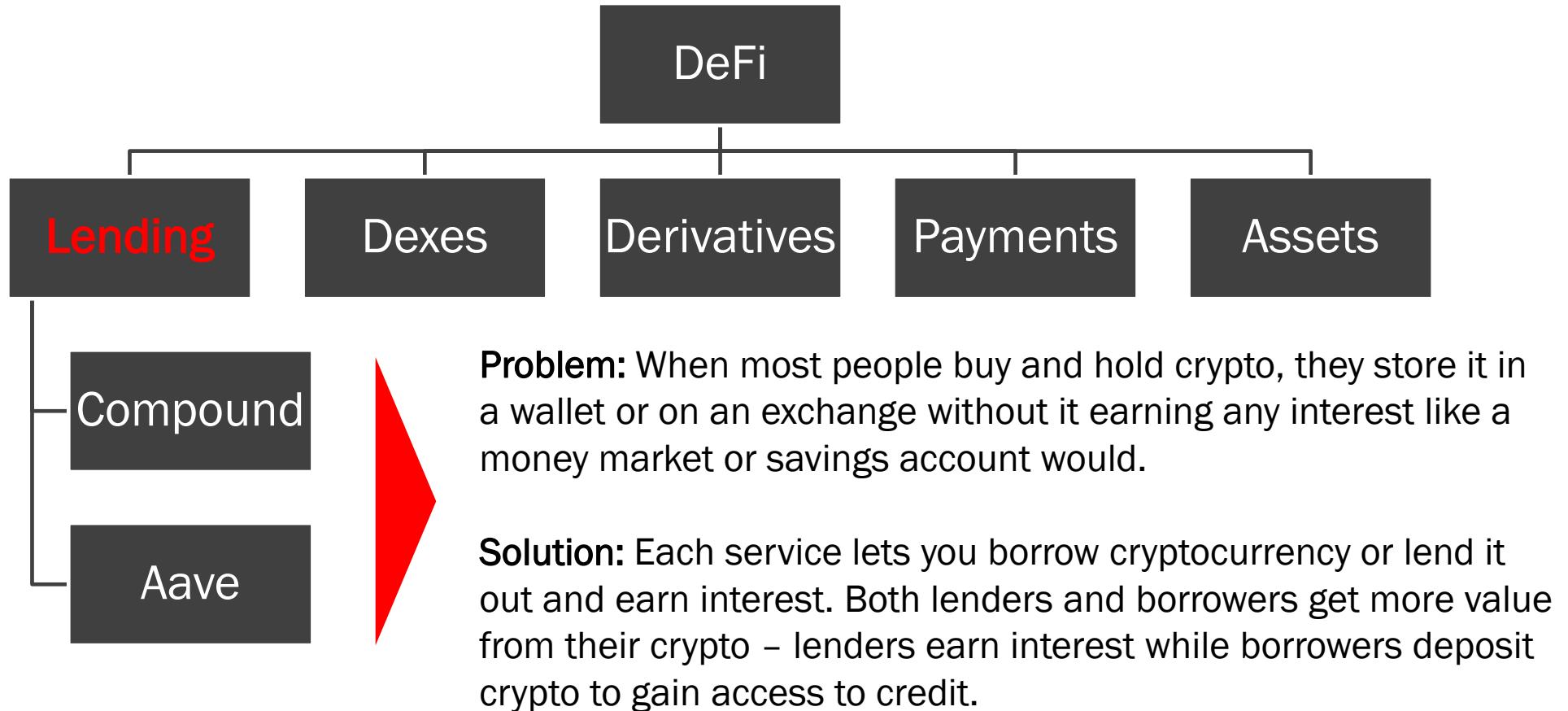


DEFI MONEY MARKET PROTOCOLS

AAVE & COMPOUND

AAVE AND COMPOUND OCCUPY THE **SAME DEFI SUBSPACE** AND SOLVE FOR THE SAME GENERAL PROBLEM



THEY SOLVE FOR THIS PROBLEM THROUGH **SHARED CHARACTERISTICS**...

LIQUIDITY POOLS

Avoid P2P matching issues by using pool-based strategy where lenders deposit crypto into a pool contract. Lenders and Borrowers can create and exit positions at will as there is no negotiation of terms with a specific counterparty.

PRICING ORACLES

The interest rate for both borrowers and lenders is decided algorithmically and is based on supply and demand for a given liquidity pool.

LIQUIDATION THRESHOLDS

A pre-set LTV must be maintained. Positions are liquidated when collateral-to-borrow value falls below a certain ratio. Reaching this ratio triggers a liquidation bonus, incentivizing liquidators to buy the collateral at a discounted price.

TOKENIZATION

Tokenization allows for interoperability. By turning all balances inside a defi protocol into ERC20 tokens it makes them supported by other projects. The ERC20 standard is the glue of defi.

GOVERNANCE

Both protocols have decentralized governance models. COMP token and soon AAVE token empower holders with the ability to vote on proposals and collectively act as governors of the protocol. Liquidity mining is a means of earning the governance token.

...HOWEVER, AAVE HAS TWO MAIN DIFFERENTIATING FEATURES

STABLE RATES

- Stable rates are not fixed rates, but they change only when current rates move too far from the initial rate. Users experience actual fixed rates during specific time periods, or when there is enough liquidity available.
- The motivation for stable rates is to help borrowers' financial planning.

FLASH LOANS

- Flash loans allow for the simultaneous borrowing and repayment of a loan within a single transaction.
- Similar to how lending allows for short selling of cryptocurrencies and provides a check on the market, this innovation opens new opportunities like arbitrage.
- It also should boost utilization rates¹

¹Further discussion on slide 10

PROTOCOL COMPARISON

Sources: Coinmarketcap, defipulse, Cryptonites, coincodex, whitepapers

| ANALYTICS (as of 10/12/2020) | Liquidators | COMPOUND | AAVE |
|-------------------------------------|-------------|--------------------------------------|--------------------------------------|
| Market Metrics | | | |
| Token Ticker | | COMP | LEND |
| Market Cap | | \$302.1M | \$670.3M |
| Total Value Locked | | \$849.2M | \$1.17B |
| MV/TVL | | 0.36x | 0.57x |
| Token Chain | | Ethereum | Ethereum |
| Token Rank | | 52 | 32 |
| Defi Token Rank | | 11 | 4 |
| Token Issuance Mechanism | | Minded by users | ICO |
| Return TTM | | n/a | 8,460.7% |
| Return Since Listing | | 16.46% | 3,289.27% |
| Risks | | | |
| Counterparty Risk | | No | No |
| Vulnerability in the smart contract | | Yes | Yes |
| Congestion in the Ethereum Network | | Yes | Yes |
| Bug Bounty | | Up to \$150,000 | Up to \$250,000 |
| Smart Contract Audited | | Yes | Yes |
| Oracle Failure Risk | | Yes | Yes |
| Liquidation Mechanism | | Liquidators incentivized by discount | Liquidators incentivized by discount |
| Utility | | | |
| Decentralized Governance | | Yes | Yes |
| Reward Program | | Yes | No |
| Burn Mechanism | | No | Yes |

COMPOUND CONSISTENTLY HAS THE LEAST PLATFORM RISK IN THE MARKETS IT PARTICIPATES; AAVE IS RELATIVELY LOW RISK AS WELL

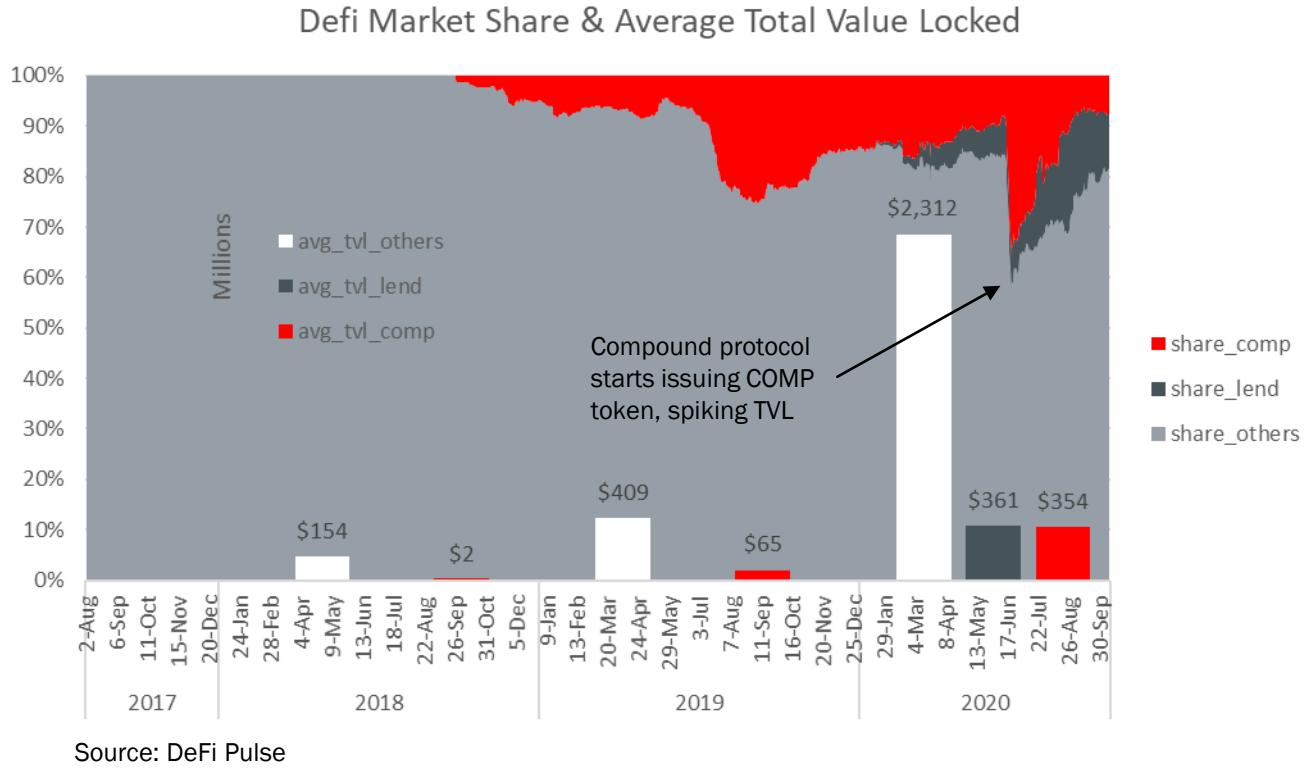
DeFi Score

| | DAI | SAI | USDC | ETH | WBTC | REP | MKR | ZRX | BAT | KNC | LEND | LINK | SNX | TUSD | USDT | SUSD |
|----------|-----|-----|------|-----|------|-----|-----|-----|-----|-----|------|------|-----|------|------|------|
| Compound | 8.0 | 8.4 | 8.4 | 8.9 | 8.8 | 8.7 | - | 8.5 | 8.8 | - | - | - | - | - | 7.8 | - |
| dYdX | 7.5 | - | 8.0 | 8.3 | - | - | - | - | - | - | - | - | - | - | - | - |
| bZx | 4.9 | 4.9 | 4.8 | 5.0 | 4.8 | - | - | 4.9 | - | 4.8 | - | 4.7 | - | - | 4.5 | 4.7 |
| Nuo | 4.9 | 5.0 | 5.0 | 5.0 | 4.8 | 4.8 | 4.7 | 4.8 | 4.9 | 4.8 | - | 4.9 | 4.9 | 4.8 | - | - |
| DDEX | 7.2 | 7.4 | 6.8 | 7.6 | 7.3 | - | - | - | - | - | - | - | - | - | 6.8 | - |
| Aave | 6.7 | - | 7.3 | 7.3 | 7.7 | 7.3 | 7.5 | 7.4 | 7.4 | 7.5 | 7.7 | 7.7 | 7.3 | 7.5 | 7.0 | 6.4 |
| Oasis | 9.7 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |

Source: DeFi Score

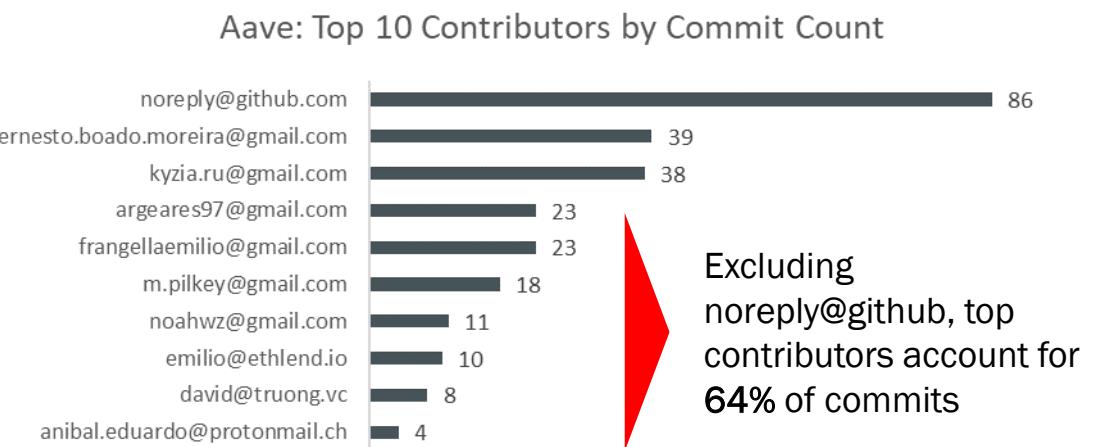
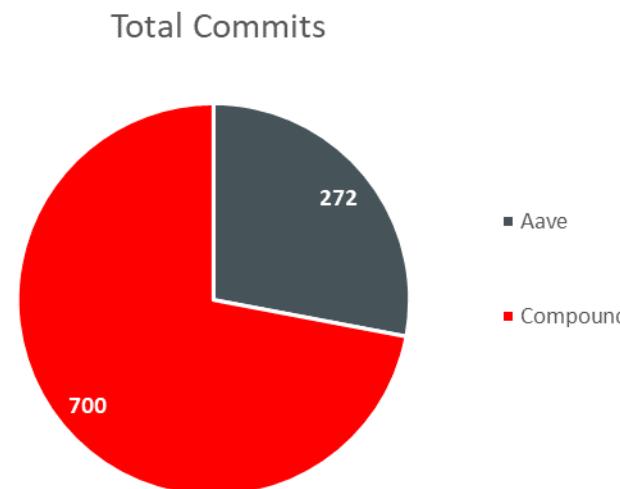
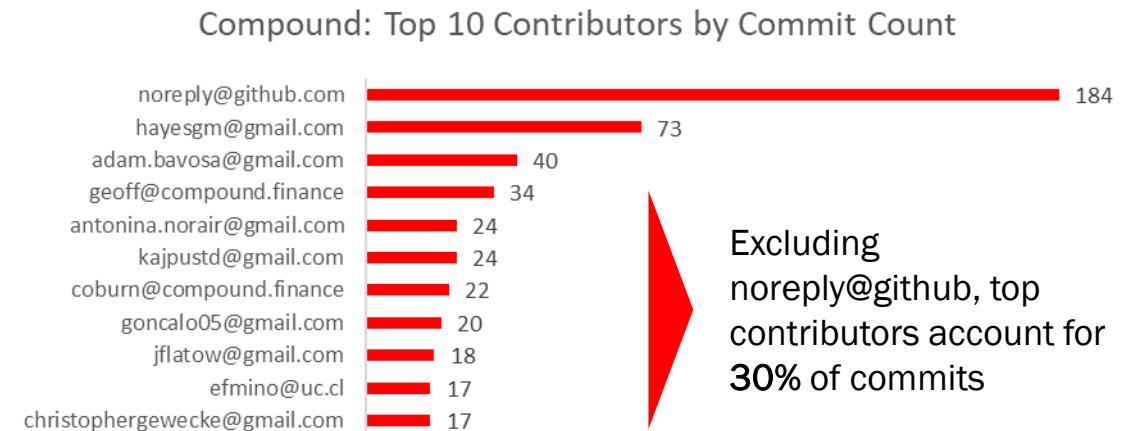
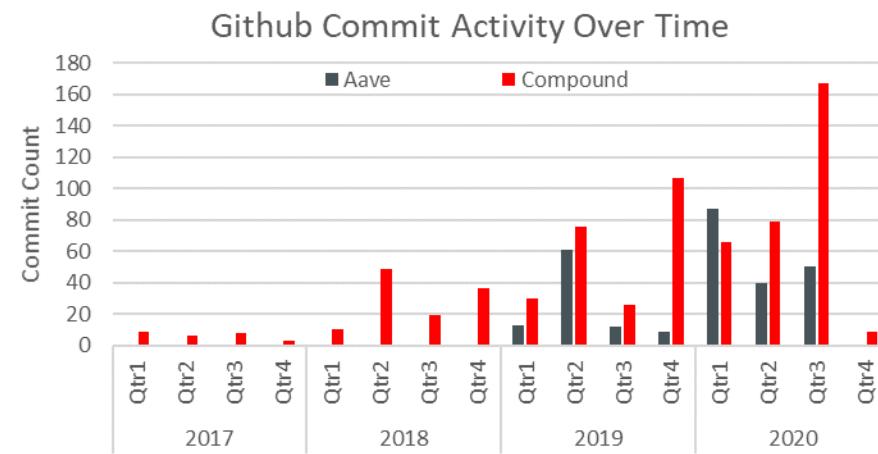
Note: The DeFi Score is a single, consistently comparable value for measuring platform risk, based on factors including smart contract, centralization and financial risk

**BOTH GAINED
MARKET SHARE
SINCE LAUNCH,
WITH COMPOUND
SPIKING THEN
SUBSEQUENTLY
REVERTING**

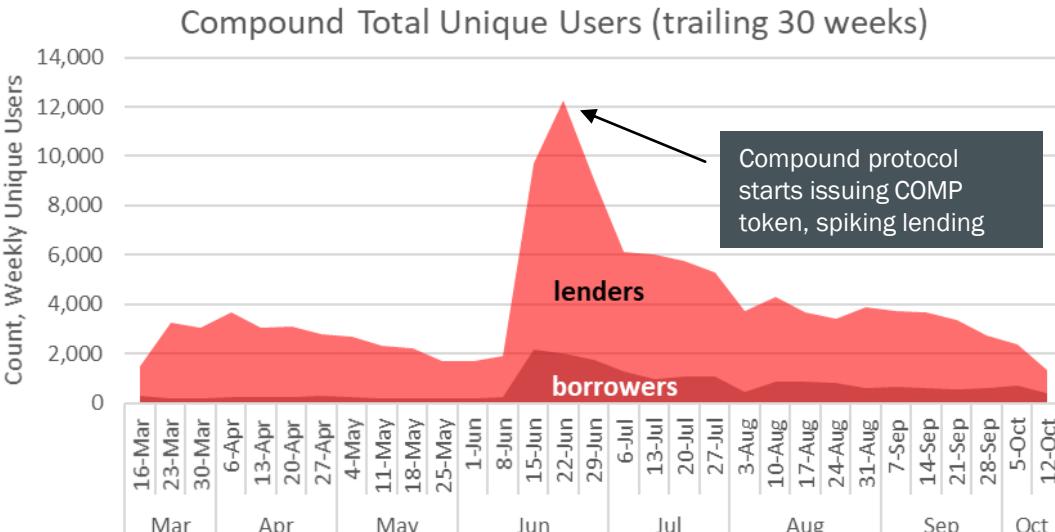
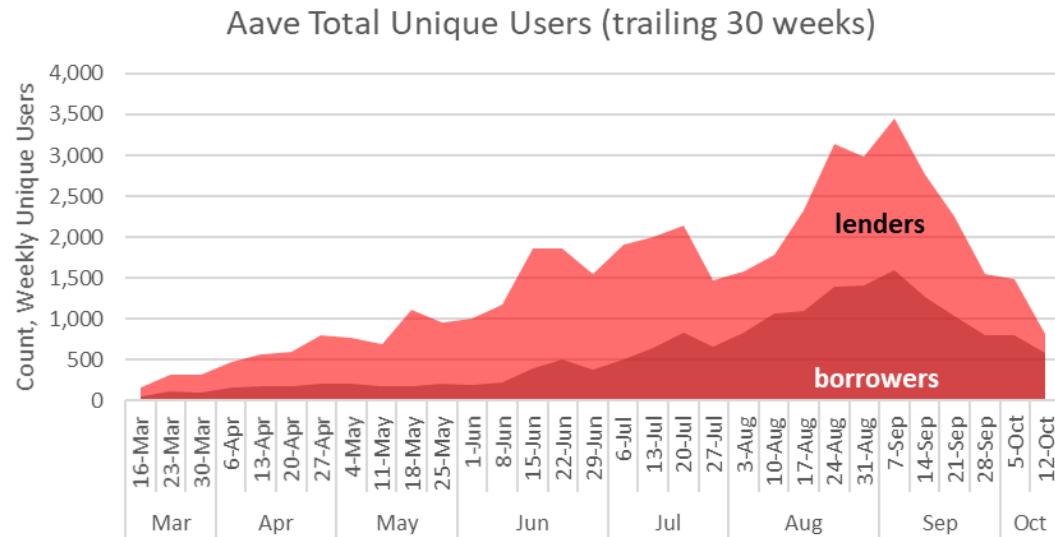


“An increasing amount of funds locked in DeFi over time represents growing confidence among consumers to place their money in the hands of smart contracts in order to interact with these new financial tools” – ConsynSys Q2 2020 DeFi Report

COMPOUND RAMPED **DEVELOPMENT** IN Q3 2020; AAVE TOP CONTRIBUTORS ACCOUNT FOR OVER 60 PERCENT OF COMMITS

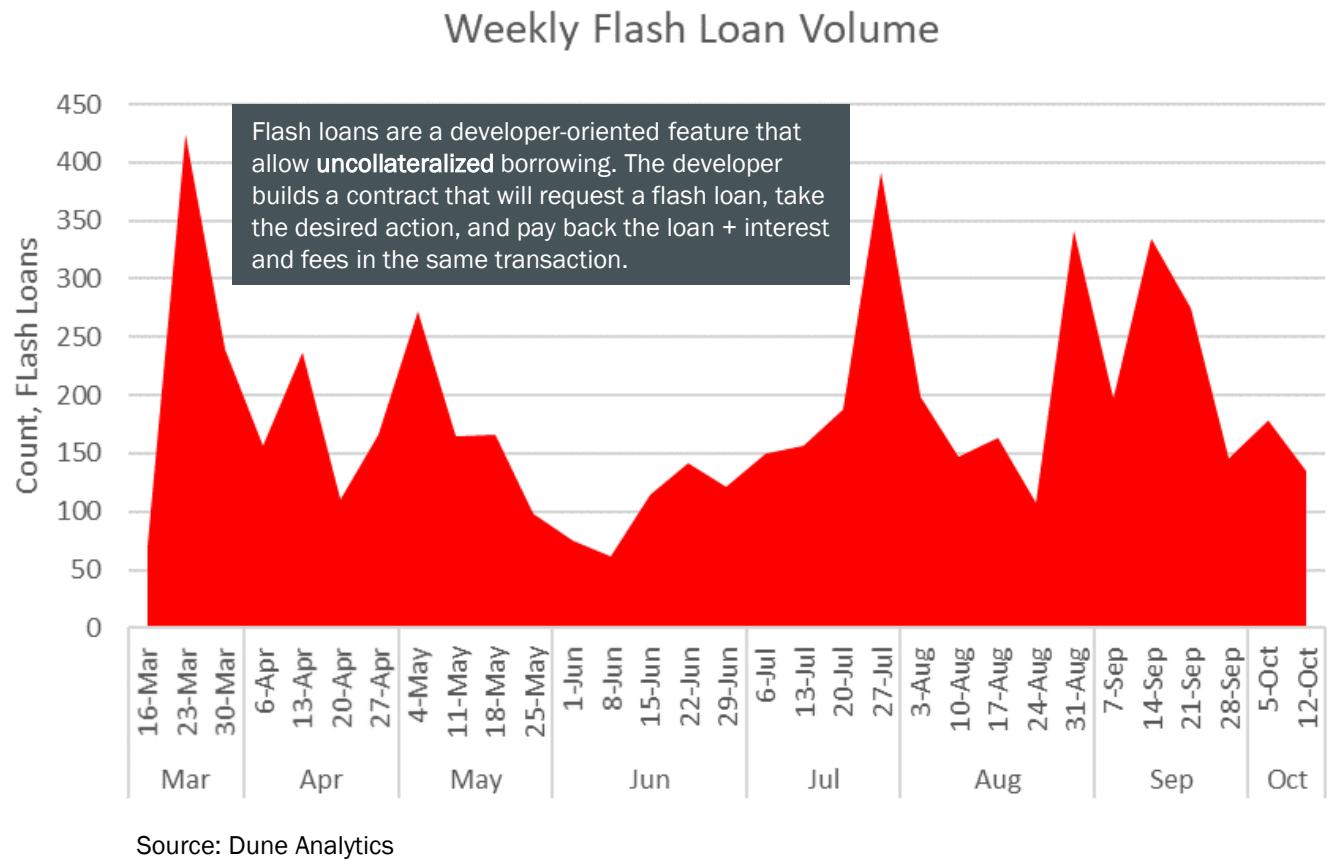


**IN THE LAST WEEK,
AAVE HAD 35%
LESS LENDERS
THAN COMP, BUT
50% MORE
BORROWERS
IMPLYING HIGHER
UTILIZATION RATES**



Source: Dune Analytics

AN AAVE INNOVATION, **FLASH LOANS** ARE PROMISING BUT DO NOT YET HAVE SIGNIFICANT UPTAKE FROM DEVELOPERS



Use Cases & Motivation

- Higher yields – each flash loan carries 35pbs fee, 80% goes to depositors, 20% goes to burn lend token
- Bots – arbitrage, liquidation, refinancing, collateral swap (allows developers to create and offer to ecosystem)
- Prevent liquidation – saving the ~13% loss from discounted collateral sale
- **Cheap liquidity will lead to higher utilization rates**

FURTHER AREAS TO EXPLORE GIVEN MORE TIME

- Integrations
 - Research how many dApps are using each protocol
- True TVL
 - Leverage inflates the TVL value. I would like to look into how to account for this. Codefi seems to be addressing this, but their tools/analysis is not yet available. Their example: “a user may lock 1 ETH in Compound and receive 250 DAI as a loan (assuming 1 ETH = \$250), then move to another protocol and lock that 250 DAI up. If we look at TVL, we would say that \$500 USD is locked in DeFi, when in reality the true locked USD value is just the value of the initial locked ETH, \$250.”
- Team
 - This would be on the due diligence checklist, but I didn’t spend time on the team as this info is widely available (at least to the extent I can research them online without having direct access) and these are reputable teams with track records (a16z is already invested in compound).