

Bitcoin Yield and the YBTC Family Economic Layer



Abstract:

This report explains how Bitlayer unlocks native, on-chain yield for Bitcoin through the YBTC Family: YBTC, a trust-minimized BTC minted 1:1 via the BitVM Bridge, and YBTC.B, a wrapped form of Bitlayer Native BTC. We map yield sources, incentives, and risks; compare trust models with legacy wrapped BTC; and outline a go-to-market plan and roadmap aligned with Bitlayer's current integrations and public updates

Introduction – From vision to economics

Report 1 established Bitlayer's purpose-built architecture: an EVM-compatible L2 that settles to Bitcoin via BitVM fraud proofs, plus a two-way BTC bridge that requires **only one honest actor** to prevent theft. That report also documented the peg-in/peg-out workflow, which we will touch upon again in this report, and why this design is a jump in security versus classic multisig bridges. This report also moves from architecture to economics: how **YBTC Family** becomes productive capital, how yield is generated and shared, and what risks/incentives shape institutional adoption.

Why this matters:

Bitcoin's base layer can't host composable DeFi; to make BTC productive, you must bridge into a programmable environment without re-centralizing trust. Bitlayer's BitVM-secured rollup and bridge are designed to do exactly that, letting BTC holders earn on-chain, transparent "real yield" in lending, liquidity provision, and strategy vaults.

What is the YBTC Family (YBTC, YBTC.B)

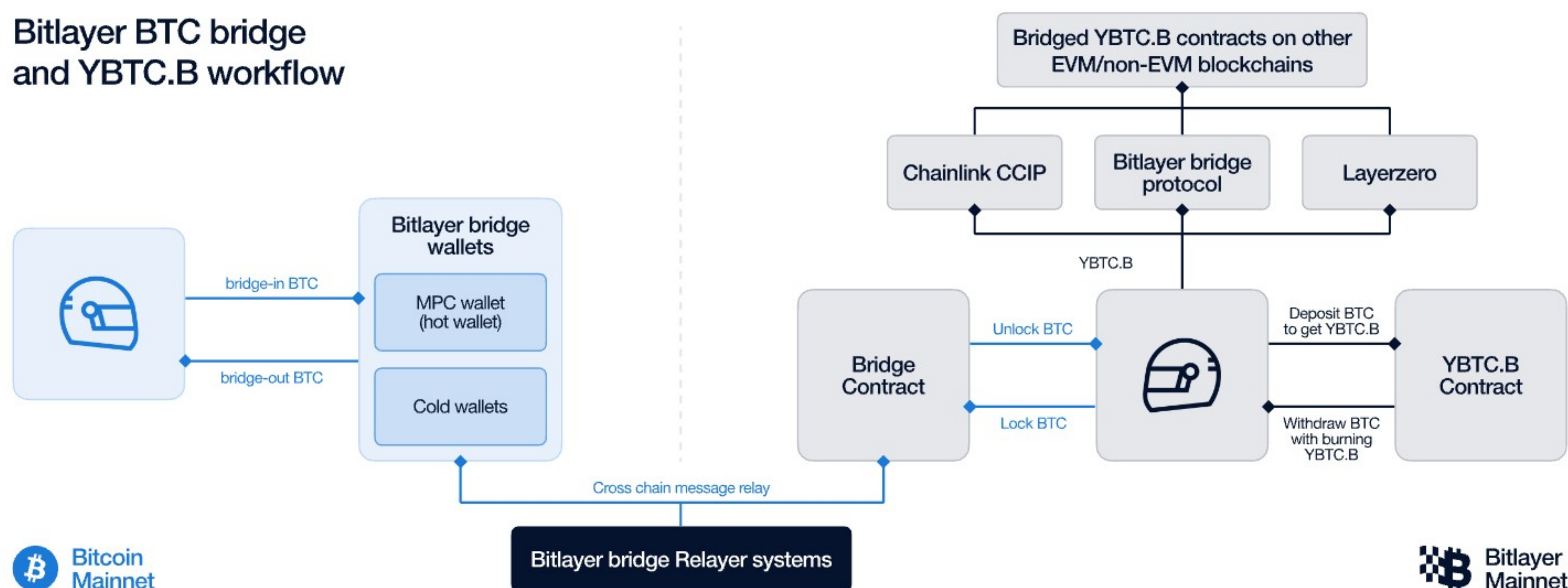
YBTC Family refers to two BTC-pegged assets with distinct roles:

- **YBTC**: trust-minimized BTC minted 1:1 via the **BitVM Bridge**.
- **YBTC.B**: the **wrapped form of Bitlayer Native BTC** (the V1 protocol base asset, 1:1 BTC-backed) designed for cross-chain liquidity and DeFi integrations.

In this report, “**YBTC**” means the BitVM-minted asset, “**YBTC.B**” means the wrapped Native BTC, and “**YBTC Family**” is used when both are in scope.

Mint/Redeem (peg-in/peg-out) logic - operational flow:

Bitlayer BTC bridge and YBTC.B workflow



- **Wrap/Unwrap (Native BTC ↔ YBTC.B)**: after bridging BTC to Bitlayer and holding Native BTC, the user wraps to mint YBTC.B for cross-chain use, and unwraps to return to Native BTC.
- **Peg-in (BTC → YBTC)**: deposit BTC and mint YBTC 1:1 via the BitVM Bridge.
- **Peg-out (YBTC → BTC)**: burn **YBTC** and redeem BTC through the BitVM Bridge dispute/verification path; your report's flow also shows **brokers** fronting exits with later proof-based reclaim under watcher oversight.

Pegging mechanism & incentives

Security for YBTC minting rests on BitVM fraud proofs (trust-minimized, one-honest-actor assumption). YBTC.B maintains its 1:1 peg by wrapping Native BTC and preserving convertibility through wrap/unwrap. Incentive programs (e.g., BTR campaigns; mainnet-beta mint incentives) apply where specified by the team.

Collateral flows & smart-contract structure

Bridge roles (Users, Brokers, Attesting Committee, Watchers) and the front-and-reclaim settlement flow apply to YBTC bridging and exits. By contrast, YBTC.B relies on its wrapper plus integrations with DEXs, lenders, and vaults for circulation.

Stakeholders, how they earn, who secures, who bears risk

BTC holders / YBTC Family holders (YBTC and YBTC.B)

- **How they earn:** supply **YBTC** or **YBTC.B** to lending markets for interest; provide **YBTC** or **YBTC.B** liquidity on AMMs/CLMMs to capture swap fees; deposit either asset into strategy vaults that auto-compound while keeping BTC exposure.
- **Who secures:** **YBTC** issuance is secured by BitVM fraud proofs; **YBTC.B** maintains a 1:1 wrap to Native BTC. Venues (lenders/DEXs/vaults) add their own controls.
- **Key risks:** smart-contract and bridge risk, market volatility, and liquidity or price impact on exit.

Brokers (liquidity providers for exits)

- **How they earn:** spread/fees for **instant peg-outs**; they front BTC to users and later reclaim via the BitVM proof path.
- **Who secures:** their bonded role in the dispute game plus watcher oversight.

DEX LPs & AMMs (LFJ, Cetus, Orca, Momentum)

- **How they earn:** trading fees from **YBTC** or **YBTC.B** pairs. On CLMMs, tighter ranges raise fee density and capital efficiency.
- **Where this exists:** **YBTC.B** is live on **LFJ**; integrations expand across **Cetus** (Sui) and **Momentum**; on **Orca** (Solana), concentrated-liquidity pools enable very low slippage within configured ranges. **YBTC** can participate as listings go live.
- **Key risks:** impermanent loss and out-of-range risk; mitigations include active rebalancing and incentives.

Lending markets/strategy vaults (Folks Finance, Navi, Kamino Earn)

- **How they earn:** interest spreads and vault fees. Vaults can auto-compound returns into a growing YBTC or YBTC.B position (for example, Kamino Earn on Solana).
- **Key risks:** venue-level market and liquidity risk, plus smart-contract risk in vault strategies.

Attesting Committee + Watchers

- **Role:** secure peg correctness and state transitions; run challenges during the dispute window.
- **How they earn:** watchers receive challenge rewards when fraud is proven. Attesting Committee members do not earn from the challenge process. Incentives for attestors are planned; until staking/incentive mechanisms are live, attester participation is by invitation.
- **Theoretical risks:** operational diligence (monitoring, uptime) and bond management for actors that post collateral.

Bitcoin miners/mining pools

- **Role:** inclusion of the bridge's non-standard transactions during disputes/finality. Partnerships with major pools (Antpool, F2Pool, SpiderPool) improve reliability.
- **How they earn:** incremental fees from these transactions as usage grows.
- **Theoretical risks:** network-level throughput/fee dynamics; partnership breadth for redundancy.

Sources of Yield for YBTC Family

Concrete Bitlayer Yield Use-Cases

Yield Use-Case	What it enables (YBTC Family)	Current platforms / examples
Yield-farming & Liquidity provision	Provide YBTC.B (and YBTC as listings go live) to AMMS/ CLMMs to earn swap fees; pair with majors; auto-compound LP revenue via vaults.	LFJ on Bitlayer (YBTC.B listing); Cetus on Sui; Orca CLMM on Solana for efficient BTC pairs; Kamino Swap on Solana.
Lending & Borrowing	Lend YBTC.B/YBTC to earn interest; use YBTC.B/ YBTC as collateral to borrow stables/majors.	Folks Finance, Navi, Morpho.
Staking & Restaking	Stake or liquid-stake BTC exposure via partner chains; auto-compound BTC-denominated returns; restaking integrations to follow per roadmap.	Kamino Earn auto-compounding vaults (Solana); Sui staking modules for YBTC.
On-chain derivatives / structured products	Create BTC-backed stablecoins; options/structured-yield vaults; perps/AMMs as venues integrate.	Maker-like CDP on Bitlayer EVM; structured-yield vaults and derivatives protocols planned on Bitlayer.

1) Lending & Borrowing

YBTC Family is supplied to partner money markets to earn interest and can be posted as collateral for borrowing. Current touchpoints include Folks Finance and Navi (with vault launches noted in the near future).

2) LP Fees & AMMs

- **Bitlayer:** LFJ lists YBTC.B, enabling fee capture on core pairs.
- **Sui & Solana:** **Cetus**, **Momentum**, and **Orca** integrate YBTC.B into **concentrated-liquidity** pools; Orca's CLMM architecture supports near-zero-slippage execution **within chosen ranges**, boosting fee efficiency for BTC pairs.

3) Incentive Flows

- BTR programs (e.g., the 30M BTR Binance Wallet Booster) reward bridging and on-chain activity.
- Mainnet-beta incentives for minting and cross-chain usage help bootstrap early depth and effective APYs.

4) Strategy Vaults & Auto-Compounding

On Solana, Kamino Earn offers institutional-grade vaults that auto-compound BTC-denominated returns on YBTC.B - turning trading and borrowing yield into a growing principal position.

5) Cross-Chain Composability (expansion)

Bitlayer's bridge stack targets both **EVM** and **non-EVM** ecosystems (e.g., **Sui**, **Solana VM via Sonic**), widening the venues where the YBTC family can earn. Standardized routing lanes on the EVM side are also in scope as they mature.

Why this is "native" yield

Returns accrue **on-chain** (from lending interest, AMM fees, and programmatic strategy carry) rather than off-chain rehypothecation. That improves transparency, auditability, and risk control for BTC holders while keeping the asset fully composable across chains.

Comparative Analysis - YBTC Family vs. legacy wrapped BTC

Trust & security model:

Trust & Security Model Cross Analysis:

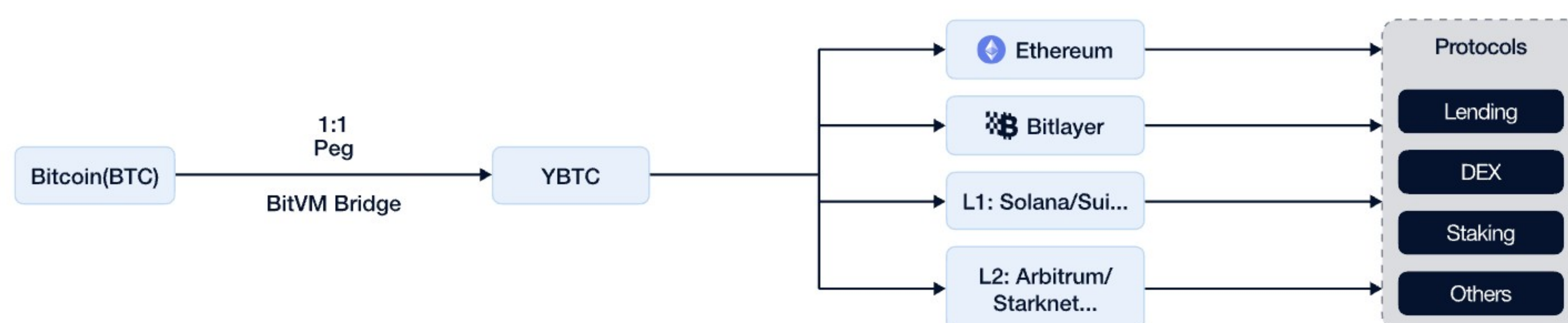
Generation	Bridge Model	Security Model	Risks / Assumptions	Key Features
1st Gen	wBTC-style multisig	Majority-of-n custodians	Single custody perimeter- Simple to implement	High concentration risk
2nd Gen	tBTC-style PoS	Bonded signer sets on PoS Majority-honest	Decentralized via PoS-Bonded signers provide economic guarantees	Still assumes majority honesty
3rd Gen	BitVM Bridge	BitVM-enforced 1-of-n honest security	-Two-way peg- Unified proofs for rollup & bridge- Instant exits via brokers with slashing	Complex system, but minority-honest

Programmability & reach:

YBTC Family is designed for **multi-chain** use (Bitlayer, EVM L2s, and non-EVM like Sui/Solana via Sonic/Orca/Kamino). It should thus be seen as the “BTC-Fi Gateway” with YBTC fanning into DEX/Lending/Staking across chains.

BitVM Bridge: BTC-Fi Gateway

YBTC is programmable asset that, with the multi-chain support of BitVM Bridge, seamlessly integrates into various programmable environments.



Yield surface:

Legacy wrapped BTC inherits yields only where it's listed; YBTC Family's model is to **proactively integrate** across chains and vaults (Sui, Solana, etc.), with incentive programs to amplify early returns.

Risk Framework (and mitigations)

Smart-contract / protocol risk:

BitVM rollup + bridge use **optimistic verification with fraud proofs**; watchers can challenge invalid claims, and brokers get slashed if they attempt fraud. This collapses trust to **one honest actor** in the dispute game. Mitigation: audits, conservative parameterization, and robust watcher incentives.

Bridge/peg risk:

Security relies on the **BitVM dispute path** being mined on Bitcoin. Bitlayer has onboarded mining pools covering **~one-third+** of hashrate for reliable inclusion of the necessary non-standard transactions, and has stated plans to expand pool coverage as needed.

Liquidity & slippage risk:

Early liquidity can be patchy across venues; Bitlayer's approach uses **DEX CLMMs** (e.g., Orca) and targeted incentives to deepen pools and compress slippage around core pairs. Mitigation: route liquidity to the highest-throughput venues (Sui/Solana) and concentrate emissions to deepen **YBTC Family/majors** pools.

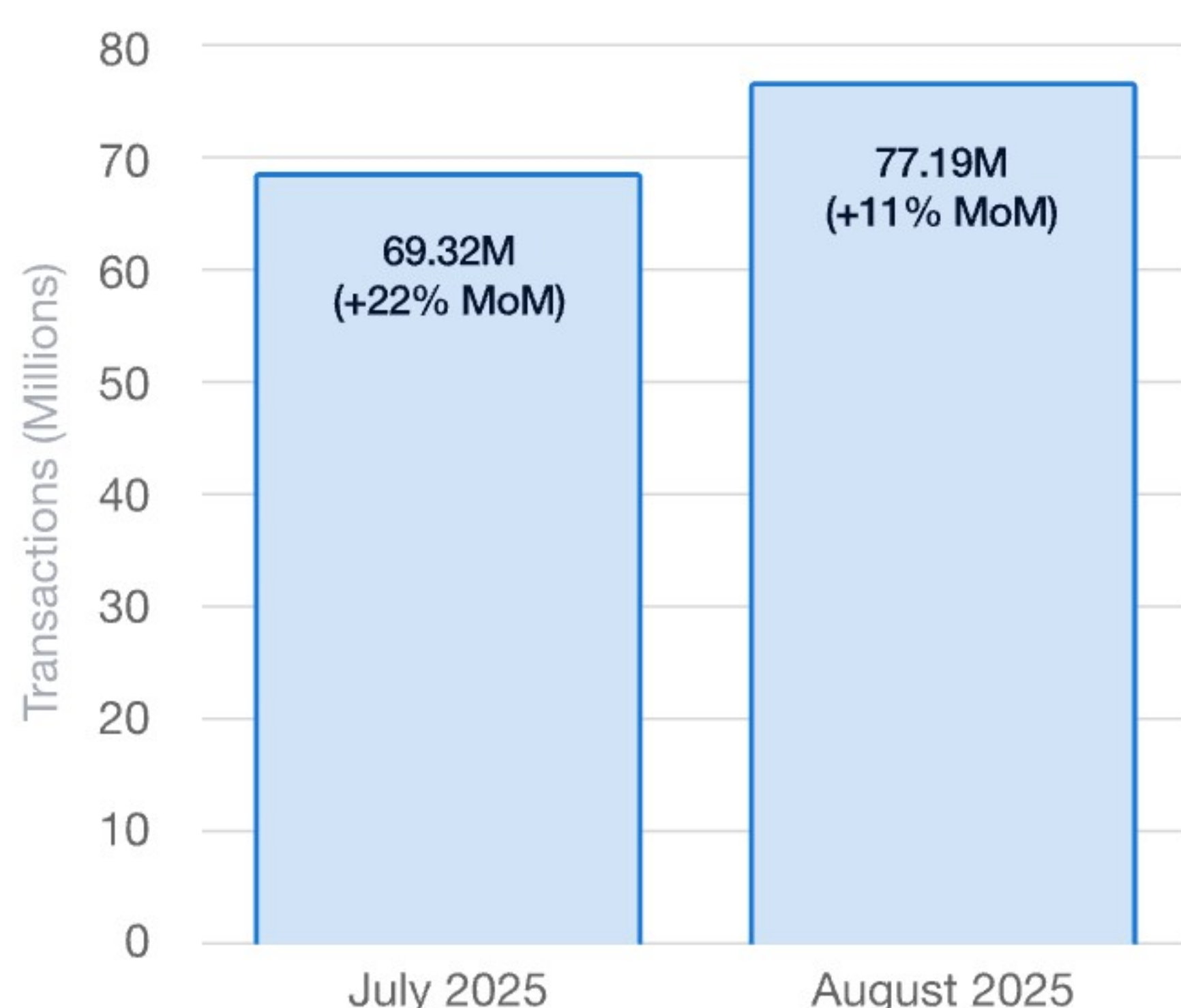
Regulatory/custodial considerations for institutions:

YBTC.B used trusted MPC custody (Coinbase, Sinohope) for BTC ↔ Bitlayer transfers; the YBTC migrates to **trust-minimized BitVM** custody with on-chain verifiability. Institutional operations can adopt either lane as policy demands.

Existing Adoption and Ecosystem Traction

Network growth snapshots (Bitlayer):

Total Transactions by Months (Millions)



- **July 2025:** TVL **\$435.24M**, 787,608 cumulative addresses, 69.32M tx (+22% MoM).
- **August 2025:** TVL **\$668.68M**, 784,379 addresses, 77.19M tx (+11% MoM).

Protocol integrations (cross-chain):

- YBTC has established strategic partnerships with **Solana, Sui, Base, Arbitrum, Starknet, Sonic, and Monad**.
- Cross-chain support is extended to **Sui, Ethereum, BSC, Avalanche, Starknet, Solana, and Plume**.

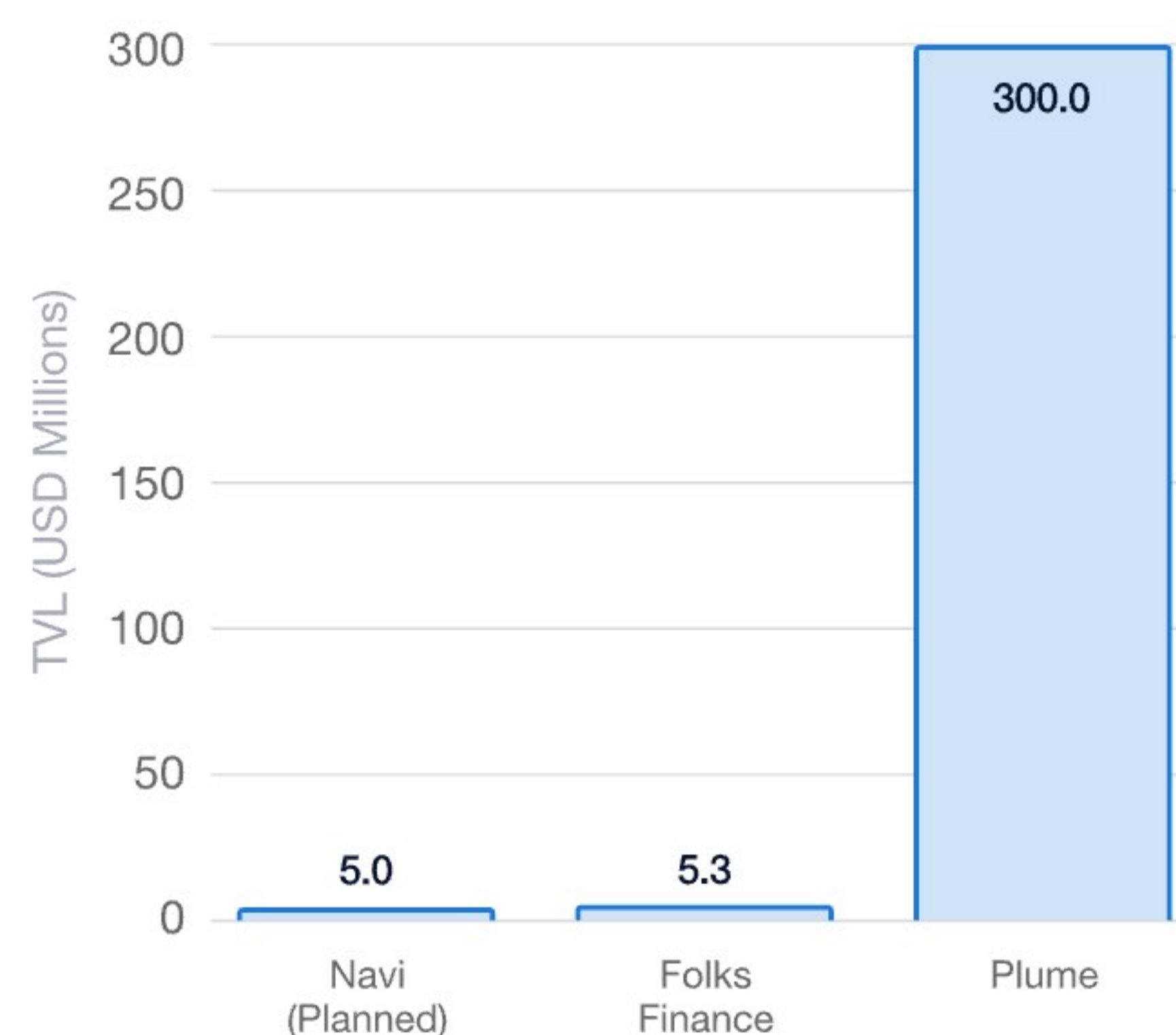
Listings/liquidity venues:

- YBTC Family is listed on **LFJ, Balancer, Cetus, Curve, Momentum, Blackhole, Pancake, and Uniswap**.
- Daily trading volume on **LFJ** exceeds **\$1M**; **Momentum** liquidity is expected to surpass **\$100M**.

Lending & yield vaults:

- Strategic collaborations with **Morpho, Navi, Kamino, and Folks Finance**.
- **Folks Finance** YBTC vault TVL exceeds **\$5.6M**; **Plume** TVL surpasses **\$55M**; **Navi** launched with a **\$5M** vault.

Selected Vault/Liquidity TVLs (USD, Millions)

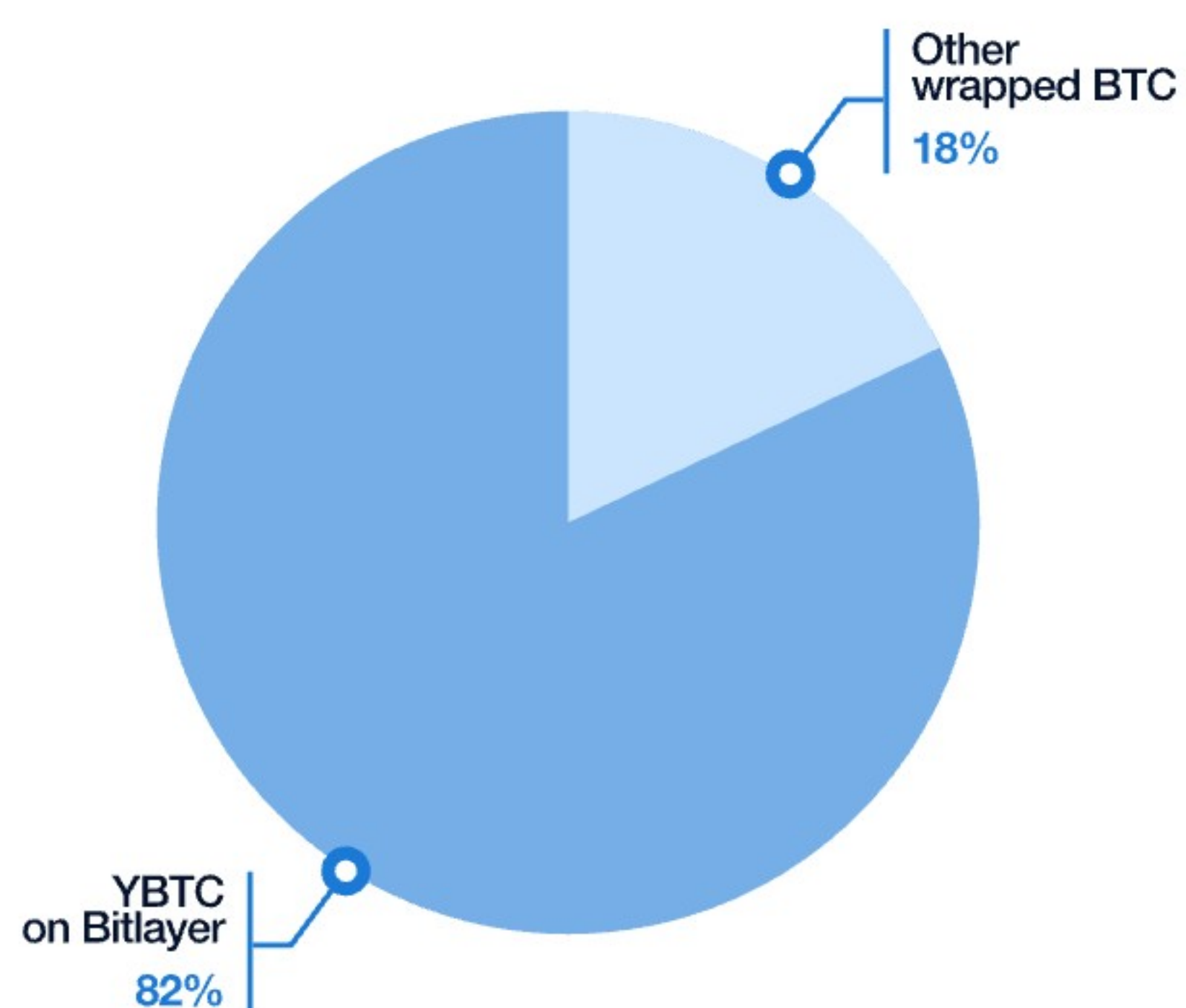


User metrics:

- **Binance Wallet Booster** campaign attracted **181,000+** users.
- TVL in **YBTC.B-related pools** reaches **\$88M**.

Market position (Bitlayer DEXs):

Wrapped BTC Market Share on Bitlayer



- YBTC dominates wrapped BTC on Bitlayer with **~82%** market share.
- Achieves **<0.3%** slippage for large BTC swaps.

Macro traction (from prior phase):

- Peak Bitlayer V1 TVL **~\$850M**, >3M unique addresses, >88M total transactions; plus top mining-pool partnerships.

GTM & Ecosystem Strategy

Ecosystem Integration Priorities

The **Bitlayer team** is executing a **multi-chain expansion** using BitVM/MPC to enable **trust-minimized YBTC transfers** across both EVM and non-EVM networks. On each destination chain, they prioritize integrations with major **DeFi protocols** (DEXs, lenders, and vaults) so YBTC circulates seamlessly and its yield surface expands. For institutions, Bitlayer will provide **white-label solutions** built on BitVM **fraud-proof** mechanisms with end-to-end verifiability (reporting, proofs, and auditability).

Incentive-Driven Adoption

Bitlayer plans **BTR special subsidies** to launch YBTC lending markets and a **leveraged-loan accelerator**. With DEX partners, the team will roll out **automated LP yield rebalancing** that converts LP earnings into **compounding YBTC positions**. Early institutional users will receive **fee subsidies** (e.g., **0% borrowing fees for the first 90 days**). Bitlayer will also **partner with leading exchange wallets** to run YBTC yield campaigns.

Developer Ecosystem

The team will fund builders through **grants** for protocols built on **YBTC.B** (yield aggregators, option vaults, structured products) and ship **SDKs** that enable seamless YBTC integration - mint/redeem hooks, peg-aware accounting, and cross-chain routing.

Institutional On-Ramps

Enterprises will get **white-label bridging endpoints** with **fraud-proof verifiability** and **proof-of-reserves/flows**, plus operational toggles between **MPC (V1)** and **BitVM (V2)** custody to satisfy policy constraints while keeping assets portable across chains.

Risk-Adjusted Return View

Return side:

Composable **on-chain** fee capture (lending/AMM/vaults) plus targeted emissions (BTR, campaign rewards). **Auto-compounding** and chain selection (Solana/Sui) improve capital efficiency.

Risk side:

Protocol/bridge risk mitigated by BitVM fraud proofs and **1-of-n** assumption; **operational risk** around non-standard transaction inclusion mitigated by mining-pool partnerships (31.5–36% hashrate) and ongoing expansion plans.

Compared with legacy wrapped BTC (custodial multisig), YBTC.B shifts the curve **toward lower trust and higher composability**, which is the right side of the risk-adjusted frontier for institutions seeking verifiable exposure. The **three-generation** bridge slide concisely shows why: going from **majority-honest** to **minority-honest** assumptions while expanding programmability.

Roadmap Q4 2025

YBTC Family Roadmap

This roadmap outlines key milestones and strategic initiatives for the **YBTC Family ecosystem** in **Q4 2025 and 2026**, focusing on scalable growth, enhanced yield mechanisms, and institutional adoption.

By achieving these objectives, YBTC aims to solidify its position as a premier **BTCFi asset**, bridging **DeFi accessibility** with **institutional-grade reliability**.

YBTC Family Growth

Drive explosive adoption through **expanded minting**, **multi-chain deployment**, and **deep DeFi integrations** to unlock liquidity and user engagement.

Surpass Key Adoption Thresholds

Achieve over **10,000 BTC** in total minted supply, with **daily trading volume exceeding \$1 million USD** across supported platforms, reflecting robust community and market demand.

Multi-Chain Expansion

Deploy YBTC Family tokens across **6–8 leading public blockchains**, including: Sui, Ethereum, Solana, Avalanche, Polygon, Starknet, Plume, and Plasma, overall enabling seamless cross-chain bridging and reduced fragmentation for users.

DeFi Protocol Integrations

Forge partnerships with **15–20 premier DeFi protocols** spanning: Lending, decentralized exchanges, derivatives, and yield aggregators.

This will position YBTC Family as **eligible collateral** for borrowing stable assets like **USDC and USDT**, unlocking **billions in potential liquidity**.

YBTC Family Yield Upgrade

Introduce **diversified and tiered yield strategies** to cater to retail, advanced, and institutional investors, hence maximizing returns while minimizing risk through innovative product segmentation.

Yield Diversification

Offer a comprehensive suite of yields tailored to investor profiles, including: Traditional DeFi base yields, exclusive partnership incentives from integrated protocols, and advanced quantitative strategy yields powered by **algorithmic optimization**.

Segmented Yield Products

1. DeFi Vault

A user-friendly, on-chain vault delivering **baseline yields of 6–15% annualized returns**, supplemented by **BTR token incentives** to encourage long-term holding and participation.

2. CeDeFi Vault

An **institutional-caliber product** featuring white-label solutions and **API access** for seamless integration. Enables enhanced yields through proprietary quantitative strategies, targeting **sophisticated users** with customizable **risk-adjusted performance**.

BTC Family Institutional Expansion

Elevate YBTC Family to the **gold standard** for institutional BTCFi by forging **elite partnerships**, **tailored financial products**, and **compliance-focused infrastructure**.

Strategic Institutional Partnerships:

Secure collaborations with top-tier custodians and asset managers, including **Franklin Templeton** and **BitGo**, to co-develop BTC-backed financial products and leverage their distribution networks for accelerated onboarding.

Tailored Lending Solutions:

Launch **low-interest lending programs** collateralized by BTC, exclusively available to **verified institutional clients**, providing efficient capital access with competitive rates (e.g., **4–5% APR**) and real-time risk monitoring.

Compliant Infrastructure Buildout:

Develop a **fully auditable, regulatory-aligned framework** to establish YBTC Family as the **de facto institutional-grade BTCFi asset**, ensuring **scalability and trust** for **enterprise-scale deployments**.

Conclusion

Bitlayer transforms Bitcoin from a passive store of value into productive, composable collateral. Within the YBTC Family, **YBTC.B** channels native BTC into lending markets, AMMs, and vaults, while **YBTC**, minted trust-minimally through the BitVM Bridge, extends this liquidity across chains. Security relies on fraud proofs under a one-honest-actor assumption, with brokers providing instant exits and settlement finalized directly on Bitcoin.

Together, these mechanics create a compounding flywheel: BTC enters as collateral, is wrapped or minted into YBTC Family assets, circulates through DeFi venues, generates yield, deepens liquidity, and attracts institutional adoption. Portability across EVM and non-EVM networks ensures execution flows to the most efficient venues, without ever reverting to a custodial trust model.

The result is a BTC-denominated base layer for yield: transparent, verifiable, and secured by Bitcoin itself.

Report 3 will turn to the technical foundation of these guarantees: the BitVM dispute system, on-Bitcoin verification, and the upcoming upgrades that anchor Bitlayer's roadmap.

Disclaimer:

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