

BITCOIN LIGHTNING BANK CASE STUDY V5

The Decentralized Strategy

ABSTRACT

The Bitcoin Compound Annual Growth Rate (CAGR) was 76.93% over a 10-year timespan from January 1, 2015, to January 1, 2025. Institutions are investing into Bitcoin Exchange Traded Funds (ETFs) which shoulder all the Bitcoin volatility, while many corporations are implementing creative fund-raising initiatives referred to as “accretive dilution” to sell shares and purchase Bitcoin for their Bitcoin Treasury. In August 2020, MicroStrategy (now Strategy) made news headlines of their Bitcoin accumulation initiative. In recent years, many Bitcoin Treasury Companies have followed in Strategy’s footsteps however they are all highly centralized entities that use traditional financial products in traditional markets. Bitcoin Lightning Banks have a substantial competitive advantage to the industry by integrating all borrowing and lending products into the Bitcoin Layer 2 Lightning Network, which offers an open, global, and instantaneous settlement layer to provide superior yield while receiving revenue generating service fees. This case study shines a light on the massive potential that a Bitcoin Lightning Bank has when fusing Bitcoin and innovative Lightning Network technologies with traditional markets to challenge the status quo. Additional research and development are required to prove the feasibility of a Lightning Bank; however, I believe that it is not out of reach for those willing to put in the effort and resources.

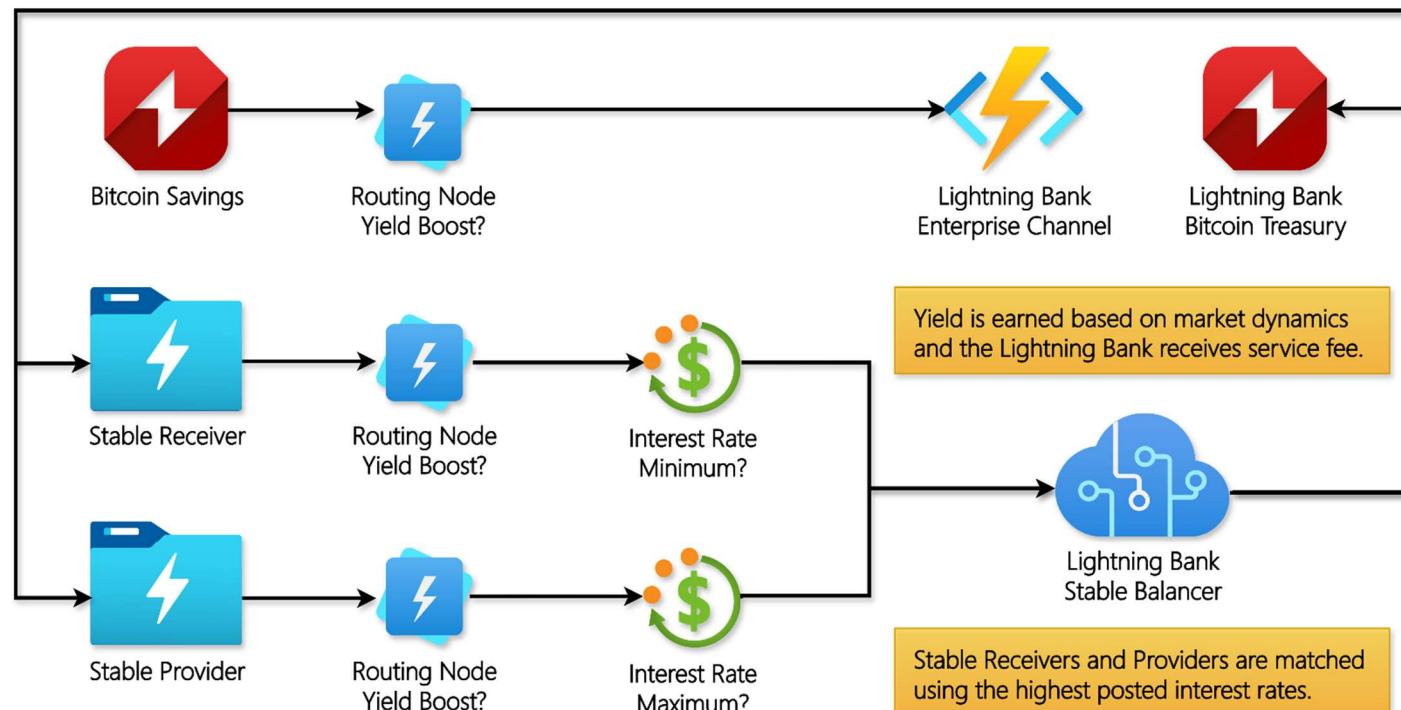
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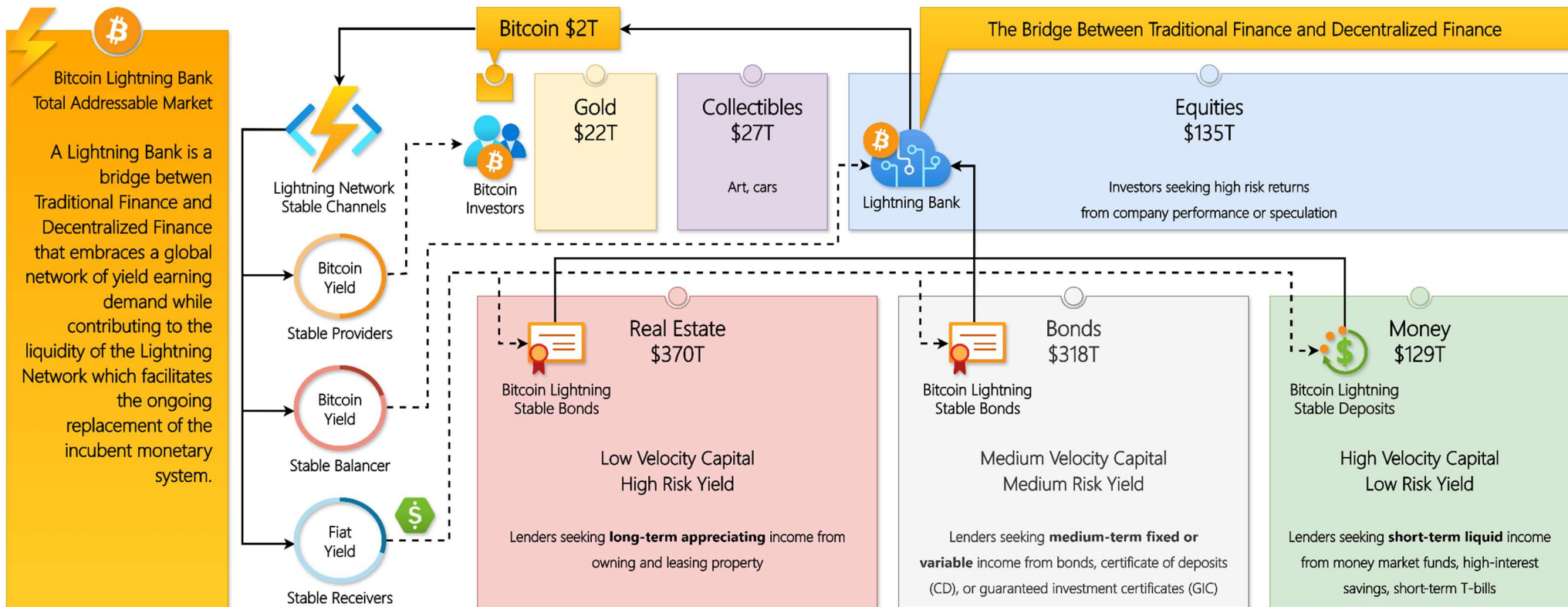
Bitcoin Lightning Bank Overview and Features

Stable Receivers are Fiat Investors that Buy Bitcoin with Fiat Price Stability to Earn Yield

Stable Providers are Bitcoin Investors that 2X Long Bitcoin to Earn Yield



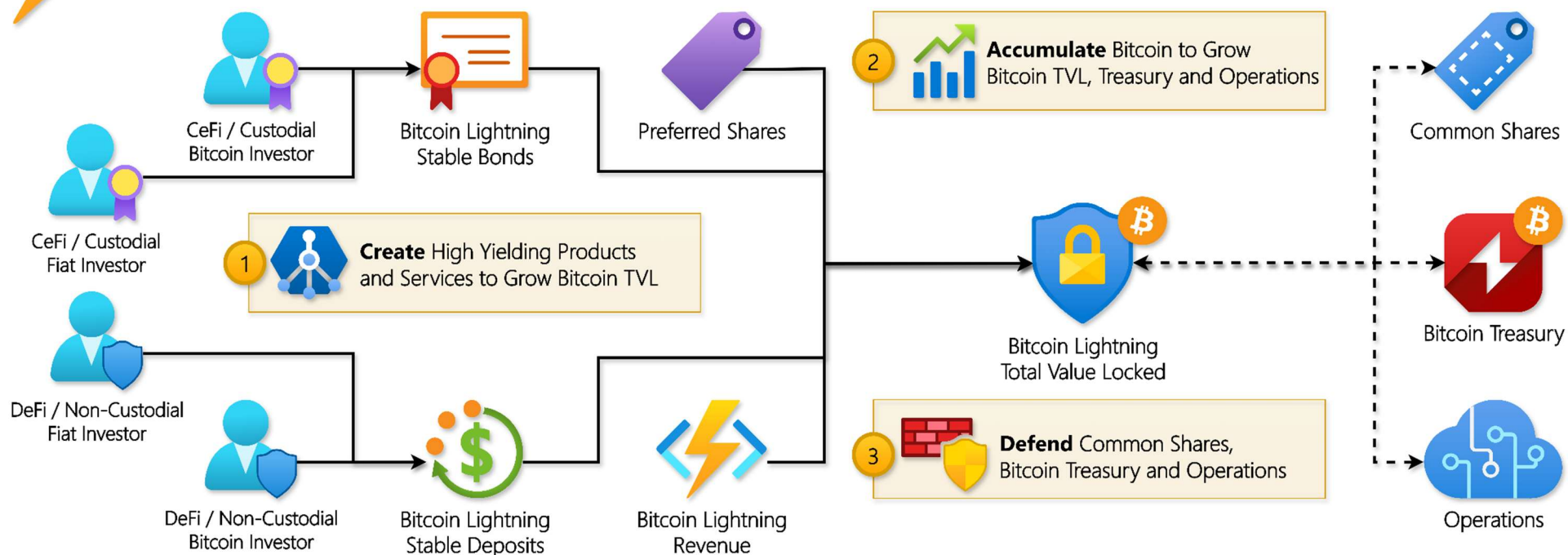
Feature Comparison	Bitcoin Treasury Companies and Bitcoin Banks	Bitcoin Lightning Banks	Bitcoin Lightning Bank Stable Bonds	
Financial Products	Centralized Finance (CeFi)	Centralized and Decentralized Finance (CeFi & DeFi)	Flexible Rates	Fixed or variable rates based on percentage of stable Fiat or Bitcoin CAGR
Financial Rails	Traditional	Traditional and the Bitcoin Lightning Network	Tax-Deductible	Interest payments are tax-deductible bank expenditures
Financial Management	Custodial	Custodial and non-custodial	Securable	Bitcoin is stored in unique Stable Channels to extract yield
Financial Markets	National market limitations	DeFi is globally accessible	Callable or Puttable	Early redemption option based on Bitcoin Growth Yield performance
Interest Rate Makers	Company	DeFi is an open and free market	Extendible	If Bitcoin underperforms then the bond can optionally be extended
Bitcoin Participants	Company	Bank, Fiat Investors, and Bitcoin Investors	Non-Convertible	Share dilution is not necessary due to the superior yield
Bitcoin Yield Distribution	Concentration within Company	Distributed fairly between market participants		
Bitcoin Liquidation Risk	Concentration within Company	Distributed between Stable Providers		
Bitcoin Liquidation Priority	Bond holders are paid first	Bank is paid first by liquidated Stable Providers		
Bitcoin Service Fees	None	Bitcoin-denominated liquidity service fees		
Bitcoin Strategy Tools	Profit, Stock, Debt, and Bitcoin Treasury	Same + Bitcoin TVL to defend Bitcoin Treasury		
Bitcoin Total Value Locked Growth Rate	CeFi = 1 Bitcoin buy adds 1 Bitcoin to BTC TVL 500K BTC buys 500K BTC TVL in Custody	DeFi = 1 Bitcoin buy adds 2 Bitcoin to BTC TVL 500K BTC buys 1M BTC TVL in Lightning Network		



Use Cases		Centralized Finance (CeFi)	Decentralized Finance (DeFi)		
		Custodial	Non-Custodial Stable Receiver	Non-Custodial Stable Provider	Non-Custodial
Stable Channel	Stable Receiver	Lightning Bank	Fiat Investors	Lightning Bank	Fiat Investors
	Stable Provider	Lightning Bank	Lightning Bank	Bitcoin Investors	Bitcoin Investors
Lightning Bank	Goal	Store Bitcoin that was procured from liabilities (ex: bonds, preferred stock) into a Stable Receiver and/or Bitcoin Treasury into a Stable Provider then provide liquidity services to extract and distribute yield			Provide liquidity services to extract and distribute yield
Fiat Investor	Goal	Purchase TradFi products to earn interest or dividends	Self-custody Bitcoin in Stable Channel for greater control	Purchase TradFi products to earn interest or dividends	Self-custody Bitcoin in Stable Channel for greater control
	Risk	Low	Low	Low	Low
	Reward	High	High	Maximum	Maximum
Bitcoin Investor	Goal	Send Bitcoin to Lightning Bank to manage the 2X Leverage Long Stable Channel while maintenance is required to avoid liquidation			Self-custody Bitcoin in 2X Leverage Long Stable Channel while maintenance is required to avoid liquidation
	Risk	High	High	High	High
	Reward	High	High	Maximum	Maximum



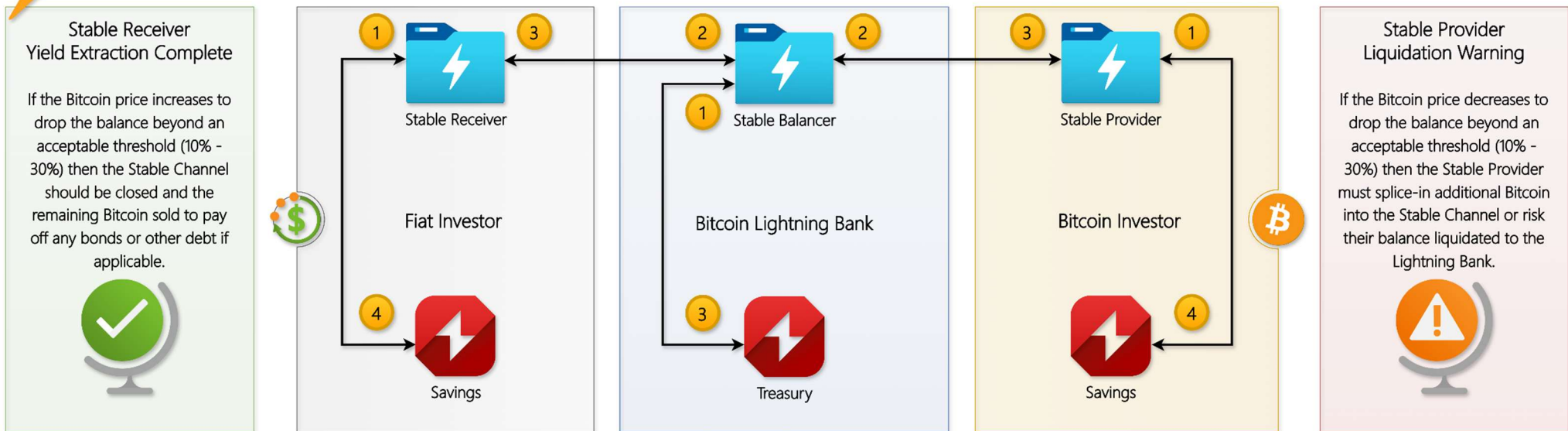
Bitcoin Lightning Bank - The Ultimate Bitcoin Strategy



Bitcoin Strategy	Create and Accumulate in Breadth	Defend in Depth
Bitcoin Lightning Stable Bonds	Bank sells bonds to Fiat or Bitcoin Investors then buys Bitcoin on their behalf and deposits into a custodial portion of a Lightning Network Stable Channel to grow Bitcoin Lightning TVL and earn yield	Mitigate risks by implementing market optimization techniques. If Bitcoin overperforms then the bank closes the Stable Channel and sells remaining Bitcoin to pay back the bond. If Bitcoin underperforms then the bank can either extend the bond or buy it out.
Bitcoin Lightning Stable Deposits	Bank provides service for Fiat or Bitcoin Investors to deposit owned Bitcoin into a non-custodial portion of a Lightning Network Stable Channel to grow Bitcoin Lightning TVL and earn yield	Mitigate risks during Bitcoin drawdowns by ensuring Bitcoin Investors either top-up their positions or face liquidation to the Bank
Bitcoin Lightning Revenue	Bank receives Lightning Network service fees to grow Bitcoin Lightning TVL and earn yield as a Stable Balancer or Stable Provider	Mitigate risks by earning Bitcoin revenue from products and services
Bitcoin Lightning Total Value Locked	Bank enables custodial and non-custodial access to Lightning Network Stable Channels & Enterprise Channels to earn yield and grow Treasury or Operations	Mitigate risks during Bitcoin drawdowns by ensuring Bitcoin Investors either top-up their positions or face liquidation to the Bank
Preferred Shares	Bank sells Preferred Shares to buy Bitcoin and grow Bitcoin Lightning TVL and earn yield as a Stable Receiver	Mitigate risks by allocating revenue to Stable Receivers so that Bitcoin Yield covers dividend then shares bought back when channel closes
Common Shares	Bank sells Common Shares to buy Bitcoin and grow Treasury or Operations	Share dilution is protected by above practices if done efficiently
Bitcoin Treasury	Bank can deposit Bitcoin Treasury into the Bitcoin Lightning TVL to earn yield	Treasury liquidation is protected by above practices if done efficiently



Bitcoin Lightning Bank - Stable Channel Life Cycle

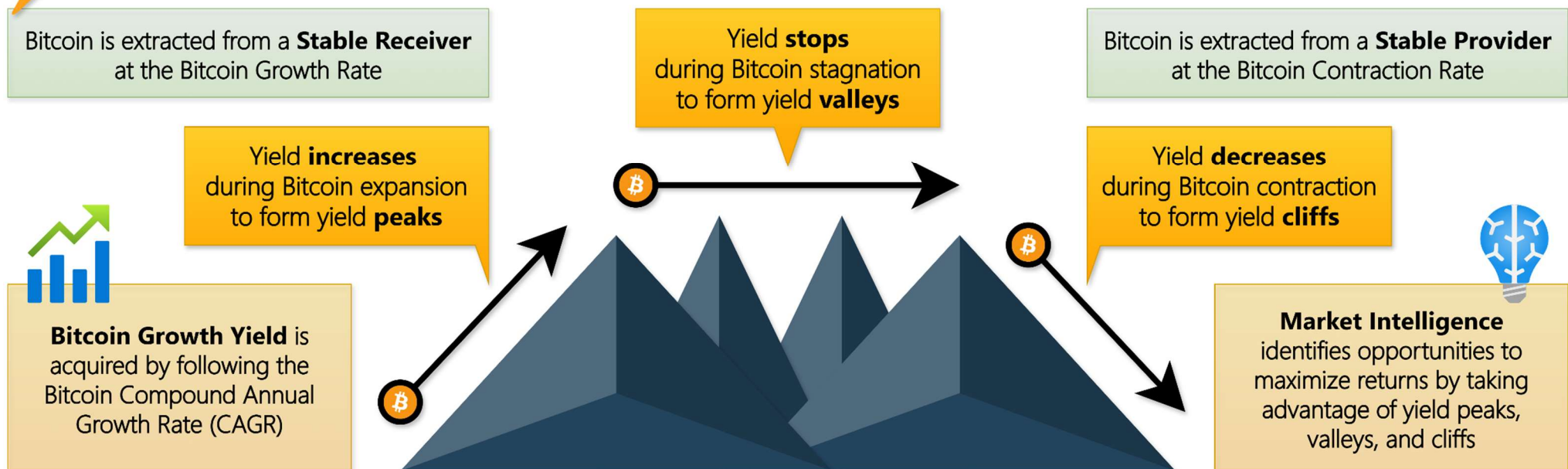


The Lightning Bank Stable Balancer is an intelligent automated market maker (AMM) that maintains a liquidity pool to splice in and out of the Lightning Channels between a Stable Receiver and Stable Provider so that the Stable Receiver has a guaranteed stable Fiat balance backed by Bitcoin.

Stable Channel Life Cycle		Description
1	Start or Splice-In Stable Channel	Stable Receiver, Stable Balancer, and Stable Provider add Bitcoin into the Lightning Channel to either initiate the connection or keep it active and just splice-in liquidity.
2	Upon Bitcoin Price Movement, Send Bitcoin to Stable Balancer	If the Bitcoin price increases, then the Stable Receiver sends Bitcoin to the Stable Balancer. If the Bitcoin price decreases, then the Stable Provider sends Bitcoin to the Stable Balancer.
3	Rebalance Stable Receiver and Stable Provider then Distribute Bitcoin Yield	Stable Balancer periodically sends Bitcoin to the Stable Receiver to ensure a stable Fiat balance, sends Bitcoin to the Stable Provider to ensure a stable Bitcoin balance, and distributes the remaining Bitcoin Yield to all participants based on the pre-defined yield allocation agreements.
4	Close or Splice-Out Stable Channel	Stable Receiver and Stable Provider remove Bitcoin from the Lightning Channel to either close the connection or keep it active and just splice-out liquidity.



Bitcoin Lightning Bank - Bitcoin Growth Yield and Market Intelligence



Bitcoin Growth Yield Scenario		Market Intelligence Strategy
Yield Peak	Yield increases during Bitcoin expansion	When the Bitcoin price rises to reach a yield threshold it is ideal to close the Stable Channel, sell the remaining Bitcoin, and then call the bond back for repayment. Afterward, new bonds can be issued with the yield to extract and duration terms reset. When the bank sells the remaining Bitcoin during market overperformance it frees liquidity so that it can issue new bonds then purchase Bitcoin again later during market underperformance thereby maximizing returns that leverages the Bitcoin volatility.
Yield Valley	Yield stops during Bitcoin stagnation	When the Bitcoin price stagnates then the yield is dynamically reduced or stopped entirely. If the yield returns have been underwhelming throughout an entire bond lifespan, then the bond can be extended to capitalize on future positive Bitcoin price movements or hedged with a put option to sell back the bond to the Bank. In addition, Stable Providers can offer a fixed interest rate to Stable Receivers so that the yield is immune to Bitcoin price stagnation to entice more investors.
Yield Cliff	Yield decreases during Bitcoin contraction	When the Bitcoin price decreases then any yield not yet distributed is given back to the Stable Receiver as well as Bitcoin is transferred from the Stable Provider to the Stable Receiver to make their fiat balance whole. When the Bitcoin rises again then Bitcoin is sent back to the Stable Provider to make their Bitcoin balance whole. If Bitcoin experiences a significant drawdown and a balance threshold is reached, then the Stable Provider must top-up their balance or risk liquidating their entire position to the Bank. If liquidated the bank will take all profit once Bitcoin recovers and can choose to distribute extra yield to bond holders to compensate for the lack of Bitcoin yield.



Bitcoin Lightning Bank - Annual Yield Estimate Summary

Participant	Yield Allocation	Unit of Account	Payment Duration	20% Bitcoin CAGR Annual Yield	25% Bitcoin CAGR Annual Yield	30% Bitcoin CAGR Annual Yield	35% Bitcoin CAGR Annual Yield	40% Bitcoin CAGR Annual Yield
Fiat Investor / Stable Receiver	50%	Fiat	Monthly / Quarterly	10%	12.50%	15%	17.50%	20%
			5 Year Compounded	14.88%	20.52%	27.13%	34.84%	43.78%
			10 Year Compounded	25.96%	41.57%	63.93%	95.53%	139.63%
Bitcoin Investor / Stable Provider	40%	Bitcoin	5 Year Average	4.78%	5.38%	5.85%	6.22%	6.51%
			10 Year Average	3.35%	3.57%	3.71%	3.80%	3.86%
Lightning Bank / Stable Balancer	10%	Bitcoin	5 Year Average	1.20%	1.34%	1.46%	1.55%	1.63%
			10 Year Average	0.84%	0.89%	0.93%	0.95%	0.97%

Bitcoin Yield Burndown

Bitcoin Yield Remaining	Year 3	57.87%	51.20%	45.52%	40.64%	36.44%
	Year 5	40.19%	32.77%	26.93%	22.30%	18.59%
	Year 8	23.26%	16.78%	12.26%	9.06%	6.78%
	Year 10	16.15%	10.74%	7.25%	4.97%	3.46%

- Bitcoin Yield is extracted from Stable Receiver then distributed
- Bitcoin Yield Remaining Percentages indicate remaining yield to be extracted
- Bitcoin Yield Remaining Highlighted Percentages indicate when majority of the yield is extracted for a potential exit then look for more Fiat liquidity to purchase more Bitcoin



Bitcoin Lightning Bank - How It Works and The Goal



Bitcoin Lightning
Stable Bonds



Bitcoin Lightning
Preferred Shares

Lightning Bank offers custodial products to Fiat Investors that pay fixed or variable interest rates then purchases Bitcoin on their behalf and deposits Bitcoin into a Lightning Network Stable Channel as a Stable Receiver pegged to the Fiat amount to earn yield.



Bitcoin Lightning
Stable Deposits

Lightning Bank offers non-custodial services in Lightning wallets to Fiat Investors as Stable Receivers or Bitcoin Investors as Stable Providers and users deposit Bitcoin into a Lightning Network Stable Channel to earn yield. Stable Providers may have to deposit more Bitcoin in the event of a Bitcoin downturn otherwise risk liquidation to the Bank.



Lightning Bank
Stable Balancer

Lightning Bank acts as a Stable Balancer that pairs the Stable Receivers and Stable Providers together then extracts Bitcoin yield from the Stable Receiver and distribute yields to both participants while receiving a service fee. Interest distributed to Fiat Investors is either Bitcoin sold frequently for lower yield or Bitcoin held and sold later for higher yield due to BTC CAGR.



The Goal

The goal is to offer the highest interest Bitcoin-backed products and services on the market to generate demand and build the world's largest Bitcoin Total Value Locked (TVL) which is in Lightning Network Channels and dual serve as routing liquidity nodes to make Lightning more scalable. The path to 1M Bitcoin TVL on Lightning has never been more clear.