

Between Synthetic Assets and BTCfi

How BTC turns into productive collateral

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Introduction

Bitcoin sits on balance sheets and cold wallets, mostly idle; at the same time, “synthetics” and BTCFi have matured beyond 2023’s noise

This report maps what actually works now: how collateral, pegs, and BTC-native yield fit together - so you can judge risk, durability, and use cases without marketing spin

By the end of the report you will know:

- ▶ What are synthetic assets in crypto?
- ▶ Are synthetic assets still alive, or did the niche die after 2023?
- ▶ Why turn Bitcoin into “productive” collateral?
- ▶ What is BTCFi (Bitcoin DeFi)?
- ▶ Bitcoin Yield and protocols behind it?
- ▶ Where do synthetic assets and BTCFi intersect?

Executive summary

Bitcoin's evolution from a static store of value to a yield-bearing collateral asset is being driven by two converging trends in DeFi:

1. Synthetic Assets. Crypto platforms now create tokens that mimic the value of real-world assets (fiat currencies, commodities, indices, etc.) by locking excess collateral and using oracles to maintain price pegs. This allows investors to gain exposure to assets without holding them directly. Key findings in this domain:

- ▶ over-collateralization is the norm to ensure stability (e.g. Synthetix historically required 750% collateral for its synths)
- ▶ secure peg mechanisms (arbitrage-based or oracle-driven) are essential.


Synthetic assets have expanded beyond simple price trackers to offer leveraged, inverse, and yield-bearing derivatives.

2. BTCFi (Bitcoin DeFi). New protocols are unlocking yield on Bitcoin by integrating it into DeFi. Because 99% of BTC's \$1+ trillion market cap sits idle in wallets, BTCFi aims to "put idle Bitcoin to work"

We identify 4 primary BTC yield sources:


- ▶ trading basis/funding arbitrage
- ▶ lending interest
- ▶ liquidity provision fees (plus incentives)
- ▶ "Restaking" or DeFi strategy yields

Real-world adoption is growing: e.g. **tBTC (Threshold Network)** surpassed \$785M in BTC value, and Bitcoin-layer staking protocols like **Babylon** secured >\$6b in TVL to earn staking rewards, solution like **Solv, Lorenzo, Syntetika, b14g, Lombard** and other create new ways to utilize BTC. Traditional finance is taking notice too – Valour launched a European Bitcoin yield ETP paying 5.6% APR, and **Syntetika x Hilbert** Group product strategies with 22%+ APY.



Part 1 Synthetic Assets: Design Patterns and Risks

Synthetic assets are tokens that represent or “**mirror**” the **value of another asset**, achieved through smart contract engineering and collateral. Instead of holding the underlying asset, users hold a crypto token that should peg to that asset’s price. This section analyzes how synthetic asset systems are built, the mechanisms they use to maintain pegs and manage risk, and how various projects implement these ideas in practice.





COLLATERALIZATION AND PEG MECHANISMS

Synthetic asset systems rely on **collateralization** - users must lock crypto worth more than what they mint. This buffer protects the system from volatility.

MakerDAO required at least 150% collateral for DAI, while Synthetix once required 750% for sUSD before cutting it to 200%, which later caused peg instability. High ratios make the system safer but limit efficiency

Maintaining the price peg of a synthetic token (e.g. keeping sUSD = \$1) relies on a combination of mechanisms:

- ▶ **Arbitrage.** if a synthetic trades below target, traders buy and redeem it for collateral; if above, they mint and sell. This works only if the protocol allows convertibility between the synth and its collateral, as seen with DAI and Synthetix assets.

Maker's DAI or Synthetix's synths, rely on this arbitrage-based parity: as long as participants can swap \$1 of collateral for 1 synth, the synth's market price will gravitate to \$1

- ▶ **Oracle-driven pricing.** Almost all synthetic systems use price oracles (e.g. Chainlink feeds) to track the reference asset's market price in real time. Oracles are used to update the required collateralization and trigger liquidations if needed.
- ▶ **Algorithmic supply adjustments.** A few designs (especially older algorithmic stablecoins) tried to adjust the supply or parameters to maintain the peg without hard collateral backing. Purely algorithmic stablecoins (like the failed UST in 2022) demonstrated how fragile this can be.



COLLATERALIZATION AND PEG MECHANISMS

Collateralization typically follows a standard user flow:

1. A user **deposits approved collateral** into the protocol's smart contract
2. The user **mints the synthetic asset** token up to their allowed limit. This creates a debt obligation against their collateral.
3. The **system continuously monitors** the collateral's value via price oracles. If the collateral falls in value such that the collateral ratio is about to drop below the required threshold, the position can be liquidated – meaning third-party liquidators can pay off the synth debt (burning the synth) and seize the collateral at a discount.
4. **To get their collateral back**, the user must **repay/burn the synthetic assets they minted** (plus any fees), after which the locked collateral is released.

Peg breaks can still happen if collateral value plunges quickly or if arbitrage is impaired.

Synthetix's sUSD lost its peg in 2025, it fell as low as \$0.68 despite being fully collateralized, because the market lost confidence in the new mechanism (SIP-420) and there was a rush for exits.



Deep liquidity pools (like Curve for stablecoin swaps) can help absorb shocks by giving traders a place to arbitrage large amounts.

BEYOND 1:1 – PAYOFF DESIGNS AND USE CASES

The simplest synthetic asset pays off linearly 1:1 with the underlying asset's price. For instance, a synthetic Bitcoin token (say sBTC) is designed to always mirror the price of 1 BTC. Similarly, synthetic USD tokens (DAI, sUSD) aim to hold a \$1 value.

But synthetics can take many forms:

- ▶ **Inverse or Short Tokens.** Platforms like **Synthetix** created “inverse” synths (e.g. iBTC) that move opposite to the underlying's price within a certain range. If BTC goes down, an iBTC token's value goes up (and vice versa)
- ▶ **Leveraged Tokens.** Some synthetics provide magnified exposure, e.g. a 2x long BTC token that increases 2% when BTC increases 1%. These are simple for speculation but suffer from value decay due to constant rebalancing.
- ▶ **Index Tokens.** Track baskets or metrics - for instance, **CVI** measures crypto market volatility like the VIX in stocks. Users buy exposure to volatility changes through a collateralized on-chain pool
- ▶ **Perpetual Futures (Perps)** also count as synthetics. They give leveraged exposure via funding rates that keep contract prices near spot levels. Platforms like **dYdX** and **GMX** run these fully on-chain using shared liquidity pools

BEYOND 1:1 – PAYOFF DESIGNS AND USE CASES

- ▶ **Yield-bearing Synthetics.** A novel category where the synthetic token tracks a price, and also accrues yield from some source. In **Alchemix**, When users mint aUSD by depositing DAI, the DAI **collateral is deployed to yield farms** (Yearn vaults, etc.), and the yield earned is used to automatically repay the user's aUSD debt. In effect, aUSD is a synthetic dollar that represents an advance on future yield – over time, your debt vanishes as the collateral earns yield.

Another approach is the **dual-token model**: separate tokens for principal and yield. Some Ethereum staking protocols split staked ETH into an frxETH (which stays equal in value to ETH) and an sfrxETH (which accrues all the staking yield). **Syntetika** employs a similar dual-token model for BTC – one token (**hBTC**) **holds the base BTC value** and another (**shBTC**) **accumulates the yield.**

These payoffs expand what users can do:

- ▶ Hedge risk (with inverse tokens or volatility tokens)
- ▶ Gain leverage or short exposure without traditional margin trading
- ▶ Access baskets of assets or indices through a single token
- ▶ Earn yield or advance cashflows (via yield-bearing synths or self-repaying loans)

Synthetic assets open an “imaginary” world of finance – if you can dream up a payout formula and have a price oracle or model for it, you can create a token for it, given adequate collateral and liquidity

RISK FACTORS IN SYNTHETIC ASSET PROTOCOLS

Synthetic asset platforms face a combination of financial risks (market, liquidity) and technical risks (smart contract, oracle):

- ▶ **Collateral is volatile:** a fast drop can push positions under water and leave bad debt if liquidators or liquidity can't cover it; MakerDAO uses high ratios and an emergency shutdown, while Synthetix's pooled SNX means a broad SNX dump can under-collateralize all synths at once.
- ▶ **Pegs can break** during confidence shocks and redemptions; sUSD fell well below \$1 in 2025 after a governance change shifted risk to the protocol, straining liquidity; arbitrage and market makers help, but not if collateral or liquidity is thin.
- ▶ **Oracles can misprice assets** and trigger bad liquidations or cheap mints; mitigations include Chainlink/multi-source feeds, action delays, or optimistic oracles with dispute windows that need active watchers.
- ▶ **Smart-contract bugs** remain a constant tail risk despite audits and formal verification. Synthetic related smart contracts are complex and often contain a lot of locked value, which is a perfect target for exploits.
- ▶ **Shallow liquidity** worsens slippage and slows re-pegs even with incentives.
- ▶ **Dependencies can create cascade risk:** yield sources, oracles, or LP pools (e.g., Yearn, Chainlink, Curve) can fail upstream and transmit losses.

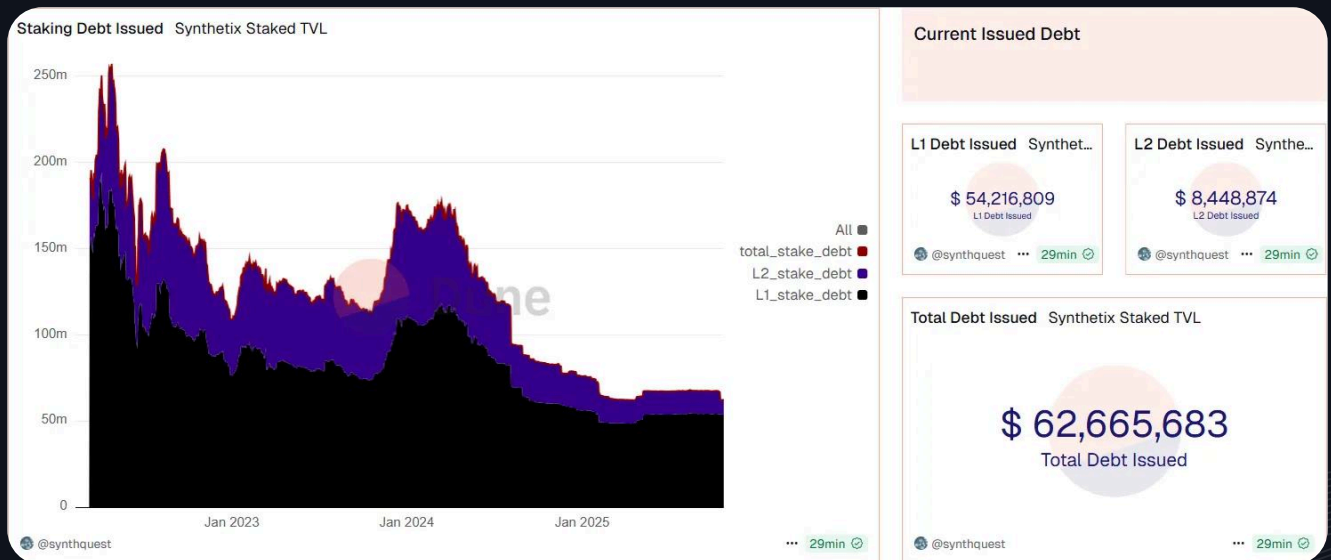


CASE STUDIES:
SYNTHETIC ASSET PROTOCOLS



One of the earliest and most influential synthetic asset protocols. It allows the issuance of various “Synths” – tokens that track the price of assets like currencies (sUSD, sEUR), cryptocurrencies (sBTC, sETH), commodities, and indices. Synthetix essentially serves as a **decentralized derivatives liquidity platform**.

Synthetix uses a **dual-token system: the SNX token is staked as collateral to issue Synths** (synthetic assets like sUSD). All synths are backed by a common pool of SNX collateral, and the debt is pooled: when you mint sUSD, you essentially owe a fraction of the total debt, and all SNX stakers collectively guarantee all synths.



The design offers pooled **counterparty risk** and **pooled liquidity** – trades between different Synths don't require an order book or direct counterparty, they are effectively trades against the pooled debt. As a result, Synthetix provides **infinite on-chain liquidity for synth swaps at oracle prices** (no slippage, as long as the system is solvent)



To protect the system, Synthetix historically **required very high collateralization** (e.g. 750%). It has an on-chain price feed and no direct redemption of synth for SNX; instead, arbitrage maintains sUSD's \$1 peg via external markets (Curve pool, etc.).



At its peak, Synthetix had almost \$3b in TVL (SNX staked) and its sUSD stablecoin reached over \$400M in circulation. It became a **liquidity back-end for other protocols**: for instance, the dApps **Kwenta** and **Lyra** use Synthetix's pools for offering perps and options.

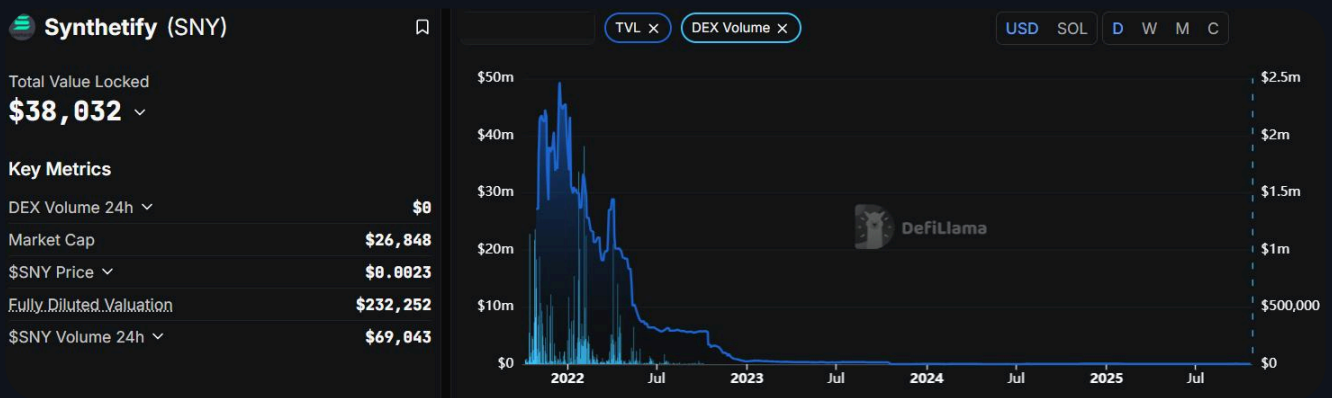
Synthetix v3 (2023) introduced a **more modular architecture and support for other collateral types**. As of 2025, Synthetix remains a cornerstone of DeFi derivatives, though direct minting of synths has taken a backseat to its role in powering perpetual swaps and other derivative markets.



SYNTHETIFY

Synthetify is a synthetic asset platform built on the Solana blockchain. Launched in 2021, it aimed to leverage Solana's high throughput and low costs to improve on the Synthetix model. **Synthetify's design is quite analogous to Synthetix's**: it uses a native token SNY as the collateral asset, which users stake to mint and back synthetic assets (called "xAssets").

Stakers form a global debt pool and earn fees from users trading the synthetic assets on the built-in exchange. Synthetify serves as a **case study in porting the synthetic asset model to a high-performance chain**, though not so successful in the long run



Because Solana does not have a native oracle like Ethereum's, Synthetify had to integrate with oracle providers (they partnered with Pyth and Switchboard oracles). Oracle latency on Solana can be low (thanks to Solana's block time), but the rapid block production also meant liquidations and arbitrage could happen quickly in volatile times.

Synthetify's over-collateralization ratio for SNY was initially around 500% (to mint xUSD, etc.), which is slightly lower than Synthetix's, perhaps reflecting optimism in lower volatility or just a different parameter choice. **In late 2023, Synthetify paused operations.**



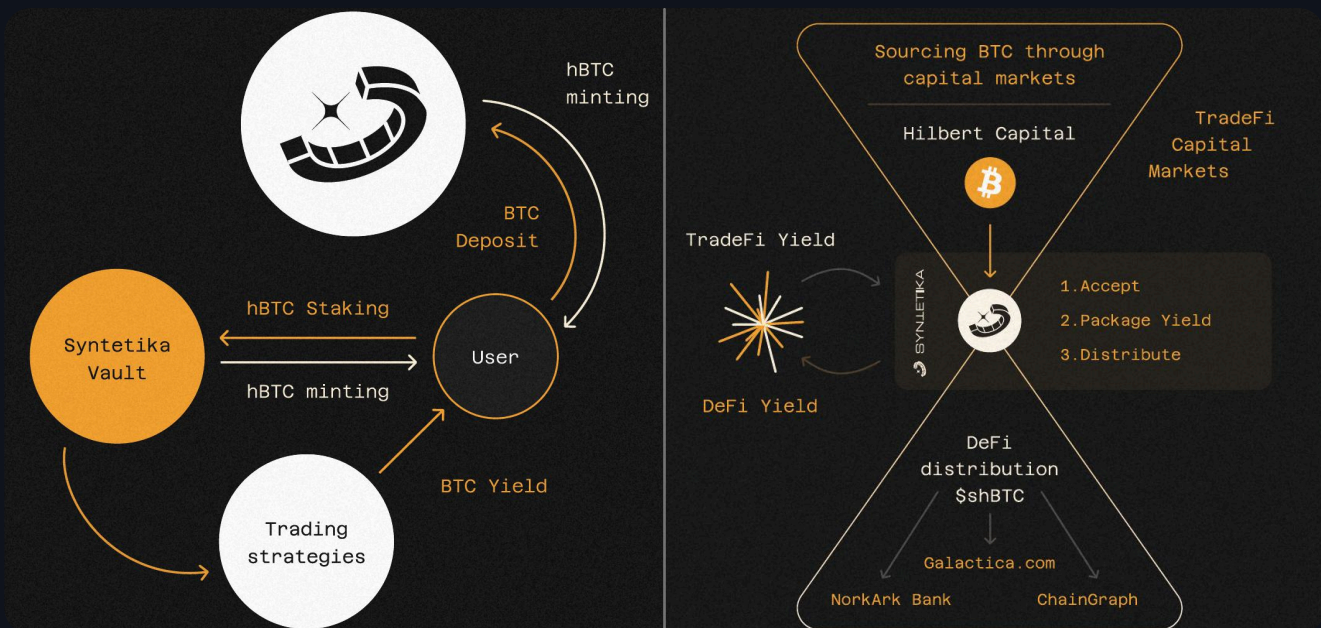
SYNTETIKA

Syntetika is a project we will revisit in the BTC-Fi section, but it's worth noting here as a **bridge between yield-bearing strategies and synthetic design**.

Syntetika creates a **synthetic version of BTC** that separates into **two tokens**:

- ▶ **hBTC**, which is a **1:1 BTC-backed** token intended for use in DeFi
- ▶ **shBTC**, which represents the **yield generated by the system**

This is a dual-token model (inspired by projects like Ethena and Frax's dual-token ETH model) designed to separate concerns of liquidity and yield.



By itself, hBTC is not yield-bearing – it's akin to a base BTC token (sometimes called a “Liquid Principal Token” in similar systems). **If the user wants yield, they can stake their hBTC in Syntetika's vault, which then issues shBTC.**

shBTC represents a share in the vault's BTC investment strategy. Over time, as the vault earns yield off-chain, **the value (exchange rate) of shBTC increases relative to hBTC**, meaning shBTC holders can **later redeem for more hBTC** (and thus more BTC) than they originally deposited. *Essentially, hBTC is like the principal and shBTC is like a receipt that accrues yield (via rising redemption rate).*



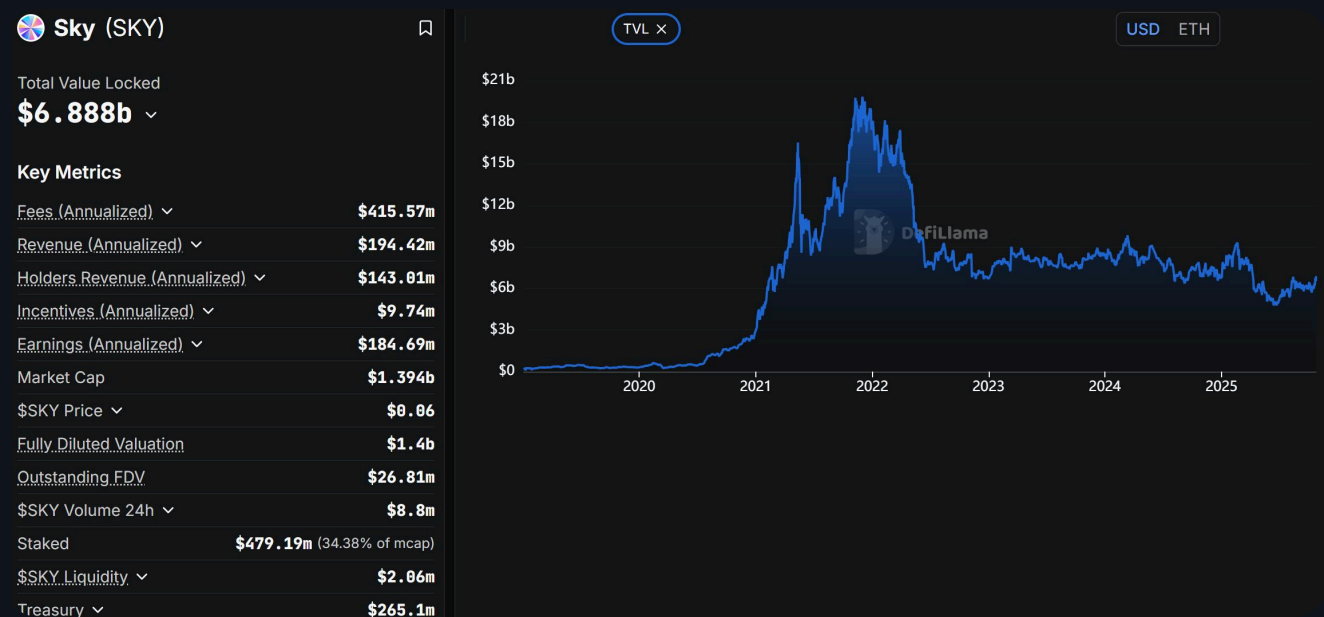
MAKERDAO (NOW SKY)

MakerDAO pioneered the over-collateralized stablecoin with DAI, a decentralized USD-pegged token. It's essentially a crypto-backed lending platform: users create "vaults" and deposit assets (ETH, WBTC, etc.) to borrow DAI.

Each asset had a minimum collateralization ratio (e.g. 150% for ETH). If the vault's ratio falls below that, it's liquidated – the collateral is sold (via auction or AMM modules) to repay the DAI debt plus a penalty. Maker used oracles (multiple feeds) for prices.

DAI's peg was mostly maintained through arbitrage: if $DAI < \$1$, traders can buy it cheap and use Maker's Peg Stability Module (PSM) to swap 1 DAI for \$1 of USDC (one of the mechanisms Maker introduced), and if $DAI > \$1$, they could deposit USDC into the PSM to mint DAI (effectively an arbitrage).

Sky Protocol was built from the core module of the Maker Protocol





MAKERDAO (NOW SKY)

USDS powers the open Sky ecosystem, providing new ways for you to have more rewarding crypto experiences. Use USDS to:

- ▶ Access Sky Token Rewards and **support Sky Stars**
- ▶ Access the **Sky Savings Rate** to accumulate additional USDS

SKY inherits the governance functionalities previously held by MKR, and represents an evolution in ease of use. Use SKY to:

- ▶ Vote directly or **delegate your voting power**, just as you did with MKR, via the Sky Governance Voting Portal
- ▶ Access the **Staking Engine** of the Sky Protocol to create a position that enables you to receive Staking Rewards, generate and borrow USDS against your supplied SKY, and delegate the voting power the SKY token provides

Upgrade is a non-custodial feature. With Sky.money, you always remain in control of your funds.

Access Sky Token Rewards with USDS

Use USDS to access Sky Token Rewards (STRs) and support the Sky ecosystem projects you believe in. No minimum USDS supply amount is required. This feature is non-custodial.

When you supply USDS to the Sky Token Rewards module of the decentralized Sky Protocol, you get Sky Token Rewards over time in the form of SKY governance tokens and Sky Star tokens.

With Sky.money, you always remain in control of your funds.

Sky Token Rewards Rate ⓘ

Sky Token Rewards TVL

Up to: **5.76%**

\$941.94m

Save USDS

Use USDS to access the Sky Savings Rate module of the decentralized Sky Protocol and accumulate additional USDS over time. No minimum supply amount is required; withdraw anytime.

With Sky, you always remain in control of your savings, as this feature is non-custodial.

Sky Savings Rate ⓘ

Savings TVL

4.50%

\$3b

Stake SKY to access rewards and more

Supply SKY tokens to the Staking Engine of the Sky Protocol to create one or more positions and access Staking Rewards. The Staking Rewards rate ⓘ is determined by Sky Ecosystem Governance through the process of decentralized onchain voting.

You can use your staked SKY to delegate ⓘ your Sky Ecosystem Governance voting rights and as collateral to borrow ⓘ USDS. All positions are eligible to access Staking Rewards.

No minimum supply is required, and you can stake or un-stake your SKY—and claim your rewards—at any time. No exit fee applies. Your SKY, as well as any Staking Rewards that you accumulate, are supplied to a non-custodial smart contract, such that no intermediary ever takes custody of those tokens.

With Sky, you always remain in control of your assets.

Staking Rewards Rate ⓘ

Staking TVL

Up to: **15.23%**

\$838m

Access stUSDS tokens with USDS

stUSDS is a risk token designed for eligible Sky Protocol expert users. It funds and supports liquidity for SKY stakers, encouraging more participation in SKY governance by active token holders, delegators and voters, leading to a more secure ecosystem.

When you supply USDS to the stUSDS module of the protocol, you fund SKY-back borrowing to access the stUSDS Rate ⓘ and receive stUSDS tokens. The stUSDS tokens serve as a digital record of your USDS interaction with the stUSDS module and any value accrued to your position. For details, see "What is stUSDS?" in the FAQs.

stUSDS Rate ⓘ

stUSDS TVL

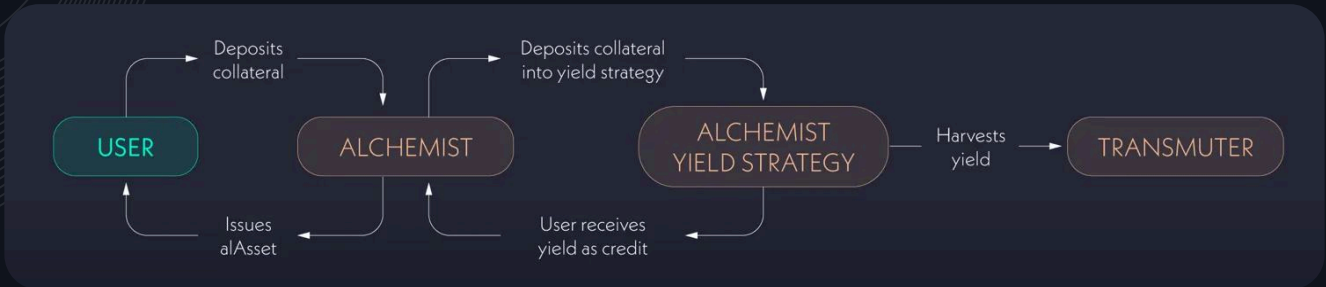
5.50%

\$143m



ALCHEMIX

A DeFi protocol for self-repaying loans. It issues aUSD (and other aAssets like aETH) as synthetic tokens that represent loans which pay themselves off over time using yield.



How it works

- ▶ Users deposit stablecoin collateral into Alchemix and can immediately borrow up to 50% of it as aUSD.
- ▶ The **deposited collateral is invested into yield strategies** (Yearn vaults, etc.).
- ▶ The **yield generated is automatically used to repay the user's loan** – over time, the user's debt in aUSD shrinks.
- ▶ The user can redeem their collateral once the debt is zero (or they can manually repay earlier if they want).

aUSD maintains its \$1 peg via two mechanisms: a Transmuter contract that slowly converts aUSD to DAI at 1:1 using earned yield, and a deep Curve pool (aUSD/3CRV) where arbitrage keeps aUSD around \$1.

Alchemix (ALCX)

Total Value Locked

\$52.3m

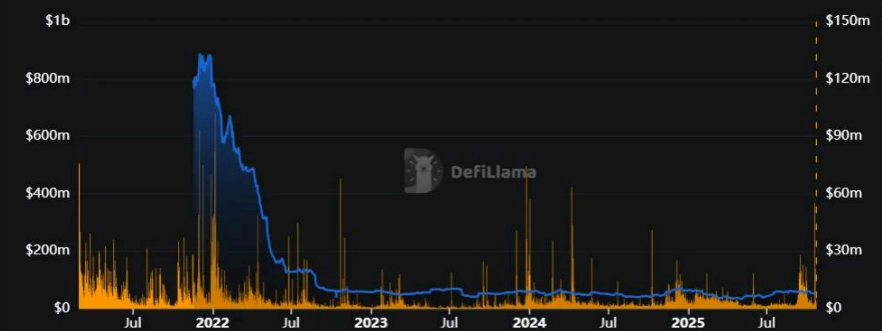
Key Metrics

Fees..(Annualized)	\$33,794
Revenue..(Annualized)	\$33,794
Market Cap	\$19.68m
\$ALCX Price	\$7.85
Fully..Diluted..Valuation	\$24.31m
\$ALCX Volume 24h	\$3.12m
Staked	\$2.12m (10.79% of mcap)
Treasury	\$5.73m



TVL x \$ALCX Volume x

USD ETH D W M C

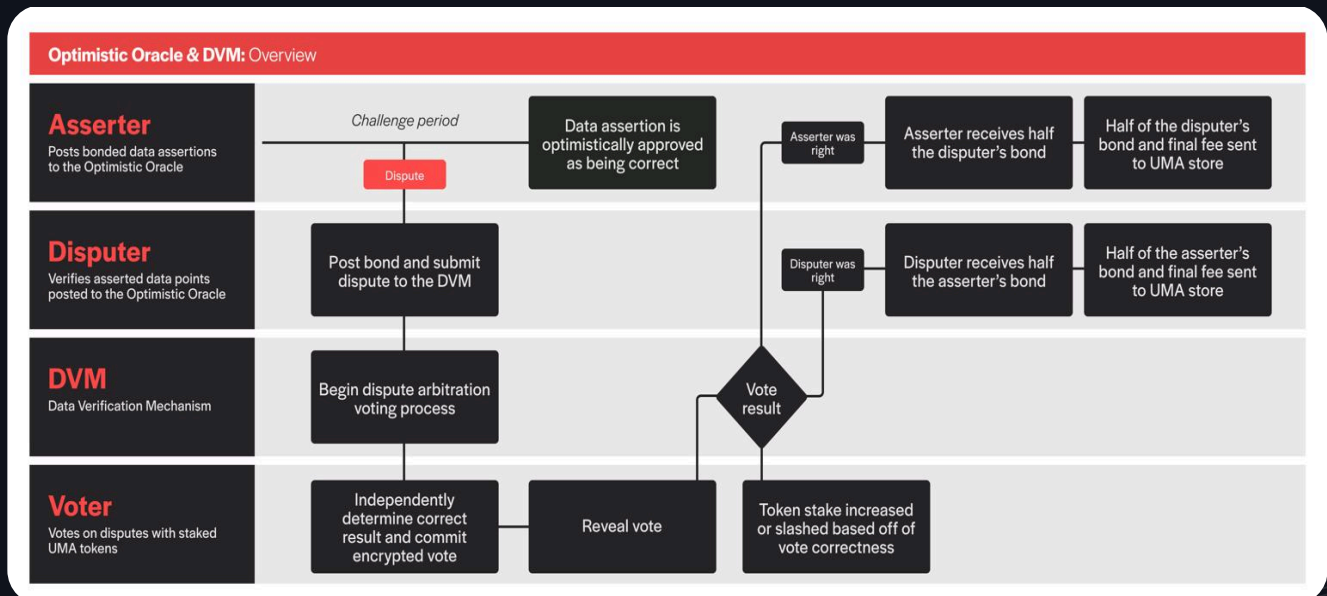




UNIVERSAL MARKET ACCESS

UMA is a generalized **framework for building synthetic exposures and conditional payoffs on EVM chains**. Its core is the Optimistic Oracle (OO) and a backstop Data Verification Mechanism (DVM).

Any statement (price, event, governance outcome) **is asserted “optimistically”**; if nobody disputes during a challenge window, it settles. Disputes escalate to tokenholder voting in the DVM. This design replaces continuous price feeds and liquidation bots with an escalation game and bonded economic security.



UMA supports **“priceless” financial contracts** whose rules are in natural-language ancillary data; the OO/DVM pair verifies outcomes only when needed. **Builders use this to mint or settle:**

- ▶ **price-tracking tokens (indexes/baskets)**
- ▶ KPI Options that pay based on target achievement
- ▶ governance execution via oSnap (Snapshot + Safe)
- ▶ cross-chain state verification (e.g., Across)



A platform offering a **synthetic Crypto Volatility Index (CVI)**, akin to the **VIX in traditional markets**. It gives a way to speculate on or **hedge against crypto market volatility**.

The screenshot shows the CVI trading interface. On the left, there's an 'Open position' panel with options for CVI and ULTRA CVI, execution gap (0.09%), 1-hour funding rate (-0.058%), and order type (LONG/SHORT, Market/Limit). The main area displays the CVI price at 49.86, a 24h change of -3.98 (-7.39%), and a 4-hour chart. The chart shows price fluctuations from late 2022 to early 2024, with a current price of 49.863518.

The CVI index is computed from option prices (on BTC and ETH) to reflect 30-day implied volatility. Users can buy a CVI synthetic token that pays out if volatility rises (and conversely loses value if volatility falls). **If the market expects big moves (up or down), the CVI goes up.**

The platform also allows shorting the index. To manage this, CVI Finance uses a pool of collateral (usually stablecoins) and an algorithmic trading engine: when someone buys CVI, the system effectively takes the opposite position (akin to selling them volatility exposure) and manages a hedge via the collateral pool.

This section shows the Total Value Locked (TVL) and price for CVI Finance (GOVI). The TVL is \$233,214. Key metrics include Market Cap (\$238,634), \$GOVI Price (\$8.815), Fully Diluted Valuation (\$478,089), \$GOVI Volume 24h (\$25,111), Staked (\$11,391, 4.94% of mcap), and Treasury (\$61,382). A line chart shows the TVL in USD from July 2022 to July 2025, with a peak near \$10m in late 2022 and a significant drop in early 2024.



SYNTHETIC ASSETS MARKET

OUTLOOK (INSIGHTS & TAKEAWAYS)

Synthetic assets have matured from a DeFi novelty to a foundational element of the crypto financial system. Stablecoins (the most successful synthetic assets pegged to fiat) now settle trillions in volume and have market caps in the tens of billions. Platforms like Synthetix proved that on-chain derivatives and indices can attract users, though they also showed the importance of risk management. Key insights include:

- ▶ **Over-collateralization** is effective but **capital-inefficient**. Most synths remain over-collateralized, which limits growth because users must lock a lot of capital for relatively small loans
- ▶ **Expanded offerings (leverage, inverses, yield synthetics) meet real demand**. Traders and investors have utilized these synthetic instruments for speculation and hedging. The fact that decentralized perpetual swaps have thrived, and that inverse and leverage tokens exist, shows an appetite for advanced exposure without relying on CEXs.
- ▶ **Integration and composability**. Synthetic tokens are money Legos – DAI is used across DeFi, sAssets trade on DEXs, and platforms build on each other (Lyra on Synthetix, etc.). This composability drives utility (increasing demand for synths) but also means a failure in one place can cascade.
- ▶ **Every major synthetic asset protocol** has, at one point or another, **faced an incident or stress test** – be it a sudden collateral crash, oracle glitch, or governance mishap.

Overall, **Synthetic finance is now merging with BTCFi**. Bitcoin, once passive, is becoming the collateral base for new synthetic instruments. At the same time, synthetic design is giving BTC new forms, such as **wrapped and yield-bearing versions**. The next section explores how BTCFi applies these same principles to make Bitcoin productive.

Part 2 BTCFi: Turning BTC Into Yielding, Composable Collateral

Bitcoin was designed primarily as a bearer asset, not inherently yielding anything (holding BTC is like holding digital gold – it doesn't pay interest or dividends)



Bitcoin today represents over a **\$1 trillion asset base that largely sits idle**. Analysts estimate that **99% of BTC's market cap is "idle"** – in other words, nearly all bitcoins are held in wallets or cold storage, earning no on-chain yield. On-chain data also confirms this: **more than 14 million BTC have remained unspent in long-term storage**.

BTCFi is about unlocking that dormant capital. As *CoinGecko's* primer puts it, Bitcoin DeFi "*transforms bitcoin from a passive asset into a productive one*", enabling holders to earn returns on their BTC or use it in DeFi applications.

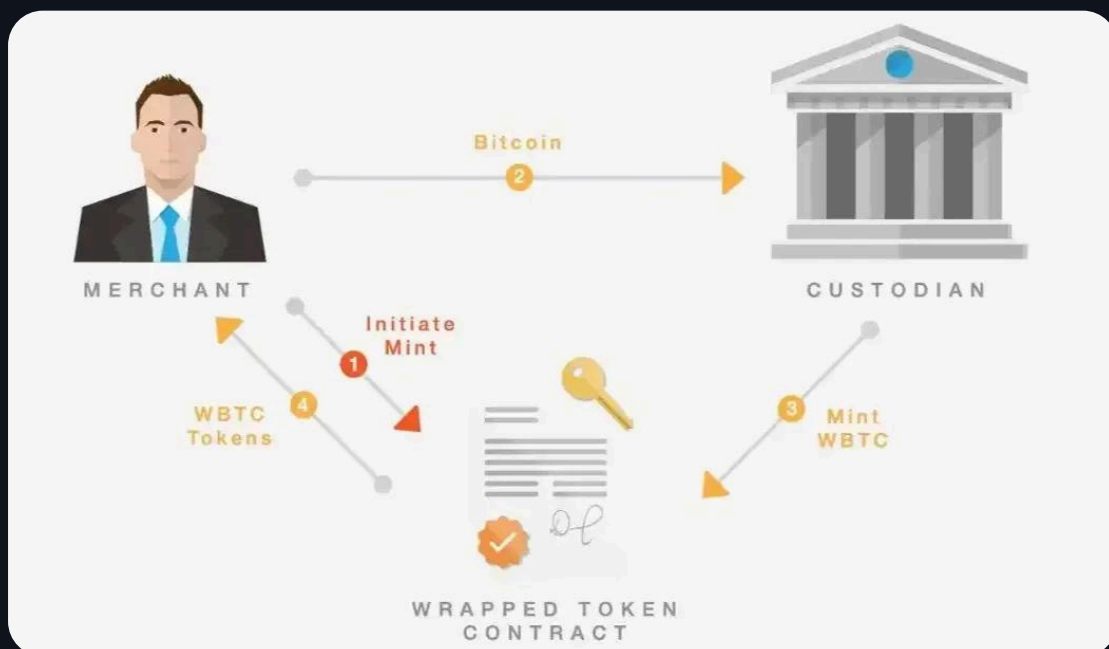
This section explores how Bitcoin can be turned into productive collateral. We cover the infrastructure for using BTC in DeFi (wrapped tokens and custody models), the sources of yield, and profiles of BTCFi projects.

⦿ Bringing Bitcoin to DeFi: Custody Models and Wrapped BTC

Bitcoin can't directly interact with Ethereum or other smart contract networks because its blockchain isn't programmable. To use BTC there, it's **wrapped into a tokenized version** - a 1:1 representation backed by real BTC held elsewhere. This process depends on **how custody of the real BTC is handled**, and three main models exist.

- ▶ **Centralized Custody (Single Custodian).** All BTC backing the token is **held by a known, centralized entity** (or a small group of entities under one umbrella).

*WBTC on Ethereum relies on a custodian (**BitGo Trust**) to hold the BTC. When users want WBTC, they typically go through merchants who handle KYC and then get WBTC minted by the custodian. When redeeming, the BTC is released*



This model has achieved the greatest scale due to its simplicity and speed – WBTC peaked at over \$14 billion in supply. Other examples include **cbBTC (Coinbase Wrapped BTC, \$5.6B)** and **21BTC (by 21.co)**.

🌀 Bringing Bitcoin to DeFi: Custody Models and Wrapped BTC

- ▶ **Federated Custody (Multi-Sig by Known Parties).** Here, the BTC is held by a group of pre-selected, reputable entities who collectively manage the reserves via multi-signature wallets. No single entity can move the BTC unilaterally – a threshold of signers must approve all events.

An example is **Liquid BTC (L-BTC)** on the Liquid sidechain, managed by a federation of exchanges and companies (11 of 15 signatures required for withdrawal).

Another is **BTC.b** on Avalanche and **rBTC** on the **Rootstock (RSK)** sidechain, which use federations (RSK's PowPeg is a 5-of-9 multi-sig including companies like Binance, Bitfinex, etc.).

Advantage: Less single-point risk – it's unlikely all members collude maliciously or all get compromised simultaneously, and if one goes down, the others can continue operations.

Disadvantages: Users still have to trust a set of humans (so it's not trustless), and **coordination issues** can arise – e.g., if members fall into dispute or are offline, redeeming could be delayed.

🌀 Bringing Bitcoin to DeFi: Custody Models and Wrapped BTC

- ▶ **Decentralized / Crypto-Economic Custody.** This model aims to remove trusted humans and instead use a network of nodes and smart contracts to secure the BTC.

Projects like **tBTC (Threshold Network)** and **sBTC (Stacks)** use this approach. Taking tBTC v2 as an example: when you mint tBTC, you send BTC to an address controlled by a randomly selected group of nodes running the Threshold protocol. These nodes have deposited collateral (in ETH and the network's T token) into smart contracts; if they misbehave (e.g. steal the BTC), their collateral can be slashed. The group must reach consensus (e.g. a threshold signature) to move the BTC.

Advantages: Trust-minimized – in theory, users only trust the code and the economic incentives.

Disadvantages: It's technically complex and historically had challenges: early versions (tBTC v1, Keep network) struggled with usage and some design issues. Also, users must often run through more steps (and sometimes pay higher fees or wait longer for confirmation) to mint these tokens.

Bringing Bitcoin to DeFi: Custody Models and Wrapped BTC

In practice, **multiple wrapped BTC coexist**. WBTC is still the dominant one on Ethereum due to first-mover advantage and liquidity, but alternatives like tBTC are gaining ground as users seek more decentralized options.



On newer chains and Layer-2s, projects are opting for either **federations** (e.g. Bitcoin on Avalanche uses the Federated BTC.b) or new **decentralized bridges** (e.g. Polymer, Interlay on Polkadot, etc.)

Unlike stablecoins (where USDC/USDT have clear dominance), wrapped BTC hasn't consolidated into one standard. This fragmentation means **liquidity for BTC is split across WBTC, renBTC (previously), tBTC, SBTC, etc., which is inefficient.**

In summary, **to make BTC productive, one first wraps it into a token on a chain where smart contracts can work with it.** Whether that token is backed by a bank, a federation, or a decentralized protocol is a key design choice with major implications for risk and adoption. Next, we'll see what one can do with that token to actually generate yield.

BTC yield: Where does it come from?

Once BTC is tokenized (WBTC, tBTC, etc.) or deposited into a BTCFi protocol, it can earn yield.

Bitcoin itself doesn't pay staking rewards; miners do.

So yield comes from others paying to use your BTC - through trading, borrowing, or liquidity needs.

Futures Basis Trades

Low to Medium

Avg APY: 6-8%

APY Range: 0-20%

CME

Binance

Deribit

OKX

How it works

Buy spot BTC + Short futures contract = Lock in premium spread

if BTC is \$100k now and a 3-month future is \$102k, an arbitrageur locks in ~\$2k profit per BTC (minus fees) over 3 months. Annualized, such basis can be anywhere from a few percent to double-digits

Yield Details

Currently ~8.5% annualized basis (Oct 2025). In bull markets: 10-20% APY. In quiet periods: 2-5% APY.

CME Dec 2024 Basis	7.7%
CME Mar 2025 Basis	7.5%
Historical Peak	20%+ in bull markets
Historical Low	2-3% in bear markets

Use cases

- ▶ Market-neutral yield generation
- ▶ Hedging spot BTC holdings
- ▶ Institutional treasury management

Risk Breakdown

Overall Risk:	Low to Medium
Market Risk	Very Low
Counterparty Risk	Medium to High
Execution Risk	Low to Medium

Risk Factors

- ▶ Exchange default risk (FTX precedent)
- ▶ Margin call risk during volatility
- ▶ Rolling futures execution risk
- ▶ Basis convergence risk

Perpetual Swap Funding

Medium

Avg APY: 10-12%

APY Range: 0-30%+

Binance

Bybit

Deribit

OKX

How it works

Short perpetual futures + Hold spot BTC = Collect funding payments from longs

If longs pay 0.01% every 8h, that's 0.03% daily or ~11% APY. In extreme rallies, funding reached 0.1%+ per 8h (100%+ APY).

Yield Details

Current funding: 0.01% per 8h (~11% APY). Can spike to 0.1%+ per 8h (100%+ APY) in extreme rallies. Negative in bear markets.

Current BTC Funding	0.01% per 8h (~11% APY)
Recent Peak (Sep 2025)	0.0192% per 8h (~70% APY)
Historical Peak	0.1%+ per 8h (100%+ APY)
Historical Low	can be negative

Use cases

- ▶ Continuous yield farming
- ▶ Market sentiment capture
- ▶ DeFi integration (Pendle)

Risk Breakdown

Overall Risk:	Medium
Market Risk	Very Low
Counterparty Risk	Medium to High
Execution Risk	Medium

Risk Factors

- ▶ Exchange default risk
- ▶ Funding rate can flip negative
- ▶ Margin management complexity
- ▶ Basis risk if not properly hedged

Lending and Borrowing

Low to Medium

Avg APY: 0.1-4%

APY Range: 0-8%

Aave

Compound

Bitget

Klink

How it works

Deposit WBTC/BTC to lending protocol and earn interest from borrowers

| Lend 1 WBTC on Compound at 2.78% APY = Earn 0.0278 WBTC annually

Yield Details

WBTC on Aave: 0.01% APY. Compound: 2.78% APY. Bitget: 1.3% APY. Klink: 4% APY. CeFi platforms: 2-5% APY.

Aave WBTC APY	0.01%
Compound WBTC APY	2.78%
Bitget WBTC APY	1.3%
Klink WBTC APY	4%

Use cases

- ▶ Passive income on idle BTC
- ▶ Low-risk treasury management
- ▶ Borrowing for leverage

Risk Breakdown

Overall Risk:	Low to Medium
Market Risk	Low
Counterparty Risk	Medium (DeFi) to High (CeFi)
Execution Risk	Low

Risk Factors

- ▶ Smart contract risk (DeFi)
- ▶ Platform insolvency (CeFi)
- ▶ Liquidity withdrawal delays
- ▶ Wrapped BTC custodian risk

Liquidity Provision & Yield Farming

Medium to High

Avg APY: 5-15%

APY Range: 2-30%+

Uniswap

Curve

Balancer

PancakeSwap

How it works

Provide BTC/ETH or BTC/stablecoin to DEX pool = Earn trading fees + governance tokens

Providing BTC/ETH or BTC/stablecoin liquidity on Curve, Uniswap, or Balancer yields trading fees

Yield Details

Trading fees: 0.3-1%. Token incentives: 5-20% APY. Total: 5-15% typical, up to 30%+ during liquidity mining campaigns.

Trading Fee APY	0.5-3%
Token Reward APY	5-20%
Typical IL (2x price)	5.7%
Typical IL (5x price)	25.5%

Use cases

- ▶ Active yield farming
- ▶ Supporting DEX liquidity
- ▶ Earning governance tokens

Risk Breakdown

Overall Risk:	Medium to High
Market Risk	High (due to IL)
Counterparty Risk	Low to Medium
Execution Risk	Medium

Risk Factors

- ▶ Impermanent Loss
- ▶ Smart contract vulnerabilities
- ▶ Token reward depreciation
- ▶ Liquidity withdrawal delays

Restaking and Staking Derivatives

Medium to High

Avg APY: 4-7%

APY Range: 0.1-19%

Babylon

BounceBit

Lombard

Lorenzo

How it works

Lock BTC to secure PoS chains = Earn staking rewards in native tokens + BABY/other tokens

Stake BTC on Babylon = Earn 0.2% BTC + 4% BABY tokens \approx 4-7% total APY.
BounceBit offers 4-19% via CeDeFi hybrid.

Yield Details

Babylon base: 0.2% BTC APR + 4% BABY token = 4-7% total APY.
BounceBit: 3-5% APY. Lombard LBTC: 0.82-1% APY.

Babylon BTC APR	4.2%
Babylon BABY APY	4%
Babylon Total APY	4-7%
BounceBit APY	3-5%

Use cases

- ▶ Earning staking rewards without selling BTC
- ▶ Supporting PoS network security
- ▶ Liquid staking token (LST) strategies

Risk Breakdown

Overall Risk:	Medium to High
Market Risk	Medium
Counterparty Risk	Medium
Execution Risk	Low to Medium

Risk Factors

- ▶ Reward token price volatility (BABY, etc.)
- ▶ Slashing risk (protocol-dependent)
- ▶ Lock-up periods (7-21 days)
- ▶ Smart contract exploits

Arbitrage and Specialized Strategies

Low to Medium

Avg APY: 7-18%

APY Range: 3-30%+

Ribbon Finance

Deribit

Gate

Syntetika

How it works

Ad hoc strategies that combine on-chain & off-chain solutions; arbitrage vaults, hedge funds, etc.

BTC structured product might collect premiums from options and pay out a fixed yield unless BTC moves beyond a threshold; or BTC can be lent off-chain

Yield Details

Covered calls: 5-15% APY. Delta-neutral arb: 8-12% APY. Options writing: 10-20% APY (with upside cap). Structured products vary.

Covered Call APY	8-12%
Options Premium	1-2% weekly in high vol
Structured Products	5-15%
Syntetika APY	18-24%

Use cases

- ▶ Yield enhancement on long-term BTC
- ▶ Premium collection in sideways markets
- ▶ Institutional treasury strategies

Risk Breakdown

Overall Risk:	Medium to High
Market Risk	Medium
Counterparty Risk	Medium to High
Execution Risk	Medium to High

Risk Factors

- ▶ Options assignment risk
- ▶ Upside capping (covered calls)
- ▶ Strategy complexity
- ▶ Manager/platform risk

BTC yield: Where does it come from?

In summary, BTC yield is not magic – **it comes from other people trading, borrowing, or otherwise needing liquidity.** BTCFi platforms package these opportunities in user-friendly ways, often abstracting complexities (a user might just see “Deposit BTC, earn 5% APY” while under the hood the protocol is running basis trades or staking to earn that 5%).

It’s worth noting that yields are variable and market-dependent:

- ▶ During the 2021 bull, BTC basis/funding yields were very high (10%+ APY easily)
- ▶ In the depths of a bear market, they might drop to near 0 or even negative (shorts paying longs).
- ▶ Liquidity mining rewards can dry up once the campaign ends.

So BTCFi protocols must adapt, often employing multiple strategies in parallel to smooth returns.

Next, we’ll look at specific projects in BTCFi – how they implement some of these yield generation methods and what unique approaches they bring to making BTC a productive asset.



SALAZAR.ETH

Sustainable BCTFi isn't about maximizing yields, it's about minimizing risk per unit of yield while maintaining decentralization. The projects that win won't be the ones offering 50% APY through five layers of leverage. They'll be the ones offering 8-10% with minimal trust assumptions and transparent risk

Bitcoin definitely becoming a productive collateral is inevitable! But the current implementation path looks like ETH DeFi circa 2020, over-optimized for capital efficiency, under-optimized for systemic resilience (*we're building for sunny days, why not rainy days?*).

Rainy days is **The Liquidation Cascade Problem**

Imagine BTC drops 25% in 2 hours (happened multiple times in COVID, Oct 10):

1. Protocol A (eg, Babylon staking): Positions approach liquidation threshold
2. Liquidation bots start selling staked BTC derivatives to cover debt
3. Protocol B (eg, Lombard): Uses those same derivatives as collateral, now they're dropping in value too
4. Protocol B triggers its liquidations, selling more
5. Protocol C (lending market): Sees massive BTC sell pressure, increases collateral requirements
6. Borrowers across all protocols panic close positions simultaneously
7. DEX liquidity dries up because LPs withdraw (they're getting liquidated elsewhere)
8. Oracle price feeds lag because on chain prices diverge from spot
9. Smart contracts execute liquidations at stale prices, causing more losses
10. Contagion spreads across every protocol that shares BTC collateral

Current BCTFi protocols optimize for individual protocol safety but ignore interconnected failure modes



Rubiks

BTCFi is not only about where yield comes from. When you take a deeper look, you will realize that what mostly matters is **how many times one bitcoin is being used at once across wrappers, vaults, and structured tokens**. And when each one is reused, another claim is created, such that the more the claims, the slower and riskier redemptions become. This idea is called "**Collateral Velocity**." It simply shows how stretched Bitcoin has become across DeFi.

Measuring Collateral Velocity

1. Bitcoin Collateral Velocity (BCV): BCV shows *how many active on-chain claims exist per unit of a custodial BTC held*.

BCV = Total outstanding BTC claims across wrappers and yield splits minus recursively nested claims, divided by provable BTC held in reserve.

- A BCV **near 1 means clean collateral**
- **> 1.2 means leverage is starting to build** and slower pegs
- **> 1.5 shows fragile pegs** and slow redemptions when markets tighten

2. **Redemption Bandwidth (RB)**: RB measures *how much BTC can be redeemed to the base chain within 24 hours without much price volatility*. RB is the sum of custodian settlement capacity, bridge throughput, plus AMM depth.

- An RB **>30% is healthy**
- Around **10%** means **withdrawals may start queuing**
- Anything **<10%** **signals exit risk**

3. **Encumbrance Ratio (ER)**: ER tracks *how much of the BTC is locked* in restaking, cooldowns, or other commitments.

- ER **<40%** means **flexible systems**
- **>60%** means **redemptions will be slow** if markets turn

These three measures show whether a BTCFi system is clean, layered, or brittle.



Why Does It Matter?

1. High yield without exit capacity is only marketing
2. Yield backed by clear redemption paths is a real product
3. A yield paid in non-BTC tokens is not true BTC yield
4. What holds a peg is how well its collateral and exits are structured

Reading BTCFi Using Collateral Velocity

- **Centralized wrappers** such as WBTC often have BCV near 1, high RB, and low ER, though they rely on a single custodian
- **Federated bridges** increase decentralization but slow coordination, which raises ER
- **Dual-token** increase BCV when both tokens are reused
- **Restaking** adds income but raises ER (unbonding periods)
- **Off-chain** strategies can lower ER when liquid, but raise it quickly if exchanges pause withdrawals

Personally, I only underwrite BTCFi projects that meet these limits:

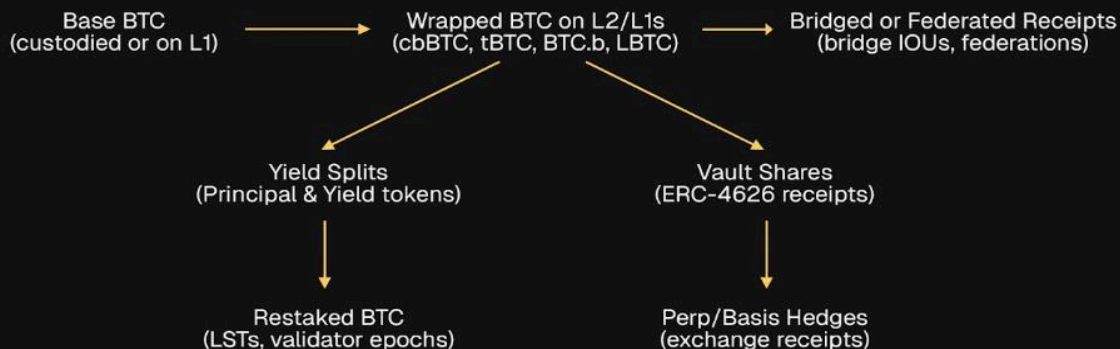
▶ **BCV ≤ 1.25**

▶ **RB $\geq 30\%$**

▶ **ER $\leq 40\%$**

Also, dual-token setups are fine when the yield token carries the lock and the principal token stays clean. Decentralized custody is only worth it if redemption bandwidth stays strong when the market is stressed.

BTCFi Claim Stack Map



Nesting raises stacked claims. Burn-and-mint at par keeps one title. Anything that issues an extra receipt without burning the prior one adds to BCV.





BTCFI ECOSYSTEM & CASES



THRESHOLD NETWORK

Threshold provides tBTC, a **trust-minimized wrapped Bitcoin on Ethereum** (and now other chains). It's essentially a decentralized bridge that mints tBTC 1:1 for BTC without a central custodian.

tBTC v2 uses a **crypto-economic bonding model**. To mint tBTC, a user deposits 1 BTC to a special address. This triggers a randomly selected group of nodes (called signers) to manage that BTC. Each signer must lock a substantial amount of collateral in ETH and Threshold's T token on Ethereum. The group collectively holds the BTC using a threshold signature (so no single node can move it). If they were to steal the BTC or fail to sign when required, their collateral can be slashed, compensating the system.



What yield does BTC get through tBTC? By itself, **none** – tBTC is just a representation (like WBTC). However, once BTC is in tBTC form, it can partake in Ethereum DeFi yields (lend on Aave, farm in Curve, etc.). **So tBTC is an enabler rather than a yield generator by itself.**

Threshold partnered with TradFi – Kraken Custody uses tBTC to offer non-custodial staking (Kraken users stake BTC, Kraken uses Babylon/Threshold to mint tBTC and stake, all behind scenes).

Income Statement for tBTC

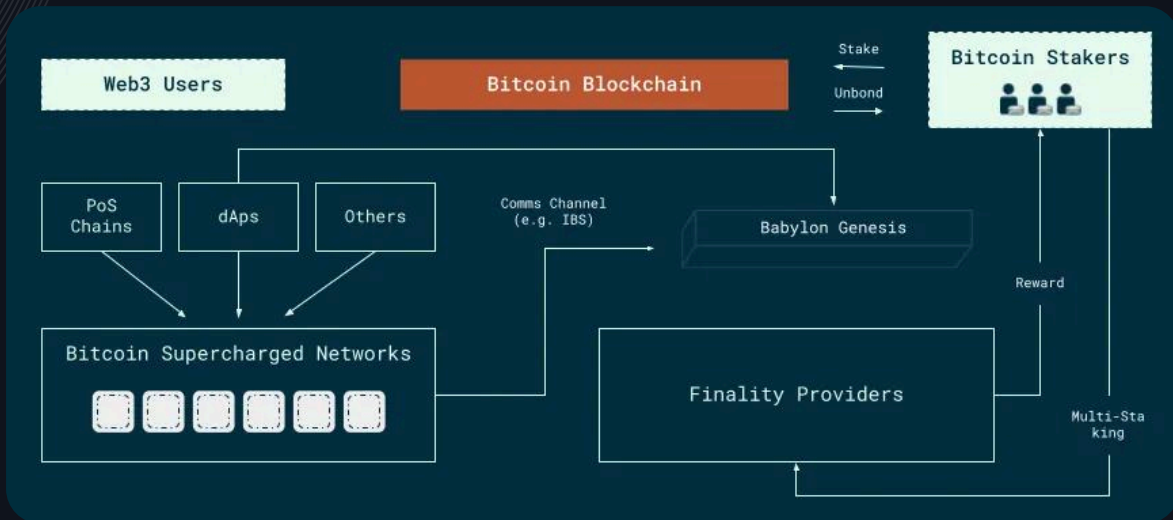
Yearly Quarterly Monthly

	Q4 2025 *	Q3 2025	Q2 2025	Q1 2025	Q4 2024	Q3 2024
Fees	\$282,914	\$234,033	\$581,980	\$556,283	\$590,845	\$7,744
Revenue	\$282,914	\$234,033	\$581,980	\$556,283	\$590,845	\$7,744
Earnings	\$282,914	\$234,033	\$581,980	\$556,283	\$590,845	\$7,744

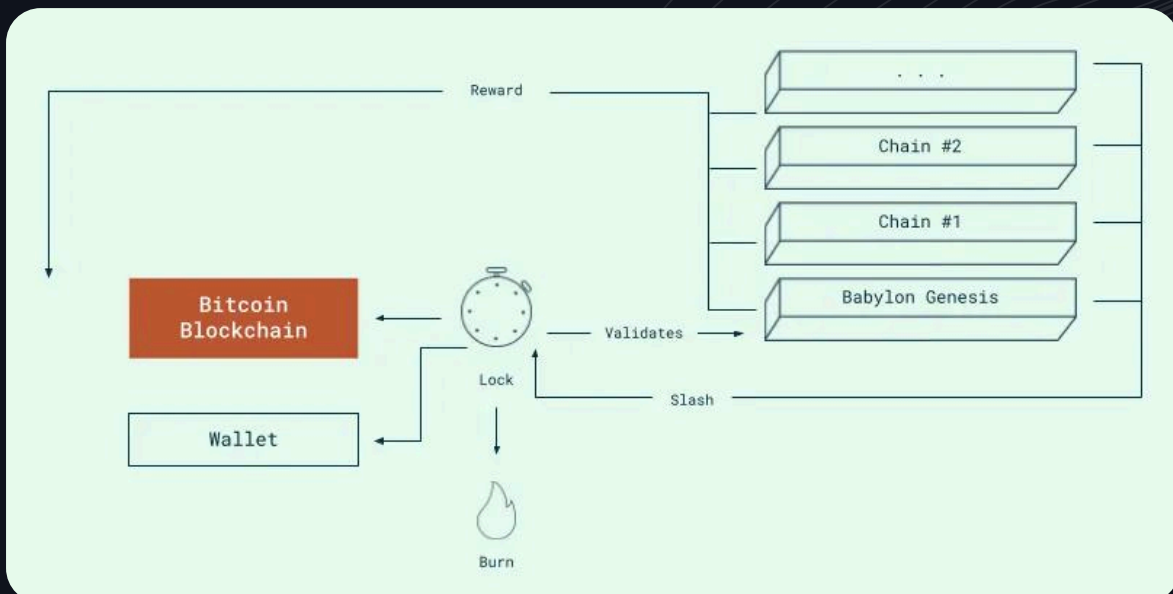


BABYLON

Babylon is a specialized blockchain (built with Cosmos SDK) that **enables Bitcoin holders to stake BTC to secure proof-of-stake chains** and earn rewards, **without wrapping or giving up custody** to a third party.



Babylon uses **Bitcoin's scripting to achieve staking**. A user who wants to stake BTC sends a special transaction on the Bitcoin network that time-locks their BTC in a vault (self-custody via an output that can't be spent for a certain period). The proof of this lock is relayed to the Babylon Chain. Babylon then **allows those locked BTC to contribute to the validator set of partner PoS chains**





BABYLON

The yield for BTC stakers comes from two sources: **block rewards** (inflationary or fee rewards) of the **PoS chains**, and **incentives (BABY token issuance)**.

If Babylon is connected to ChainX which offers 10% staking yield, a BTC staker might get a portion of that in ChainX's token. Babylon itself might pay BABY tokens to BTC stakers as an extra reward, especially in early bootstrapping

This is a different source of yield than typical DeFi – **participating in multiple networks' consensus and earning their staking returns**. One could consider it an analog to providing an interoperability/security service and getting paid for it.

Total BTC TVL	BTC Staking APR	Finality Provider
57552.06 BTC (\$6.31B)	0.2%	60 active (125 total)



Babylon mainnet launched in 2024. It has since integrated with a few partner chains and has steadily grown BTC participation. It introduced Bitcoin as a **“universal collateral” for cross-chain security** – a novel utility. It's also **working with institutional custodians (like Fireblocks)** to allow their clients to participate.



SOLV PROTOCOL

Solv Protocol presents itself as an **“On-chain Bitcoin Reserve” and cross-chain BTC staking solution**. It’s a platform that aggregates various BTC yield strategies (restaking, DeFi, etc.) under one umbrella.

- ▶ **SolvBTC** is a universal **Bitcoin reserve token** that links Bitcoin’s value across multiple blockchains. **Backed 1:1** by a transparent reserve, it’s **designed to bring Bitcoin into DeFi, CeFi, and TradFi markets**
- ▶ **xSolvBTC** is a **yield-bearing Bitcoin token** powered by the Babylon ecosystem, transforming staked BTC into a liquid asset that generates native Bitcoin yields. Fully backed 1:1 by Bitcoin, xSolvBTC combines the security of BTC with the flexibility of DeFi, enabling you to earn rewards while keeping your assets accessible.

THE LARGEST ON-CHAIN BITCOIN RESERVE

The backbone of trust for a scalable and open Bitcoin economy

Ranked Amongst:

1ST

On-Chain Reserves

5TH

Government Reserves

7TH

BTC ETFs

6TH

Public/Private Companies

RANK	SYMBOL	CATEGORY	BITCOIN HOLDINGS
1	IBIT	ETF	620,252
2	MSTR	Company	555,450
3	USA	Government	207,189
4	FBTC	ETF	200,819
5	CHINA	Government	194,000
6	GBTC	ETF	189,273
7	BLOCK	Company	164,000
8	TETHER	Company	100,521
9	UK	Government	61,000
10	ARKB	ETF	52,724
11	MARA	Company	48,257
12	UKRAINE	Government	46,351
13	BTC	ETF	42,079
14	BITB	ETF	39,074
15	CEP	Company	31,500
16	solv	On-Chain Reserves	24,226
17	BTCC.TO	ETF	22,001
18	RIOT	Company	19,211
19	BITC.SW	ETF	16,239
20	HODL	ETF	14,105

Data Source: Bitcoin Treasuries, May 18, 2025



SOLV PROTOCOL

Users can unlock **additional yield opportunities** through **SolvBTC.LSTs** (Liquid Staking Tokens representing staked SolvBTC) across various DeFi platforms like Babylon, EigenLayer, and Symbiotic. The protocol also leverages validator rewards on Bitcoin L2 networks and sidechains by committing SolvBTC.LSTs to consensus mechanisms.

Project	Chain	TVL	APY	Base APY	Reward APY	30d Avg APY
Solv Basis Tradi...		\$957,427	1.60%	1.60%		1.79%

Solv's **yields come from** categories we discussed: **restaking** (Babylon, EigenLayer), **validator lobbying** (Stacks, Core), **DeFi strategies** (Ethena stablecoin mint, Jupiter LP). By combining them, they can achieve a higher blended yield than any single source, while diversifying risk. If one strategy underperforms (say, Babylon yields drop), others might be doing well (maybe Ethena's yields are up), smoothing overall return.



Income Statement for Solv Protocol

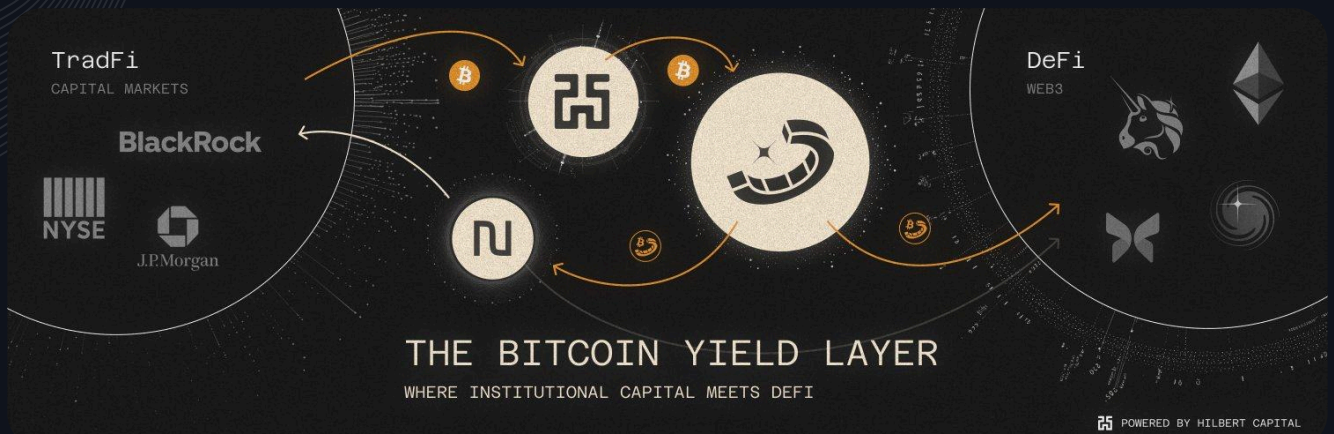
Yearly Quarterly Monthly

	Q4 2025*	Q3 2025	Q2 2025	Q1 2025	Q4 2024	Q3 2024
Fees	\$4.78m	\$7.79m	\$3.52m	\$3.83m	\$6.75m	\$493,424
Revenue	\$1.89m	\$3.43m	\$1.31m	\$859,277	\$1.35m	\$98,687
Earnings	\$1.89m	\$3.43m	\$1.31m	\$859,277	\$1.35m	\$98,687



SYNTETIKA

Syntetika positions itself at the intersection of Bitcoin and DeFi by **turning Bitcoin into a yield-bearing, composable collateral**. It transforms BTC into **hBTC** (a DeFi-ready token) and **shBTC** (a yield token).



Syntetika's **hBTC** provides a composable Bitcoin collateral that **can be used across DeFi – similar to WBTC**, but with a difference: the BTC backing hBTC is **working on-chain & off-chain** to generate yield for shBTC. This means the system's collateral is productive. In traditional lending, if you use BTC as collateral for a stablecoin loan, that BTC just sits in a vault doing nothing (except maybe being liquidated if needed). In Syntetika, **BTC collateral is continuously invested**.

BTC BASIS+ STRATEGY - NET

Annualised Net Return	21.35%	Max Drawdown*	-0.39%
6 Mo Rolling Return	10.47%	Annualised Risk	5.51%
3 Mo Rolling Return	1.29%	Sharpe Ratio	3.87
Year to date	21.02%	Skewness	0.83
% Months Positive	90.91%	Kurtosis	0.15

PROACTIVE RISK MANAGEMENT

Risk is very actively managed, and leverage is capped at a 1:1. The portfolio has Hard Risk limits in place for:

- 1) Ruin Matrix
- 2) Extreme Value at Risk (EVAR)
- 3) Delta
- 4) Hard Monthly Stop Losses

Soft limits manage Theta, Vega, liquidity, fixing and settlement risk. A document is available outlining these risk limits on request.

ETH BASIS+ STRATEGY - NET

Annualised Net Return	18.53%	Max Drawdown*	-0.81%
6 Mo Rolling Return	11.89%	Annualised Risk	5.00%
3 Mo Rolling Return	3.13%	Sharpe Ratio	3.71
Year to date	8.74%	Skewness	0.76
% Months Positive	78.95%	Kurtosis	0.70

PROACTIVE RISK MANAGEMENT

Risk is very actively managed, and leverage is capped at a 1:1. The portfolio has Hard Risk limits in place for:

- 1) Ruin Matrix
- 2) Extreme Value at Risk (EVAR)
- 3) Delta
- 4) Hard Monthly Stop Losses

Soft limits manage Theta, Vega, liquidity, fixing and settlement risk. A document is available outlining these risk limits on request.



SYNTETIKA

How it works:

- ▶ A user deposits **BTC** into Syntetika's vault (BTC is held via a custodian, e.g., Copper, under a secure setup). They **receive 1 hBTC for 1 BTC deposited**. This hBTC can be traded or used just like WBTC (and is intended to maintain a 1:1 peg via arbitrage and convertibility).
- ▶ If the user wants to earn yield, they **stake their hBTC back into the vault** and in return **mint shBTC**. Now the user holds shBTC, which accrues yield over time (the value of shBTC in terms of hBTC increases as yield comes in).

*Under the hood, the BTC in the vault is deployed to various off-chain yield strategies - **Hilbert Group** actively uses the BTC for things like **basis trades, arbitrage, and lending to institutions**. Profits from these activities are periodically added to the vault, increasing the amount of BTC each shBTC can claim*

- ▶ When a **user wants to exit, they burn shBTC to get back hBTC** (plus accumulated yield, meaning they get more hBTC than they originally staked if yield was positive), then **redeem hBTC for actual BTC**.

NET MONTHLY PERFORMANCE** DATA %

Net	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2025	4.28%	1.92%	3.08%	4.15%	1.54%	3.13%	0.18%	-0.39%	1.51%				21.02%
2024	2.42%	1.53%	2.18%	-0.36%	1.03%	0.47%	0.22%	0.04%	0.05%	1.36%	0.71%	5.45%	16.03%
2023												1.53%	1.53%

*Drawdown figures indicated are based on monthly returns and intra-month drawdowns may be larger.

The returns are simulated. *Underlying trading strategies will have associated fund cost specific to the respective vehicle.

The project uses a **custodial partner (Copper)** for BTC storage and works within a regulatory perimeter. They are courting **institutional BTC holders** by offering a **compliant way to earn yield**. Syntetika's assets as akin to Treasury bonds for Bitcoin, implying a relatively stable, low-risk yield instrument denominated in BTC – something institutions could appreciate.



LOMBARD

Lombard is a protocol built **on top of Babylon** that provides a user-friendly, **two-sided yield opportunity**. It issues LBTC, a liquid staking token representing BTC staked via Babylon, and offers additional **DeFi yield vaults for that LBTC**.



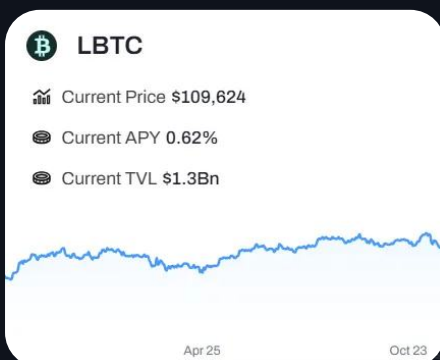
When a user stakes BTC through Lombard, Lombard interfaces with Babylon to stake that BTC. In return, the user gets LBTC. Now, **holding LBTC alone already earns the underlying staking yields** (captured as the LBTC token appreciates relative to BTC or through periodic rebase). But Lombard goes further: **users can deposit LBTC (or other BTC assets like WBTC) into Lombard's DeFi vaults**. The vault engages with DeFi strategies like providing liquidity on DEXs, lending through platforms like Morpho, and engaging in yield trading on Pendle.

Lombard DeFi Vault
Veda

Lux Rewards APY TVL
x4 3.1% \$98,893,379

Deposit [Bitcoin icons] on [Blockchain icons] provided by Veda

Access



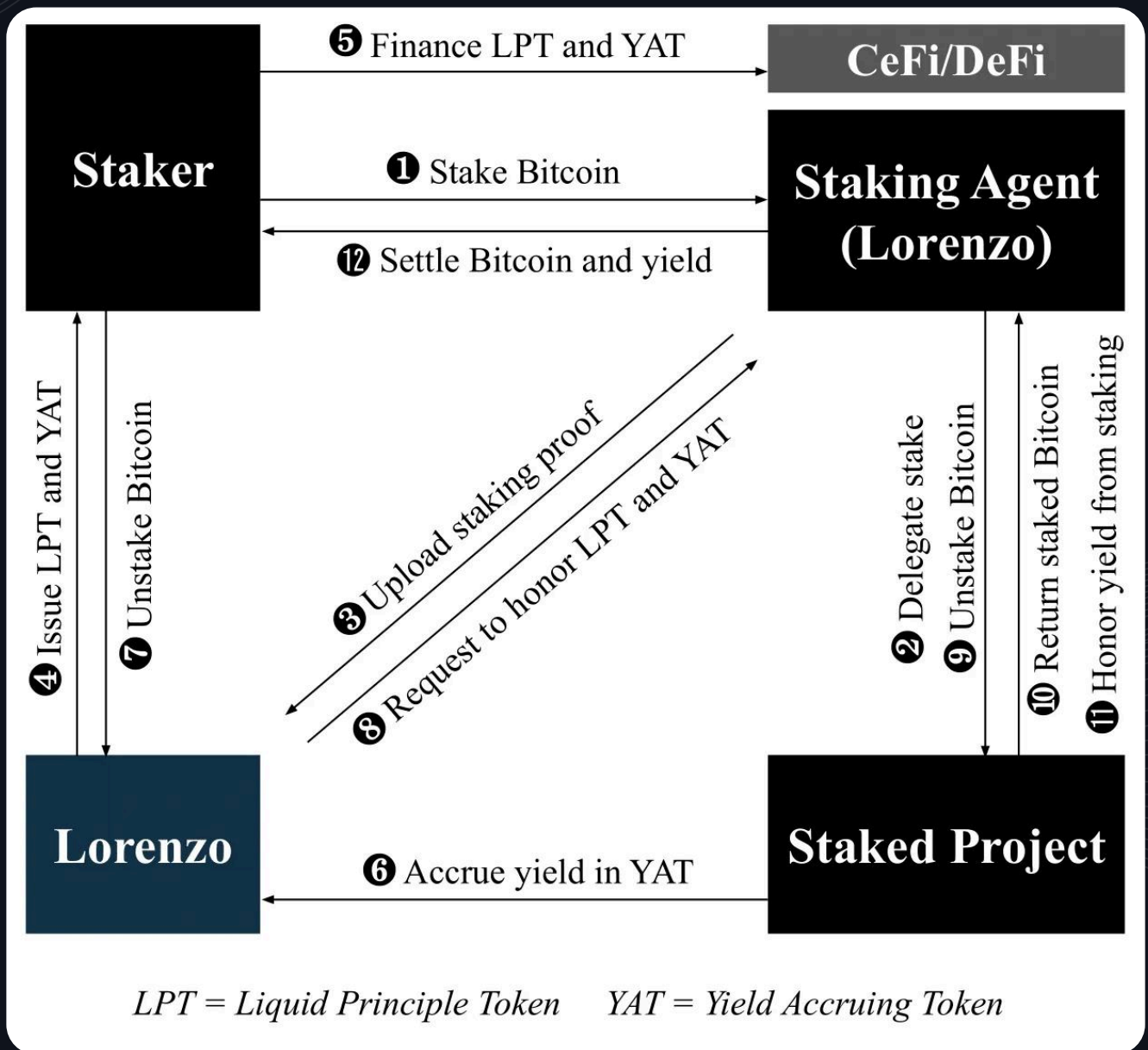
Lombard uses a Security Consortium of **institutional custodians (Cobo, Ceffu (Binance Custody), and ChainUp)** to manage the BTC deposits.

Meanwhile, **Relayers track the BTC chain and the Babylon chain, ensuring that the on-chain actions are reflected properly**



LORENZO

Lorenzo introduces a **dual-token model for staked BTC**, using the terms **LPT (Liquid Principal Token)** and **YAT (Yield Accruing Token)**. Its twist is a dual token model for staked BTC: users who stake BTC get two tokens – one representing principal (staked BTC) and one representing yield (accrued rewards), analogous to how Syntetika splits hBTC/shBTC or how some ETH staking protocols split ETH vs yield





LORENZO

The YAT token's value will float based on how much yield has been generated.

If over a period each stBTC has earned 0.01 BTC in rewards, the YAT might be claimable for that 0.01 (depending on design, YAT might be denominated in BTC yield units)

Lorenzo essentially creates a structured product: stBTC is like a zero-coupon bond (face value 1 BTC), YAT is the interest.

<p>Conservative TVL \$81.53M</p> <p>14.64% APY</p> <p>sUSD1+ Lorenzo</p> <p>Enter</p> <p>sUSD1+ is a yield-accruing stable token. As underlying strategies generate returns, that yield is auto-compounded into the token's value, causing its redemption price to increase over time rather than...</p>	<p>Conservative TVL \$13.12M</p> <p>1.5% APY</p> <p>stBTC Babylon Labs</p> <p>Enter</p> <p>stBTC is a 1:1 Bitcoin-backed liquid staking token powered by Babylon protocol that earns Babylon rewards through restaking while maintaining full liquidity and DeFi compatibility without lock-up constraints.</p>	<p>Conservative TVL \$615.54M</p> <p>1% APY</p> <p>enzoBTC Lorenzo</p> <p>Enter</p> <p>enzoBTC is a 1:1 BTC-backed wrapped asset by Lorenzo that enables Bitcoin holders to access omnichain DeFi liquidity and financial instruments across multiple blockchains while preserving Bitcoin's value and security.</p>
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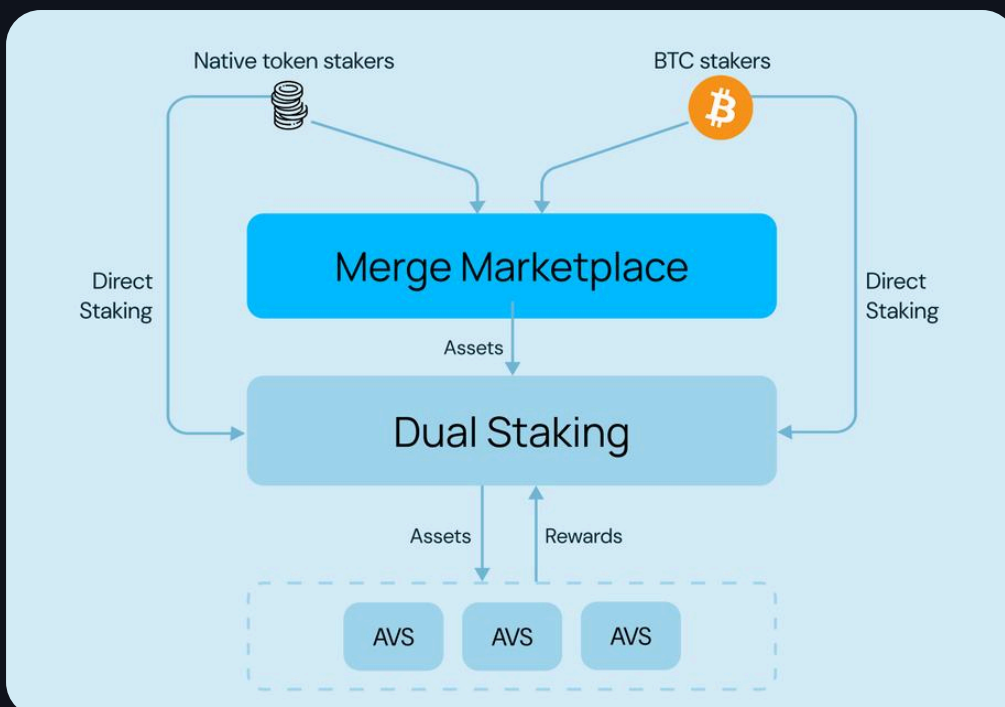
Lorenzo's docs mention other components: enzoBTC – described as a “decentralized wrapped Bitcoin”. enzoBTC is the same as stBTC, tBTC and WBTC - just a more cross-chain enabled version.



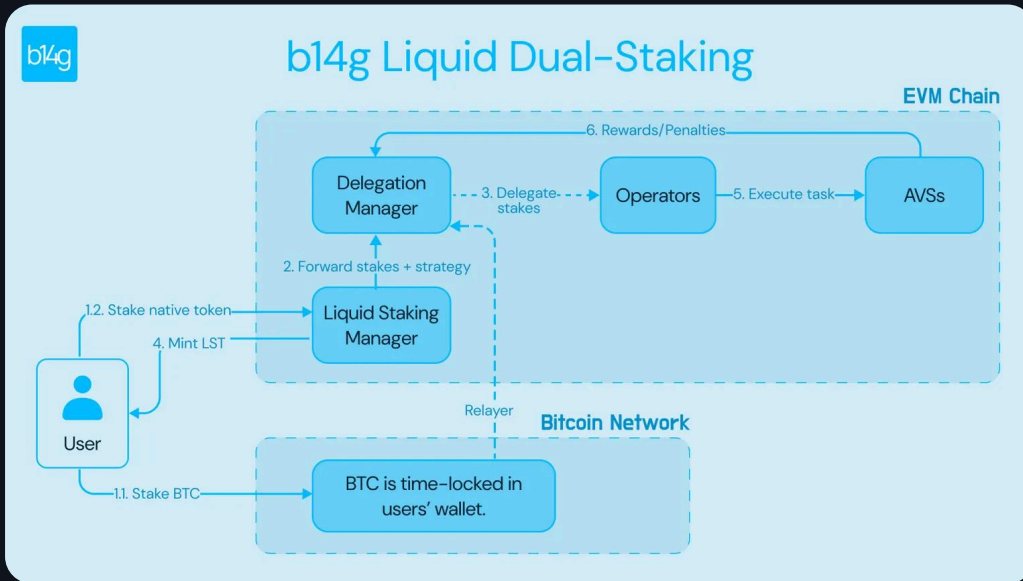
b14g is a **dual-staking layer** for Bitcoin. Stakers **lock BTC non-custodially** on Bitcoin (no wrapping, no custody) and pair it with a protocol's native token on an EVM chain to secure AVSs (Actively Validated Services). If misbehavior occurs, only the native token is slashed; BTC remains time-locked and unslashed.

Products:

- ▶ **Merge Marketplace:** matches BTC stakers with native-token stakers to unlock dual-staking reward tiers (no need to hold both assets)
- ▶ **BTC Fair-Share Vault:** automates matching CORE to BTC locks; BTC stays on Bitcoin, rewards accrue on Core; fees apply on rewards, not principal
- ▶ **dualCORE (ERC-20):** liquid dual-staking token for CORE; vault auto-compounds dual-staking yields; target APY is variable and market-dependent



The **system has two core components**: a **Delegation Manager** (verifies BTC-lock proofs, accepts native-token deposits, delegates to operators, enforces rewards/slashing) and a **Liquid Stake Manager** (issues liquid representations: ERC-20 for staked tokens and ERC-721 NFTs for locked-BTC positions).



b14g positions this as “merge/dual-staking” to reduce inflationary emissions and align BTC holders with protocol token economics.

Project	Chain	T.V.L. ↕	APY ↕	Base APY ↕	Reward APY ↕	30d Avg APY ↕
b14g		\$313.97m	0.27%	0.27%		0.35%
b14g		\$5.4m	17.33%	17.33%		16.06%



BTCFi Projects Comparison

These project spotlights illustrate the diversity in BTCFi approaches: from bridging (tBTC) to staking (Babylon, Lorenzo) to aggregation (Solv) to yield tokens (Lorenzo), and combinations thereof with off-chain strategies (Syntetika). Each aims to make BTC a yield-generating asset without sacrificing remaining Bitcoin.

Name	TVL	Approx. BTC Involved (TVL)	Approach / Strategy Focus	Yield Mechanism	APY %
Threshold tBTC	599.79m	\$596.63m	Decentralized BTC bridging (ETH & others) - no native yield	No yield by itself; enables use of BTC in DeFi (earn via external protocols)	0.1-8.11% via Ember Vault
Babylon Chain	\$6.308b	\$6.30b	Bitcoin staking for PoS security (non-custodial via BTC time-locks)	PoS block rewards (paid in partner chains' tokens and BABY token)	0.2% + \$BABY tokens + Chain tokens
Syntetika	AUM: \$391M	(Private launch; initial capacity TBD)	BTC yield fund with dual tokens (hBTC principal + shBTC yield)	Off-chain arbitrage, lending, basis trades generate BTC yield distributed to shBTC (hBTC stays 1:1 BTC)	18-22.35%+
Lombard Finance	\$1.383b	\$1.3b	Liquid staking token LBTC + DeFi yield vaults on multiple chains	BTC staking rewards (via Babylon) + DeFi yields (liquidity mining, lending, etc.) on LBTC vaults	0.62-3.1%
Lorenzo Protocol	\$733.67m	\$628m	Multi-chain BTC liquid staking with dual tokens (stBTC principal + YAT yield)	BTC staking rewards split into principal & yield tokens (YAT accrues staking yield)	1-1.5%
Solv Protocol	\$1.528b	\$1.095B	Cross-chain BTC reserve aggregator (SolvBTC token)	Blended yield from restaking (Babylon, EigenLayer), DeFi strategies, etc., via SolvBTC.LSTs	1.6% native; 3.85% Coinbase; 6% on BTC+ vaults
b14g	\$331.62m	\$317.37m	Dual-staking: BTC (non-custodial timelock) + native token (EVM)	Native-token staking + dual-staking boost; no BTC slashing	0.27-5.33%

BTCFi Projects Comparison

The analysis shows three clusters:

- ▶ **enablement rails** with no native yield (tBTC)
- ▶ **security/dual-staking and LST** stacks that earn on-chain emissions and fees (Babylon, Lombard, Lorenzo, Solv, b14g)
- ▶ one hybrid that mixes **on-chain wrappers with off-chain strategies** packaged via a dual-token claim (**Syntetika**)

Return bands follow the engine: enablement = 0% but can grow with integrations; security/LSTs = low single digits once incentives normalize; hybrid/off-chain can print higher snapshots but varies with market regimes.

Risks differ accordingly: on-chain designs concentrate contract/peg/emission risk; off-chain adds venue and counterparty exposure; dual-staking adds operator/policy risk but avoids BTC principal slashing

- ▶ **On-chain carry compresses with scale.** As TVL rises, emissions dilute and LP fees average out
- ▶ **Enablement tokens are tools**, not yield. tBTC's value is composability; income comes only after redeployment into other protocols
- ▶ **LST / dual-token splits help UX, cap returns.** Principal vs yield separation improves collateral use but anchors APY to staking economics and liquidity depth
- ▶ **Hybrid with off-chain structures explain higher point-in-time APY**, but introduce venue limits, funding-flip risk, and reliance on reserve/controls

Pick the engine that matches the mandate: use tBTC when you need pure BTC composability; prefer Babylon/Lombard/Lorenzo/Solv/b14g for lower-touch, on-chain carry; consider the hybrid only if you accept operational and counterparty risk in exchange for regime-dependent upside.

DefiLlama Yield analysis across available pools

Pools with TVL > \$50m

#	Pool	Project	Chain	Market TVL	APY	Base APY	30-day Avg APY
1	WBTC-USDC (0.3%)	Uniswap V3	Ethereum	\$11.69m	22.54%	22.54%	41.66%
2	WBTC-WETH (0.05%)	Uniswap V3	Arbitrum	\$67.42m	17.32%	17.32%	28.67%
3	WBTC-WETH (0.3%)	Uniswap V3	Ethereum	\$100.83m	6.09%	6.09%	11.09%
4	WBTC.B-USDC	GMX V2 Perps	Arbitrum	\$96.44m	5.18%	5.18%	9.20%
5	WBTC-USDT (0.3%)	Uniswap V3	Ethereum	\$52.54m	3.36%	3.36%	15.47%
6	crvUSD-tBTC	Curve	Ethereum	\$104.45m	3.35%	3.35%	16.54%
7	crvUSD-cbBTC	Curve	Ethereum	\$104.33m	3.06%	3.06%	14.32%
8	SOLVBTC.BNB (pool A)	Pendle	BNB Chain	\$145.51m	2.92%	2.92%	3.25%
9	KODI-SOLVBTC.BNB	BeraPaw	Berachain	\$85.44m	1.48%	-	2.29%
10	BTC.b supply	Benqi	Avalanche	\$70.64m	1.33%	0.10%	1.32%
11	SOLVBTC.BNB (pool B)	Pendle	BNB Chain	\$145.51m	1.23%	0.54%	9.37%
12	WBTC.B-WBTC.B	GMX V2 Perps	Arbitrum	\$57.49m	1.20%	1.20%	2.74%
13	WBTC-cbBTC	Fluid DEX	Ethereum	\$80.04m	1.18%	1.18%	1.25%
14	crvUSD-WBTC	Curve	Ethereum	\$104.90m	0.82%	0.82%	16.67%

DefiLlama Yield analysis across available pools

Pools with TVL > \$100m

#	Pool	Project	Chain	Market TVL	APY	Base APY	30-day Avg APY
1	WBTC-USDC (0.3%)	Uniswap V3	Ethereum	\$111.69m	22.54%	22.54%	41.66%
2	WBTC-WETH (0.3%)	Uniswap V3	Ethereum	\$100.83m	6.09%	6.09%	11.09%
3	crvUSD-tBTC	Curve	Ethereum	\$104.45m	3.35%	3.35%	16.54%
4	crvUSD-cbBTC	Curve	Ethereum	\$104.33m	3.06%	3.06%	14.32%
5	SOLVBTC.BNB (pool A)	Pendle	BNB Chain	\$145.51m	2.92%	2.92%	3.25%
6	crvUSD-WBTC	Curve	Ethereum	\$104.90m	0.82%	0.82%	16.67%
7	SOLVBTC.BNB (pool B)	Pendle	BNB Chain	\$145.51m	1.23%	0.54%	9.37%
8	cbBTC supply	Aave V3	Base	\$319.31m	0.03%	0.03%	0.03%
9	vBGT-WBTC	Morpho V1	Ethereum	\$105.44m	0.02%	0.02%	0.02%
10	WBTC supply	Aave V3	Arbitrum	\$284.49m	0.01%	0.01%	0.01%
11	BTC.b supply	Aave V3	Avalanche	\$337.95m	0.01%	0.01%	0.01%
12	tBTC supply	Aave V3	Ethereum	\$198.35m	0.01%	0.01%	0.01%
13	WBTC supply	Compound V2	Ethereum	\$260.73m	0.01%	0.01%	0.01%

BTCFi Yield Conclusion

We provided two views of BTCFi yield pools for comparison: **Table 1 lists pools with TVL > \$50m, and Table 2 tightens to TVL > \$100m.** Low-TVL pools (<\$50m) often show unstable or inflated APYs driven by mercenary incentives, thin depth, concentrated LP ranges, and price impact from a few wallets.

Across the DefiLlama pools filtered by depth (>\$50m and >\$100m), yields cluster into:

- ▶ **double-digit**, volatile fee APYs on Uniswap v3 WBTC–stable/ETH that require active range management and carry IL risk;
- ▶ **mid single-digit** on GMX v2 LPs and Curve's crvUSD–BTC pairs, where funding/fee flow and incentive drive variability;
- ▶ **1–3%** on Pendle's SOLVBTC markets, mirroring SolvBTC's underlying base yield plus modest rewards; and % near-zero in large lending markets (Aave/Compound/Benqi), used mainly for collateral, not income

Versus protocol-level BTCFi yields:

- ▶ **Babylon's** non-custodial BTC staking pays low single-digit partner-chain rewards (token-denominated but not in BTC)
- ▶ **Lorenzo** splits principal (stBTC) and yield (YAT), delivering similar low-single-digit accrual with tradable yield exposure;
- ▶ **Lombard** stacks Babylon rewards with DeFi vaults for a blended low-to-mid single-digit profile;
- ▶ **Solv** aggregates restaking/DeFi into diversified low-to-mid single-digit LSTs;
- ▶ **Syntetika** converts on-chain & off-chain basis/funding/lending into a market-neutral stream for a high BTC-denominated accrual to shBTC while keeping hBTC at par

In short, some DEX fee pools show the high headline APY but lowest reliability; staking/vault protocols offer lower, steadier yields with clearer risk sources and better suitability for passive BTC exposure; off-chain strategies provide the highest returns.



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Imo, We need **less focus on stacking yields and more on building robust primitives that can handle stress** without cascading failures.

Protocols avoid these because users chase the highest APY. A *protocol offering 12% with circuit breakers loses to one offering 15% without them, until the black swan hits*

They don't test: "What happens if three major BTC bridges fail simultaneously while ETH drops 40% and a major CEX freezes withdrawals?"

For optimized resilience, test: progressive liquidation friction, diversified oracle sets, liquidation rate limits, cross protocol stress testing, reserve buffers

The newer BTCFi protocols are not implementing most of these mechanisms yet. They're still in the "growth phase". prioritizing TVL and yields over systemic resilience. This is exactly the concern, they're repeating ETH DeFi's mistakes from 2020-2021 rather than learning from them

The real question isn't "how much yield can BTC generate?" It's **"how much yield can BTC generate sustainably while preserving its core value proposition as trustless, censorship resistant money?"**

BTCFi protocols face a harder problem: Bitcoin's base layer offers no native programmability for liquidations. When you lock BTC in Babylon or bridge through tBTC, you're introducing smart contract risk that Bitcoin itself doesn't have. The collateral ratio isn't just about price volatility, it's compensating for bridge exploit risk, oracle manipulation, and cross-chain message failures.

Protocols should test for Optimized Resilience (explained earlier) while offering low APY



REKTNOMIST

Stablecoins showed how over-collateralized, on-chain instruments could scale into trillions of settlement volume, but they relied on fiat or wrapped assets. What's happening now with BTCFi is that Bitcoin itself becomes the underlying collateral layer for a new class of synthetic yield instruments.

Babylon's approach is particularly interesting because it **extends Bitcoin's security model into proof-of-stake systems** without custody or bridging. You're locking BTC directly on Bitcoin, proving that lock on another chain, and earning yield from securing external validator sets. It's a clean cryptographic design that turns Bitcoin into a productive asset while preserving its self-custody ethos.

The result is a convergence: synthetic design principles, composability, verifiable collateral, programmable yield, are being rebuilt around Bitcoin's native trust assumptions.

Conclusion

Bitcoin's journey from a passive store of value to productive collateral is well underway, powered by new solutions in both synthetic asset design and Bitcoin DeFi.

Key takeaways from the deep dive include:

- ▶ **Design Parallels.** Over-collateralization, peg mechanisms, and creative risk slicing underpin both successful stablecoins and the new wave of BTC yield tokens. Techniques like dual-token structures and decentralized custody are being cross-applied to make Bitcoin yields tokenizable and tradable.
- ▶ **Bitcoin's Expanded Role.** No longer limited to being “digital gold,” BTC is increasingly used as DeFi collateral, securing loans, backing stablecoins, and providing liquidity – all while earning returns.
- ▶ **Yield Opportunities.** Bitcoin holders can earn yield through an array of avenues – from straightforward lending to basis trading and cross-chain staking & off-chain strategies. These yields, often in the single to low double digits annually, come with trade-offs in risk which new protocols aim to mitigate via decentralization, insurance funds, and governance.
- ▶ **Project Landscape.** Some projects, like **tBTC** and **Babylon**, focus on **infrastructure** – trust-minimized bridging and staking – while others like **Lombard** and **Solv** provide user-facing platforms that **aggregate strategies for convenience**. **Syntetika** stands out as an **intersectional case**, demonstrating how one can combine off-chain options with on-chain token engineering to offer a new Bitcoin yield instrument. The comparative table provided gives a snapshot of how these projects differ in approach, yet collectively contribute to a more efficient BTC financial ecosystem.

Bitcoin holder in 2025 can now do more than just hodl: they can earn interest, borrow against BTC, provide insurance, and gain exposure to other assets, all through protocols that settle on-chain.



**ESSAY "WHERE BTCFI AND
SYNTHETIC ASSETS MEET"**

Essay “Where BTCFi and Synthetic assets meet”

On the surface, BTCFi and synthetic assets might seem like separate domains of DeFi. BTCFi focuses on making Bitcoin yield-generating and composable, while synthetic asset platforms focus on creating tokens that mimic other assets using collateral and smart contracts.

Both BTCFi and synthetic assets deal with issues of collateralization, peg stability, and risk distribution.

For example, a BTC yield protocol like Syntetika or Babylon must ensure that the token representing BTC (hBTC, LBTC, etc.) stays pegged 1:1 to real BTC; that’s essentially the same peg problem a synthetic USD stablecoin faces maintaining \$1.

- ▶ **Synthetix** uses **over-collateralized** SNX to secure synths and **relies on arbitrage for peg**
- ▶ **Syntetika** uses fully **collateralized BTC** and **delta-hedging** to secure hBTC
- ▶ BTC bridging protocol like **tBTC** is an exercise in synthetic token creation – tBTC is a token fully **backed by BTC and kept at parity by a redemption mechanism** and an “honest majority” assumption.

Both domains aim to unlock liquidity and capital efficiency. Synthetic assets take idle exposures and make them tradable on-chain. BTCFi takes idle BTC and injects it into DeFi to earn yield.

In each case, a previously static asset (be it gold in a vault or BTC in cold storage) **becomes a productive one.**

We see a clear convergence in the use of structured product techniques. **Synthetic platforms created leveraged and inverse tokens, splitting risk exposures.**

Now **BTCFi projects are doing similar** tranching specifically for BTC yields. **Lorenzo’s** YAT vs stBTC, **Syntetika’s** shBTC vs hBTC, and Frax’s frxETH vs sfrxETH are all instances of applying a dual-token model – **separating principal and yield.**

Essay “Where BTCFi and Synthetic assets meet”

This mirrors traditional finance’s practice of splitting a bond into a principal-only and interest-only strip. The reason is to achieve both composability and efficiency: one token remains stable and widely usable, while the other captures volatile returns and can be held or traded by those who want that risk/reward.

In DeFi, this idea first appeared in yield tokenization protocols (like **Pendle**, which tokenizes yield from farms) and **LSD platforms** (**StakeWise, Frax**). Now it’s mainstream in BTCFi.

Why do BTCFi and Synthetics fit together so well? Because together they unlock something fundamental: the ability to use any asset as both a secure store of value and a source of programmable yield or payoff.

Bitcoin provides the “hard collateral” – high value, widely trusted, scarce. **Synthetic frameworks provide the “imagination”** – the ability to create any payoff or asset if you have collateral. *Marrying the two means you can create a Bitcoin-backed Euro stablecoin, a Bitcoin collateralized stock index, or a Bitcoin yield futures token – all sorts of cross-breed instruments.*

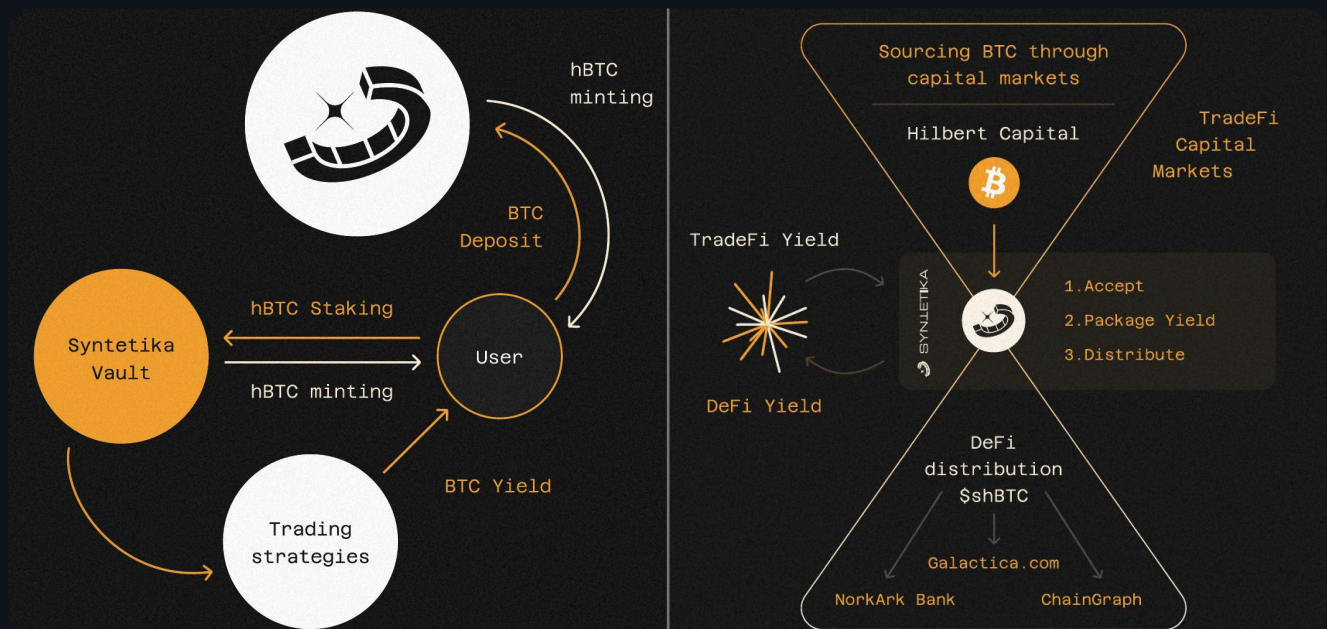
The convergence isn’t just within crypto. **TradFi is keen on this intersection too**, because it marries Bitcoin’s prowess as an asset with the cash flow characteristics of bonds or loans. Some examples:

- ▶ **Valour’s BTC Yield ETF** (mentioned earlier) essentially **stakes BTC and pays yield**, packaging BTCFi into a TradFi instrument.
- ▶ **BounceBit Prime** combined **U.S. Treasuries with BTC basis trades** to offer a dual-yield product – something a TradFi portfolio manager would understand (yield from bonds + yield from BTC arbitrage).

🌀 Essay “Where BTCFi and Synthetic assets meet”

- ▶ **SatLayer** created a “**Bitcoin denominated insurance fund**” – using BTC yield to underwrite insurance, drawing parallels to **Berkshire Hathaway** (which invests float in yields). It involves **Nexus Mutual** (DeFi) and **Relm** (TradFi insurer), showing joint interest.
- ▶ **Institutionals & projects:** e.g., **Franklin Templeton in Lombard**, or Nasdaq-listed **Hilbert working with Syntetika**. They see that yield-bearing BTC could become a new asset class akin to corporate bonds (but in BTC) or a new form of income-generating fund.

Syntetika offers a concrete illustration of this convergence. It takes the largest crypto asset and employs a synthetic asset model to wrap a BTC yield strategy.



Let's track a user journey to illustrate synergy:

- 1. Deposit BTC** – the user sends BTC to Syntetika's vault (via a bridge or custodian).
- 2. Mint hBTC** – the protocol gives the user 1 hBTC for 1 BTC deposited. Now the user has a synthetic asset that represents their BTC on-chain.

Essay "Where BTCfi and Synthetic assets meet"

- 3. Optionally stake hBTC to shBTC** – if the user wants yield, they stake their hBTC in the vault and receive shBTC. They will start accruing BTC yield through shBTC's increasing value per share.
- 4. Using the tokens** – the user could do various things: keep shBTC and watch it grow (just like holding a cToken or stETH), or even trade shBTC.
- 5. Yield generation** – Syntetika packages market-neutral BTC yield from both sides: off-chain strategies (run with Hilbert Group), and on-chain across major venues.
- 6. Redemption** – at any time, the user (or whoever holds their tokens) can reverse: redeem shBTC for hBTC (essentially "unstaking"), and then redeem hBTC for real BTC from the reserve (or swap hBTC on market for WBTC, etc.). If yield was earned, they'll end up with more BTC than they started.

BTC BASIS+ STRATEGY - NET

Annualised Net Return	21.35%	Max Drawdown*	-0.39%
6 Mo Rolling Return	10.47%	Annualised Risk	5.51%
3 Mo Rolling Return	1.29%	Sharpe Ratio	3.87
Year to date	21.02%	Skewness	0.83
% Months Positive	90.91%	Kurtosis	0.15

PROACTIVE RISK MANAGEMENT

Risk is very actively managed, and leverage is capped at a 1:1. The portfolio has Hard Risk limits in place for:

- 1) Ruin Matrix
- 2) Extreme Value at Risk (EVAR)
- 3) Delta
- 4) Hard Monthly Stop Losses

Soft limits manage Theta, Vega, liquidity, fixing and settlement risk. A document is available outlining these risk limits on request.

ETH BASIS+ STRATEGY - NET

Annualised Net Return	18.53%	Max Drawdown*	-0.81%
6 Mo Rolling Return	11.89%	Annualised Risk	5.00%
3 Mo Rolling Return	3.13%	Sharpe Ratio	3.71
Year to date	8.74%	Skewness	0.76
% Months Positive	78.95%	Kurtosis	0.70

PROACTIVE RISK MANAGEMENT

Risk is very actively managed, and leverage is capped at a 1:1. The portfolio has Hard Risk limits in place for:

- 1) Ruin Matrix
- 2) Extreme Value at Risk (EVAR)
- 3) Delta
- 4) Hard Monthly Stop Losses

Soft limits manage Theta, Vega, liquidity, fixing and settlement risk. A document is available outlining these risk limits on request.

Now the project is **extending its dual-token, asset-denominated yield model beyond BTC to ETH and SOL**, replicating the same stack operated with Hilbert Group.

Essay “Where BTCFi and Synthetic assets meet”

Syntetika demonstrates that by combining BTCFi and synthetics, one can create a product that **Bitcoin maximalists, yield farmers, TradFi and DeFi degens all find interesting:**

- ▶ **Bitcoin holder** sees an **avenue to earn native yield without selling BTC**, and with the ability to re-use their BTC (via hBTC) in DeFi
- ▶ **DeFi user** sees a new **asset that they can speculate on or integrate** – use shBTC as collateral on a lending protocol to borrow stablecoins, essentially borrowing against future BTC yield (this could enable leveraging yield).
- ▶ **TradFi allocator** sees a **bond-like, auditable BTC income sleeve**: hBTC maps to principal (par, collateral-eligible) and shBTC to coupon (yield accrual); segregated custody + PoR enable audit/NAV; cash-flow clarity fits funds/ETPs/notes and SMA mandates; risk buckets (market-neutral strategy, custody/ops, smart-contract) are underwriteable.
- ▶ **For the ecosystem**, it means **more BTC liquidity enters and stays because it’s productive**

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Want to collaborate?
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