



QUARTERLY REPORT

Q1 2023

S U M M A R Y

Q1 has been a challenging quarter for crypto with USDC depegging in early March and multiple protocols directly or indirectly suffering from smart contract hacks. Notional managed to navigate this environment unscathed and continues to lead the space as the top DeFi fixed rate protocol.

During the quarter Notional saw its TVL decrease from \$55M to \$36M nevertheless the protocol still managed to process \$43M in transaction volume and generated \$97K in revenue.

We also saw strong demand for leveraged vaults during the quarter which momentarily pushed the ETH 6 month fixed rate upwards of 8.7%. Leveraged vaults have proven that borrowers are willing to borrow at high rates to enter whitelisted yield strategies. The early success of leveraged vaults is extremely promising as we plan to launch additional vaults in the coming months.

In Q1 we also announced the details of Notional V3. This next version of Notional will introduce the prime money markets - Notional's new, native variable-rate lending and borrowing markets. Prime money markets will greatly improve Notional's UX making the protocol more accessible to DeFi users while also making it more capital efficient.

As we complete audits for V3 the team is also actively redesigning the UI as well as planning the onboarding of new markets and new leveraged vaults strategies.

We are excited to move forward with the launch of V3 and believe it will set a new standard for lending protocols in DeFi.

OVERVIEW

In Q1 Notional facilitated \$43M in trading volume and generated \$97K in protocol revenue. As of March 31st, Notional also managed to attract and retain more than \$36M in capital from its LPs.

Multiple key developments were accomplished in Q1:

- Development and audit of the Balancer-Aura boosted stablecoin leveraged vault strategy
- Development, audit and announcement of Notional V3



KEY METRICS

\$35.8M

Total Value Locked (TVL)

\$43.4M

Total Loan Volume in Q1

+483

New users in Q1

\$13M

Open borrow as of March 31st

\$97K

Protocol revenue in Q1

\$27M

Fully Diluted Valuation (FDV)

\$0.27

NOTE price as of March 31st

\$0.14-0.27

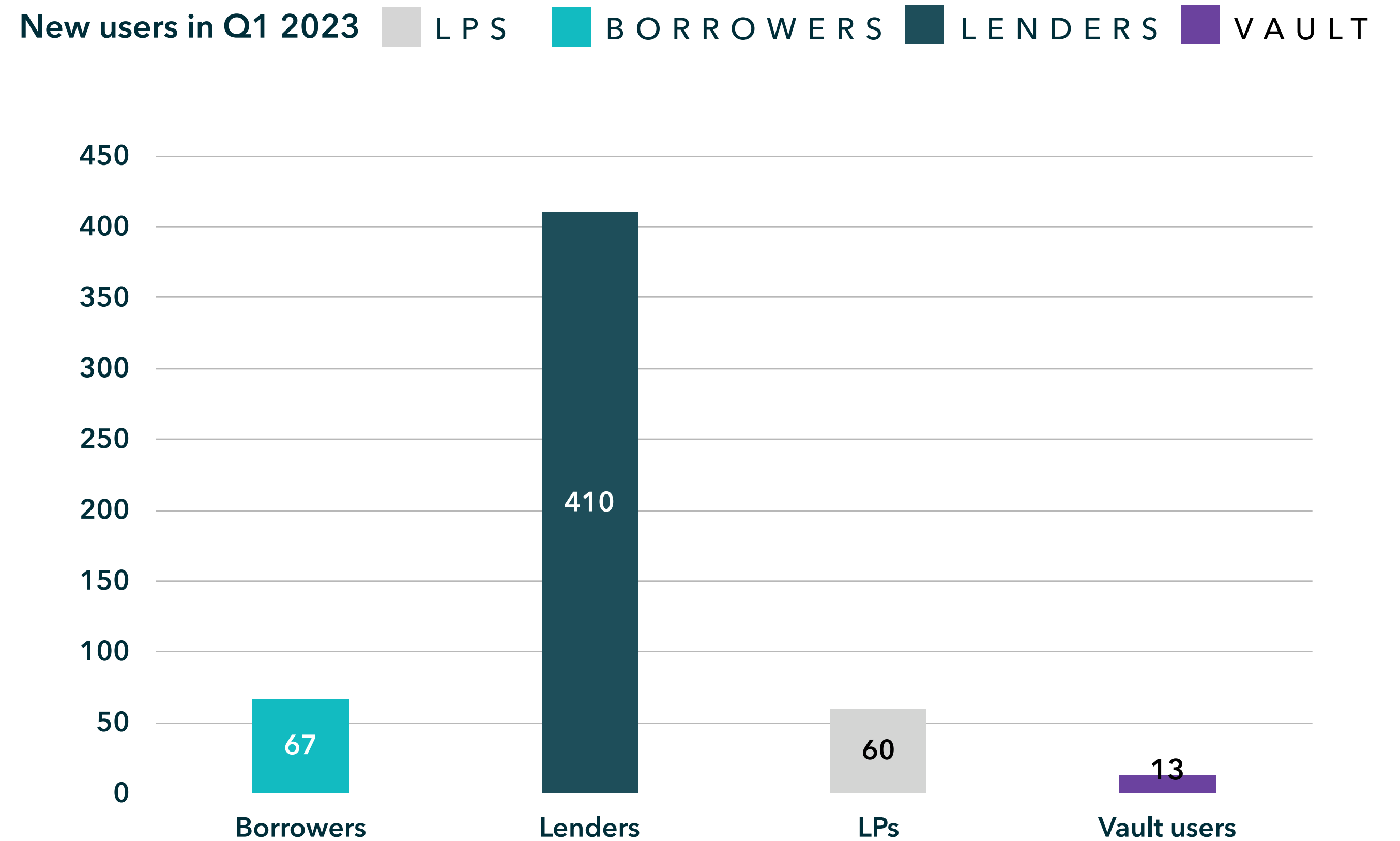
NOTE price range in Q1

USERS

In Q1, 67 new borrowers and 410 new lenders interacted with Notional. This large increase in lenders was in part due to the Crew3 community quest.

Additionally we saw 13 new users enter the Balancer-Aura wstETH/WETH leveraged vault in early Q1. These users borrowed ETH at fixed rates to enter the strategy pushing ETH interest rates upwards of 8%.

60 new LPs also minted nTokens over the quarter.



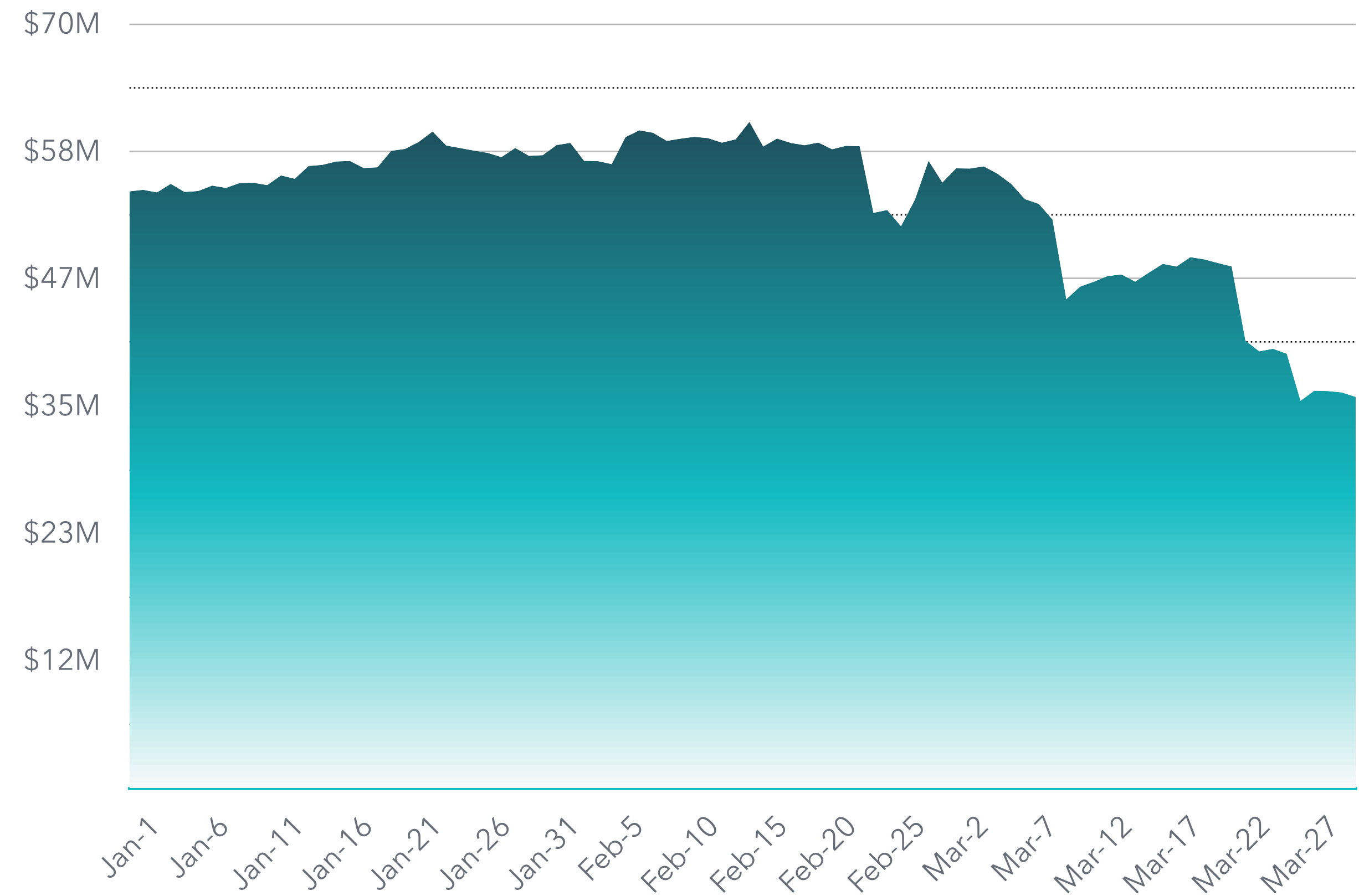
TOTAL VALUE LOCKED (TVL)

Notional's TVL was down in Q1 starting the quarter at \$55M and ending it at \$36M.

We anticipate that the launch of additional 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 trading pools stabilizing the protocol's TVL.

Additionally listing new markets and the upcoming launch of Notional V3 should also have a positive impact on TVL in 2023.

Notional Total Value Locked (TVL) - Q1 2023



TRADING VOLUME

In Q1, Notional facilitated \$43M in total trading volume.

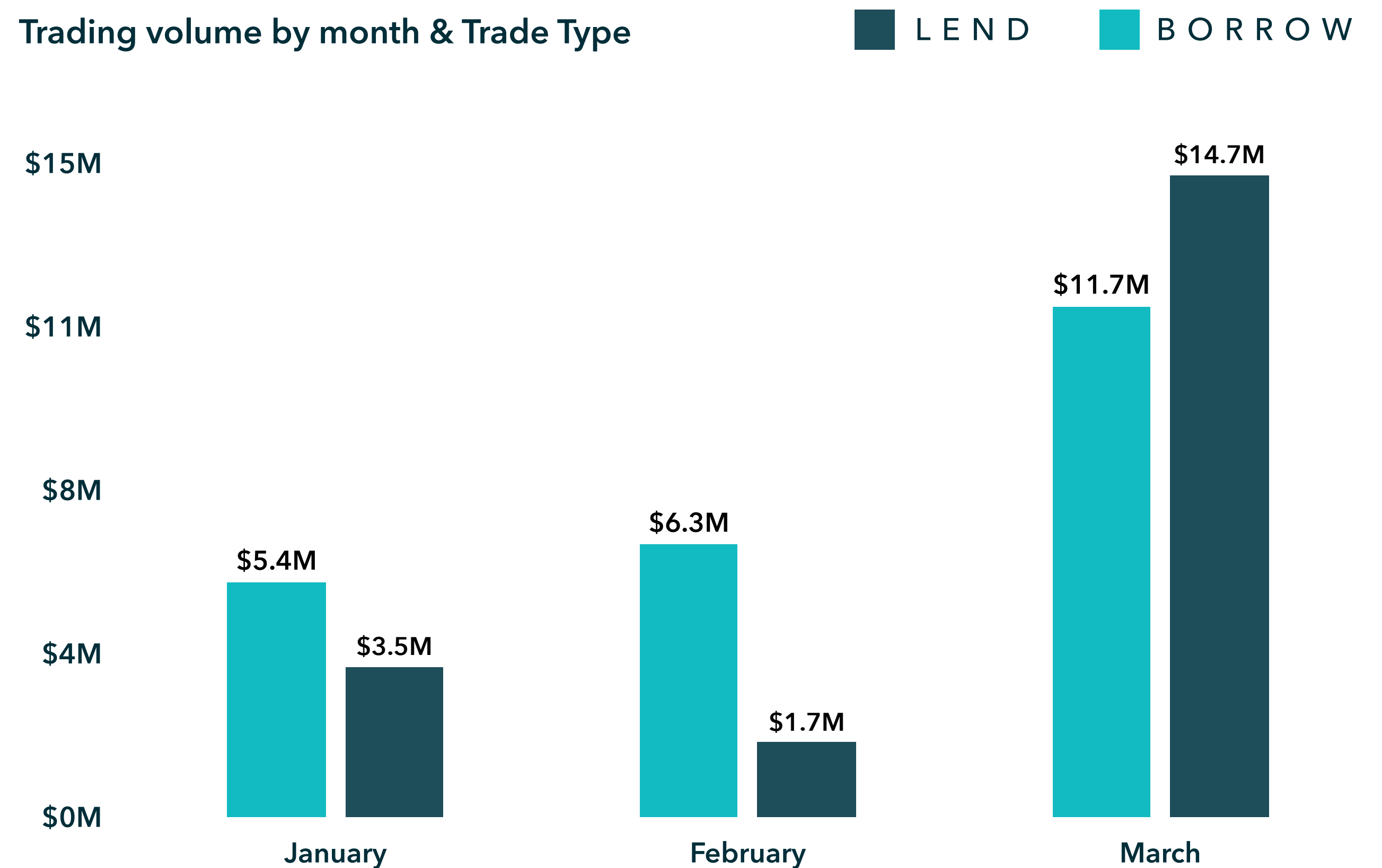
Trading volume was particularly strong in March due to the quarterly roll.

Notional facilitated \$9M of volume in January, \$8M in February, and \$26M in March.

54% of the overall trading activity was driven by borrowers while the remaining 46% was driven by lenders.

We anticipate that the launch of additional leveraged vault strategies, the addition of new markets, and the launch of Notional V3 will have a positive impact on trading volumes over the coming quarters.

Trading volume by month & Trade Type



TRADING VOLUME

Of the \$43M in trading volume, 43% came from fUSDC trading, 20% from fDAI, 1% from fWBTC, and 36% from fETH.

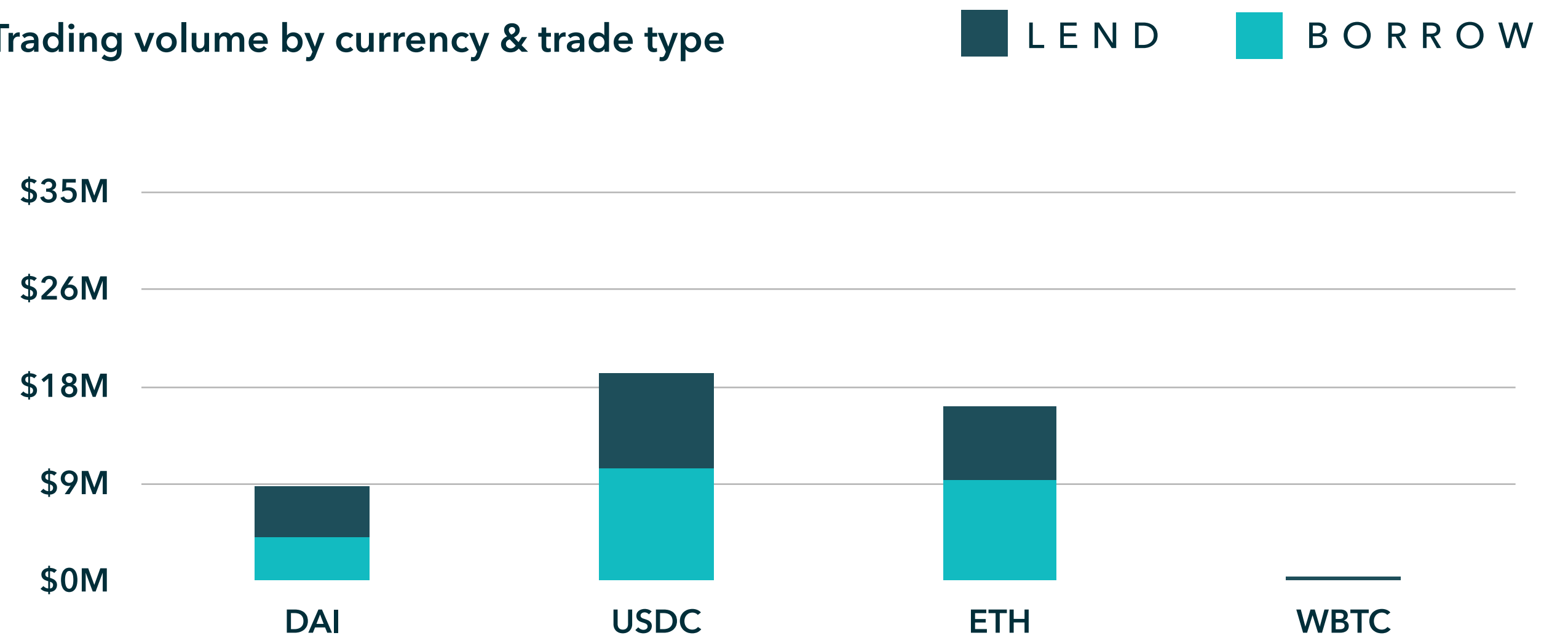
The proportion of ETH trading volume was up from 20% in Q4 2022 to 36% in Q1 due to the increase in activity from leveraged vault users. In fact 61% (\$9.6M) of the total fETH trading volume came from leveraged vaults.

We expect fETH markets to continue to represent a higher proportion of Notional's trading volume in 2023 as we launch Liquid Staking Derivatives markets.

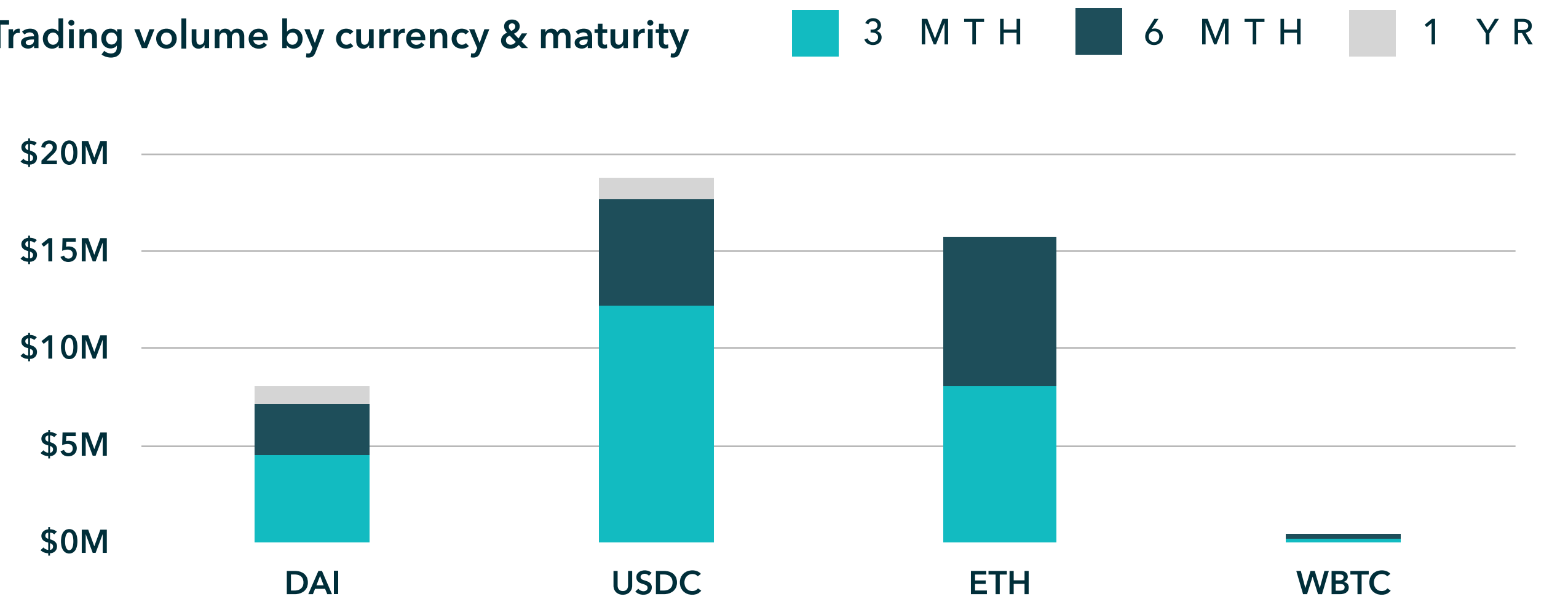
Let's also note that 58% of Notional's trading activity was executed in 3 Month pools, 37% in 6 Month pools, and 5% in 1 Year pools.



Trading volume by currency & trade type



Trading volume by currency & maturity

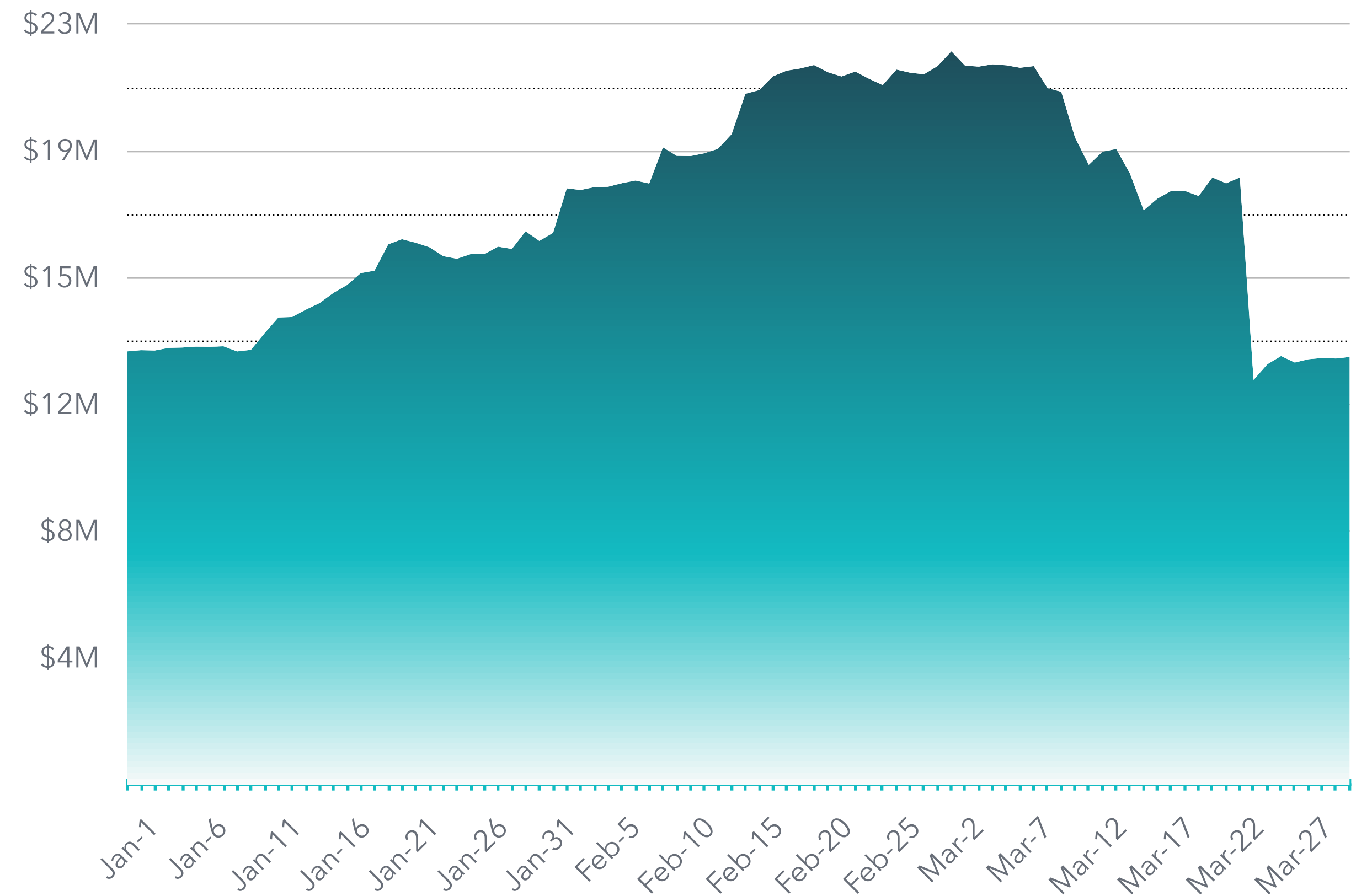


OPEN BORROW

In Q1, the protocol's outstanding open borrow positions remained flat at \$13M. Open borrow reached \$22M in February due to high leveraged vault usage. Some loans were closed around the March 23rd quarterly roll explaining the decrease in open borrow around that time.

We expect open borrow positions to increase over the upcoming quarters due to the launch of additional leveraged vault strategies and the introduction of leveraged interest rate trading with Notional V3.

Open Borrow - Q1 2023



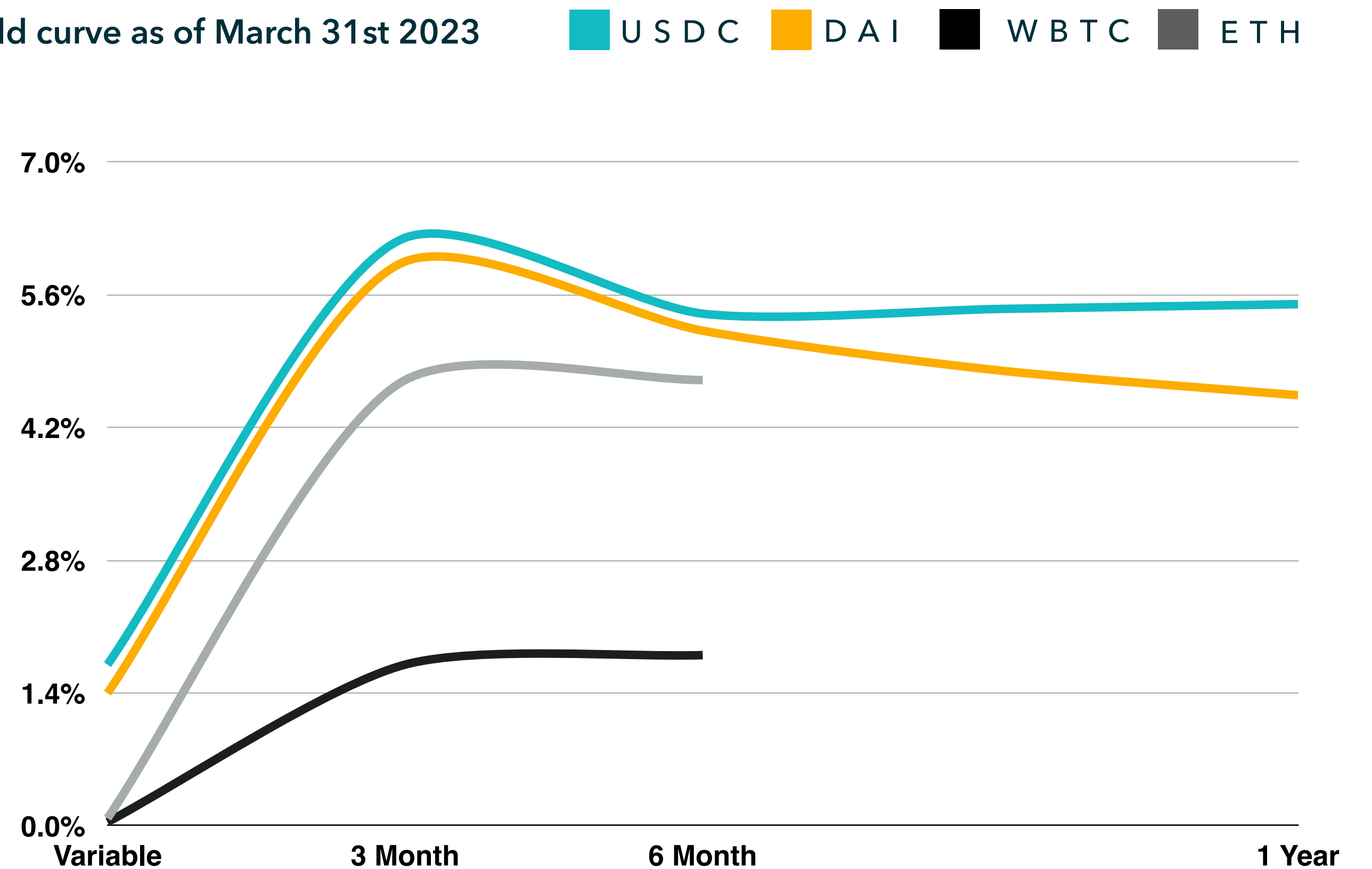
INTEREST RATES

As of March 31st the USDC and DAI interest rate curves were slightly downward sloping allowing users to lend at up to 6.3% in the 3M USDC maturity.

High utilization of the Balancer-Aura wstETH/WETH leveraged vault had a significant impact on ETH rates pushing the 6 month rates up to 8.7% at one point. The impact leveraged vaults had on rates clearly shows that borrowers are willing to borrow at higher rates if they can enter a yield strategy with the assets they borrow.

Notional rates have once again remained considerably higher than Compound lending rates in Q4.

Yield curve as of March 31st 2023

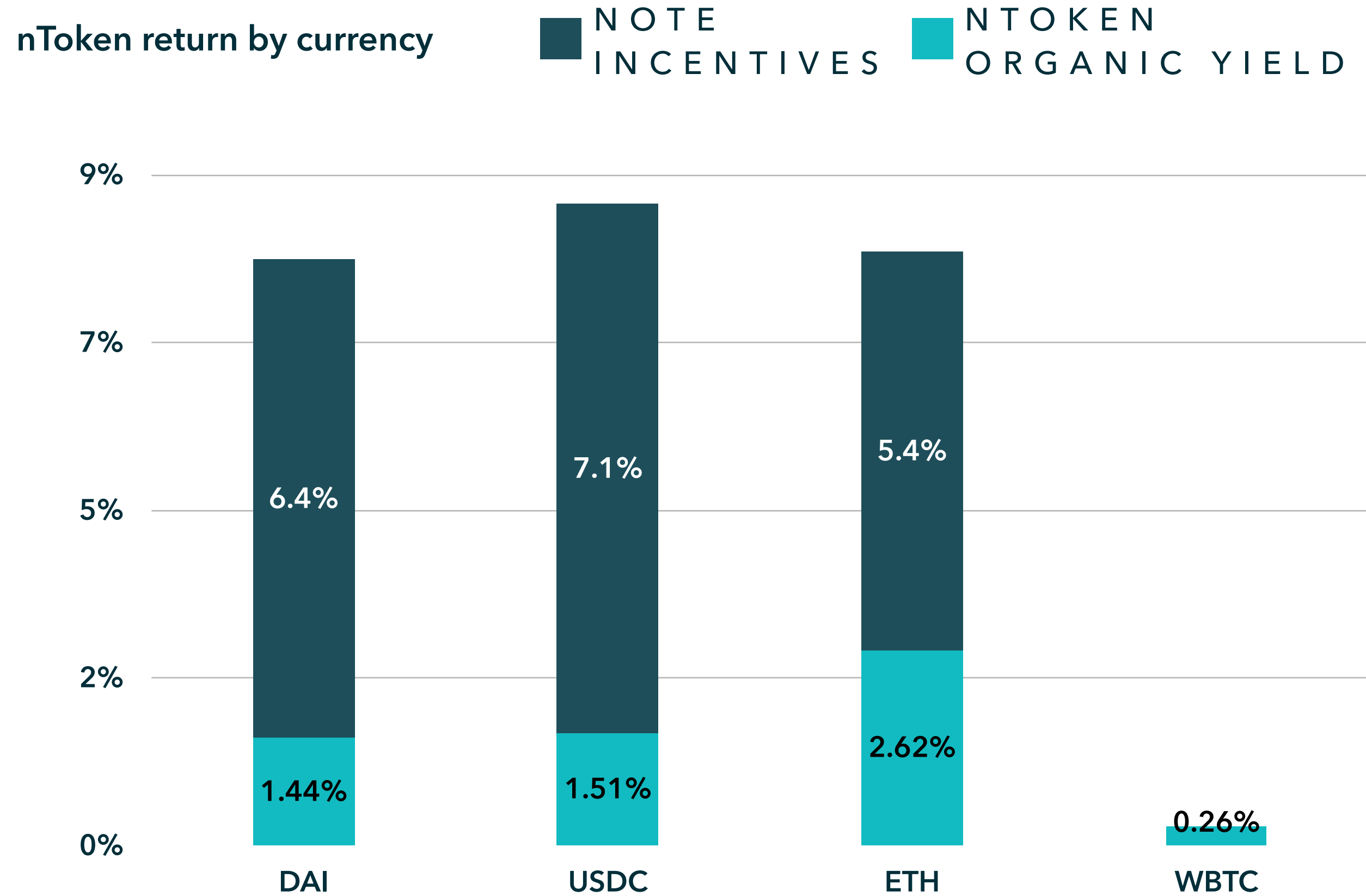


N T O K E N R E T U R N S

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 8.62% and 7.87% respectively in Q4.

Organic nTokens yields were up for the quarter with returns of about 1.5% for stablecoins due to higher Compound supply rates. The nETH organic yield increased to 2.6% due to higher ETH trading fees and higher organic borrowing demand from leveraged vault borrowers. Let's note that the cETH supply rate was only 0.1% during that time which shows the net effect of leveraged vaults on nToken organic returns.

Going forward we anticipate nTokens returns to continue to increase due to the launch of Notional V3 and additional leveraged vaults.



PROTOCOL REVENUE

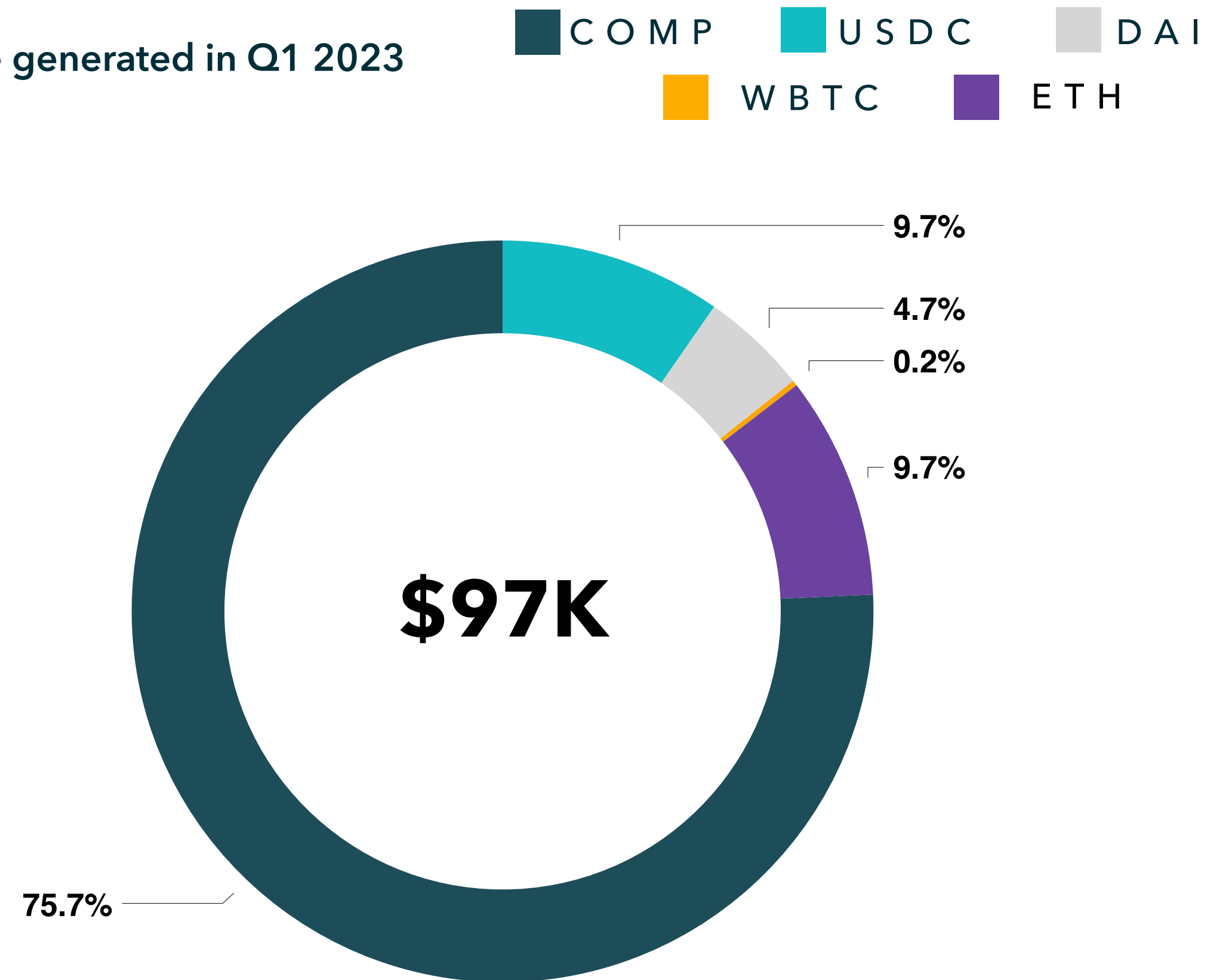
In Q1 the protocol generated \$9K in cUSDC, \$5K in cDAI, and \$9K in cETH from transaction fees.

The protocol also accrued ~1,541 COMP tokens or \$73K for a grand total of \$97K 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.

200 COMP token per week are sold as part of the sNOTE buyback program.

Protocol revenue generated in Q1 2023



LEVERAGED VAULTS

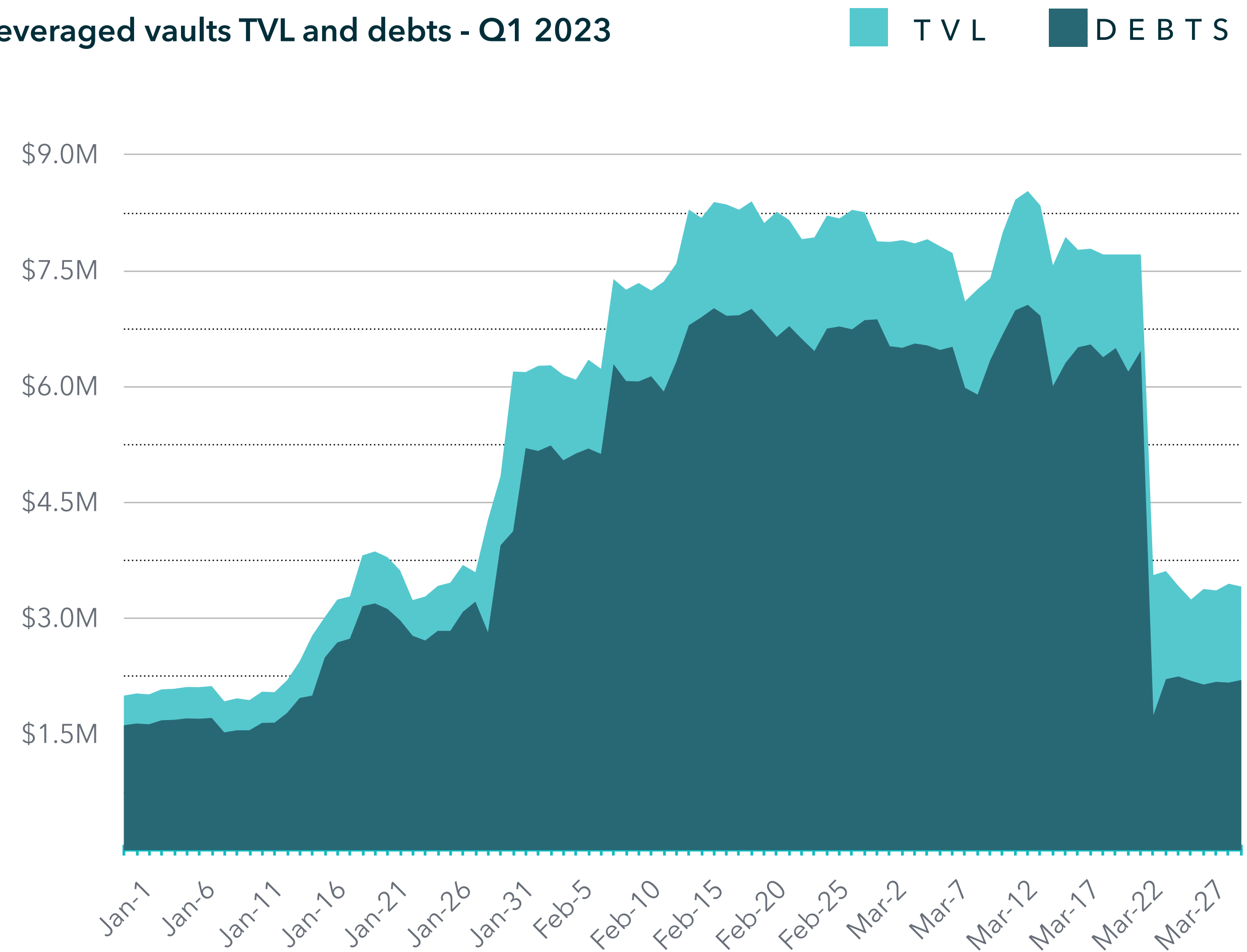
Notional's first leveraged vault strategy - the Balancer-Aura wstETH/WETH leveraged vault launched in early November in Beta.

At its peak in mid February users borrowed 4,180 fETH from Notional to deposit in the strategy.

The sharp decline in TVL in late March is due to the March quarterly roll. Users borrowing in the March maturity had to close out their positions in order to repay their loans

In Notional V3 users will default to a variable borrow rate when their fixed loan matures thereby greatly improving the leveraged vaults UX.

Leveraged vaults TVL and debts - Q1 2023



NOTE TOKEN

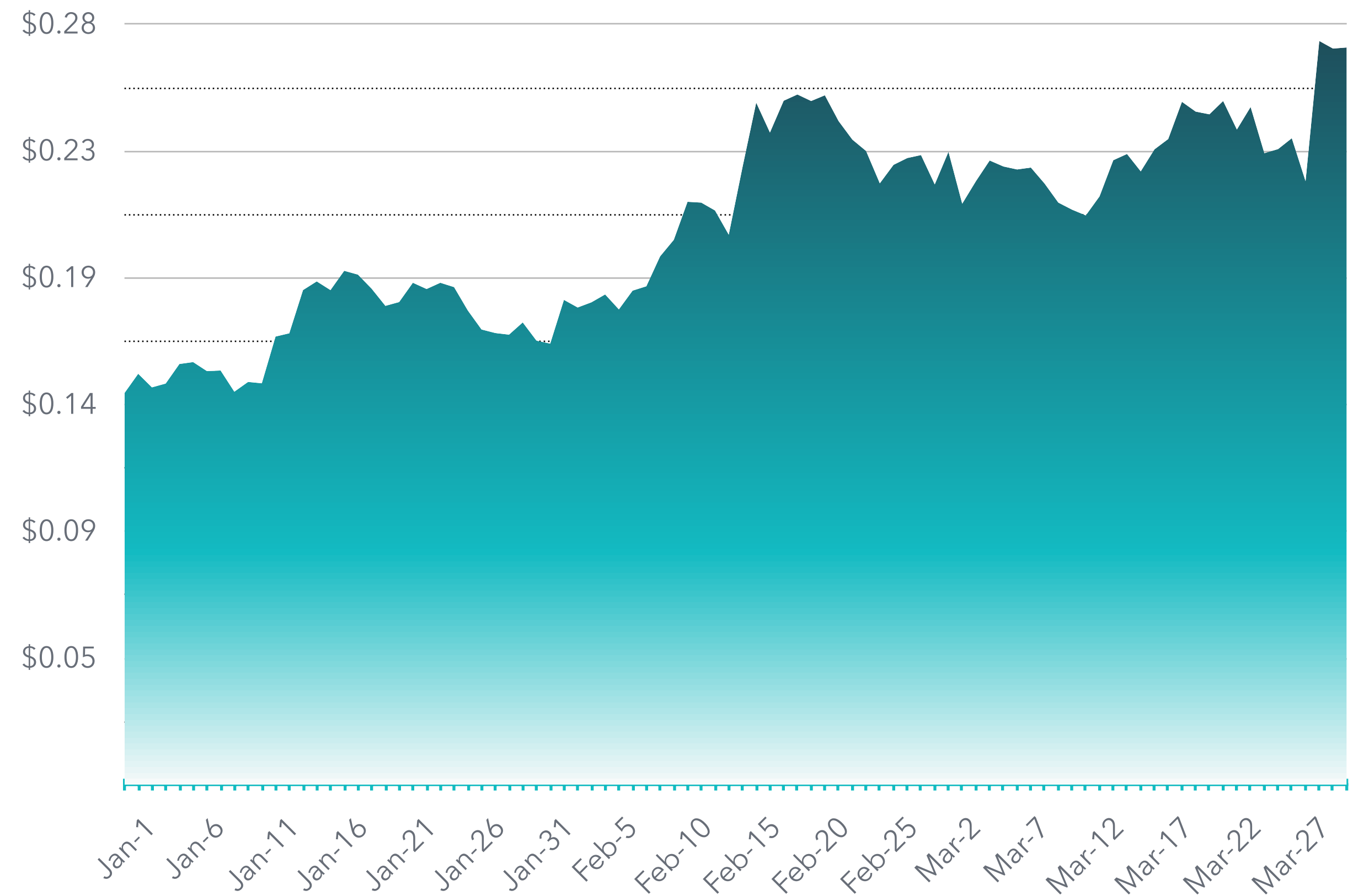
In Q1, the NOTE token price increased from \$0.14 to \$0.27.

The NOTE token price hit an all time low of \$0.14 at the beginning of January.

As of March 31st, the NOTE token price implied a FDV of \$27M.

1,574 Ethereum addresses held NOTE tokens at the end of Q1 or an increase of 100 holders compared to the previous quarter.

NOTE token price - Q1 2023



NOTE STAKING

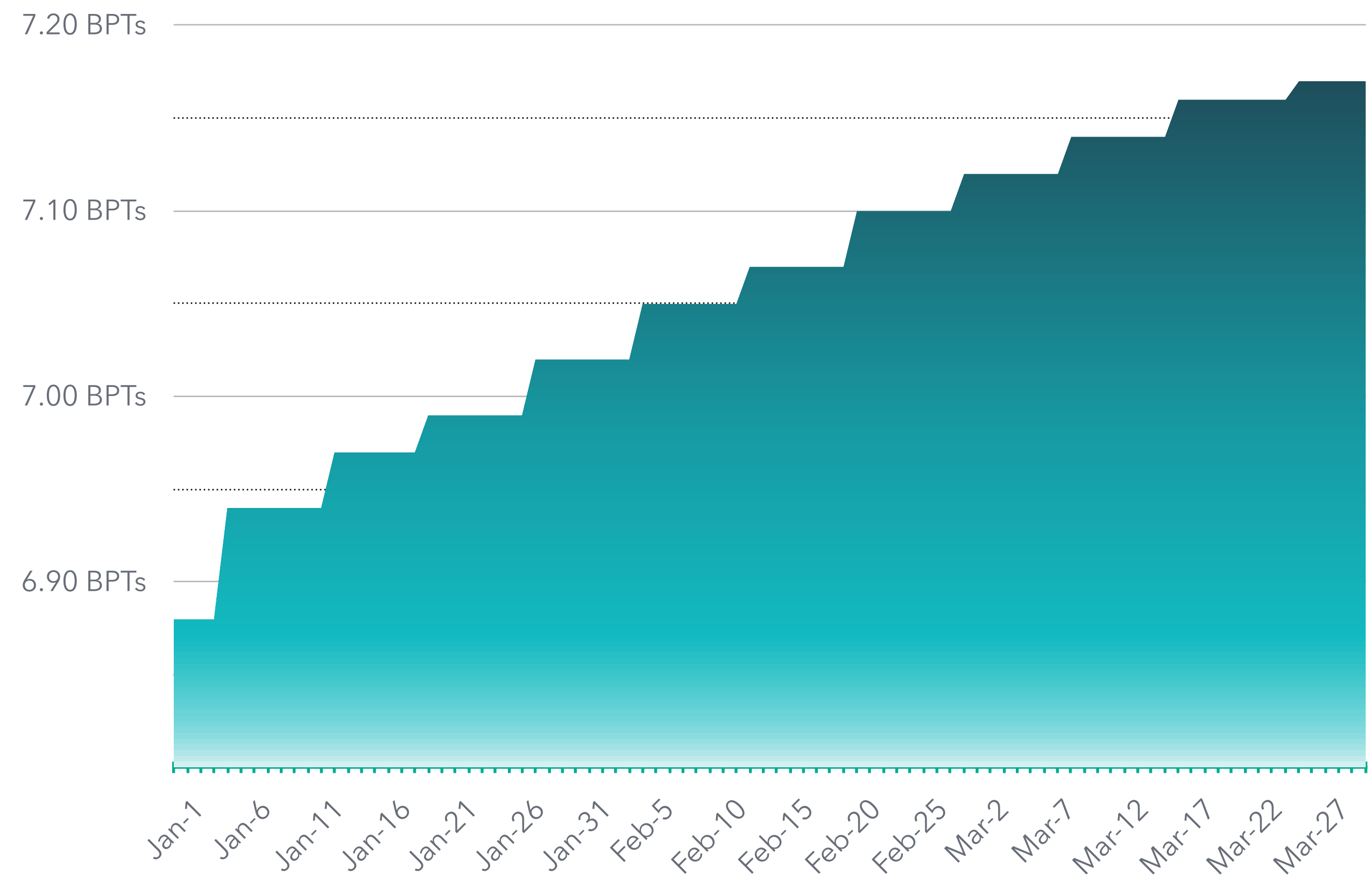
As of March 31st, 11.3M NOTE tokens and 404 ETH were deposited in the NOTE staking module.

Since launch the treasury manager bought back BPT for sNOTE holders for a total amount of 420 ETH and 180K NOTE. ETH buybacks were financed by the treasury manager selling a total of 11,545 COMP tokens.

These buybacks increased the amount of BPTs held per sNOTE from 6.88 BPT per sNOTE in early January to 7.17 BPT per sNOTE as of March 31st.

214 Ethereum addresses held sNOTE tokens at the end of Q1 a decrease of 18.

Number of BPTs per sNOTE - Q1 2023



UPCOMING DEVELOPMENTS

The Notional core team is currently working on the following initiatives:

- Audit and testing of Notional v3;
- Launch of new leveraged vault strategies such as the Balancer-Aura Boosted Stablecoin pool strategy;
- Addition of new collateral assets and new markets;
- UI redesign.

