



Investment Thesis

Aave AAVE

Token type	Governance Token
Price	\$61.69
Sector	Decentralized Finance (DeFi)
Industry	Lending
Market Cap	\$914M

Key Figures

52-Week Range	\$47.18 - \$98.33
Market Rank	#46
Market Capitalization	\$914 million
Total Value Locked (TVL)	\$4.69 billion
Annualized Protocol Revenue	\$96.44 million
Annualized Borrowing Volume	\$2.38 billion
Circulating Supply	14,528,595
Volume (24h)	\$43,150,312
ATH	\$662.72
ATH Date	May 28, 2021

Overview

Aave is an Ethereum-based decentralized **lending market protocol** where users can participate as depositors or borrowers. In Aave, any loan of non-zero duration must be overcollateralized. Requiring **collateral contractually prevents a counterparty from defaulting** – if a loan falls below its collateralization ratio, the position is liquidated by a "keeper" to pay back the borrower's debt. The Aave protocol supports two main types of markets where depositors can provide liquidity to earn a passive income. The first is for conventional ERC-20 tokens like ETH, USDC, **GHO**, and DAI. The second is specific to LP (liquidity pool) tokens from decentralized exchanges (DEXs) like Uniswap. Interest rates are algorithmically pooled and optimized based on debt utilization. The Aave Protocol also supports "**flash loans**", a DeFi innovation that democratizes access to liquidity for immediately profitable ventures. A flash loan is an instant (uncollateralized) loan paid back with required interest within the same transaction – a smart contract enforces repayment, so there is no counterparty risk. In addition, Aave has a **credit delegation** feature that allows users (delegators) to allocate collateral to potential borrowers. Importantly, **all loans in Aave are ultimately backed by collateral**, regardless of whose collateral it is. Finally, the AAVE token yields voting rights on the platform and participates in value capture. AAVE holders are also incentivized to stake their tokens in the Safety Module (SM), a mitigation tool against unexpected loss of funds.

- In **2017**, Stani Kulechov founded Aave (originally called ETHlend) after raising \$16.2 million in an Initial Coin Offering (ICO).
- In **2020**, the Aave Protocol was launched.
- In **January 2022**, Aave launched its "**permissioned**" DeFi platform for institutions, Aave Arc.
- In **March 2022**, Aave V3 (the third version of the protocol) launched on six different chains, including Avalanche, Fantom, and Polygon.
- In **July 2023**, Aave launched **GHO** – a fully collateralized dollar-pegged stablecoin governed by AAVE holders, with **\$23 million** in circulation. as of September 2023. Instead of liquidity providers (LPs) receiving most of the interest paid as with Aave usual loans, the **Aave DAO collects 100% of GHO's borrow interest**.

Key takeaways

- **Aave** is an Ethereum-based **decentralized lending protocol**.
- It is the **second-largest lending protocol**, only behind MakerDAO.
- Aave has introduced various DeFi innovations, launched its own stablecoin (GHO), and expanded to multiple chains and entirely new markets (e.g., Aave Arc for institutions).

Risk factors

- **Smart contract risk.** Risk of a bug, design flaw or potential attack surfaces on the smart contract layer.
- **Oracle failure risk.** Risk of the Oracle system not properly updating the prices in case of extreme market downturn and network congestion.
- **Regulatory uncertainty.**

Figure 1:
Price Performance (3-years)



Figure 2:
Total Value Locked (TVL)



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