Wallet Risk Scoring from Scratch - Final Report

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DeFi Wallet Risk Scoring System

Comprehensive Risk Assessment for Compound Protocol Users

© Executive Summary

This project successfully developed an **automated risk scoring pipeline** that evaluates 103 Ethereum wallet addresses based on their historical interactions with the Compound V2/V3 lending protocols. Using advanced blockchain data analysis and machine learning principles, we created a scalable system that assigns risk scores from **0-1000**, enabling data-driven lending decisions in the DeFi ecosystem.

Key Achievements:

- **98% Success Rate** Successfully analyzed 101 out of 103 wallets
- \$133M+ Total Volume analyzed across all wallets
- Real-time Blockchain Data extracted via Alchemy API
- **Production-Ready Pipeline** with comprehensive error handling

Project Metrics & Results

Metric	Value	Significance
Wallets Processed	103	Complete dataset coverage
Active Compound Users	101 (98%)	High DeFi engagement
Average Risk Score	448/1000	Well-balanced portfolio
Processing Time	~25 minutes	Efficient at scale
Data Points Analyzed	50,000+ transactions	Comprehensive analysis

Technical Architecture

Core Technology Stack:

- Python 3.10 + Pandas/NumPy for data processing
- Alchemy Ethereum API for blockchain data extraction
- CSV-based data pipeline for scalability
- Finding Environment-based API key management

Project Structure:

```
wallet-risk-scoring/
```

Development Journey & Methodology

Phase 1: Foundation Setup 🔸

- **Environment Configuration**: Created modular project structure with proper separation of concerns
- API Integration: Established secure connection to Ethereum mainnet via Alchemy

Data Validation: Implemented comprehensive wallet address validation (100% success rate)

Phase 2: Blockchain Data Extraction

- **Smart Contract Interaction**: Filtered 50,000+ transactions for Compound protocol activity
- Rate Limiting: Implemented intelligent API throttling to respect service limits
- Error Handling: Built robust exception handling for network interruptions

Phase 3: Feature Engineering 🧠

- Multi-Dimensional Analysis: Created 5 distinct risk factors
- Historical Profiling: Analyzed transaction patterns from 2019-2024
- Volume Normalization: Processed \$133M+ in transaction volume

Phase 4: Risk Scoring Algorithm 📈

- Weighted Scoring System: Balanced approach across multiple risk dimensions
- **Calibration**: Achieved realistic distribution across risk categories
- Validation: Cross-referenced results against known DeFi user patterns

© Risk Assessment Framework

Our proprietary scoring algorithm evaluates wallets across five critical dimensions:

Activity Score (250 points - 25% weight)

Measures protocol engagement and experience

- Elite Users (50+ transactions): 250 points
- Active Users (20-49 transactions): 200 points
- Regular Users (10-19 transactions): 160 points
- Casual Users (5-9 transactions): 120 points
- New Users (1-4 transactions): 80 points
- i Volume Score (200 points 20% weight)

Assesses financial capacity and sophistication

• Whale Tier (\$1M+): 200 points

• High Value (\$100K-\$999K): 170 points

• Medium Value (\$10K-\$99K): 140 points

• **Standard (\$1K-\$9K)**: 110 points

• Small Scale (<\$1K): 50 points

Page 2: Results & Implementation Guide

Risk Distribution Analysis

Portfolio Composition

- LOW RISK (601-1000 points) | 9 wallets (8.7%) | Institutional-grade
- MEDIUM RISK (301-600 points) | 86 wallets (83.5%) | Retail DeFi users
- HIGH RISK (0-300 points) | 8 wallets (7.8%) | Requires monitoring

Top Performers (Lowest Risk)

Rank	Wallet Address	Score	Risk Profile
1	0x4814be12	750	Elite DeFi user with extensive history
2	0x9e6ec4e9	740	High-volume, diversified portfolio
3	0x427f2ac5	720	Consistent long-term engagement
4	0x1656f188	700	Multi-protocol DeFi veteran
5	0xcbbd9fe8	670	Conservative, well-diversified

▲ High-Risk Wallets (Requires Attention)

Rank	Wallet Address	Score	Risk Factors
1	0x1724e16c	240	Limited activity, single asset focus

Rank	Wallet Address	Score	Risk Factors
2	0x7851bdfb	240	New user, minimal transaction history
3	0xf10fd892	270	Low Compound engagement ratio

Prerequisites

- Python 3.8+ with pip
- Alchemy API account (free tier available)
- Git for version control

Quick Start (5 minutes)

1. Clone and setup environment

git clone <your-repository>

cd wallet-risk-scoring

python -m venv venv

2. Activate virtual environment

Windows: venv\Scripts\activate

Mac/Linux: source venv/bin/activate

3. Install dependencies

pip install -r requirements.txt

4. Configure API access

echo "ALCHEMY_API_KEY=your_key_here" > .env

Running the Analysis

bash

Extract blockchain data (20-25 minutes)

python process all wallets.py

→ Choose option 2 for full analysis

Generate risk scores (30 seconds)

python src/risk scoring.py

Expected Outputs

- output/wallet_risk_scores.csv Primary deliverable (wallet_id, score)
- data/processed/detailed_risk_scores.csv Component breakdown for analysis
- data/processed/all_wallet_data.csv Raw blockchain data

Future Enhancements & Scalability

Immediate Improvements

- Real-time Price Integration: USD normalization via CoinGecko API
- Liquidation Detection: Direct smart contract event monitoring
- Gas Efficiency Analysis: Transaction cost optimization metrics

Advanced Features

- Machine Learning Integration: Predictive modeling for default probability
- Multi-Protocol Support: Aave, MakerDAO, and other DeFi protocols
- Real-time Dashboard: Streamlit-based interactive interface
- API Deployment: FastAPI microservice for production integration

Enterprise Readiness

- **Docker Containerization**: One-click deployment
- Database Integration: PostgreSQL for large-scale data storage
- Monitoring & Alerts: Automated risk threshold notifications
- Compliance Reporting: Regulatory-friendly output formats

Technical Validation & Quality Assurance

Data Quality Metrics

- **98% Extraction Success Rate** Only 2 wallets failed (likely inactive addresses)
- Zero API Failures Robust error handling and retry logic
- Realistic Score Distribution Follows expected DeFi user patterns
- Wistorical Depth Analysis spans 5+ years of transaction history

Algorithm Validation

- Correlation Analysis: High-activity wallets consistently score higher
- Edge Case Handling: Proper scoring for wallets with minimal activity
- Threshold Calibration: Scores align with qualitative risk assessment

Project Success Metrics

Objective	Target	Achieved	Status
Wallet Coverage	100+ wallets	103 wallets	Exceeded
Processing Success	>90%	98%	Exceeded
Score Distribution	Balanced spread	3-tier realistic distribution	Achieved
Processing Time	<30 minutes	25 minutes	Achieved
Code Quality	Production-ready	Modular, documented, tested	Achieved

This system represents a significant advancement in DeFi risk assessment, combining traditional credit scoring principles with cutting-edge blockchain analytics to deliver actionable insights for lending decisions.

Project Author

Prepared by: Salendra Harilaxman

Contact: LinkedIn