

Notional | Activity Report

Q4 2021 (1/2)



Key Metrics

As of Dec 31, 2021

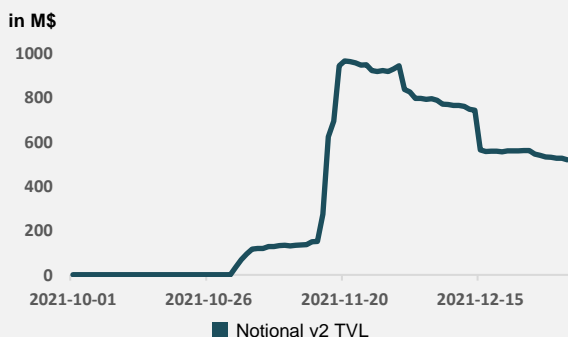
| | |
|------------------------------------|----------------|
| Current NOTE Token Price | \$1.98 |
| 52 Week Range | \$1.88 – 21.79 |
| Total NOTE Token Supply | 100M |
| Fully Diluted Valuation (FDV) | 198M |
| Total Value Locked (TVL) | \$520M |
| Total Lending Volume - Q4 2021 | \$116M |
| Total Borrowing Volume - Q4 2021 | \$137M |
| Unique Users (Borrowers & Lenders) | 145 |

Overview

- Q4 2021 was a crucial quarter for Notional with the **launch of v2**, in early November.
- Notional v2 introduced **longer dated maturities** (up to 1 year) as well as a fully-passive LP experience through yield bearing assets called **nTokens**.
- Since the launch of v2 the protocol facilitated more than **\$250M** in trading volume generating more than **\$330K** in protocol reserves.
- As of December 31st, Notional managed to attract more than **\$520M** in capital from LPs.

Total Value Locked (TVL)

Notional v2 TVL - Q4 2021

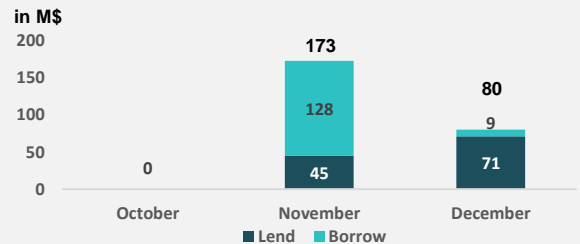


Notional's TVL reached ~\$150M in the first week following the launch of v2. This number sharply increased to almost **\$1B** in November following the launch of the Balancer NOTE/WETH pool. High NOTE token prices in mid November incentivized LPs to mint large amounts of nTokens.

As of December 31st, Notional's TVL sits at roughly **\$520M** allowing borrowers and lenders to trade large amounts of fCash (Notional's zero coupon bond instrument) at low interest rate slippage.

Trading volume

Trading volume by month & trade type

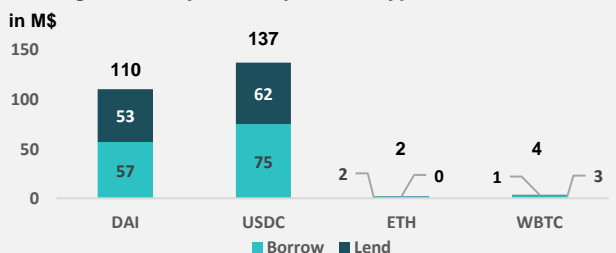


In Q4, Notional facilitated **\$253M** in trading volume. **54%** of that activity was driven by **borrowers** while the remaining **46%** was driven by **lenders**.

Most of the borrowing activity occurred in November as some LPs borrowed against their nToken collateral in order to mint additional nTokens pushing interest rates higher in the process.

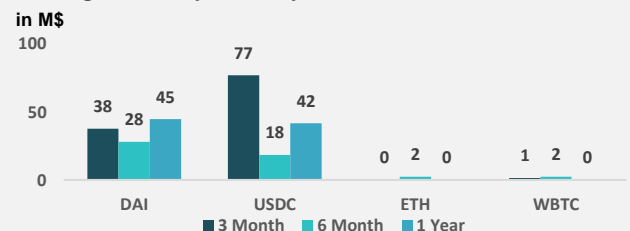
We then saw more lending activity in December as some borrowers closed out their positions and as lenders started locking-in high fixed rates.

Trading volume by currency & trade type – Q4



Over the quarter, **97.6%** of the trading activity occurred in USDC (54.1%) and DAI (43.5%) trading pools. The demand for ETH and WBTC fixed rates was relatively dismal in comparison.

Trading volume by currency & maturities – Q4



Most of the trading activity for USDC and DAI occurred in the 3 Month and 1 Year pools. This reflects that some LPs borrowed against their nTokens with a short time horizon while others were more long-term oriented and wanted to benefit from the certainty of fixed rates.



Rates

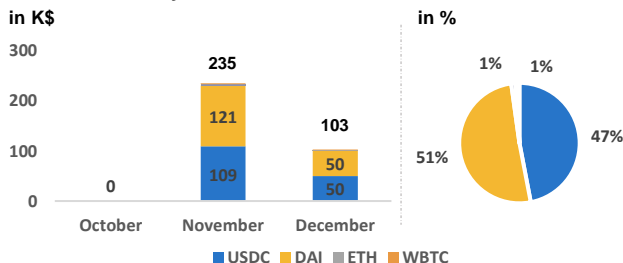
Interest rates started at **4%** for all USDC and DAI pools and quickly increased as LPs levered up. The 3 month rates surpassed **11%** and the 1 year rates hovered above **9%** for most of the quarter.

As a consequence of LPs leveraging up, the USDC and DAI yield curves were predominantly downward sloping in Q4. We could interpret this as a sign that Notional borrowers are more **short-term oriented** while Notional lenders are more **long-term oriented**. Or this could also be interpreted as a sign of an impending **crypto bear market!**

On a side note, ETH and WBTC rates increased from **0.9%** to **2.7%** and **2.9%** respectively mainly due to a large **400 ETH** borrow trade and a large **30 WBTC** borrow trade in early November.

Protocol Reserves

Notional treasury reserves



In Q4, Notional reserves grew to **\$338K** with **98%** of the fees being generated by USDC & DAI pools.

The protocol also accrued **~3150 COMP tokens** or **~\$630K** as of December 31st 2021, for a grand total of **\$968K** going into Notional reserves in Q4.

In **Q1 2022**, trading fees will be lowered from **0.5%** to **0.3%** and the share of the fees going to the protocol reserves will increase from **50%** to **80%**.

Users

In Q4, **97 borrowers** and **103 lenders** for a total of **145** unique accounts interacted with Notional. Moreover, **560 unique LPs** minted nTokens in Q4.

The relatively small number of users compared to the trading volumes can be explained by the high gas cost of interacting with Notional on Ethereum. We expect **layer 2** implementations of Notional to help diversify and grow the user base.

nTokens

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 **2.58%** and **3.54%** respectively in Q4.

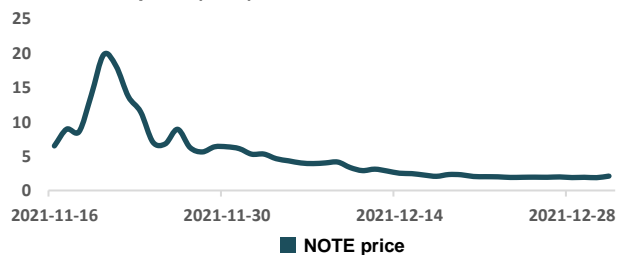
When accounting for **NOTE incentives**, nUSDC and nDAI annualized returns for LPs were **~32.27%** and **~38.57%**.

NOTE token

The launch of v2 also marked the introduction of Notional's governance token **\$NOTE** and Notional's liquidity mining program which currently incentivizes nToken holders with NOTE at the rate of **9M tokens a year** for nUSDC & nDAI and **1M tokens a year** for nETH and nWBTC.

NOTE tokens began trading on Balancer in mid November through a **50/50 WETH/NOTE** pool incentivized at a rate of **30K NOTE per week**.

NOTE token price (USD)



The NOTE token price quickly surpassed the **\$20** mark following its launch to then settle in the **\$2** zone in late December.

More specifically as of December 31st the NOTE token price was \$1.98 implying a **fully diluted valuation (FDV)** of **\$198M**.

As of December 31st, **1,092** Ethereum addresses held NOTE tokens.

Upcoming developments

The team is working on a NOTE staking module that will enable NOTE holders to earn returns on their tokens by receiving part of the funds from the protocol reserves in exchange for providing insurance to the protocol.

The team also announced potential integrations with Instadapp, Yearn and Index Coop which should launch in the upcoming quarters.