short, the sector enters Q2 with a smaller credit base, confirming that market contraction is still the dominant macro force.



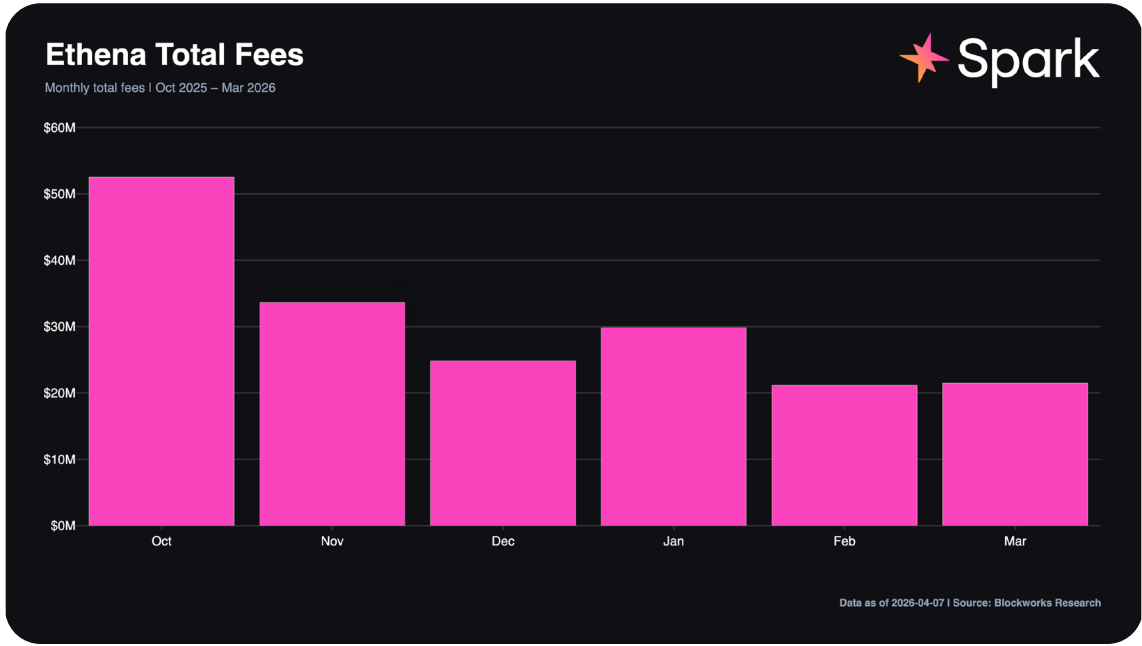
Lending Sector Revenue. Source: [Blockworks](#)

Overall, Q1 lending activity reflects a risk-off market, where reduced trading activity and limited speculative positioning led to lower leverage, falling rates, and declining protocol revenues.



Lending Sector Stablecoin Rates. Source: [Blockworks](#)

Beyond lending, the other main Spark competitor Ethena shows a downshift in total in Q1'26 versus Q4'25, consistent with a cooler market backdrop after a stronger Q4 run. Total fees moved from \$111.0M in Q4 to \$72.5M in Q1, a -34.7% q/q decline, with monthly run-rate easing from \$37.0M to \$24.2M.



Ethena Total Fees. Source: [Blockworks](#)

Closing Summary & Outlook

Spark exits Q1 positioned defensively but with improved earnings quality. The protocol has demonstrated the ability to maintain profitability despite a contracting lending market by optimizing funding costs and reallocating capital toward higher-yield strategies. Going forward, performance will depend on continued execution of this model shift, scaling institutional channels, and navigating a still risk-off macro environment. If market conditions stabilize, Spark is well positioned to benefit from operating leverage and stronger capital efficiency.