

# Applications of Quantum Computers in Banking

Strategic Innovation and Artificial Intelligence - Velvet Edition

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The Bitcoin Blockchain

Other Blockchain applications

Conclusions

# The Bitcoin Blockchain

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# The Blockchain

- is a database of transactions secured by encryption and validated by peers.
- The blockchain is not stored on multiple computers and systems within a network (these systems are called nodes).
- Every node has a copy of the blockchain, and every copy is updated whenever there is a validated change to the blockchain.
- The blockchain consists of blocks, which store data about transactions, previous blocks, addresses, and the code that executes the transactions and runs the blockchain.

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- The target in bits: the network target
- The nonce: a randomly-generated 32-bit number

## Definition

Mining is validating transactions and creating a new block on the blockchain.

- Miners try to find a number that matches the block hash. The programs randomly generate a hash and try to match the block hash, using the nonce as the variable number, increasing it every time a guess is made. The number of hashes a miner can produce per second is its hash rate.
- The miners who first solves the hash receives the bitcoin reward,
- A new block is created, and the process repeats for the next group of transactions.

## Difficulty

There is no way of predicting what nonce will work, so mining is randomly trying all possible numbers. The difficulty is then the average number of tries it takes to verify the hash.

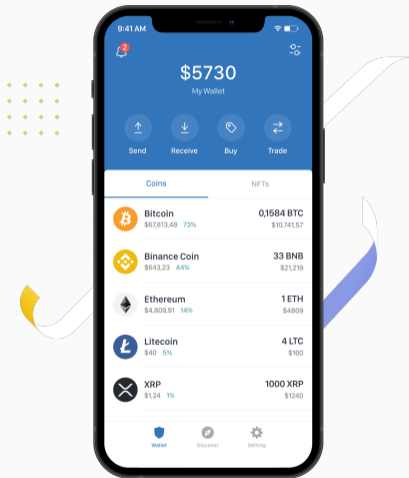
## Notes

- Bitcoin's protocol requires a longer string of leading zeroes depending on the number of miners, adjusting the difficulty to hit a rate of one new block every 10 minutes.
- The difficulty has been increasing since Bitcoin was introduced, reaching tens of trillions of attempts these days.
- Mining is expensive and competition is intense. This is why mining farms and mining pools were created.
- Mining uses ca. 0.55

## Halving of Rewards

- At start, the mining reward was 50 BTC for solving the hash.
- Every four years, or 210,000 blocks, the reward is cut in half. (So, rewards were cut to 25 in 2012, 12.5 in 2016, and 6.25 in 2020. The next halving is expected to occur in 2024 when the reward will reduce to 3.125, followed by a reduction to 1.5625 around 2028)
- The last bitcoin is expected to be mined somewhere around 2140. All 21 million bitcoins will have been mined at that time, and miners will depend solely on fees to maintain the network.

- Ownership of BTC is in the block-chain
- To view balance, use a wallet and keys



**Figure 1:** The wallet app of [trustwallet.com](https://trustwallet.com).



- When bitcoin is assigned to an owner via a transaction on the blockchain, that owner receives a number, their **private key**.
- The wallet has a public address—called -
- the **public key** -
- that can be used to send BTC

## Note

A bitcoin is data with ownership assigned. Data ownership is transferred when transactions are made.

- A wallet is a software application used to view your balance and send or receive bitcoin.
- The wallet interfaces with the blockchain network and locates your bitcoin for you. The blockchain is a ledger with portions of bitcoin stored on it.
- The transactions are scattered all over the blockchain. Your wallet application finds all previous transactions, totals the amount, and displays it.

## Custodial Wallets

A trusted entity, like an exchange, holds your keys for you. eg. Coinbase

The user takes responsibility for securing the keys, such as in your wallet application on your mobile phone.

# Storage of the Keys

## Hot Storage

Storing keys in an application connected to the internet is referred to as hot storage. However, hot storage is the vulnerability most often exploited.

## Cold storage

is any method that is not connected to the internet. e.g a removable USB drive or a piece of paper with your keys written on it (this is called a paper wallet).

## Deep cold storage

is any cold storage method that is secured somewhere that requires additional steps to access the keys beyond removing the USB drive from your desk drawer and plugging it in. e.g. a personal safe

- To send a coin, you enter the receiver's address in your wallet application, enter your private key, and agree to the transaction fee.
- press "send"
- The receiver waits for the transaction to be verified by the mining network, which can take up to 30 minutes because transactions wait in a mining queue called the "mempool."

## Other Blockchain applications

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## **A Blockchain is**

a way to securely transact in an environment that lacks trust

## **A Blockchain is**

a de-centralized register where security is built in

- **Payments:** less verification needed, speed(?), cost(?)



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- **P2P transfers**

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## Answer/Comment

2.4M+

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### Ponzi scheme

a form of fraud in which belief in the success of a non-existent enterprise is fostered by the payment of quick returns to the first investors from money invested by later investors.

## Conclusions

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- Bitcoin users pay small transaction fees in bitcoin to miners for transaction processing.
- The Bitcoin blockchain has **\*\*(not yet) been compromised\*\***.
- The real **opportunities** arise where a centralized ledger is not obvious