



QUARTERLY REPORT

**Q2 2023**

# S U M M A R Y

The second quarter proved to be relatively slow for Notional V2 as the team focussed its efforts on the upcoming release of Notional V3.

Throughout the quarter, Notional observed a slight decline in its Total Value Locked (TVL), going from \$36 million to \$34 million. The protocol still successfully processed \$20 million in transaction volume despite a decrease in leveraged vault activity due to lower overall vault returns.

Although Notional V2 KPIs have been on the decline over the recent quarters we believe that the release of Notional V3 on Mainnet and Arbitrum will be an inflection point as we turn our focus from development to growth.

We made great progress towards the release of Notional V3 during Q2. We completed the audit of V3 contracts and deployed V3 on Arbitrum for testing purposes. We plan to scale the capacity on Arbitrum as soon as the UI is production ready. Once Notional V3 is fully operational on Arbitrum, we will move forward with the migration of Notional V2 to V3 on Mainnet. From there we will focus on growing Notional V3 by listing new markets and new vaults.

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



# OVERVIEW

In Q2 Notional facilitated \$20M in trading volume and generated \$15K in protocol revenue. As of June 30th, Notional also managed to attract and retain more than \$34M in capital from its LPs.

Multiple key developments were accomplished in Q2:

- Audit of Notional V3
- Deployment of Notional v3 on Arbitrum for development purposes
- Development of the Notional v3 UI

# KEY METRICS

**\$33.9M**

Total Value Locked (TVL)

**\$19.9M**

Total Loan Volume in Q2

**+77**

New users in Q2

**\$6.4M**

Open borrow as of June 30th

**\$15K**

Protocol revenue in Q2

**\$16M**

Fully Diluted Valuation (FDV)

**\$0.16**

NOTE price as of June 30th

**\$0.15-0.28**

NOTE price range in Q2



# USERS

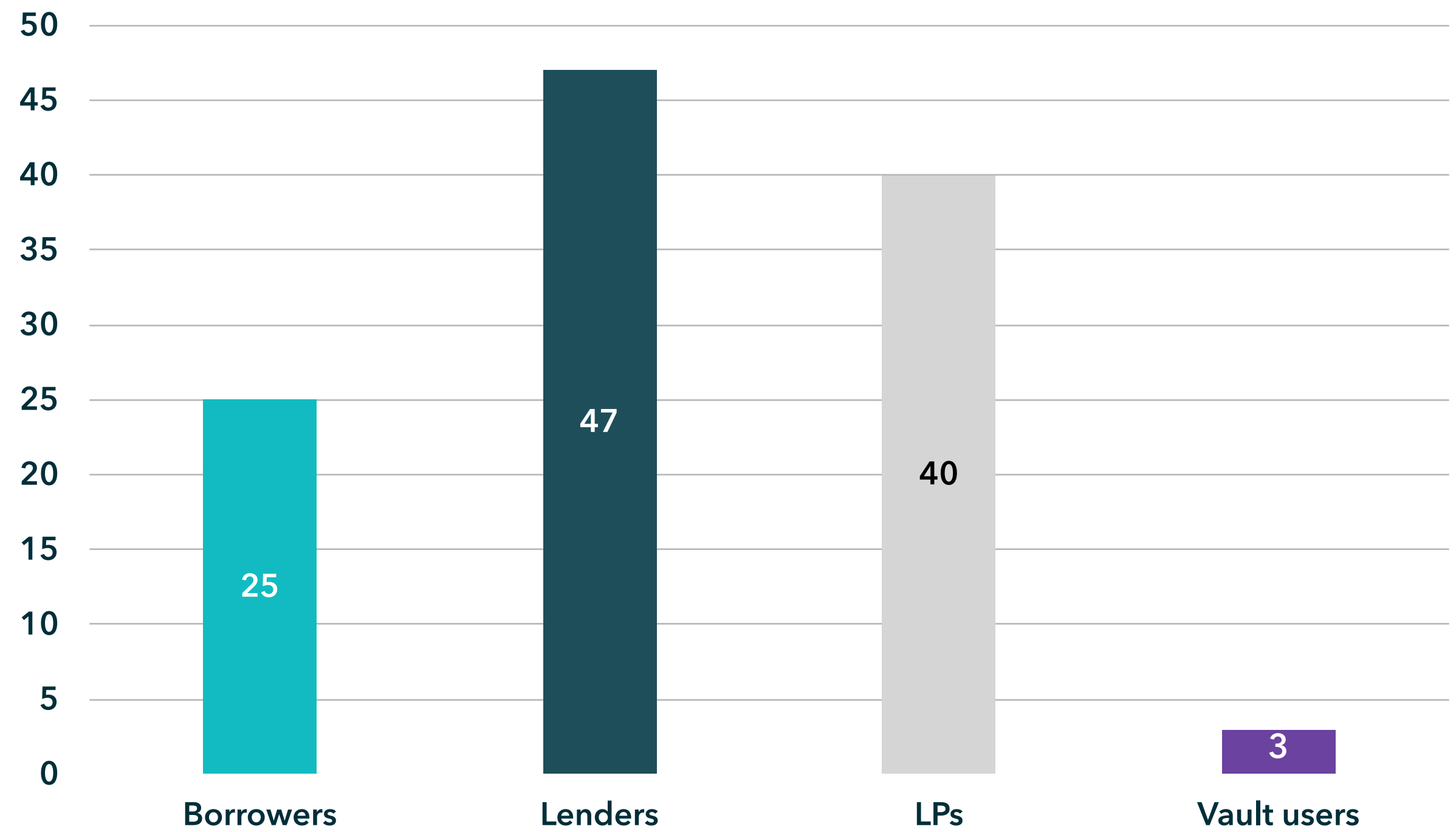
In Q2, 25 new borrowers and 47 new lenders interacted with Notional.

Additionally, we saw 3 new users enter the Balancer-Aura wstETH/WETH leveraged vault despite the strategy generating lower returns.

We also saw 40 new LPs mint nTokens over the quarter.

New users in Q2 2023

- LPS
- BORROWERS
- LENDERS
- VAULT



# TOTAL VALUE LOCKED (TVL)

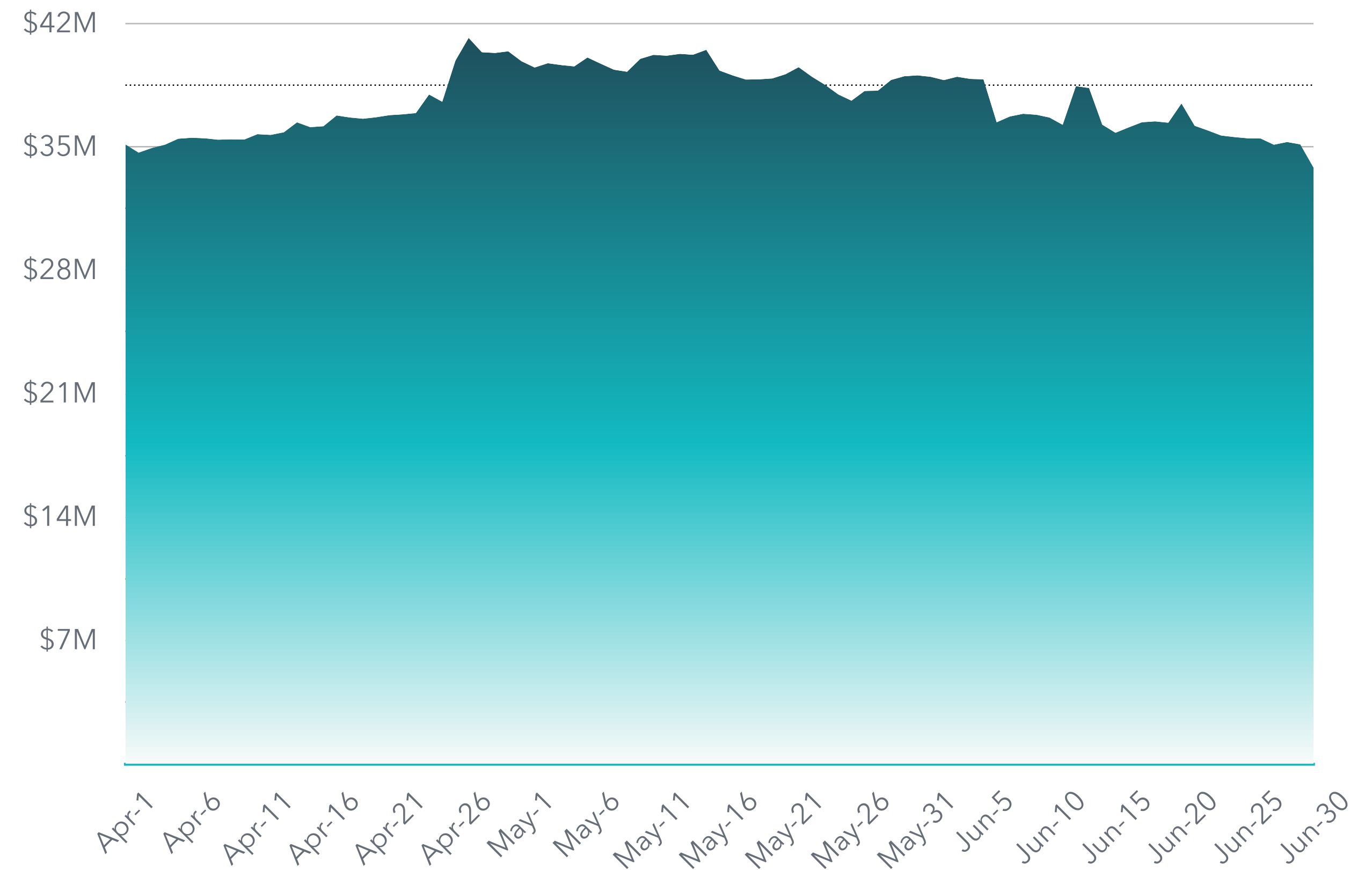
Notional's TVL was slightly down in Q2 starting the quarter at \$36M and ending it at \$34M.

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, higher capital efficiency due to the upcoming launch of Notional V3 as well as the listing of new markets should have a positive impact on TVL in Q3 and Q4 of this year.

Notional Total Value Locked (TVL) - Q2 2023



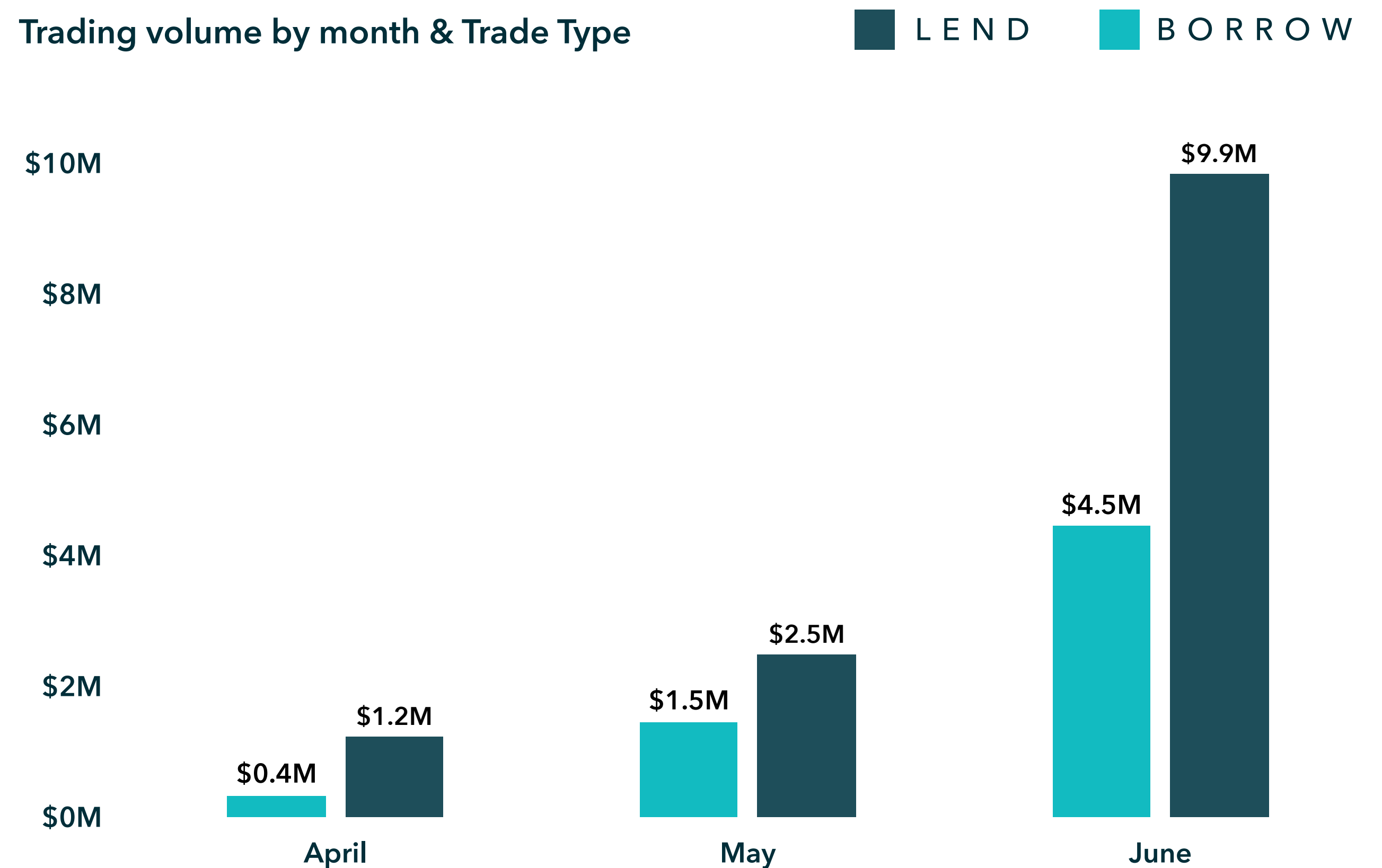
# TRADING VOLUME

In Q2, Notional facilitated \$20M in total trading volume.

Notional facilitated \$1.5M of volume in April, \$3.6M in May, and \$14.3M in June. Trading volume was particularly strong in June due to the June 21st quarterly roll. 32% of the overall trading activity was driven by borrowers while the remaining 68% 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 as users will be able to interact with multiple leveraged vault strategies and trade between variable and fixed rates.

Trading volume by month & Trade Type



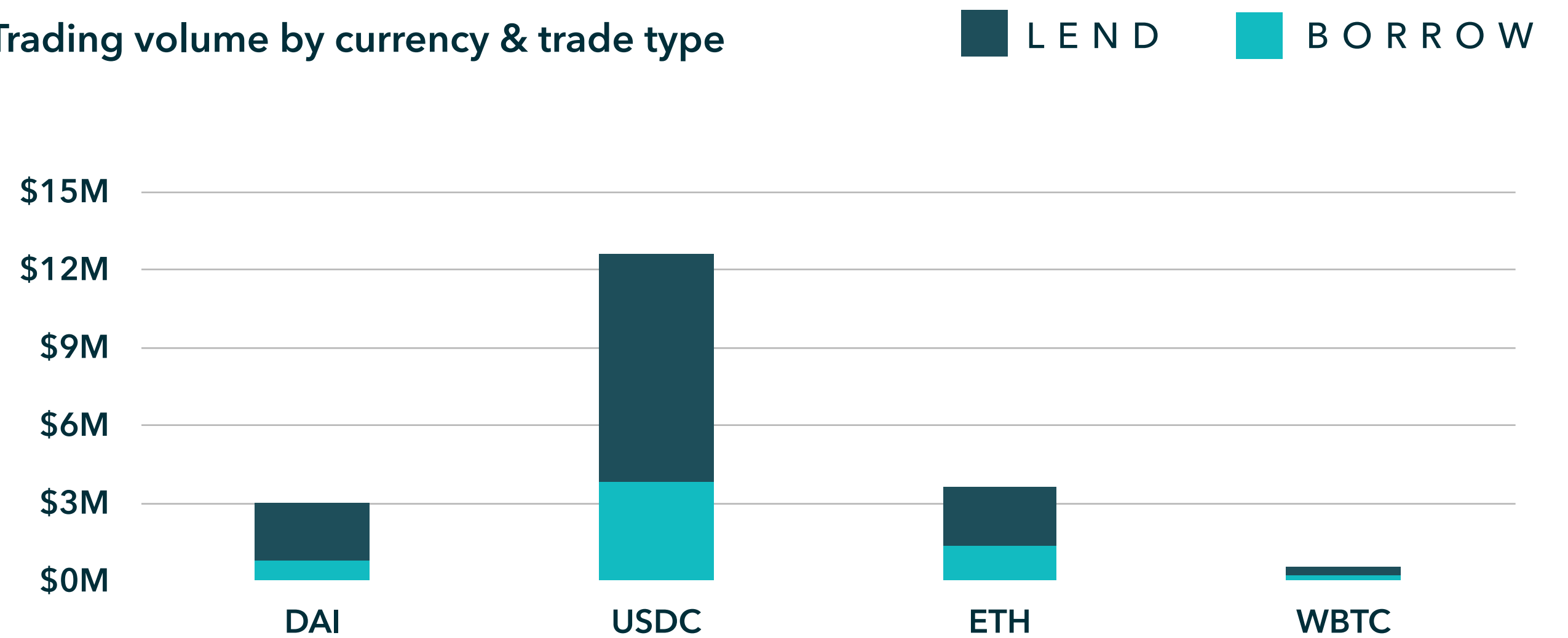
# TRADING VOLUME

Of the \$20M in trading volume, 64% came from fUSDC trading, 18% from fETH, 15% from fDAI, and 3% from fWBTC.

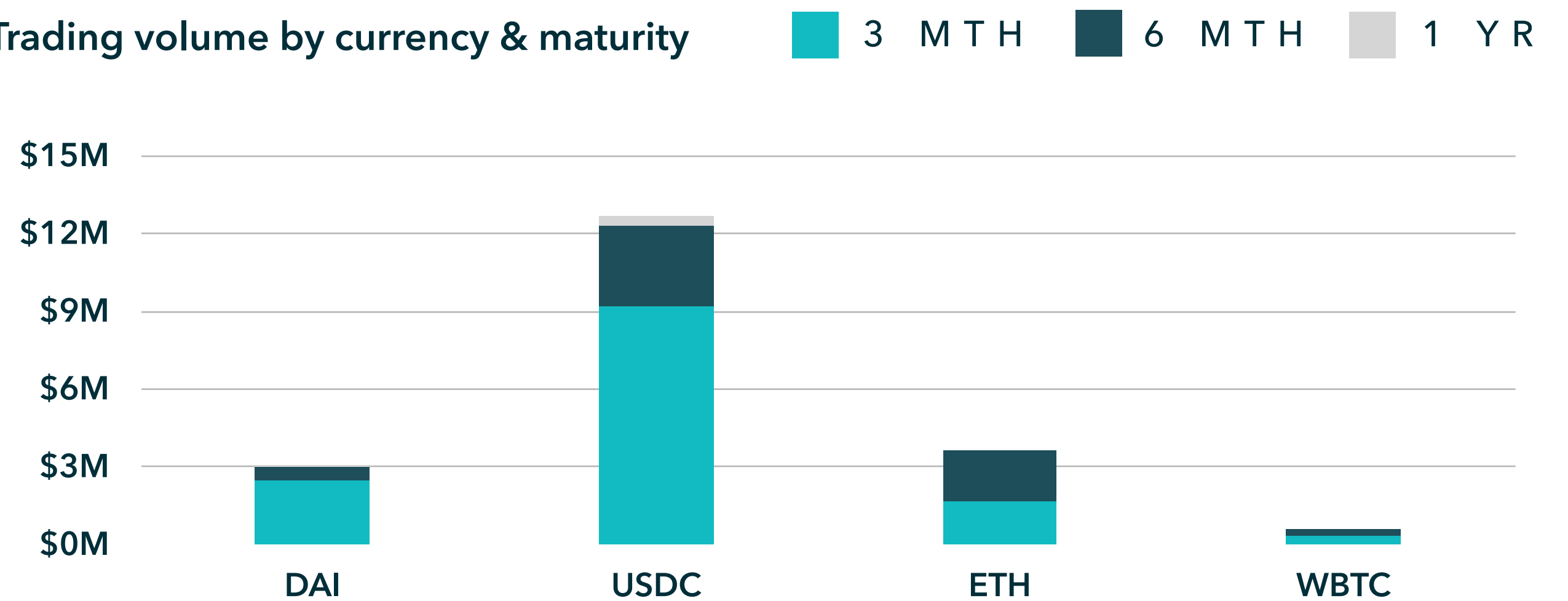
We expect fETH markets to represent a higher proportion of Notional's trading volume in the later part of 2023 as we list Liquid Staking Derivatives markets.

Let's also note that 69% of Notional's trading activity was executed in 3 month pools, 29% in 6 month pools, and 2% in 1 year pools.

Trading volume by currency & trade type



Trading volume by currency & maturity



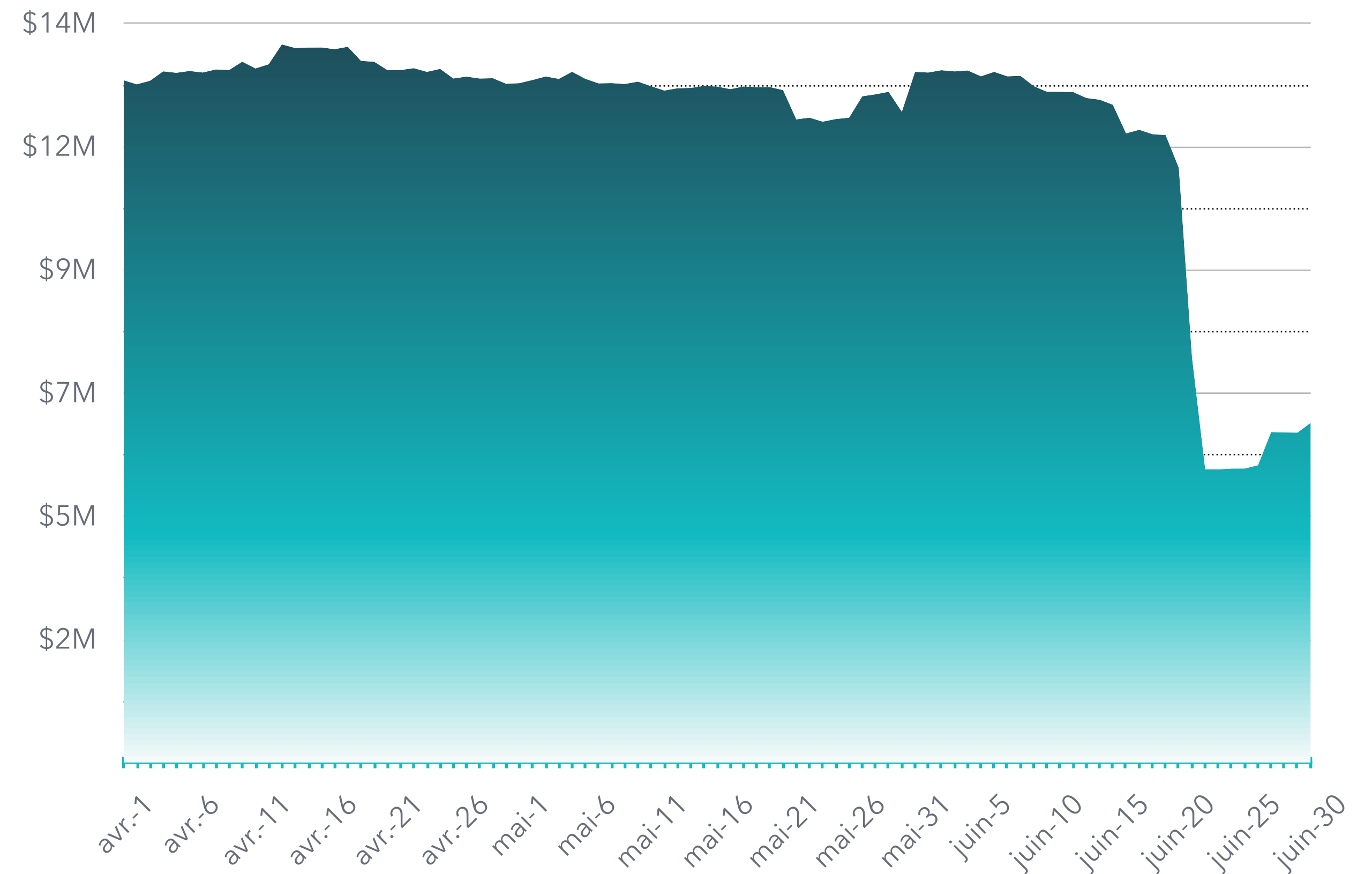
# OPEN BORROW

In Q2, total outstanding open borrow positions decreased from \$13M to \$6.5M.

Open borrow was relatively stable at \$12M over the quarter but declined following the June 21st quarterly roll as user repaid their maturing loans. With Notional V3 users won't have to close their position before maturity and will simply be able to let their fixed rate borrow positions convert to variable rate.

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 - Q2 2023





# INTEREST RATES

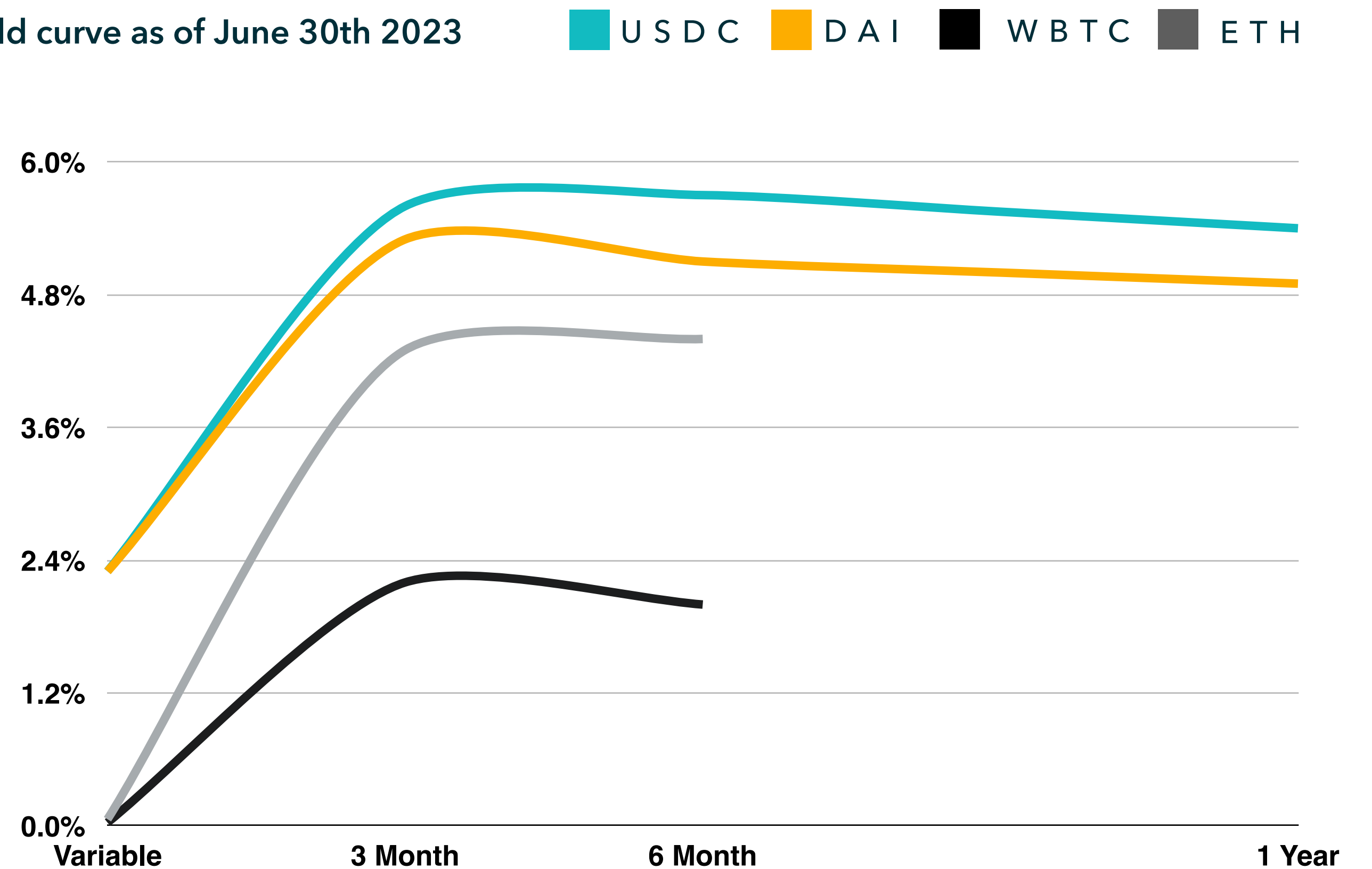
As of June 30th the USDC and DAI interest rate curves were slightly downward sloping allowing users to lend at up to 5.7% in the 3M USDC maturity.

The ETH interest rate curve is relatively flat at 4.3% in the 3M and 4.4% in the 6M. The WBTC interest rate curve was slightly downward sloping allowing users to lend at 2.2% in the 3M maturity and 2.0% in the 6M.

Notional rates have once again remained considerably higher than Compound lending rates in Q2.

With the launch of V3 and Notional's own variable rate markets we expect users to borrow fixed and lend variable to keep rates more in line.

Yield curve as of June 30th 2023

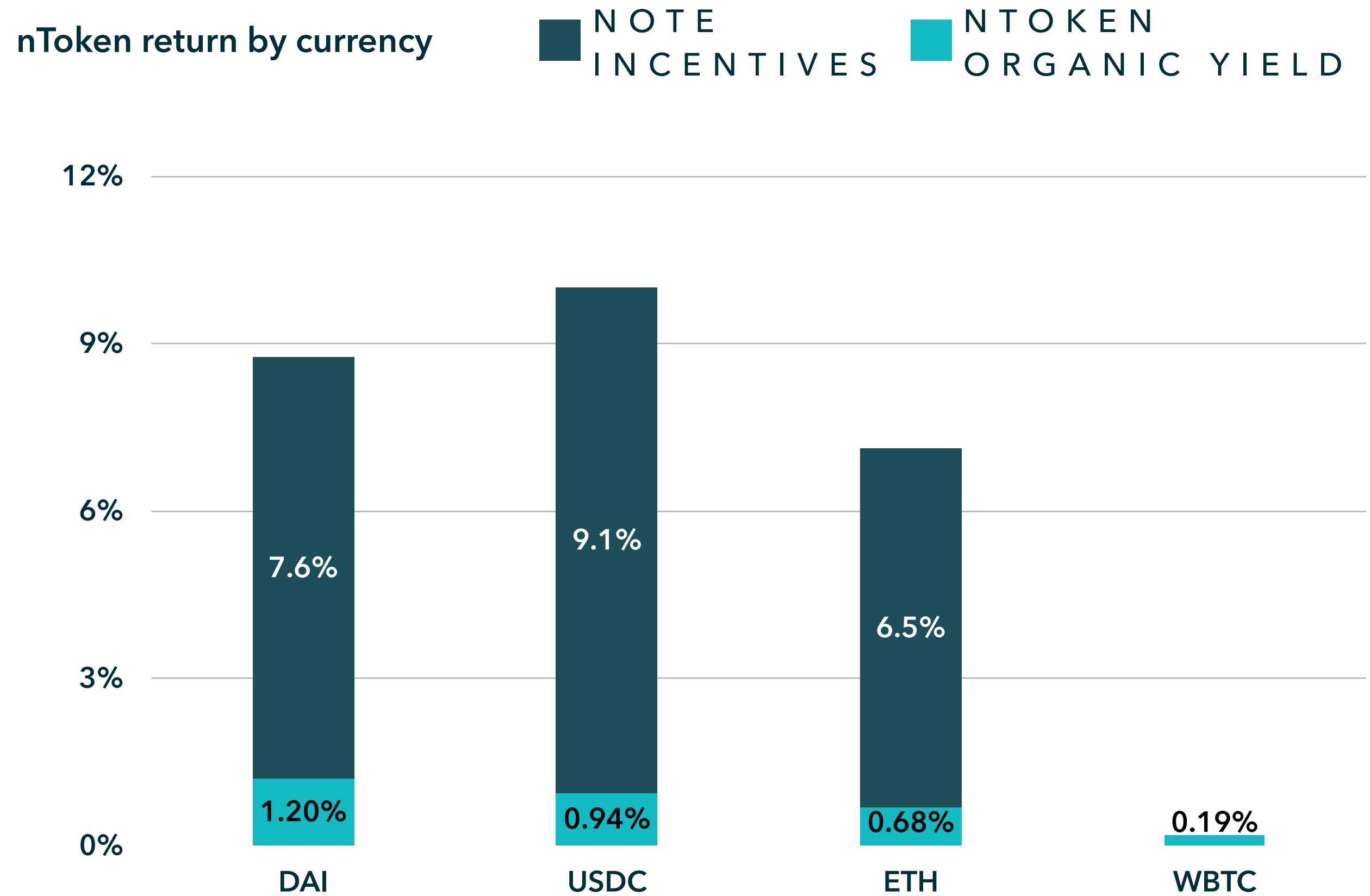


# N T O K E N   R E T U R N S

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 10.02% and 8.77% respectively in Q2. The nETH organic yield decreased from 2.6% to 0.68% due to lower ETH utilization from leveraged vault borrowers.

Going forward we anticipate nTokens returns to increase due to higher organic returns from Notional V3 Prime Cash and higher borrowing demand from leveraged vaults users.



# PROTOCOL REVENUE

In Q2 the protocol generated \$5.4K in cUSDC, \$1.2K in cDAI, and \$1.5K in cETH from transaction fees. The protocol also accrued ~658 COMP tokens or \$6.2K for a total of \$14.6K in revenue during the quarter.

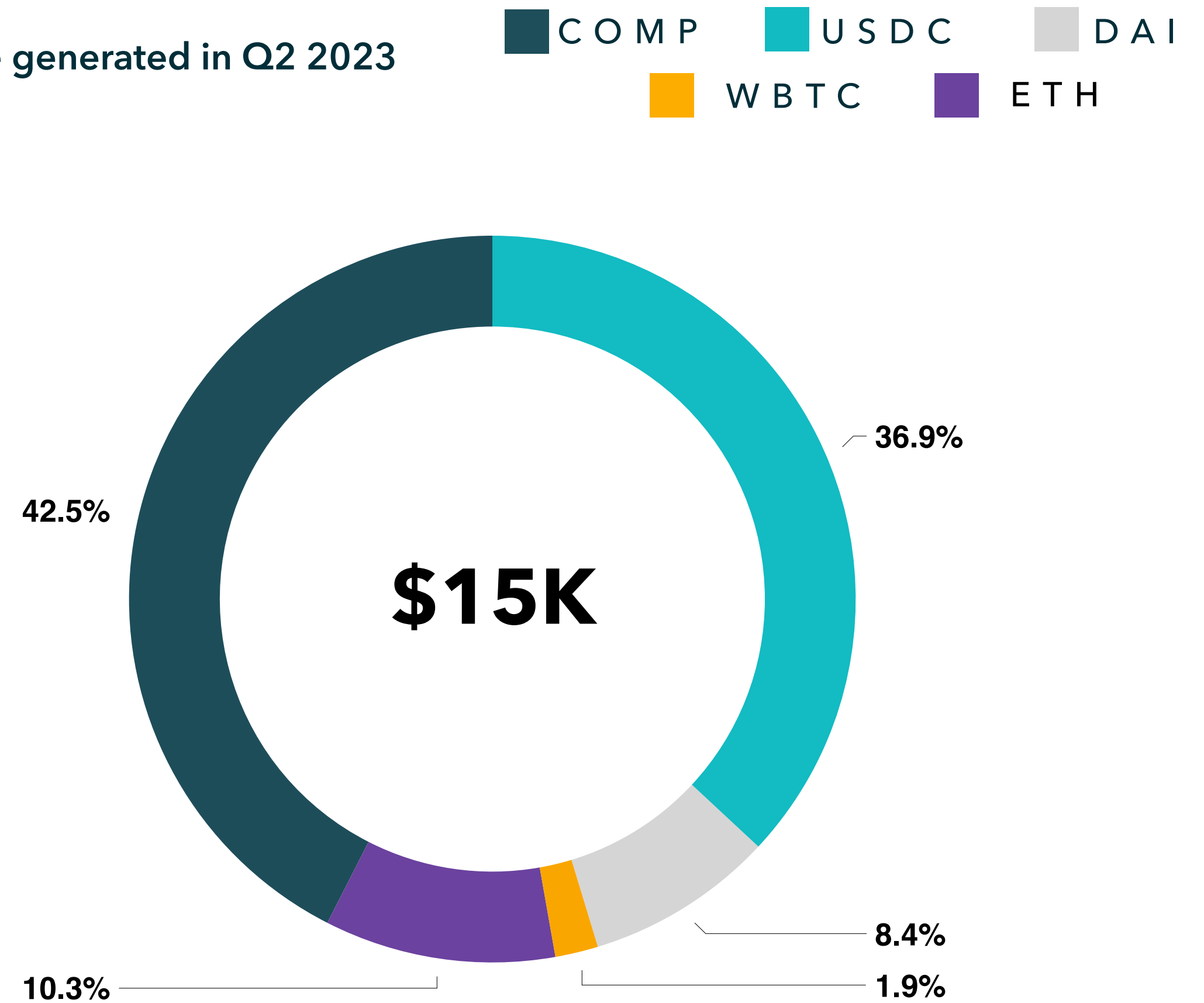
The protocol's COMP revenues decreased substantially during the quarter due to Notional's migration of user funds out of Compound v2. As a result of the migration, the protocol stopped accruing COMP incentives on April 17th.

Due to the NOTE staking module reinvestment plan, part of the protocol's COMP reserves were sold to the benefit of sNOTE holders.

A total of 1,660 COMP tokens were sold as part of the sNOTE buyback program in Q2.



Protocol revenue generated in Q2 2023



# NOTE TOKEN

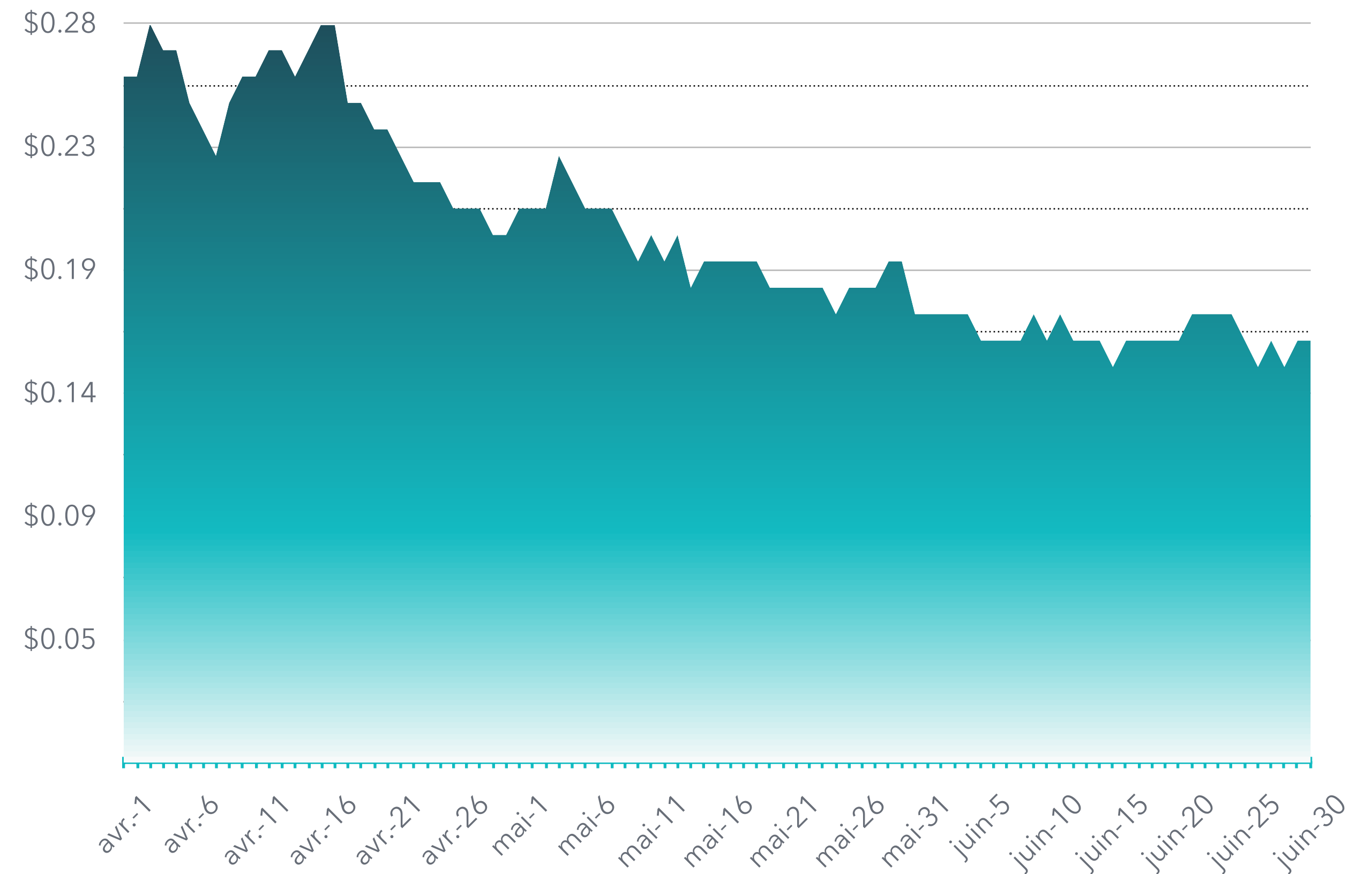
In Q2, the NOTE token price decreased from \$0.27 to \$0.16.

The NOTE token price hit an all time low of \$0.15 at the end of June. As of June 30th, the NOTE token price implied a FDV of \$16M.

1,551 Ethereum addresses held NOTE tokens at the end of Q2 or a decrease of 23 holders compared to the previous quarter.

One user also created two Uniswap V3 NOTE trading pools (NOTE/ETH 1% and NOTE/USDT 1%) enabling Uniswap users to purchase NOTE directly.

NOTE token price - Q2 2023





# NOTE STAKING

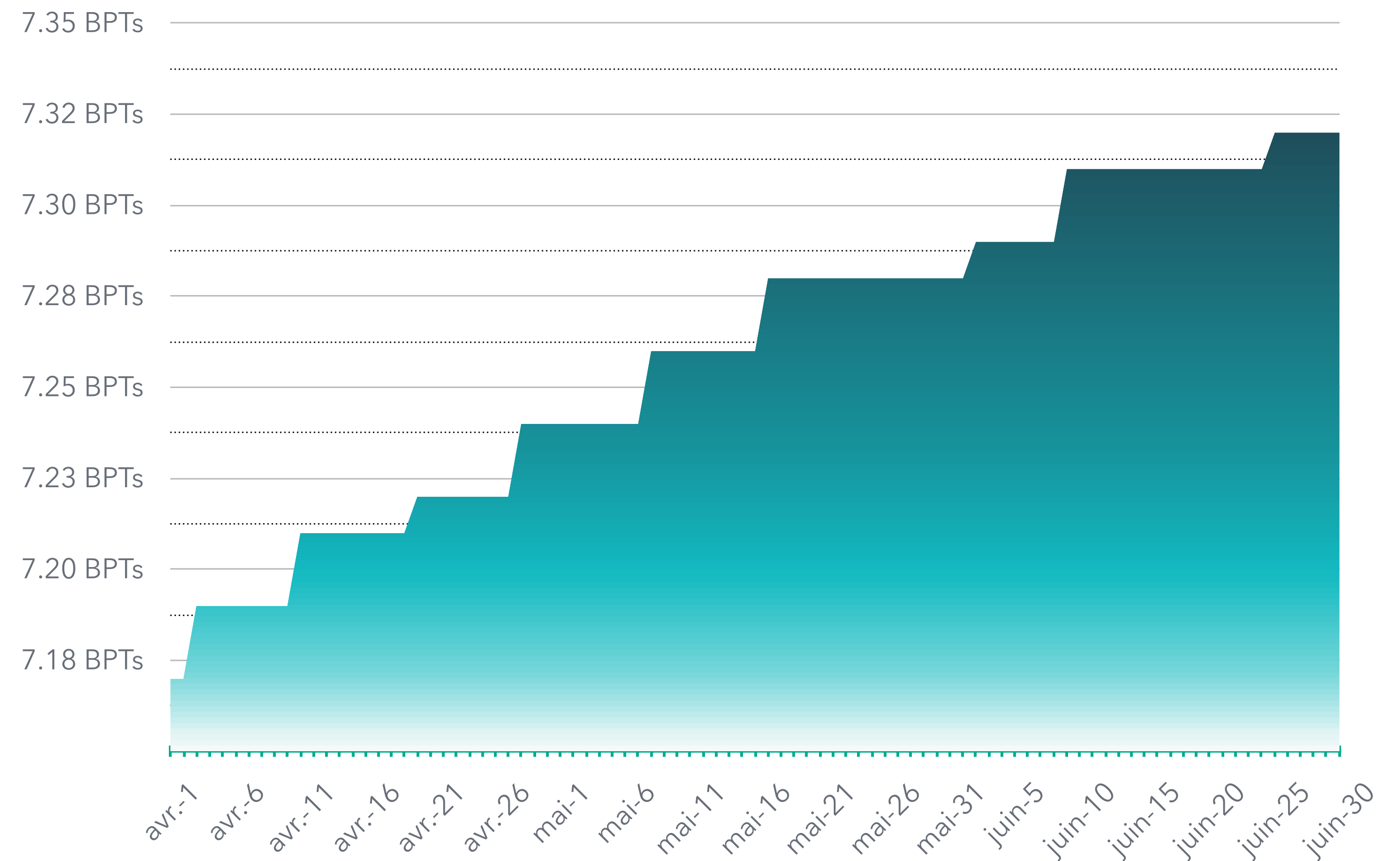
As of June 30th, 12.1M NOTE tokens and 258 ETH were deposited in the NOTE staking module.

During the quarter the treasury manager performed buybacks by selling a total of 1,660 COMP tokens for ~ 41 ETH.

These buybacks increased the amount of BPTs held per sNOTE from 7.17 BPT per sNOTE in early April to 7.32 BPT per sNOTE as of June 30th.

206 Ethereum addresses held sNOTE tokens at the end of Q2 a decrease of 8 during the quarter.

Number of BPTs per sNOTE - Q2 2023



# UPCOMING DEVELOPMENTS

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

- Testing of Notional v3 on Arbitrum in anticipation of launch during the quarter;
- UI redesign for Notional v3;
- Launch of new leveraged vault strategies (Convex and Aura) on Arbitrum;
- Launch of new markets on Arbitrum;

