



QUARTERLY REPORT

Q3 2022

S U M M A R Y

Q3 2022 was another challenging quarter for crypto markets, but Notional put in a strong showing despite the pessimistic backdrop. The protocol processed \$84M in loan volume over the quarter and generated \$172k in revenue while keeping TVL roughly flat at \$82M.

These figures are down from Q2, but reflect a growing consolidation of the DeFi fixed rate lending market around Notional. In the same span of time, the TVL of our two primary competitors have fallen to \$10M, and \$6M, and the loan volume probably lower still.

Notional spent Q3 2022 preparing its next big product, leveraged vaults, for release. We are extremely excited to be launching this product within the next few weeks and believe that it will mark a great leap forward both for Notional and the DeFi lending space as a whole.

We look forward to continuing to increase the capital efficiency of the protocol, listing new markets, launching leveraged vaults and integrating with more partners in Q4. Irrespective of market conditions, our focus continues to be on making Notional the most secure, capital-efficient, and liquid fixed rate protocol in DeFi.

OVERVIEW

In Q3 Notional facilitated **\$84M** in trading volume and generated **\$172K** in protocol revenue. As of September 30th, Notional also managed to attract and retain more than **\$82M** in capital from its LPs.

Multiple key developments were accomplished in Q3:

- Launch of wrapped fCash tokens
- Development and audit of Notional leveraged vaults and leveraged vault strategies
- Fiat DAO integration
- Announcement of the Phuture finance integration



KEY METRICS

\$82M

Total Value Locked (TVL)

\$84.3M

Total Loan Volume in Q3

+96

New lenders in Q3

+81

New borrowers in Q3

\$172K

Protocol revenue in Q3

\$28M

Fully Diluted Valuation (FDV)

\$0.28

NOTE price as of Sept 30th

\$0.23-0.47

NOTE price range in Q2

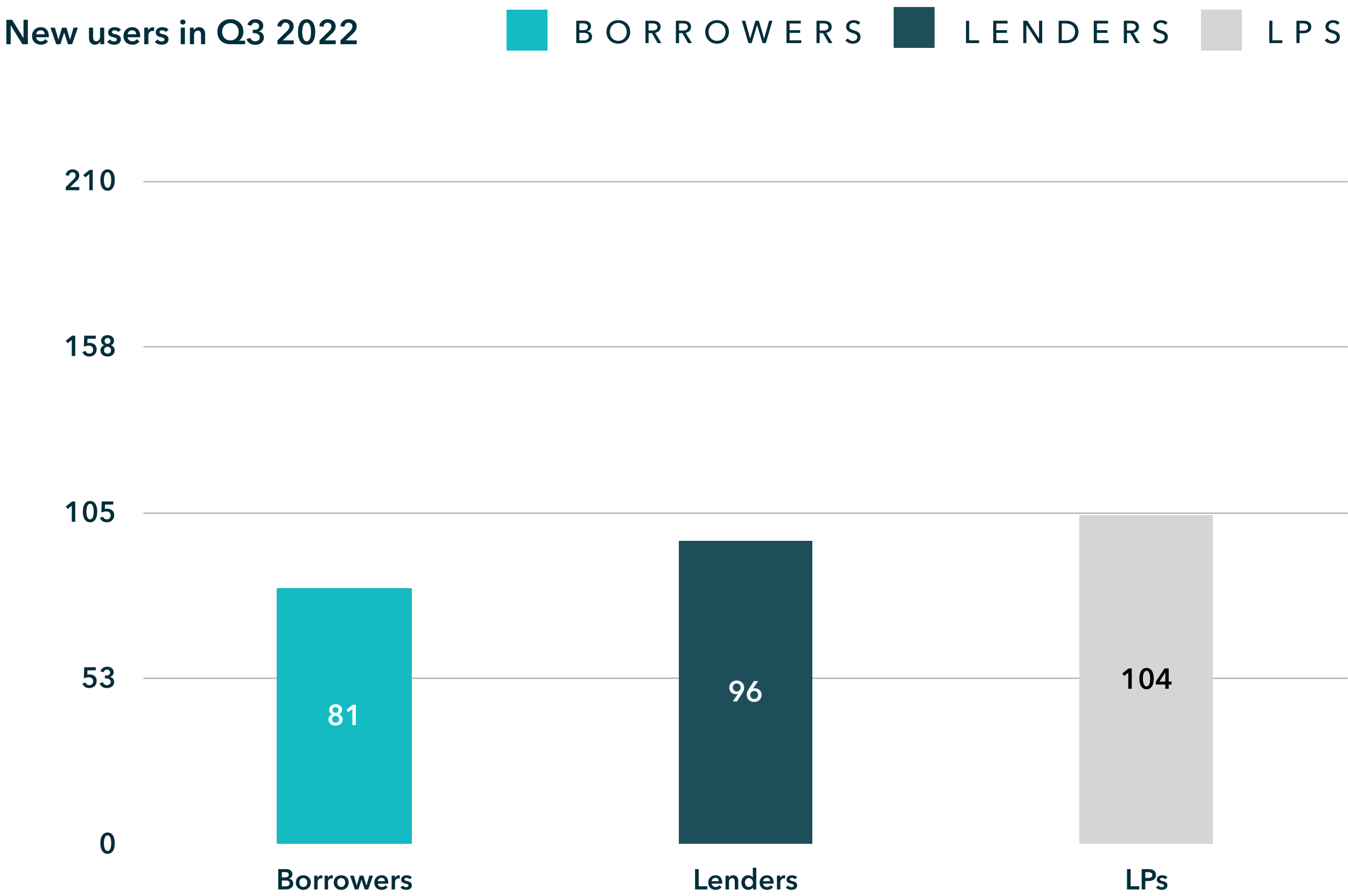
U S E R S

In Q3, **81 new borrowers** and **96 new lenders** interacted with Notional.

Ahead of the Merge Notional saw an influx of new users using the protocol to borrow and lend ETH at fixed rates. As a result, Notional increased its user count both on the borrower and lender side at a faster pace in Q3 than it did in Q2.

Additionally, **104 new LPs** minted nTokens over the quarter.

New users in Q3 2022



TOTAL VALUE LOCKED (TVL)

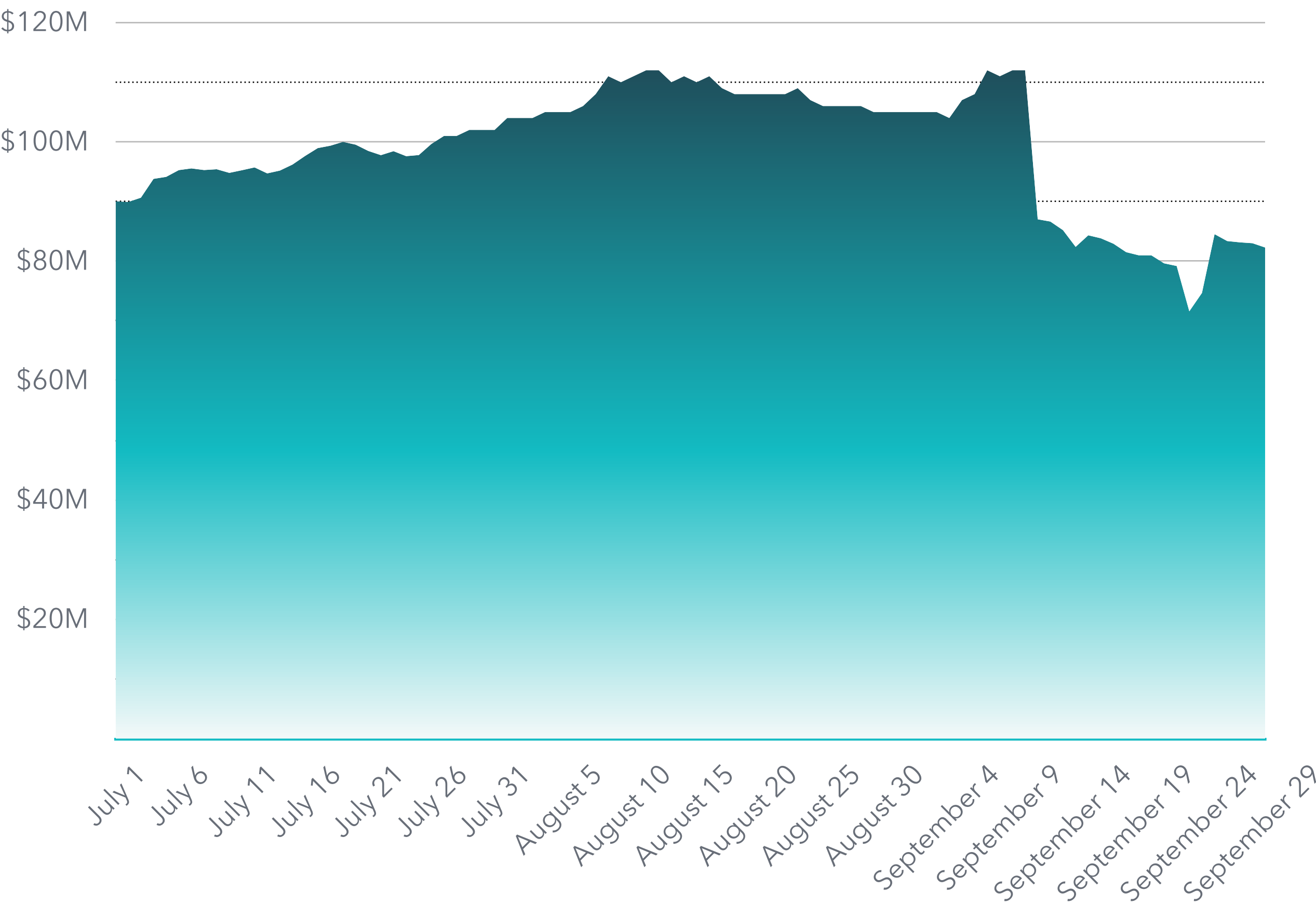
Notional's **TVL remained stable** in Q3 starting the quarter at **\$86M** and ending it at **\$82M**.

Notional's TVL remained sticky even after a **-15% reduction in NOTE incentives** in early July.

We anticipate that the launch of leveraged vaults will, over time, increase trading fees for LPs, in turn increasing nToken returns. Sustainable nToken returns will contribute to maintaining sufficient liquidity in Notional trading pools while making the protocol more profitable.



Notional Total Value Locked (TVL) - Q3 2022



TRADING VOLUME

In Q3, Notional facilitated **\$84M** in total trading volume.

Trading volume was particularly strong in **September** due to **Merge** related trading action.

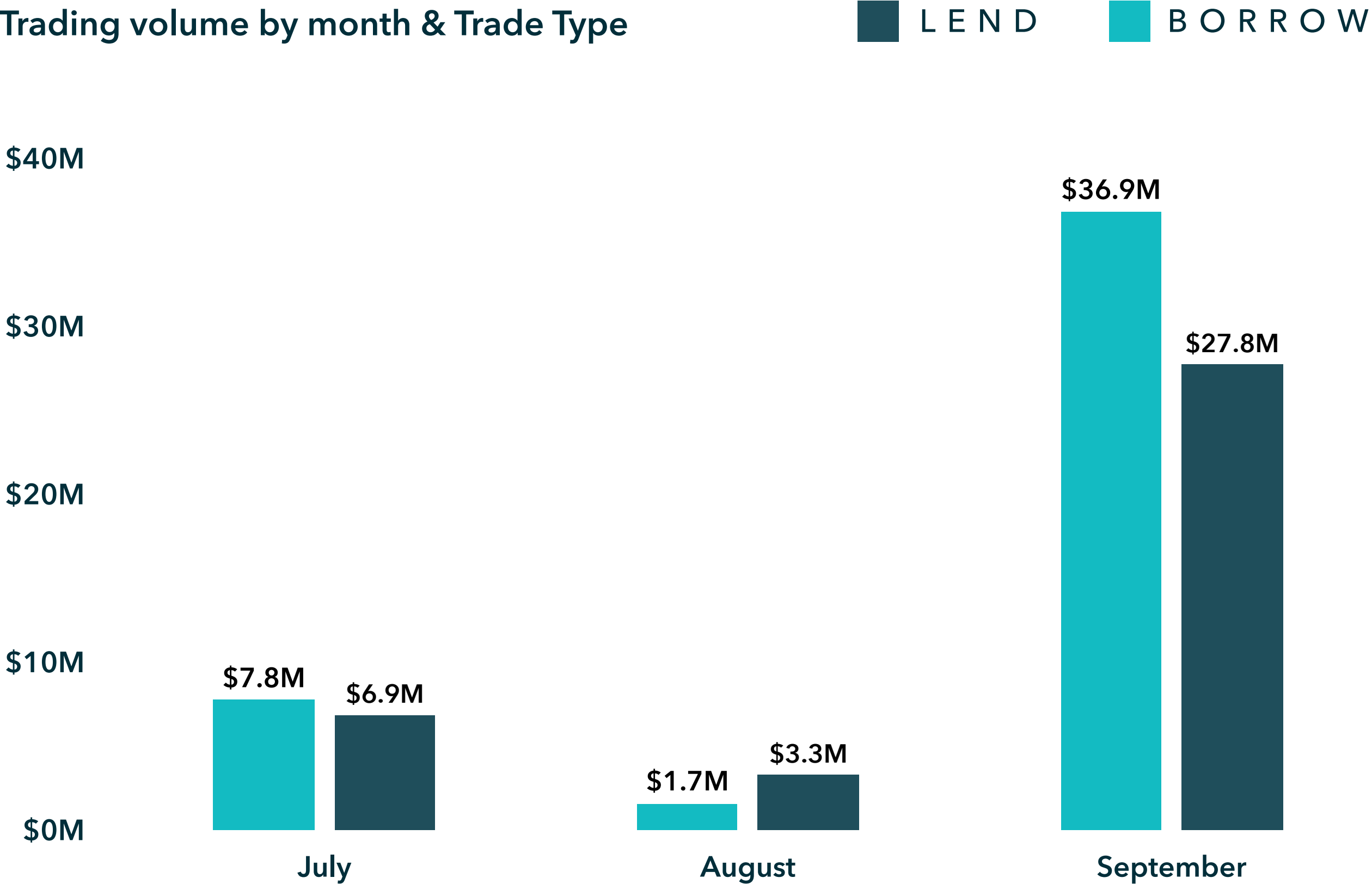
Notional facilitated **\$15M of volume in June, \$5M in August,** and **\$65M in September.**

55% of the overall trading activity was driven by **lenders** while the remaining **45%** was driven by **borrowers**.

Compared to Q2, borrowers were slightly more active in Q3 as multiple users borrowed ETH from Notional ahead of the merge.



Trading volume by month & Trade Type



TRADING VOLUME

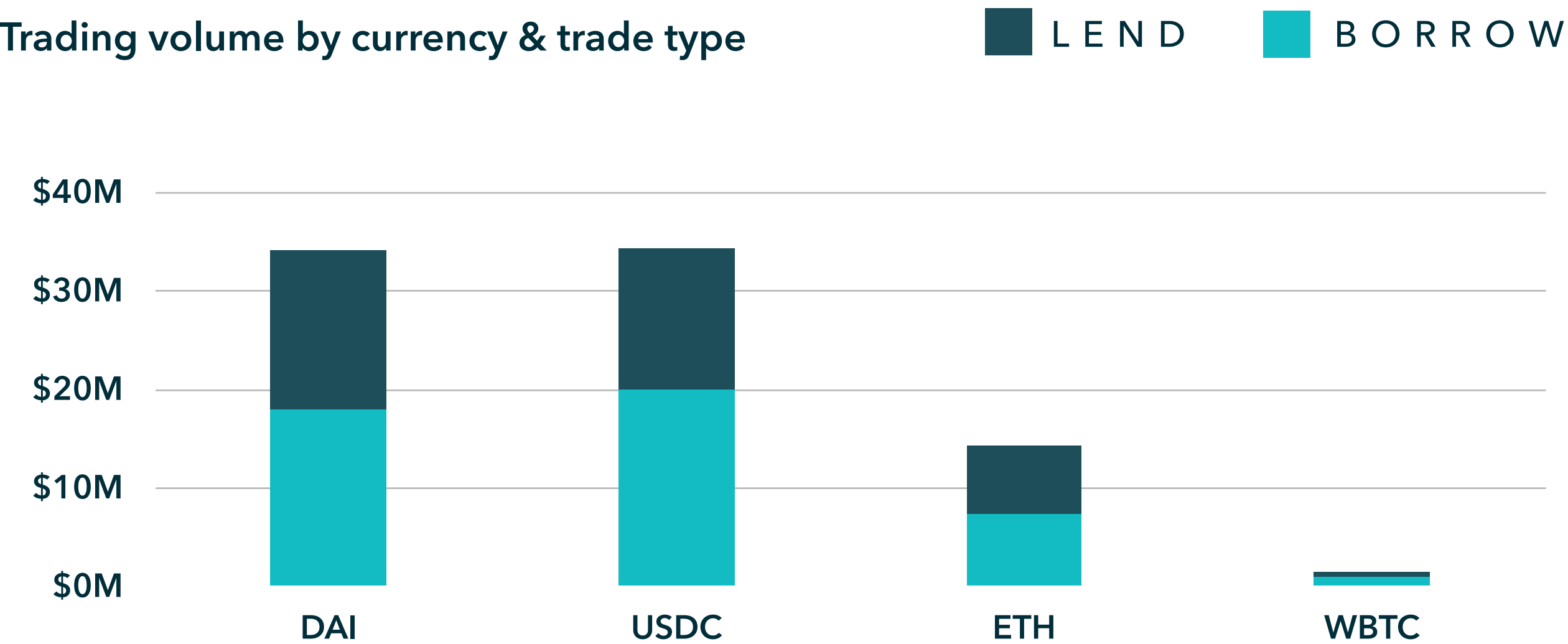
Of the **\$84M** in trading volume, **41%** came from fUSDC trading, **41%** from fDAI, **1.8%** from fWBTC, and **17%** from fETH.

fETH trading volume was up in September ahead of the merge with more than **\$13M** being traded over that month. We expect fETH markets to continue to be quite active going forward given the launch an ETH based leveraged vault in Q4.

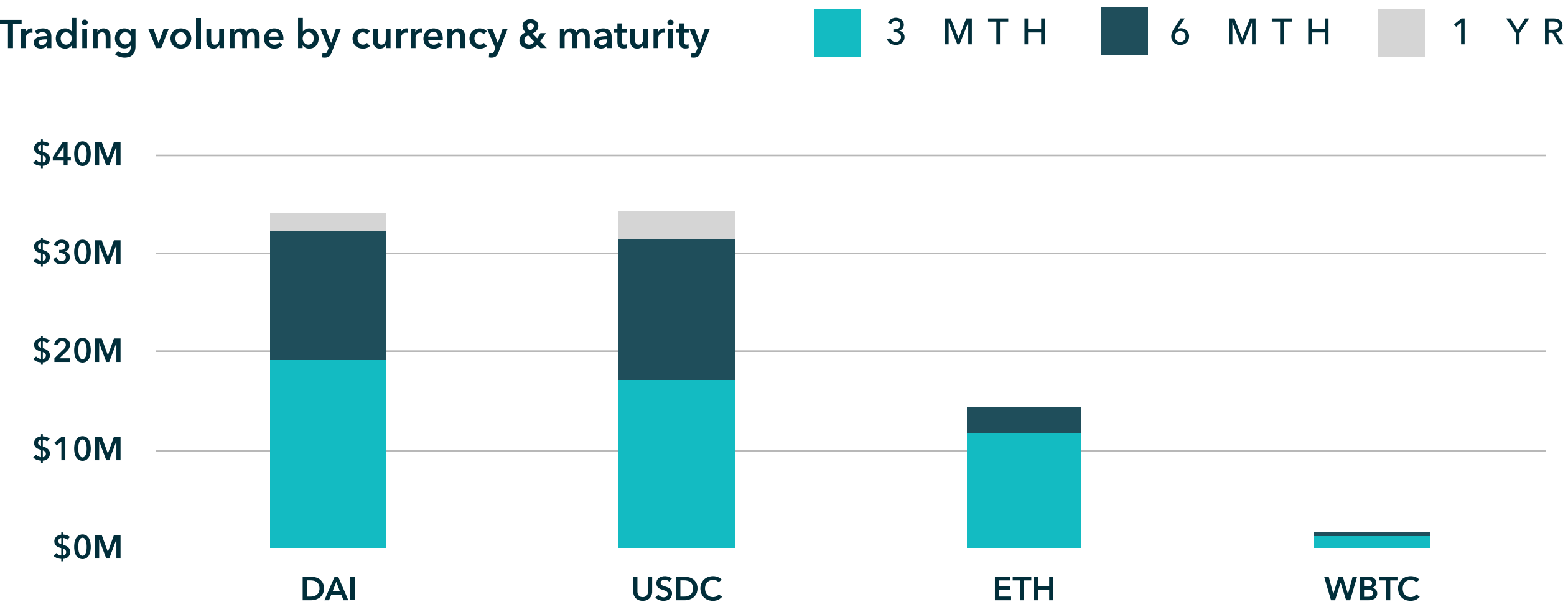
58% of all the trading activity was executed in 3 Month pools, **36%** in 6 Month pools, and **6%** in 1 Year pools. 1 Year fUSDC and fDAI pools respectively generated 5.5% and 8.1% of their respective currency's total volume.



Trading volume by currency & trade type



Trading volume by currency & maturity



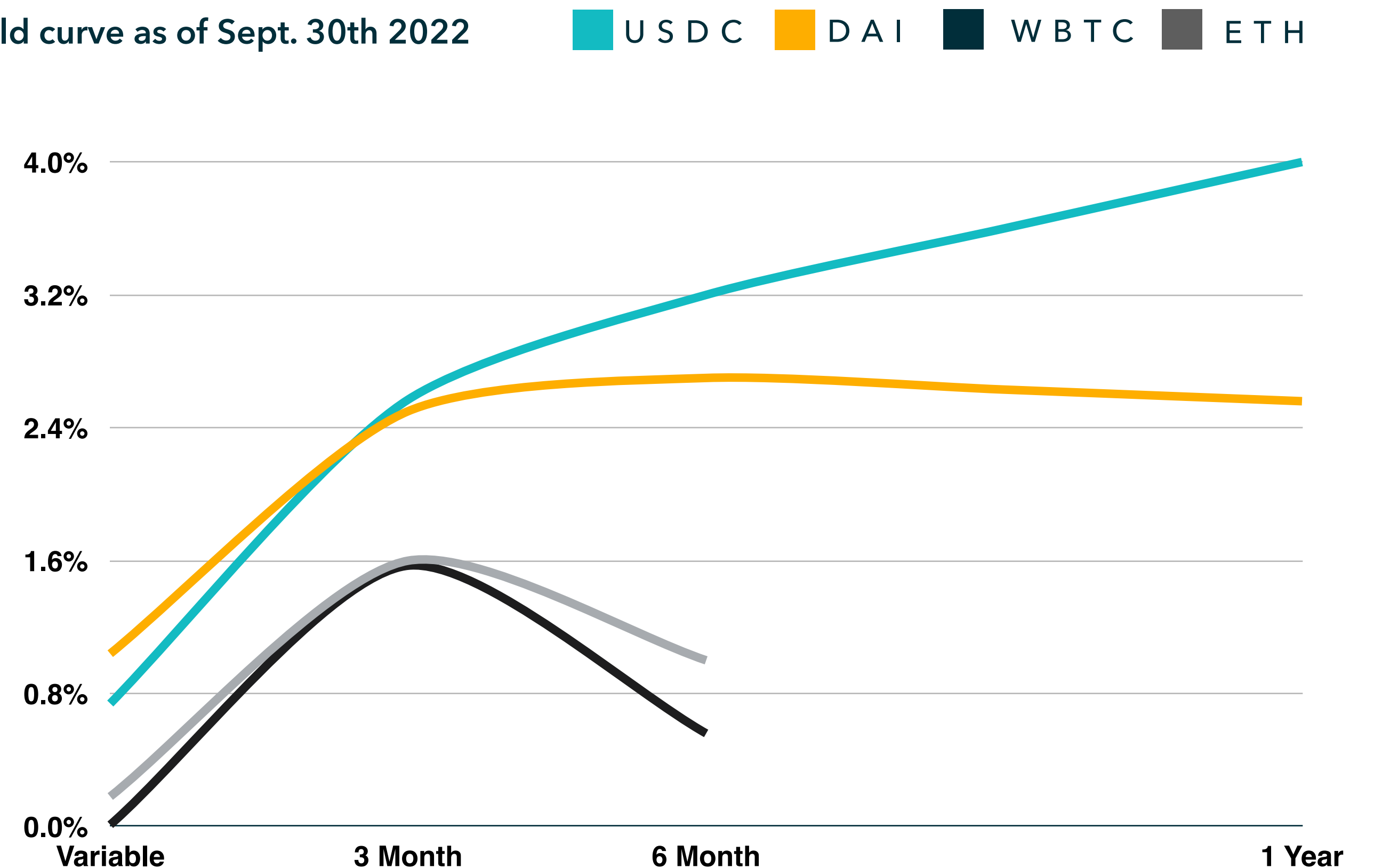
INTEREST RATES

As of September 30th the USDC interest rate curve was upward sloping allowing users to lend at up to **4.0%** on the 1Y. The DAI curve offered **lower yields** than USDC with rates of **2.5%** in the 3 month and 1 year maturities and a slightly higher rate of **2.7%** in the 6 month.

We anticipate the launch of leveraged vaults to stimulate borrowing demand leading to higher rates for lenders. We also expect DAI and USDC rates to continue to trade within a relatively tight band given the upcoming launch of the fUSDC and fDAI leveraged vaults.

Notional rates have remained consistently higher than compound lending rates in Q3. Compound lenders would benefit from converting their variable lending positions to fixed ones on Notional to earn yields of almost 3 times the Compound base supply rate.

Yield curve as of Sept. 30th 2022

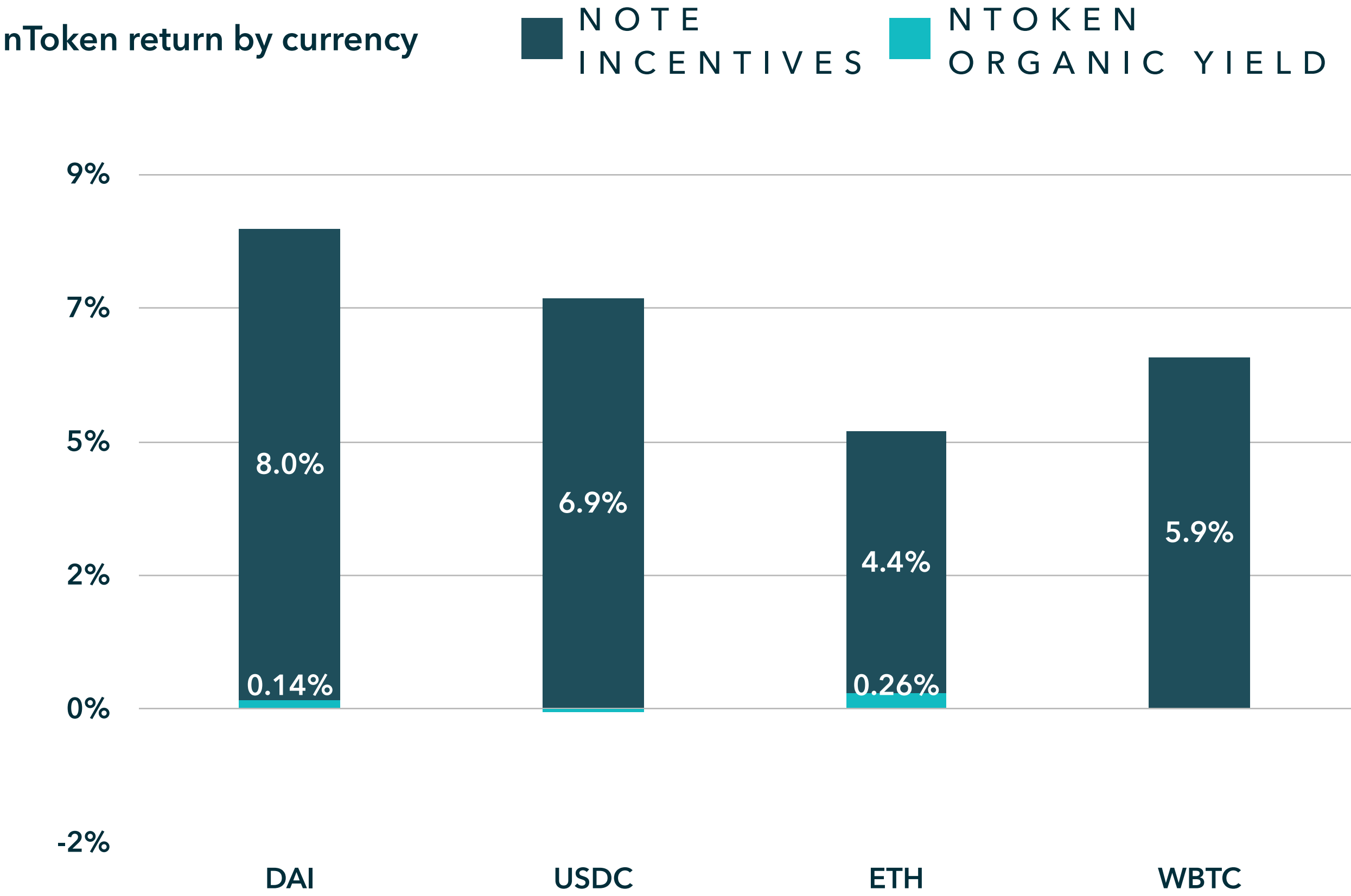


NTOKEN RETURNS

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 **6.9%** and **8.1%** respectively in Q3.

Organic nTokens yields were relatively flat for the quarter with returns of -0.06% and 0.14% for nUSDC and nDAI. These low yields are due to Notional rates decreasing in Q3 leading LPs to experience some IL and due to lower Compound variable rates.

Going forward we anticipate that higher trading volumes will lead to more fees for LPs increasing the organic returns of nTokens. We also have plans to increase the variable yields earned by nTokens. More details regarding these initiatives will be released over the upcoming months.



NOTE TOKEN

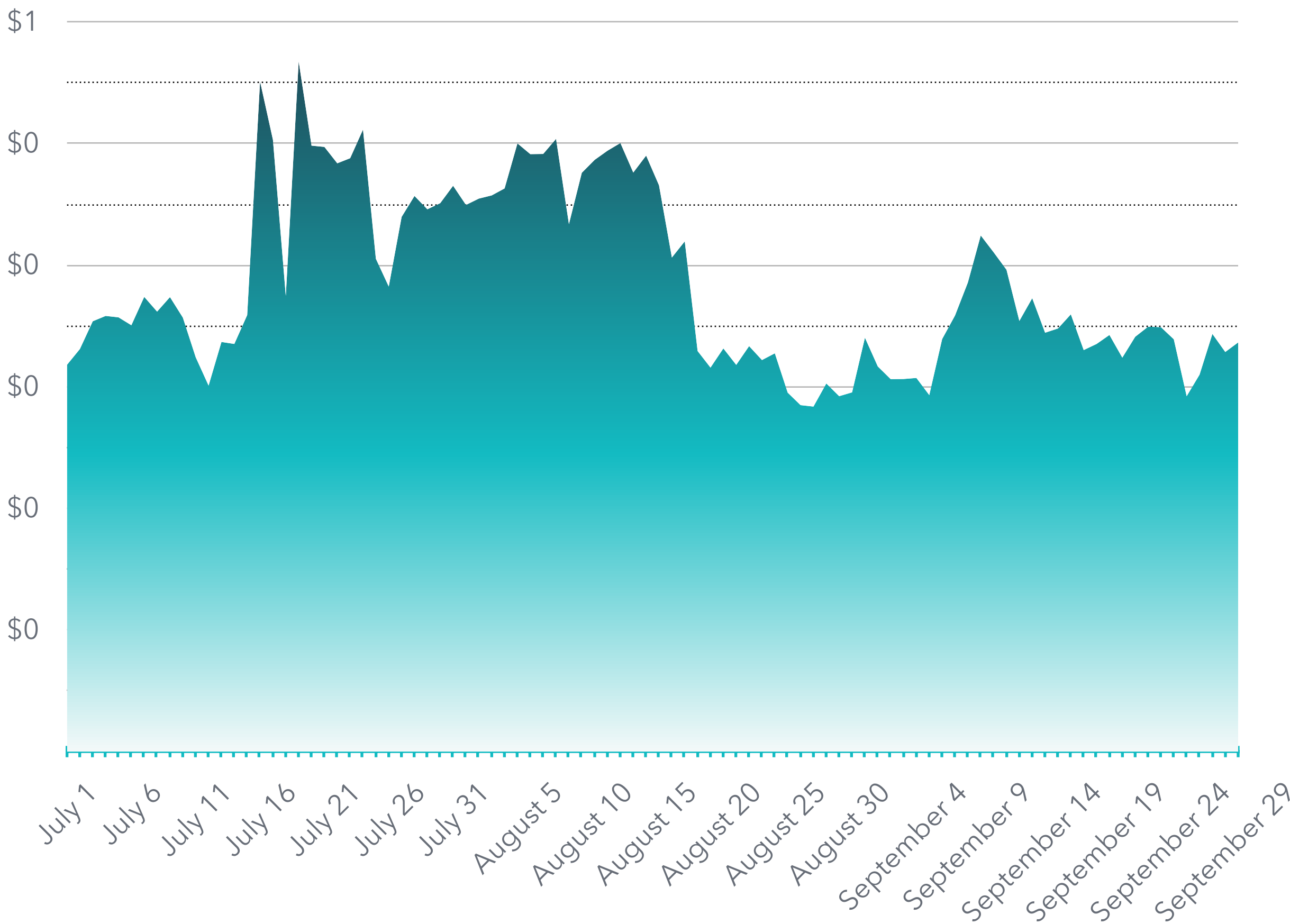
In Q3, the NOTE token price increased from **\$0.26** to **\$0.28**.

The NOTE token price hit a low of **\$0.23** at the end of August.

As of September 30th, the NOTE token price implies an **FDV** of **\$28M**.

1,474 Ethereum addresses held NOTE tokens at the end of Q3, an increase of **36 holders**.

NOTE token price - Q3 2022



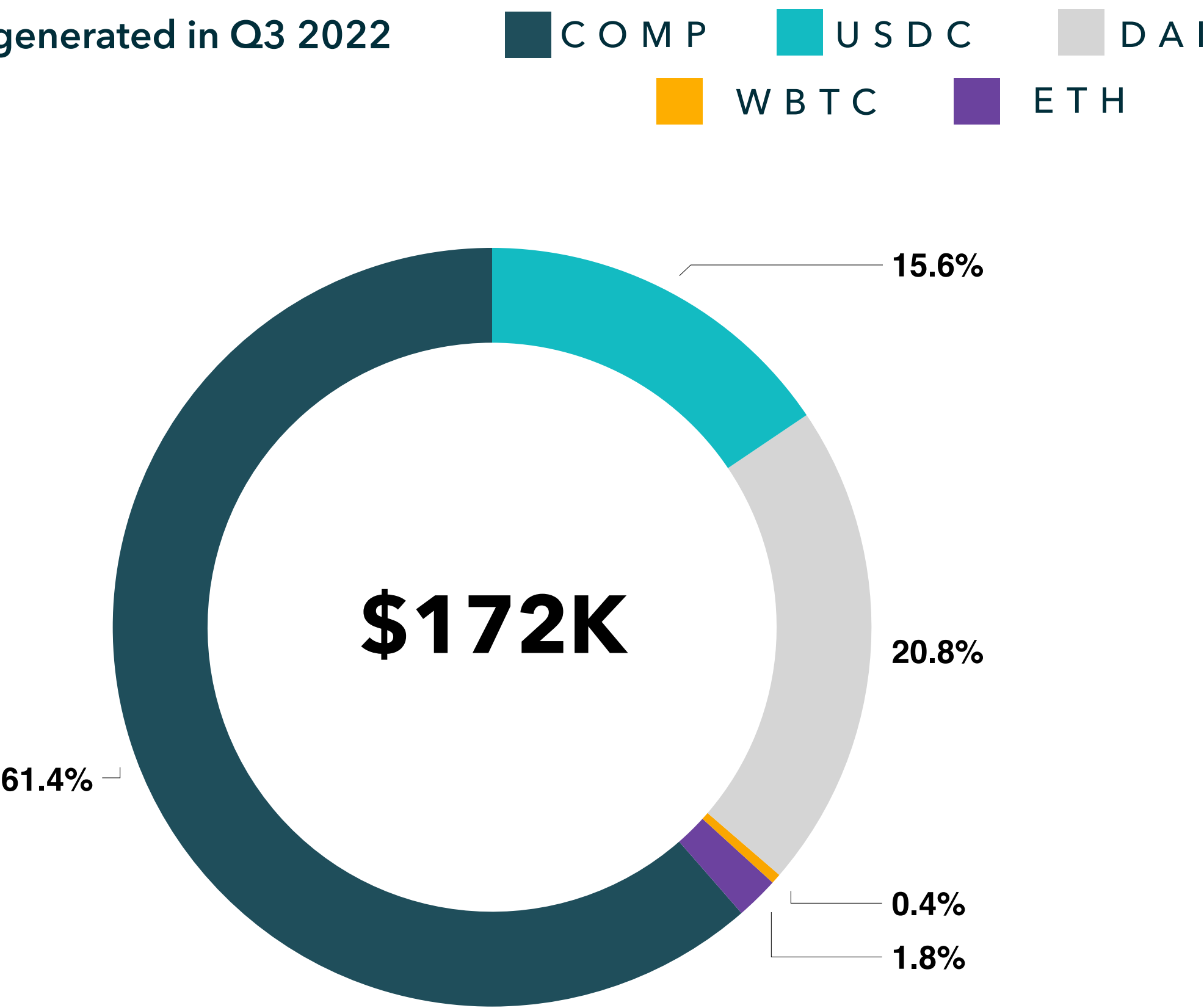
PROTOCOL REVENUE

In Q3, the protocol generated **\$27K** in cUSDC, **\$36K** in cDAI, **\$0.7K** in cWBTC, and **\$3K** in cETH from transaction fees.

It also accrued **~1,704 COMP** tokens or **\$106K** as of September 30th 2022, for a grand total of **\$172K in protocol revenue** during the quarter.

Due to the NOTE staking module reinvestment plan, part of the accrued COMP reserves were sold for ETH to the benefit of sNOTE holders.

Protocol revenue generated in Q3 2022



NOTE STAKING

As of June 30th, **8.4M NOTE** tokens and **438 ETH** were deposited in the NOTE staking module.

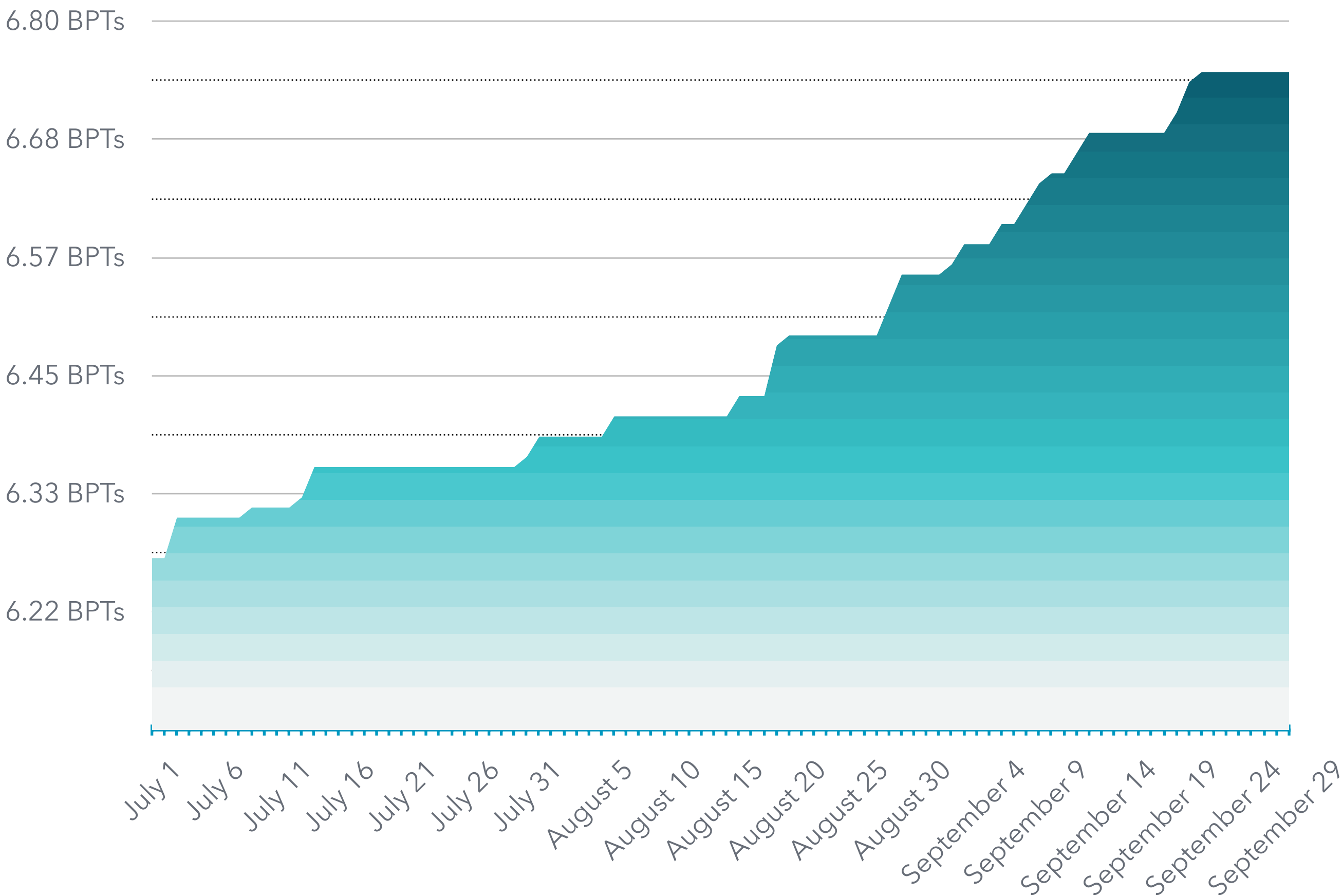
Since its launch in early April the staking module treasury manager bought back BPT tokens for sNOTE holders for a total amount of **298 ETH** and **180K NOTE**. These ETH buybacks were financed by the treasury manager selling a total of 7,476 COMP tokens.

These buybacks increased the amount of BPTs held per sNOTE from **6.27 BPT** per sNOTE in early July to **6.75 BPT** per sNOTE as of September 30th for an increase of **7.7%** over the quarter of roughly **31%** annually.

225 Ethereum addresses held sNOTE tokens at the end of Q3 an increase of **29**.



Number of BPTs per sNOTE - Q3 2022



UPCOMING DEVELOPMENTS

The Notional core team is currently working on new developments and integrations:

- Launch of leveraged vaults strategies
- Addition of new collateral assets and new tradable currencies
- Phuture finance integration
- Contango finance integration

