



QUARTERLY REPORT

**Q2 2022**



# S U M M A R Y

Notional had a challenging Q2, but proved the resiliency of its design in adverse market conditions and made substantial progress on its development initiatives. The protocol continued to lead the fixed-rate lending market, launched its NOTE staking module, and laid the groundwork for its next big product release with the development of levered vaults.

While markets have been highly volatile in Q2 with ETH prices dropping from \$3,500 to \$1,000, Notional has proven to be resilient and transparent. Unlike CeFi counterparts, Notional users were able to freely redeem at any time and the protocol's solvency was never in question. The protocol successfully handled all liquidations and allowed crypto users to benefit from the stability and predictability of fixed rates while markets were tumbling.

While proving to be a robust DeFi protocol, Notional continued to capture the majority of DeFi's fixed-rate lending market in Q2. The protocol processed \$124M in lending and borrowing volume - a figure that is multiples higher than Notional's closest competitor.

We look forward to continuing to increase the capital efficiency of the platform, listing new markets, and integrating with more partners in Q3. Irrespective of the market conditions, our focus continues to be on making Notional the most capital-efficient and transparent fixed-rate protocol in DeFi.

# OVERVIEW

In Q2 Notional facilitated **\$124M** in trading volume and generated **\$277K** in protocol revenue. As of June 30th, Notional also managed to attract and retain more than **\$86M** in capital from its LPs.

Multiple key developments were accomplished in Q2:

- Launch of the **NOTE staking module**
- Deployment of **wrapped fCash** tokens
- Audit of the **FIXED** index product in partnership with **Index Coop**
- Development and announcement of **Notional Levered Vaults**



# KEY METRICS

**\$86M**

Total Value Locked (TVL)

**\$123.9M**

Total Loan Volume in Q2

**+81**

New lenders in Q2

**+50**

New borrowers in Q2

**\$277K**

Protocol revenue in Q2

**\$27M**

Fully Diluted Valuation (FDV)

**\$0.27**

NOTE price as of June 30th

**\$0.23-1.21**

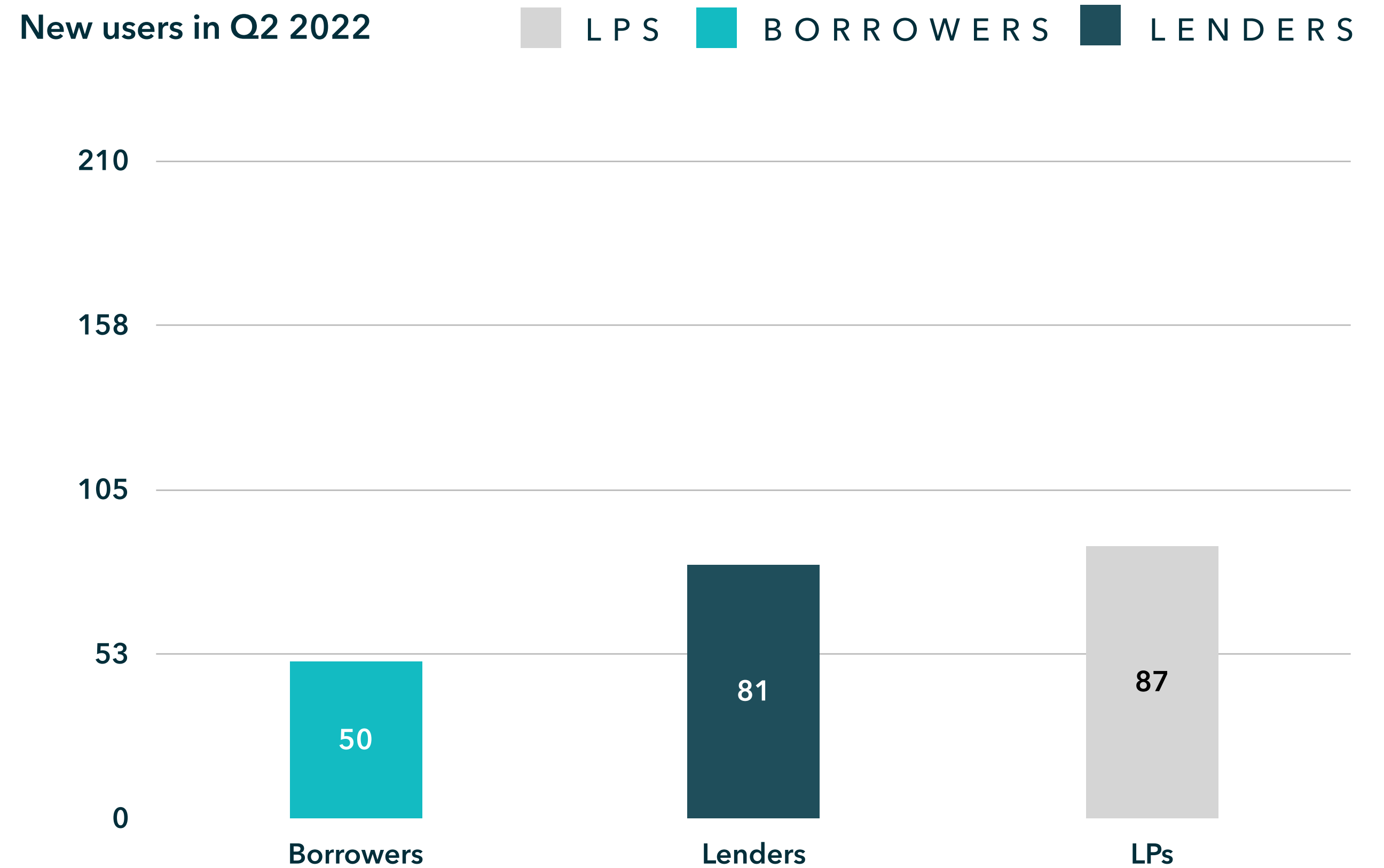
NOTE price range in Q2

# USERS

In Q2, **50 new borrowers** and **81 new lenders** interacted with Notional.

Over the quarter we continued seeing protocols like **Yearn** lend on Notional to lock in stable lending rates for their users. We also started seeing users putting their fCash as collateral on **Yield Protocol** in order to put on spread trades and benefit from higher lending rates on Notional.

Additionally, **87 new LPs** minted nTokens over the quarter.



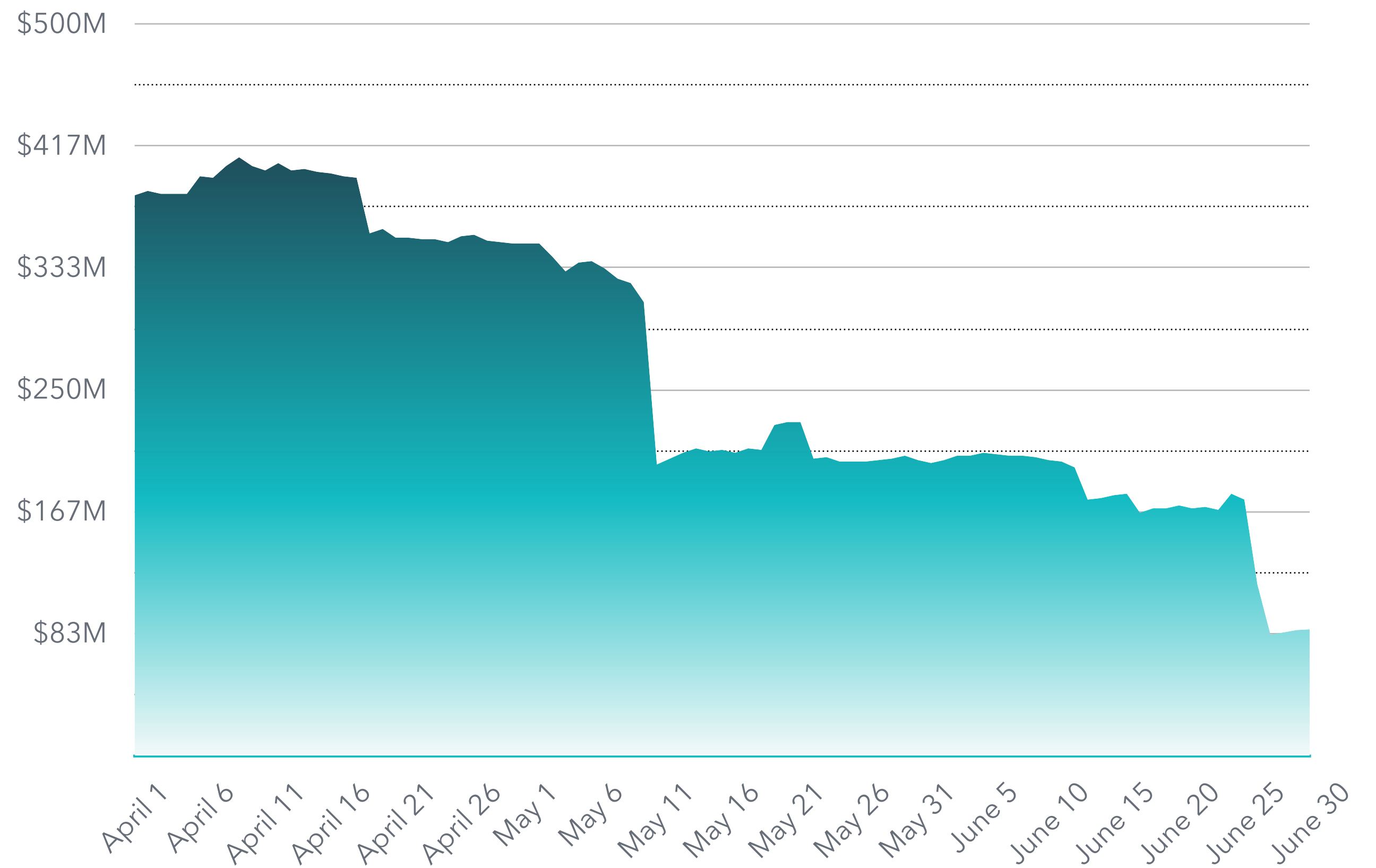
# TOTAL VALUE LOCKED (TVL)

Notional's TVL started the quarter at **\$380M** and decreased to **\$86M** as crypto markets turned bearish and as the NOTE price decreased from **\$1.21** to **\$0.27**.

Notional's TVL was also affected by the **-15%** reduction in NOTE incentives that occurred in April. This reduction contributed to some yield farmers redeeming their nTokens which had a negative impact on TVL.

Although this drop in TVL is significant and impacts slippage for borrowers and lenders, the protocol recently updated its governance parameters in order to limit the slippage impact of lower TVL.

### Notional Total Value Locked (TVL) - Q2 2022



# TRADING VOLUME

In Q2, Notional facilitated **\$124M** in total trading volume.

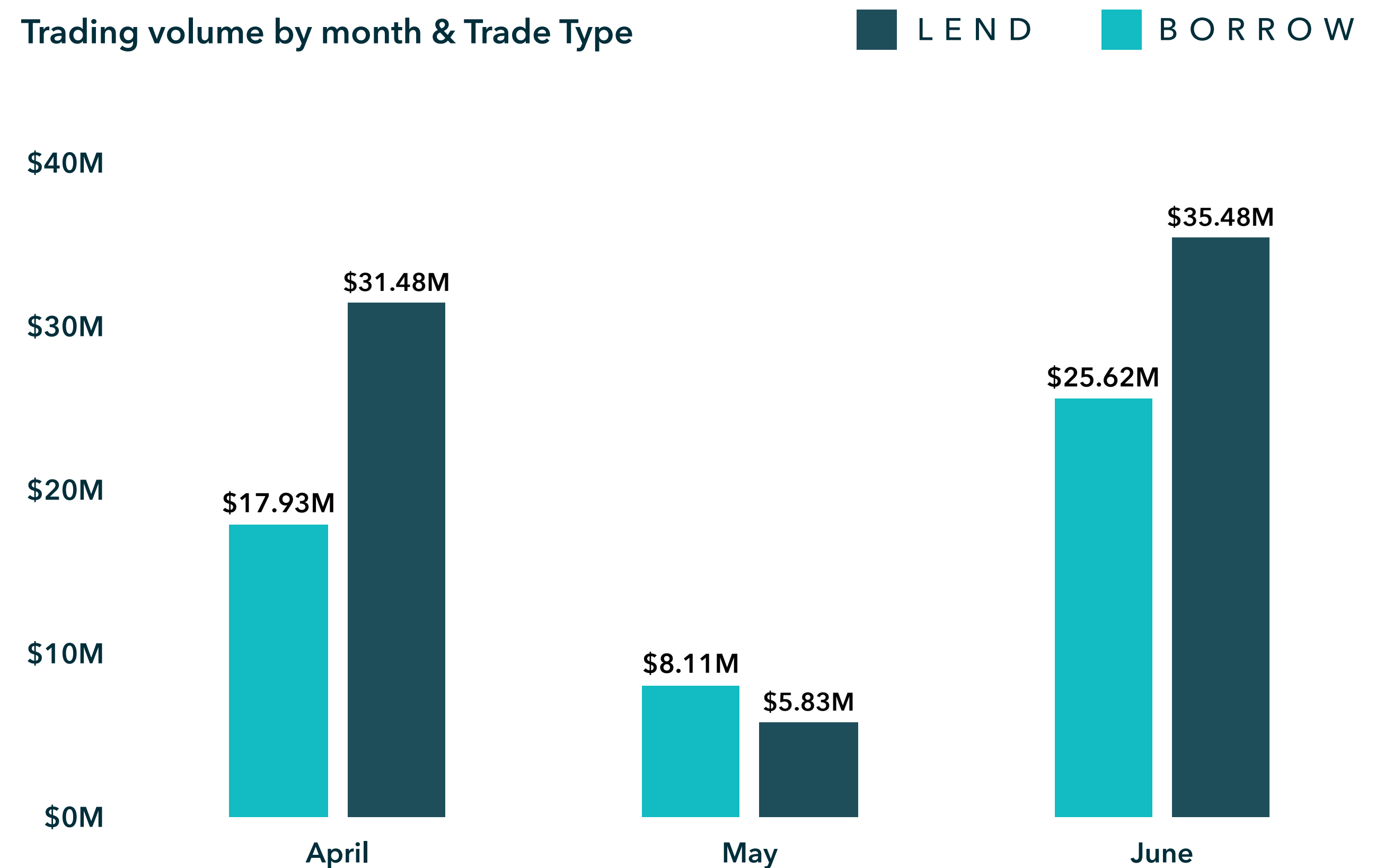
Trading volume was particularly strong in **June** given the June 26th quarterly roll.

Notional facilitated **\$50M** of volume in April, **\$13M** in May, and **\$61M** in June.

**58%** of the overall trading activity was driven by lenders while the remaining **42%** was driven by borrowers.

Lenders were slightly more active in Q2 as Notional stablecoin rates offered users the opportunity to lock in **4%** to **7%** fixed yields for up to 1 year.

Trading volume by month & Trade Type



# TRADING VOLUME

Of the **\$124M** in trading volume, **49%** came from fUSDC trading, **28%** from fDAI, **23%** from fWBTC, and **0.35%** from fETH.

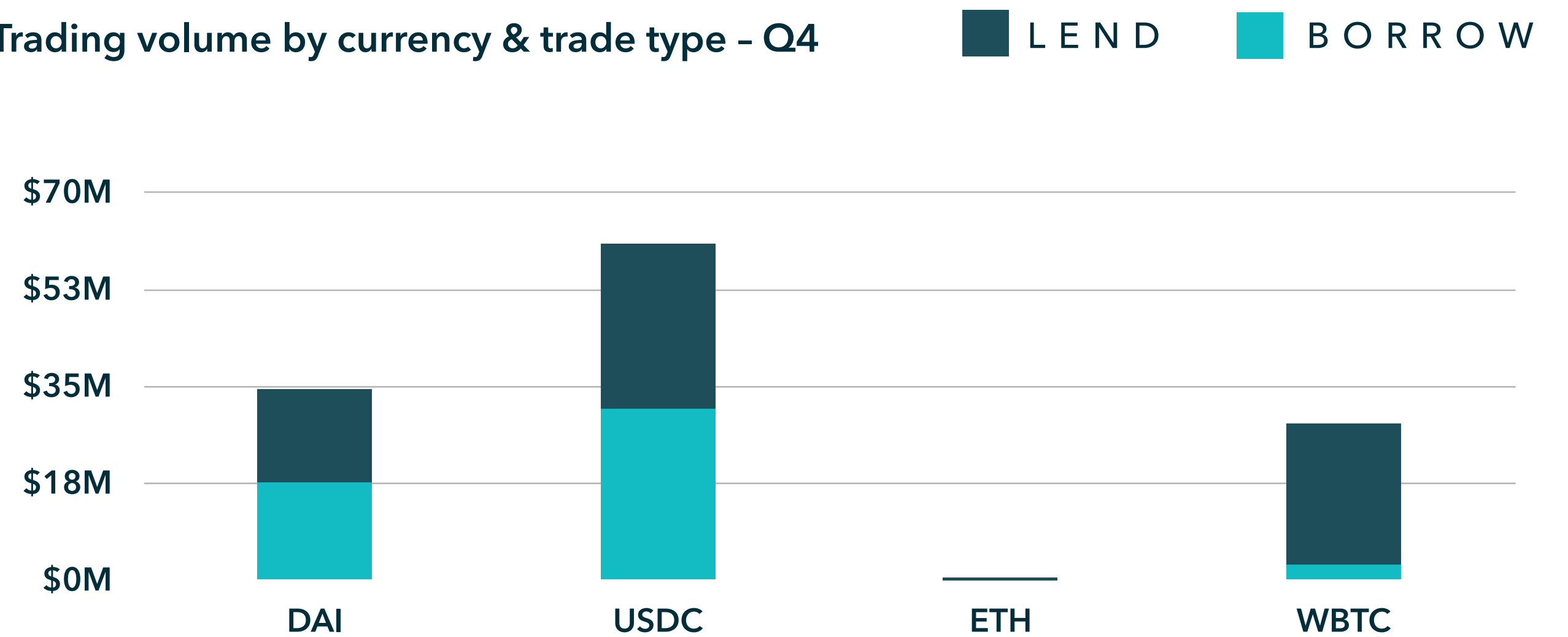
**49%** of the USDC and DAI volumes were lending trades. We have also seen large WBTC lending trades in Q2 as one user lent **600 fWBTC** on Notional and at some point borrowed more than \$10M in fUSDC against it.

**54%** of all the trading activity was executed in 3 Month pools, **36%** in 6 Month pools, and **10%** in 1 Year pools.

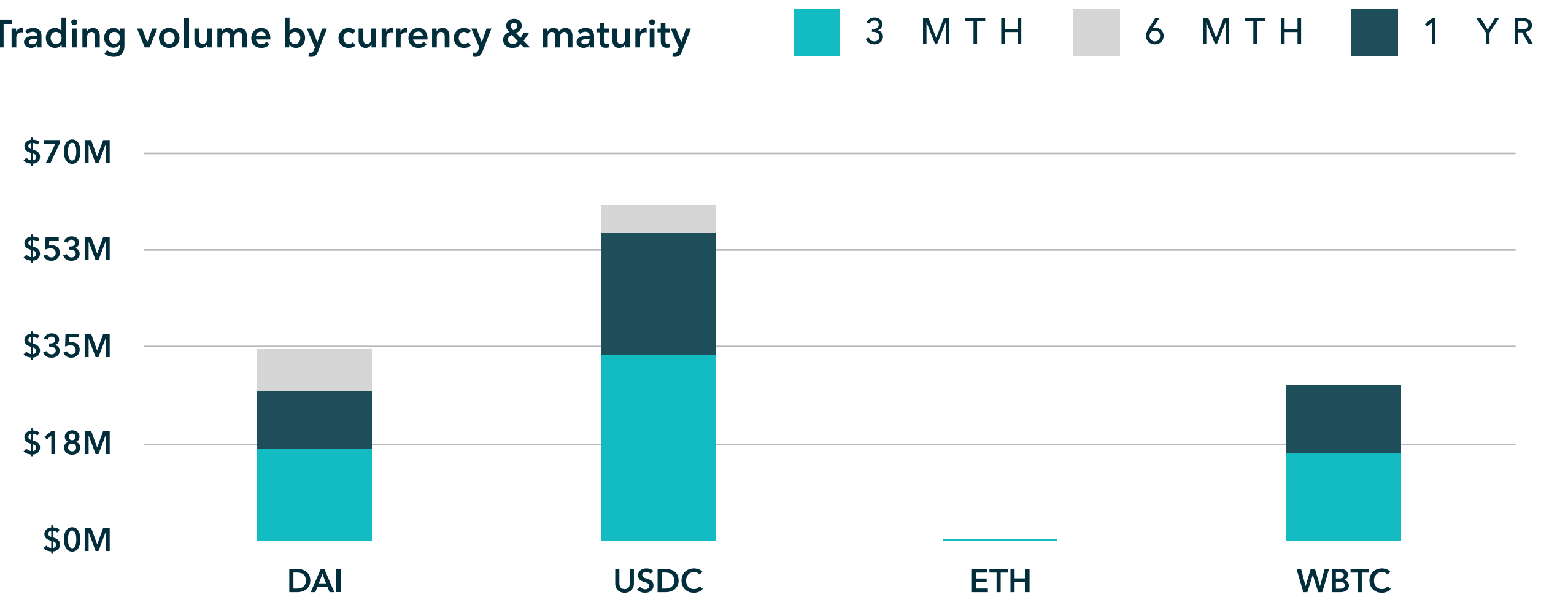
Most of the stablecoin volume (**50%**) came from the 3 Month pools. 1 Year fUSDC and fDAI pools respectively generated **8%** and **22%** of their respective currency's total volume.



Trading volume by currency & trade type - Q4



Trading volume by currency & maturity





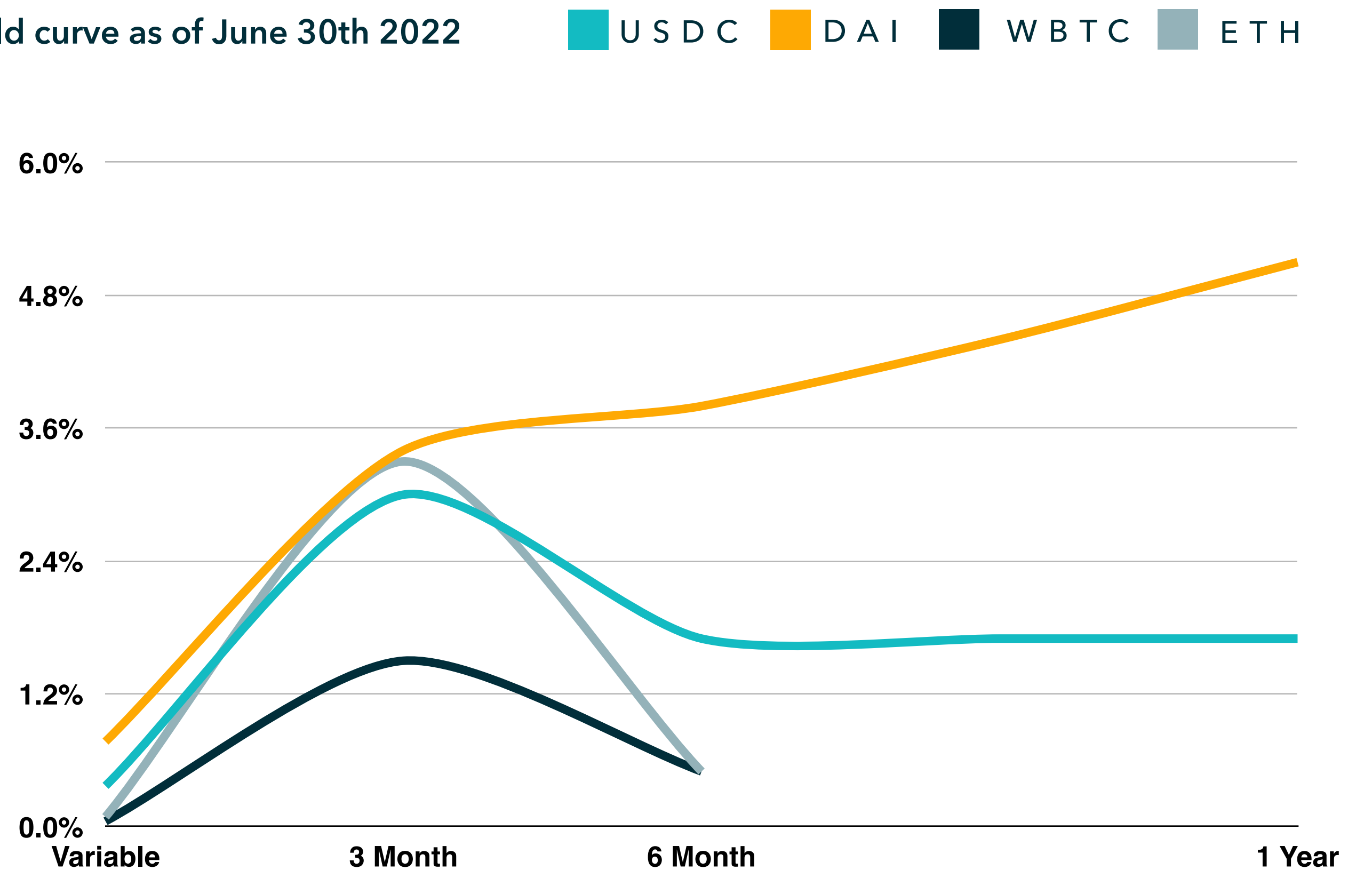
# INTEREST RATES

As of June 30th the DAI interest rate curve is upward sloping allowing users to lend at **5.1%** on the 1Y while the USDC curve is downward sloping allowing users to borrow at **1.7%** for 1Y.

DAI rates have been steadily above USDC rates for most of the past two quarters. Further developments like enabling high leverage trade between fUSDC and fDAI using **levered vaults** would allow these rates to converge.

Notional rates have been consistently higher than the compound cToken lending rates over the course of Q2. Lenders on **Compound** would benefit from converting their variable lending positions to fixed ones to earn substantially higher yields.

Yield curve as of June 30th 2022





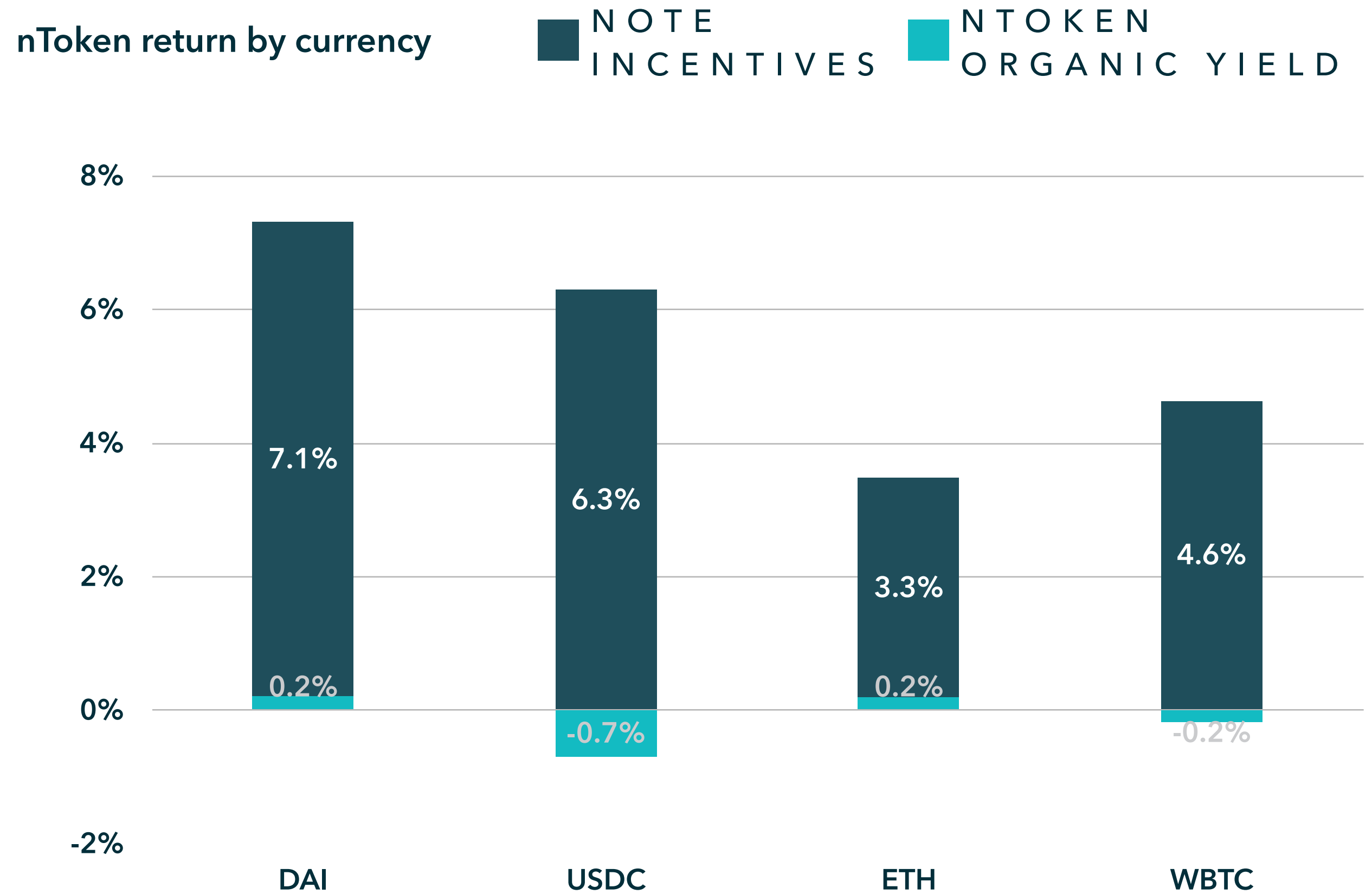
# N T O K E N   R E T U R N S

nTokens enable LPs to passively earn returns from providing liquidity to Notional across all active pools in a given currency.

nUSDC and nDAI annualized returns were **~5.6%** and **~7.3%** respectively in Q2 when accounting for NOTE incentives.

Let's note that nDAI and nUSDC LPs suffered a lot of IL as rates decreased in Q2. Additionally, the variable Compound cToken yields also declined over the quarter leading to lower returns.

Even under these circumstances, nTokens organic yields were relatively flat for the quarter with returns of -0.69% and 0.21% for nUSDC and nDAI.

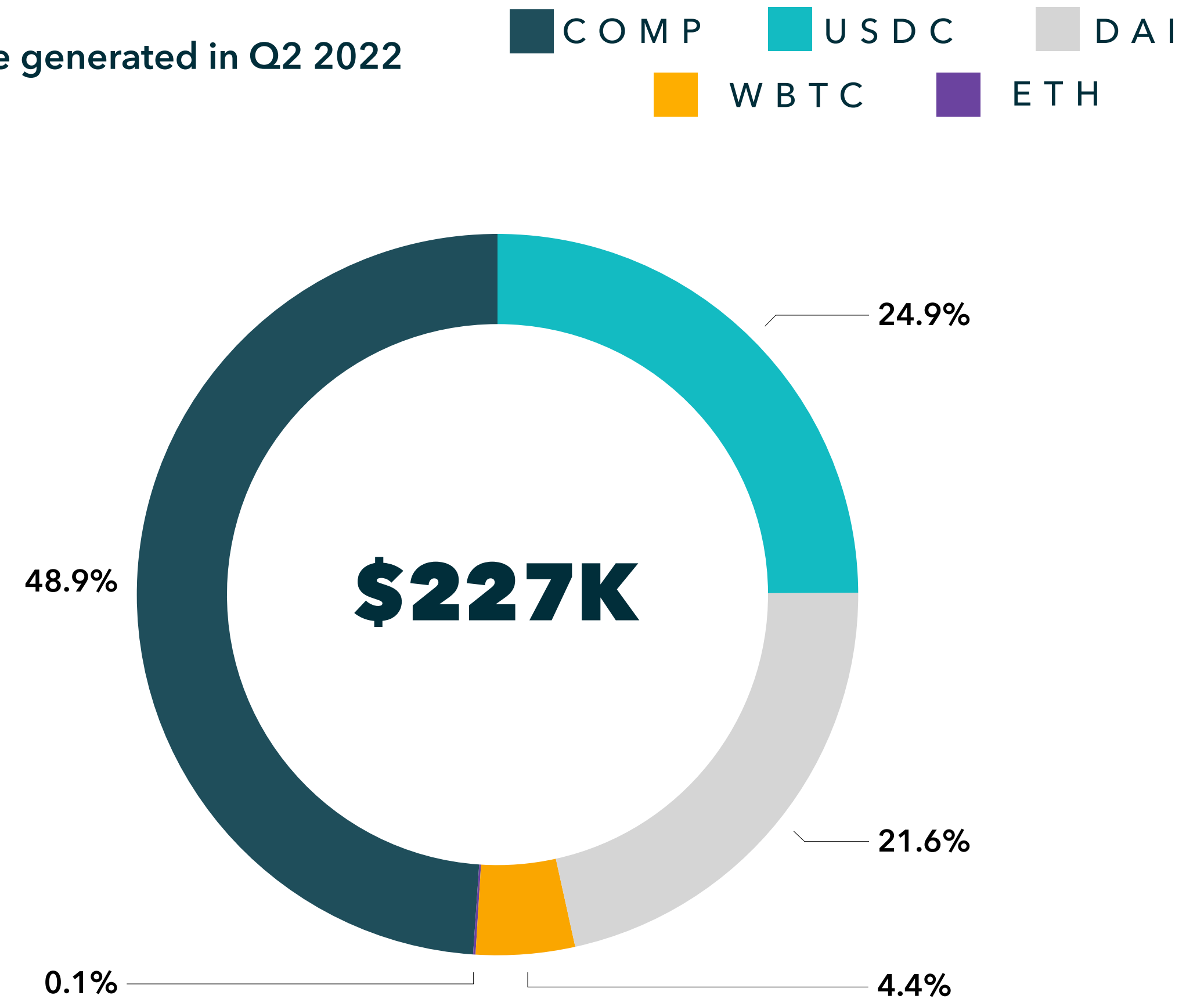


# PROTOCOL REVENUE

In Q2, the protocol generated **\$69K** in cUSDC, **\$60K** in cDAI, **\$12K** in cWBTC, and **\$0.3K** in cETH from transaction fees. It also accrued **~2,932 COMP** tokens or **~\$136K** as of June 30th 2022, for a grand total of **\$277K** in protocol revenue during the quarter.

As part of the launch of the NOTE staking module, part of the accrued **COMP** reserves were sold for **ETH** to the benefit of **sNOTE holders**.

Protocol revenue generated in Q2 2022



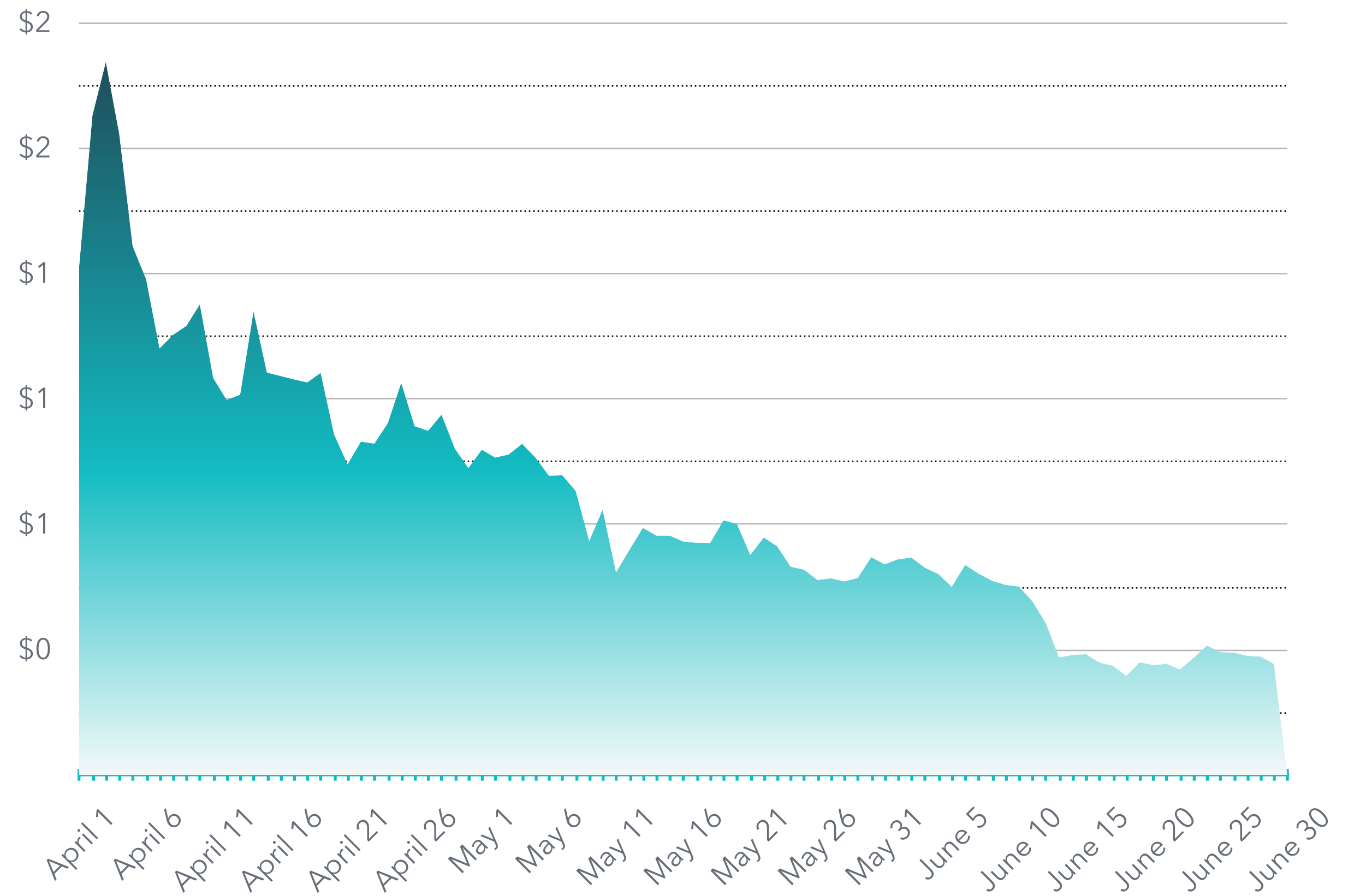
# NOTE TOKEN

Over Q2, the NOTE token price declined from **\$1.21** to **\$0.27** amid the broader sell-off in crypto markets. The NOTE token price hit an all-time low of **\$0.23** in mid-June.

As of June 30th, the NOTE token price implies an FDV of **\$27M**.

**1,438** Ethereum addresses held **NOTE tokens** at the end of Q2.

NOTE token price - Q2 2022



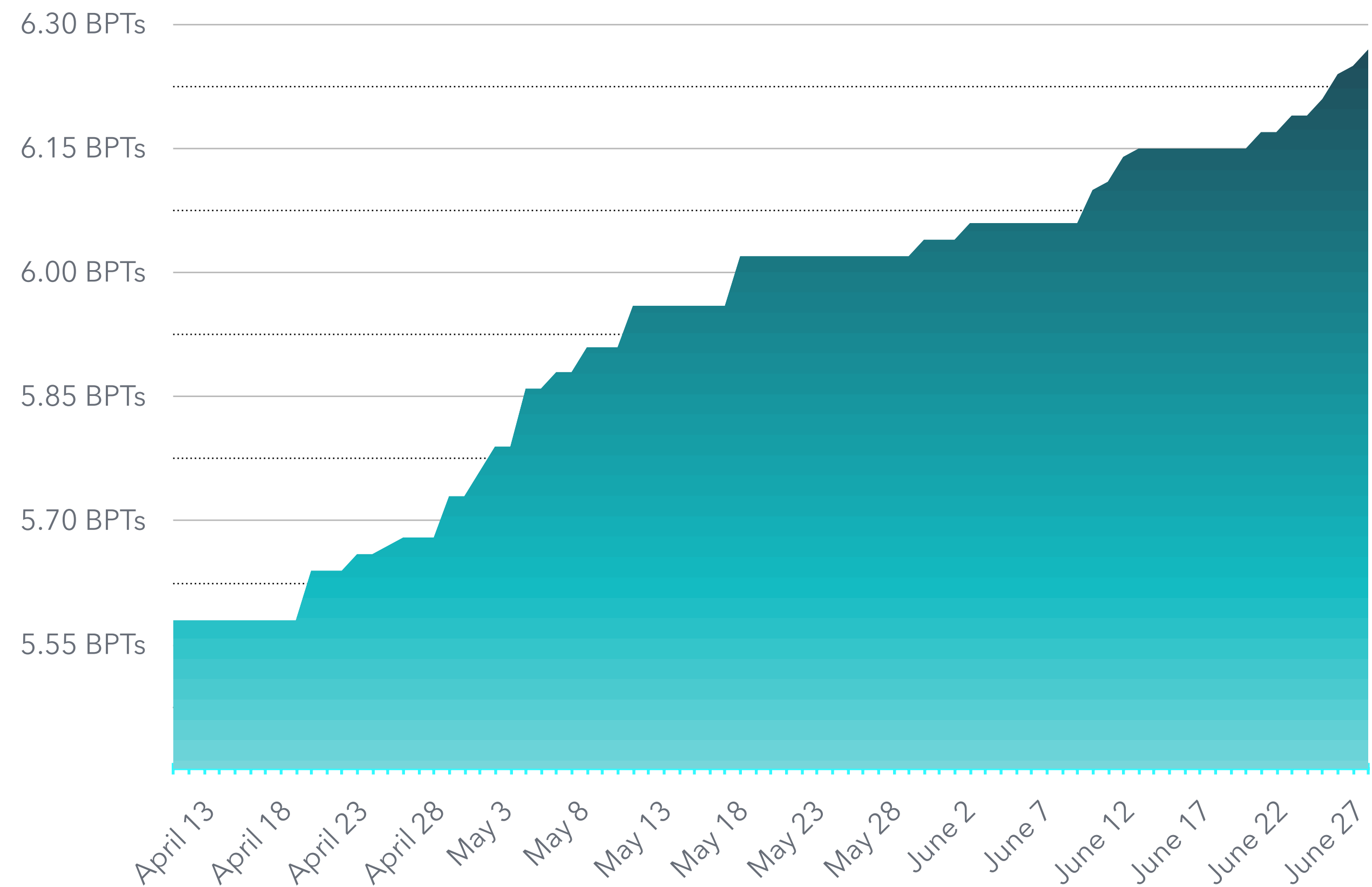
# NOTE STAKING

As of June 30th, **6.5M NOTE tokens** and **403 ETH** were deposited in the NOTE staking module. Since its launch in early April the staking module treasury manager bought back BPT tokens for sNOTE holders for a total amount of **153 ETH** and **180K NOTE**. These ETH buybacks were financed by the treasury manager selling a total of **4,012 COMP** tokens.

These buybacks increased the amount of BPTs held per sNOTE from **5.58 BPT** per sNOTE in early April to **6.27 BPT** per sNOTE as of June 30th for relative increase of **12%** over the quarter.

**196** Ethereum addresses held **sNOTE tokens** at the end of Q2.

Number of BPTs per sNOTE - Q2 2022





# UPCOMING DEVELOPMENTS

The team is currently working on new developments and integrations:

- **Instadapp** integration
- Launch of the FIXED Index in partnership with **Index Coop**
- Addition of new collateral assets and new tradable currencies
- **Levered vaults** development

