



The Pulse of Fintech 2018

**Biannual global analysis of
investment in fintech**

31 July 2018



Welcome message



Welcome to the latest edition of the Pulse of Fintech — a biannual report highlighting key activities and trends within the fintech market globally and in key regions around the world.

The year 2018 started with a bang for the fintech market, with overall investment across venture capital (VC), private equity (PE) and mergers and acquisitions (M&A) deals at mid-year already well above 2017's total investment results. The sharp increase in activity was driven in part by two massive deals: the record-setting \$14 billion raise by Ant Financial during Q2'18 and Vantiv's acquisition of WorldPay in Q1'18 for \$12.9 billion.

Notwithstanding the two outlier deals, fintech market activity worldwide gained momentum during the first half of the year as the geographic diversity and reach of fintech investment continued to expand. Brazil, for example, gained some prominence earlier this year as Nubank joined the fintech unicorn club. France, Switzerland, South Korea and Japan also saw significant fintech deals — extending investment well beyond traditional fintech leaders like the US, UK, China and India.

In the more mature fintech areas of payments and lending, dominant market players continued to emerge over the first 6 months of 2018, attracting larger and larger deal sizes. Meanwhile, a broader range of companies focused on newer areas of fintech innovation, such as artificial intelligence (AI) and data analytics, also attracted attention from fintech investors.

Regulatory issues have been a hot button topic for corporate and other fintech investors so far this year, particularly in Europe, as a result of the implementation of Payment Services Directive 2 (PSD2) and General Data Protection Regulation (GDPR). The increasing focus on managing regulatory requirements and compliance contributed to an increase in funding for regtech companies. In just 6 months, VC funding to regtech companies has already exceeded regtech funding raised during all of 2017.

We examine these trends and other issues in this edition of the Pulse of Fintech as well as delving into a number of questions driving interest in the fintech market today, including:

- How is the fintech market maturing and diversifying?
- Why is Asia becoming a standout region in terms of fintech investment?
- What is driving the increasing focus on regtech?
- How is open banking propelling fintech activity globally?

We hope you find this edition of the Pulse of Fintech insightful and informative. If you would like to discuss any of the information contained in this report in more detail, contact a KPMG advisor in your area.

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Ian Pollari

Global Co-Leader of Fintech,
KPMG International and
Partner,
KPMG Australia

Anton Ruddenklau

Global Co-Leader of Fintech,
KPMG International and
Partner,
KPMG in the UK

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- In H1'18 global investment in fintech companies hit \$57.9 billion across 875 deals
- Global investment YTD (VC, PE and M&A) already exceeds last year's annual total
- Overall VC deal volume remained steady once again, with continued strength at all deal stages
- Global median venture deal size for late stage investment rose from \$14 million in 2017 to \$25 million in 2018 (YTD)
- Regtech investment reached \$1.37 billion in H1'18 — already surpassing 2017 annual totals

Americas

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- In H1'18 fintech investment in the Americas reached \$14.8 billion across 504 deals
- 96% of deal value in the Americas came from the US
- Fintech VC deal volume reached new heights during the first half of the year
- Canadian deal value dropped versus H2'17 but deal volume remained strong

US

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- In H1'18, US fintech companies received \$14.2 billion in investment, including over \$5 billion in venture capital investment
- Deal value and volume rebounded in H1'18
- Investors were quick to invest in new startups in emerging fintech sub-segments, including regtech and investment banking
- Top deals were spread across the country — with California and Massachusetts leading the way

Europe

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- In H1'18 investment in fintech companies in Europe hit \$26 billion across 198 deals
- Huge acquisitions of WorldPay and iZettle and buyouts of Nets and IRIS Software led the way
- Median venture capital angel/seed stage deal size increased from \$1.2 million in 2017 to \$1.5 million in 2018 (YTD)
- Median M&A size in Europe increased from \$23.7 million in 2017 to \$60.4 million in 2018 (YTD)
- The UK led the charge with over \$16 billion in total fintech investment

Asia

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- In H1'18 investment in fintech companies in Asia hit \$16.8 billion across 162 deals
- Ant Financial's massive \$14 billion round was a massive outlier
- Fintech M&A rebounded during Q2'18 with \$611 million invested
- Fintech VC deal volume in India rose to 31 deals in Q2'18 — a new high
- China and India dominated the top 10 deals with six and four massive deals, respectively

*In H1'18, global
investment in fintech
companies hit*

\$57.9B

across

875 deals



Overall investment in fintech globally at mid-year surpasses 2017 results

In the first 6 months of 2018, global investment in fintech – across VC, PE and M&A — was exceptional, driven in part by two massive deals — the \$12.9 billion acquisition of WorldPay by Vantiv and the \$14 billion VC funding round raised by Ant Financial. Funding to date has already exceeded the total amount of fintech funding seen in 2017 and is well on pace to exceed 2015's peak.

Maturing areas of fintech seeing bigger deals and strong exits

Fintech as a sector continued to evolve in the first half of 2018. In the more mature areas of fintech, dominant market players were able to attract larger investment rounds, including challenger banks Revolut (\$250 million) in the UK and N26 (\$160 million) in Germany and peer-to-peer (P2P) payments firm Circle in the US (\$110 million).

A number of highly mature payments firms also achieved strong exits in Q1 and Q2'18, including successful IPO exits by EVO payments, GreenSky and Adyen — and M&A exits by WorldPay and iZettle.

Fintech innovation diversifies — expanding beyond traditional verticals and hubs

During Q1 and Q2'18, investors focused on a broader range of innovative technologies than ever before. At a technology level, interest in AI and robotic process automation (RPA) continued to gain attention while interest in insurtech and regtech also grew significantly. Globally, there has also been an increasing emphasis on business-to-business (B2B) fintech solutions — as evidenced by the \$250 million raise by Tradeshift.

In addition to expanding vertically, fintech investments expanded geographically across all regions of the world. With a \$150 million raise in Q1'18, Brazil-based Nubank which reached unicorn status while companies from five separate countries in Europe were among the region's top venture deals (e.g. UK, Germany, France, Netherlands, Switzerland). While the Asia fintech market continued to be dominated by China and India, Japan was able to break into the region's top venture deals list with a \$63 million Series A raise by Folio.

Corporate investors expand beyond the big banks

The growing maturity of the fintech sector has led to an increase in the diversity of investors, including more active participation by corporates outside of the big banks and largest insurance companies. Globally, we are starting to see more mid-tier banks — in addition to insurance and wealth management companies — have recognized the need to embrace fintech and are making investments either directly or through participation in accelerators, incubators or innovation consortia.

New regulations becoming a driving force for fintech investment

Q1 and Q2'18 saw a number of transformative regulations come into force, including both PSD2 and GDPR in Europe. While Europe has been a leader in driving open banking, other countries are moving down similar paths — including Australia, which is commencing implementation of their open banking regime in mid 2019¹.

These changes to the financial services landscape are expected to drive additional fintech investment. Open banking in particular is expected to spawn a wide range of activity — both from traditional institutions looking to partner with fintechs able to process and leverage their data and from fintechs able to use open banking to extend their value propositions. Over time, we may also see increasing participation from non-financial services companies, such as communications companies, energy providers and retailers interested in leveraging open banking as a means to extend their reach into financial services.

¹ <https://www.zdnet.com/article/australia-to-force-big-four-to-open-banking-data-by-july-2019/>



Overall investment in fintech globally at mid-year surpasses 2017 results (cont'd)

Regtech gaining momentum globally

Over the past 10 years, financial institutions have faced an ever-increasing regulatory burden. The cost of compliance has skyrocketed for many financial institutions, particularly global institutions needing to comply with regulatory requirements across jurisdictions. The growing cost of compliance has driven many corporates to invest in regtech. The introduction of financial regulations including GDPR, PSD2 and Markets in Financial Instruments Directive II/Markets in Financial Instruments Regulation (MiFID II/MIFIR) have only accelerated this investment over the past 6 months.

So far, 2018 year-to-date funding has already exceeded total annual regtech funding in every year previous except 2016. The US and UK attracted the majority of this funding. At a technology level, regtech investments have been quite varied — from a \$25 million raise by UK-based CloudPay — a payments processing platform compliant with specific regulations, to \$38 million raised across two funding rounds by US-based Harbor — a blockchain-based compliance platform that tokenizes private securities for trading.

Regtech investment is still relatively immature, with approximately half of total funding raised by seed and early stage companies. In the most mature markets, there have also been a small number of mid-stage investments this year, including Series C raises by CloudPay and Tipalti.

Over the next 12 to 24 months, we expect to see investment in regtech to grow rapidly — particularly in areas like AI, Know your Customer (KYC) and Know your Data (KYD).

Blockchain moving beyond experimentation

Blockchain continued to draw a significant amount of attention from investors in Q1 and Q2'18, although investments typically focused on more experienced companies and consortia looking to obtain additional rounds of funding rather than on new market entrants.

Investor interest in blockchain was not limited to one jurisdiction. Good sized funding rounds were seen during the first half of the year, including a \$100 million+ round to Circle Internet Finance in the US and \$77 million to Ledger in France. The US was particularly active on the blockchain front, with total investment in the first half of the year already exceeding the total seen in 2017.

Over the past 6 months, banking consortia R3 expanded its mandate to include insurance companies while the key insurance consortia B3i has been working to establish a new business in order to commercialize its outputs. New consortia have also continued to crop up, particularly consortia focused on developing blockchain to assist with supply chain management.

ICOs continued to garner interest globally, despite countries like China banning the practice. During Q1'18, Cayman Islands-based Block.one raised \$4 billion through an ICO.

Overall investment in fintech globally at mid-year surpasses 2017 results (cont'd)

Interest in insurtech rises, with growing focus on embedded offerings

Over the past 6 months, insurtech companies attracted a significant amount of investment, including \$100 million+ megarounds to Oscar and Lemonade.

During the first half of the year, we started to see Insurance companies and insurtechs increased their focus on forging cross-sector alliances in order to embed their offerings into other value propositions. For example, ING and AXA recently forged an alliance aimed at connecting AXA's insurance customers into ING's value chain in order to create a stronger and more holistic product offering.

While insurtech is very immature in Asia, we have started to see a number of fintechs and techfins in the region have started to expand their service offerings to include insurance. The broadening scope of Asia-based fintechs could help propel interest in insurtech over the next few quarters.

We expect the use of partnerships or alliances will likely increase over the next 12 months as insurance companies look to combine their services with companies that have already established customer bases. Such alliances could be particularly effective as a means for insurtechs to fuel expansion into other regions of the world.

Trends to watch for globally

The global fintech market is expected to remain strong over the remainder of 2018. Leading players in payments and lending will continue to emerge in the most mature markets, focusing their growth efforts on expanding the breadth of their product and service offerings. As leading companies become more pronounced, there will also likely be some consolidation of platforms unable to achieve scale.

Investments in insurtech and regtech are expected to grow over the next 6 months, in addition to investments in enabling technologies like AI, RPA and blockchain. Open banking will likely continue to gain ground around the world — including Asia, where the Hong Kong (SAR) Monetary Authority recently published its open API framework.

There is also expected to be an increase in B2B offerings both from fintechs and from traditional corporates that have developed successful digital products and see offering them to other financial institutions as an opportunity to create a new revenue stream.

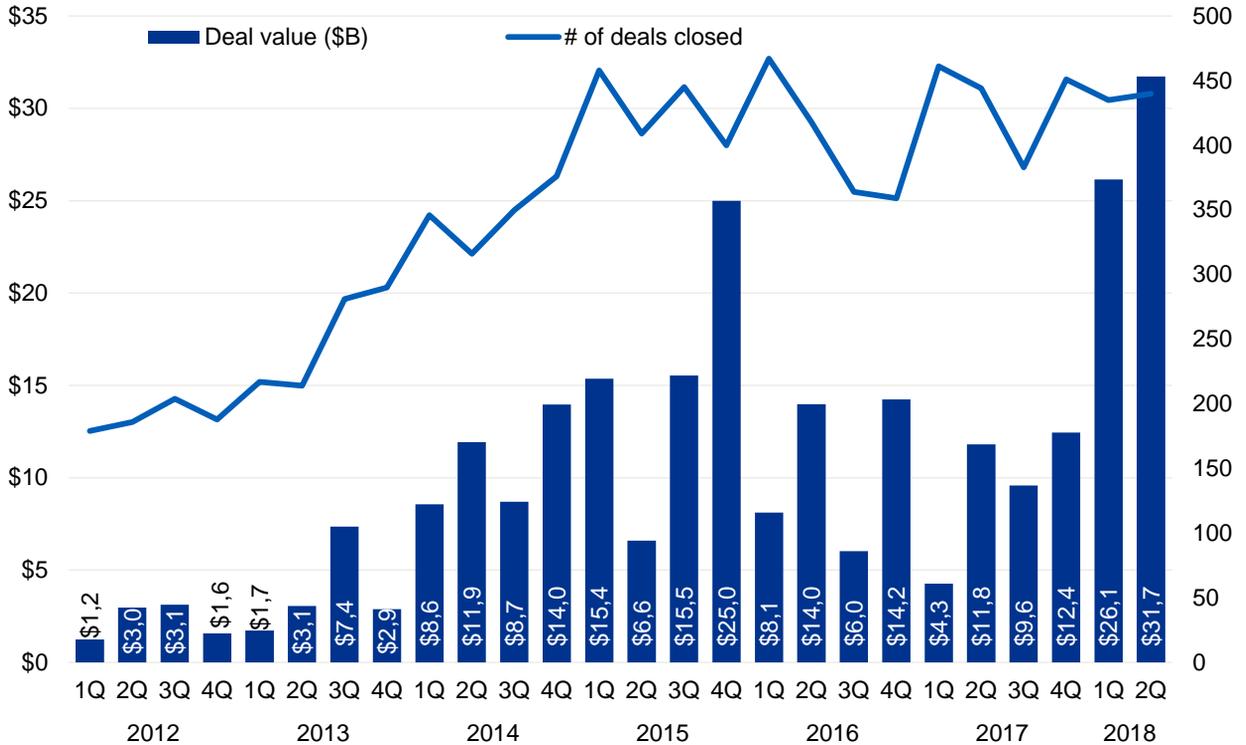
“The fintech market globally continues to broaden and diversify. Geographically, we are seeing more activity and bigger deals in less traditional markets like Brazil, Japan, and South Korea. We are also seeing a mix of fintech sectors drawing increasing interest, including data, AI, regtech and insurtech — and combinations thereof that provide more value to customers. This diversification across countries and products will likely keep the fintech market strong for the foreseeable future.”



Ian Pollari
Global Co-Leader of Fintech
KPMG International

A record half-year

Global investment activity (VC, PE and M&A) in fintech companies 2012 – 30 June 2018



Source: Pulse of Fintech 2018, Global analysis of investment in fintech, KPMG International (data provided by PitchBook) 9 July, 2018.

Note: Refer to the Methodology section on page 56 to understand any possible data discrepancies between this edition and previous editions of the Pulse of Fintech. Please note that the separate PE and M&A data sets both include PE buyouts as a transaction type per the Methodology section on page 56.

The first half of 2018 has trumped all prior quarters in terms of aggregate deal value. Much of the tallies are skewed by outlier transactions such as Ant Financial’s massive late-stage \$14 billion deal and the \$12.86 billion acquisition of WorldPay. However, the totals suggest the intensifying consolidation among some fintech sub-segments and investors’ avid interest.

“We continue to see technology giants around the world explore, collaborate and invest in fintech-related opportunities. In the US, we see the likes of Amazon, Microsoft and Google in an arms race of sorts — they all have hired senior leaders to drive expansion in this space and are actively recruiting fintechs onto their cloud platforms.”

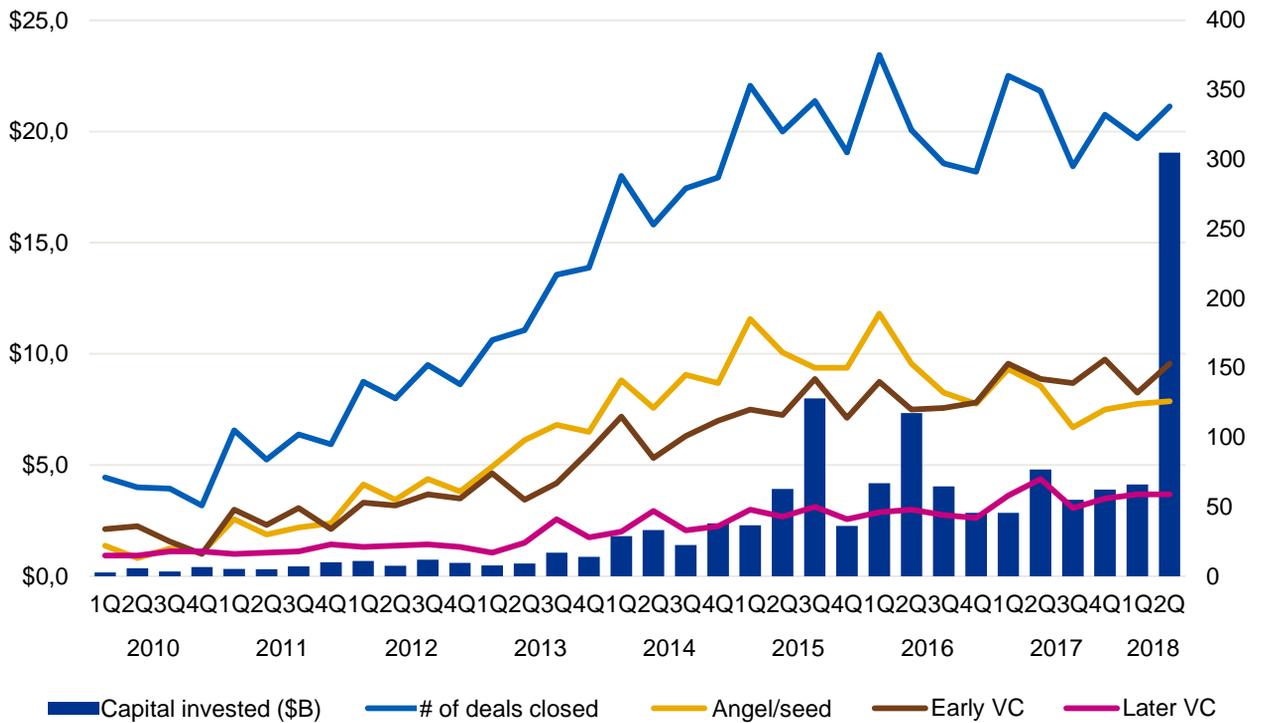


Anton Ruddenklau
Global Co-Leader of Fintech
KPMG International

Strong volume across all stages differs from overall venture trends

Global VC activity in fintech

2010 – 30 June 2018

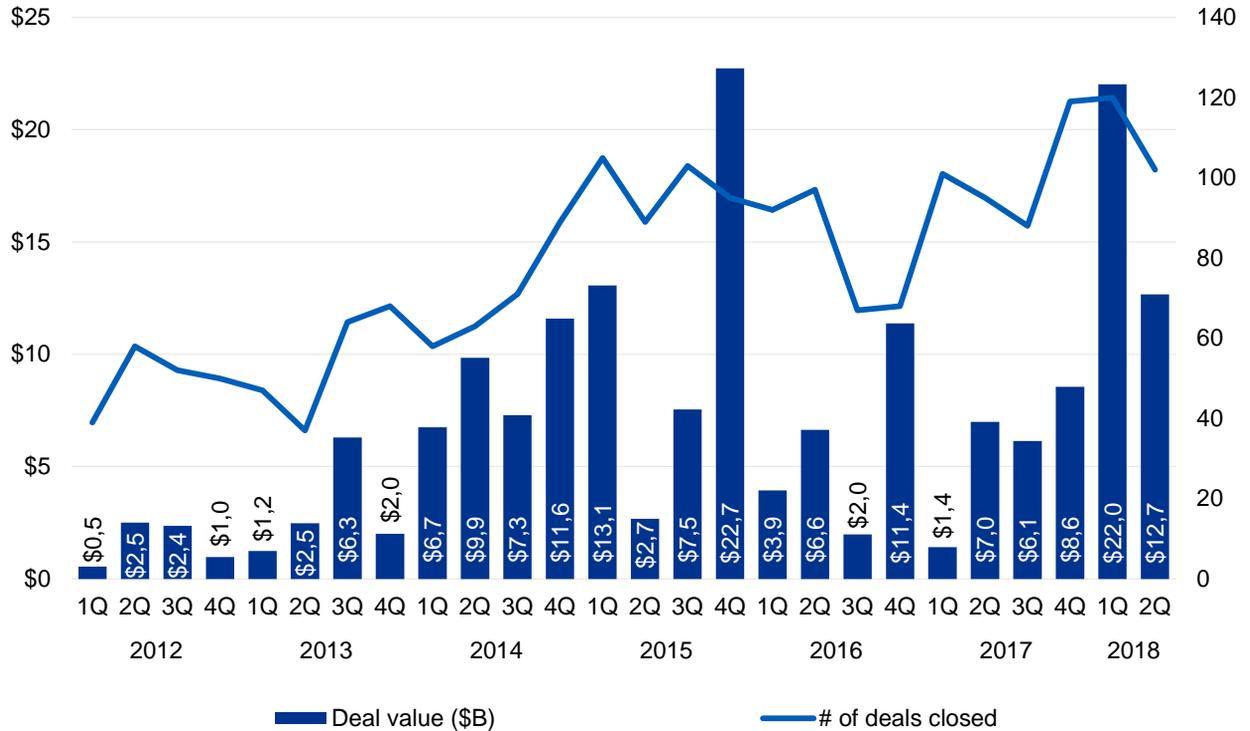


Source: Pulse of Fintech 2018, Global analysis of investment in fintech, KPMG International (data provided by PitchBook) 9 July, 2018.

Intriguingly, the trends for overall VC activity in fintech differ substantially from those seen across the venture landscape on the whole. By and large, angel and seed financing volumes have steadily declined for some time across the industry, while within fintech, such activity has only trended up and stayed steady for some time, albeit with some volatility. Late-stage VC has only trended upward slowly and stayed strong on the other hand. Fintech’s popularity among VCs at all stages speaks to its core attributes: well-defined market opportunities in its major segments, long-developing innovation cycles and significant growth opportunities amid the best-developed segments.

Consolidation proceeds apace

Global M&A activity in fintech 2012 – 30 June 2018

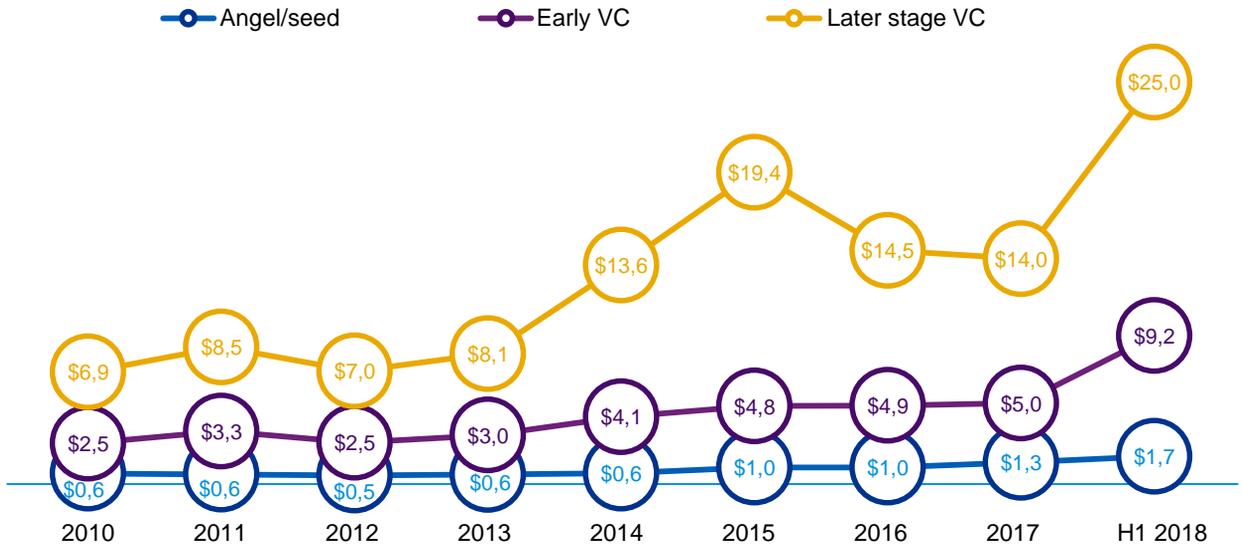


Source: Pulse of Fintech 2018, Global analysis of investment in fintech, KPMG International (data provided by PitchBook) 9 July, 2018.

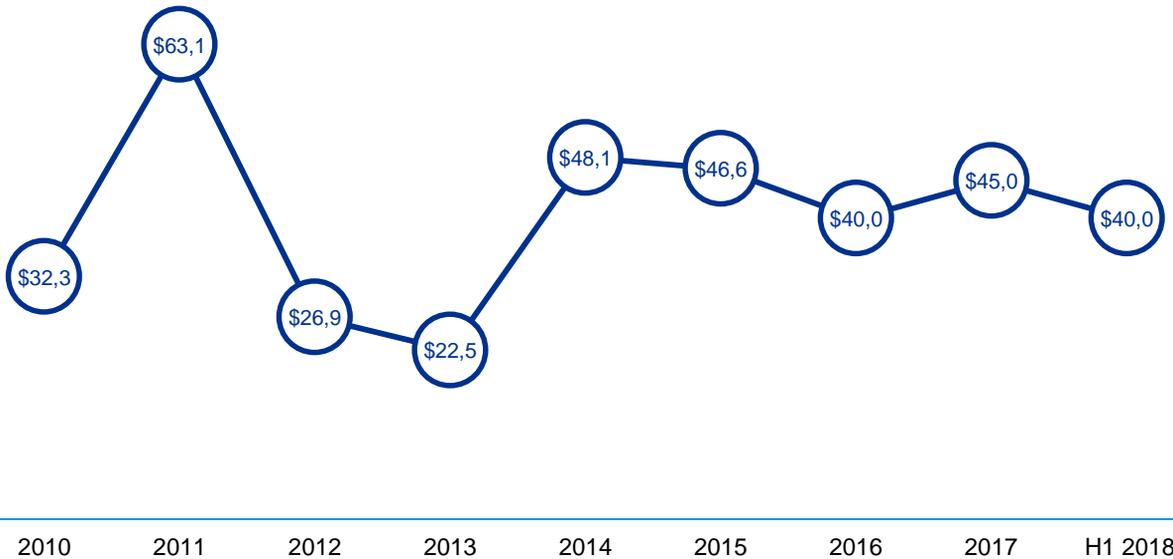
M&A volume has remained robust over the past four quarters. Based on our experience, this is mostly due to consolidation in key segments. As can be seen in the list of top transactions, some of the largest M&A events in the first half of 2018 have been either driven by private equity shops engaging in buyouts of incumbent, legacy fintech players, while others such as Paypal have been shoring up their position by buying rivals in other regions.

Median financing size hits new record

**Global median venture financing size (\$M) by stage in fintech
2010 – 30 June 2018**



**Global median M&A (\$M) size
2010 – 30 June 2018**

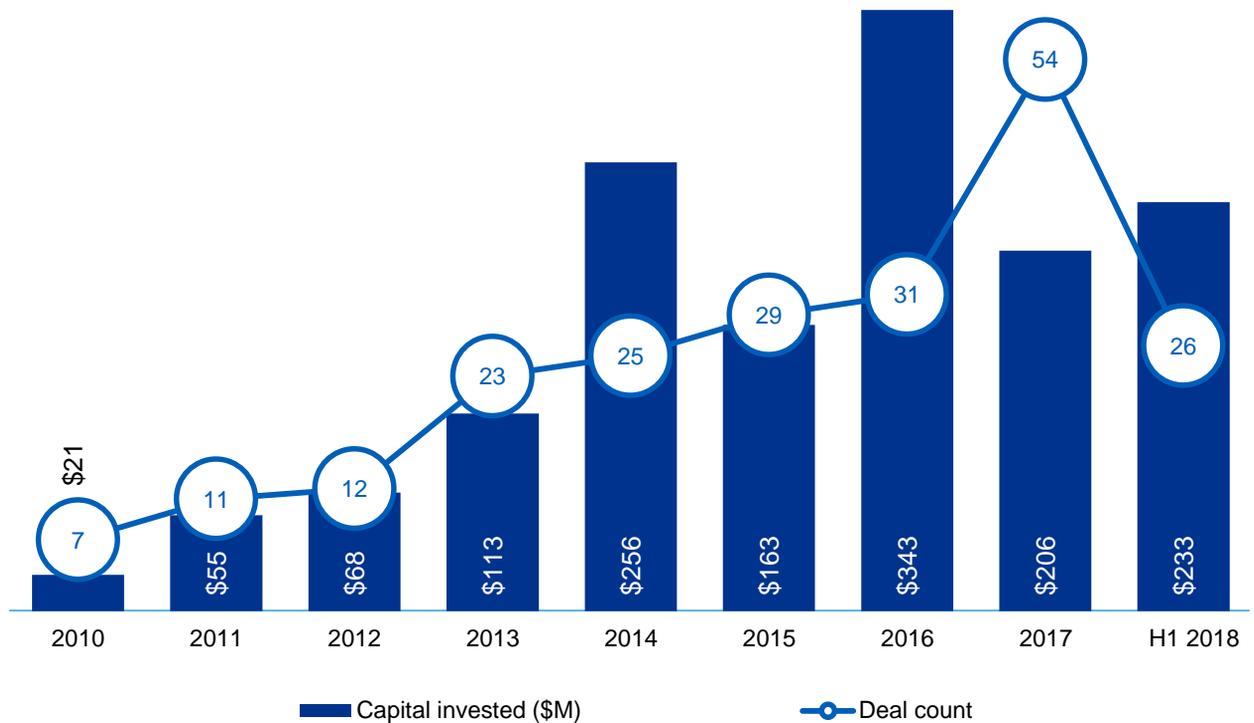


Source: Pulse of Fintech 2018, Global analysis of investment in fintech, KPMG International (data provided by PitchBook) 9 July, 2018.

All currency amounts are in US\$ unless otherwise specified. Data provided by PitchBook unless otherwise specified.

On pace for another highly active year

Global venture activity in regtech 2010 – 30 June 2018



Source: Pulse of Fintech 2018, Global analysis of investment in fintech, KPMG International (data provided by PitchBook) 9 July, 2018.

In prior editions of the Pulse of Fintech, a broader base for defining regtech was used. However for this new biannual edition, KPMG and PitchBook have introduced a narrower definition, resulting in the shifts in activity. Yet, the trend is still clear: VCs are avidly funding regtech companies, with 2018 on pace for the most lucrative year ever.

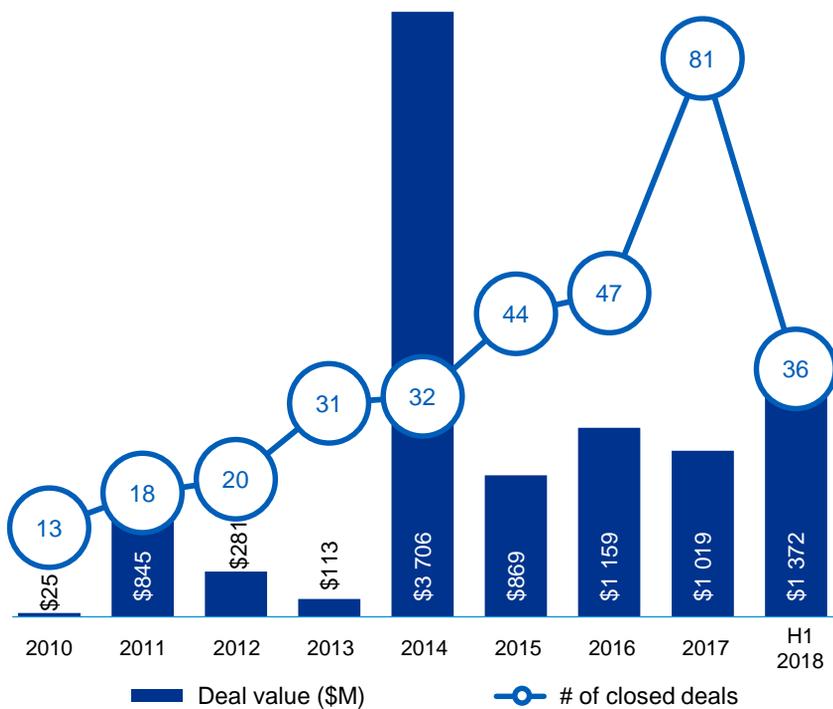
“The regulatory landscape has evolved significantly in recent years, with the introduction of GDPR, PSD2 and MiFIDII/MIFIR creating more opportunity for risk, regulatory and compliance gaps to emerge. As a result, we are seeing financial institutions increasingly turning to regtech to fill compliance gaps, save on the costs of compliance, get ahead of requirements before deadlines and detect enterprise risk before the regulators. This has led to an explosion in investment in regtech firms over the past couple of quarters.”

Fabiano Gobbo
Global Leader, Financial Risk Management
KPMG International

All currency amounts are in US\$ unless otherwise specified. Data provided by PitchBook unless otherwise specified.

On pace to be one of the strongest years ever

Global VC, PE and M&A activity in regtech 2010 – 30 June 2018

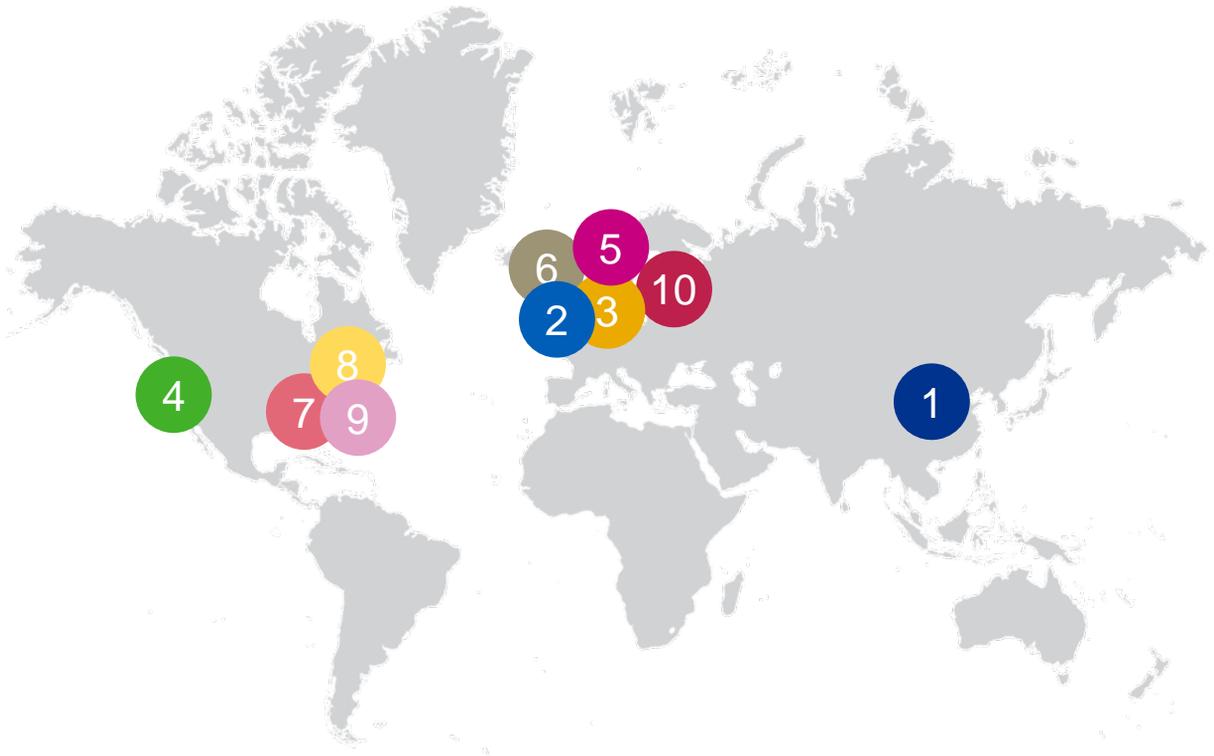


Much of regtech's overall investment activity is still driven by venture financings, yet the needle-shifts in deal value occur when M&A is introduced. Barring the outlier year of 2014, 2018 is already on pace to record one of the strongest years on record in terms of aggregate value. As prior editions of the Pulse of Fintech have noted, the incentives to either acquire or back regtech enterprises are numerous and compelling as myriad regulatory webs around multiple aspects of finance grow ever more complex.

Source: Pulse of Fintech 2018, Global analysis of investment in fintech, KPMG International (data provided by PitchBook) 9 July, 2018.

Note: This chart details overall investment (VC transactions, plus general M&A activity, which includes PE buyouts) in regtech, and utilizes a much narrower definition of regtech than in prior editions of the Pulse of Fintech. Please note that the separate PE and M&A data sets both include PE buyouts as a transaction type per the Methodology section on page 56.

Top 10 global fintech VC, PE and M&A deals in H1'18



- | | |
|--|--|
| <p>1 Ant Financial — \$14B, Hangzhou, China
Institutional/B2B
<i>Series C</i></p> | <p>6 IRIS Software Group — \$1.8B, Datchet, UK
Institutional/B2B
<i>Buyout</i></p> |
| <p>2 WorldPay — \$12.9B, London, UK
Payments/transactions
<i>M&A</i></p> | <p>7 PowerPlan — \$1.1B, Atlanta, GA
Institutional/B2B
<i>M&A</i></p> |
| <p>3 Nets — \$5.5B, Ballerup, Denmark
Payments/transactions
<i>Buyout</i></p> | <p>8 Cayan — \$1.05B, Boston, MA
Payments/transactions
<i>M&A</i></p> |
| <p>4 Blackhawk Network Holdings — \$3.5B, Pleasanton, CA
Payments/transactions
<i>Buyout</i></p> | <p>9 OpenLink Financial — \$1B, Uniondale, NY
Investment banking/capital markets
<i>Buyout</i></p> |
| <p>5 iZettle — \$2.2B, Stockholm, Sweden
Payments/transactions
<i>M&A</i></p> | <p>10 Nordax Group — \$788M, Stockholm, Sweden
Institutional/B2B
<i>Buyout</i></p> |

Source: Pulse of Fintech 2018, Global analysis of investment in fintech, KPMG International (data provided by PitchBook) 9 July, 2018. Data as of 30 June 2018.

All currency amounts are in US\$ unless otherwise specified. Data provided by PitchBook unless otherwise specified.

*In H1'18, fintech
investment in the
Americas hit*

\$14.8B

across

504 deals



Fintech investment in the Americas off to a roaring start

The Americas saw a strong start to 2018, with overall fintech investment well on track to exceed 2017's totals. VC investment was particularly strong, reaching a new quarterly record of almost \$3.3 billion during Q2'18. Overall M&A and VC deals volume in the Americas also achieved new peak highs in both Q1'18 (250 deals) and Q2'18 (254 deals).

US-based fintech investment drives America's totals

US companies drew \$14.2 billion in overall fintech investment during the first 6 months of 2018, accounting for the vast majority of fintech investment in the Americas. Large fintech deals in the US during Q1 and Q2'18 crossed a wide-range of subsectors — from blockchain (Circle Internet) and cryptocurrencies (Basis) to insurtech (Lemonade, Oscar) and wealth management (Robinhood).

While the US accounted for the vast majority of fintech investment in the region, other countries were quite active in the fintech space compared to historical norms. Brazil-based Nubank, for example, held the fourth largest VC round in the region during the first half of the year with a \$150 million Series E raise.

Please see US section on page 23 for more information on US activity.

Fintech market in Canada growing, particularly around AI

The fintech market in Canada continued to evolve in the first half of 2018. In the first half of the year, Canada saw \$263 million invested in fintech deals across VC and M&A, including a \$65 million raise by Wealthsimple. This is a solid number, although off the pace seen in the second half of 2017, when \$510 million was invested.

A number of the larger financial institutions in Canada have recognized the need to invest in fintech and have made significant inroads in terms of both making investments and in developing partnerships to help move innovation forward.

AI continued to be one of the dominant focus areas for investors in Canadian fintech. Canada is seen as a global leader in AI innovation — with highly regarded specialists in Toronto, Montreal and Edmonton attracting significant investments to those cities. We continue to see banks acquire companies in the AI space, in part as a talent grab in order to fuel their own innovation activities. For example, in January 2018, TD Bank Group acquired AI predictive analytics firm Layer 6².

In Canada we continue to see the big banks invest in robo-advisory initiatives, either their own or by working with fintechs like Wealthsimple. Blockchain has also grown on the investment radar in Canada, with a number of large financial institutions participating in blockchain consortia. The Canadian government has also invested in payments related proof-of-concept activities, although it has made a conscious decision not to use blockchain as part of its payments modernization initiative.

VC investors and fintechs preparing for payments modernization in Canada

The Canadian government is in the process of updating its Bank Act³, which is expected to occur in 2019. The new legislation is expected to mandate some level of "open banking" similar to what has been recently implemented in the UK, Europe (PSD2) and Australia. Payments Canada is also undertaking a multi-year payments modernization initiative aimed at upgrading critical infrastructure, creating a real-time payments rail and providing greater access to the clearing system⁴. While both initiatives are currently in process, VC investors and fintechs recognize that change is coming and are jockeying to position themselves to take advantage of changes once they are implemented. US-based, infrastructure-focused, fintech Plaid, for example, recently expanded into the Canadian market⁵.

² <https://www.theglobeandmail.com/report-on-business/td-acquires-toronto-based-ai-startup-layer-6/article37537469/>

³ <https://cba.ca/canada-bank-act-review>

⁴ <https://www.payments.ca/sites/default/files/vision-canadian-payments-ecosystem-reader.pdf>

⁵ <http://fortune.com/2018/05/22/fintech-plaid-goldman-sachs-cryptocurrency-canada/>

Fintech investment in the Americas off to a roaring start (cont'd)

Brazil leading fintech investment in Latin America

Brazil continued to define itself as a leader in fintech in Latin America during the first half of 2018, with Nubank's \$150 million Series E deal dwarfing many of the other fintech investments in the region. While an outlier in terms of deal size, the Nubank deal highlights the growing importance VC investors are placing on Brazil as an epicenter for fintech innovation in Latin America.

Overall fintech investment in Brazil has grown dramatically in the past 6 months, with the \$257 million invested in Q1 and Q2'18 just shy of double the \$134 million invested during all of 2017. The country is well positioned for continued growth over the next few quarters.

VC investment in Brazil is coming from well beyond the Americas. During Q2'18, Santander InnoVentures — a \$200 million VC fund managed from the UK but owned by Santander Group in Spain — contributed to a \$55 million funding round in Brazil-based Creditas.

In Brazil and more broadly across Latin America, we see payments and lending platforms continue to dominate the interest of investors — likely due to the region's relative fintech immaturity compared to other regions of the world. At the same time, other subsectors of fintech are beginning to find traction. Nubank, for example, recently launched a facial biometrics feature to help rein in identity fraud.

Trends to watch for in the Americas

Over the remainder of 2018, we expect fintech investment to remain strong in the Americas — particularly in the US. In Canada, more clarity around changes to the Bank Act will likely come before the end of the year, which could spark additional investment. Banks in Canada are watching the new developments very carefully as there are currently limitations on what banks can invest in. Should the limitations be lifted, there could be a wave of new corporate investments in 2019 once changes come into force⁶.

While payments and lending will continue to be a key focus for investors in Latin America, from discussions with financial institutions we anticipate newer subsectors like regtech, insurtech, AI and blockchain will likely draw a significant amount of attention in Canada and the US.

“The undeniable truth is that insurtech is becoming more and more dominant and disruptive in a progressive way in the insurance marketplace than it has been historically. We increasingly see this in the types of insurtech businesses getting traction, how insurtech is being applied to different businesses, and the value chain that insurtech offerings are penetrating.”

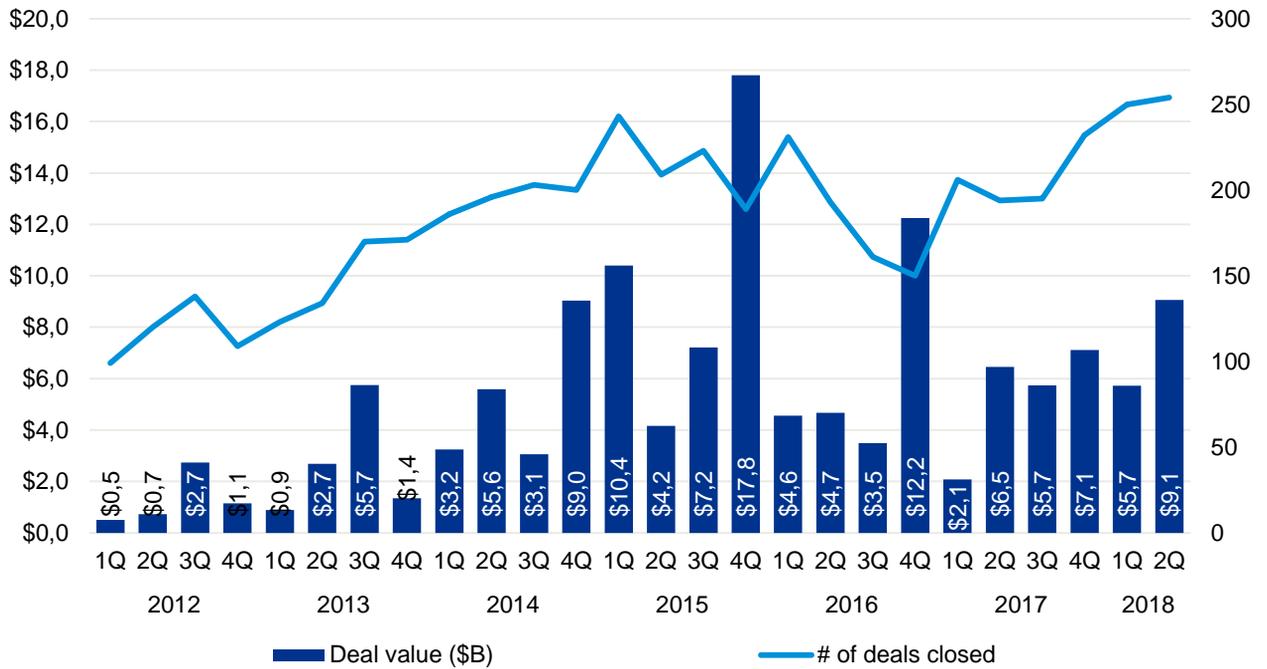


Will Pritchett
Global Lead of Insurtech
KPMG International

⁶ <https://cba.ca/canada-bank-act-review>

A brand-new quarterly peak in volume

Fintech VC, PE and M&A activity in the Americas 2012 – 30 June 2018



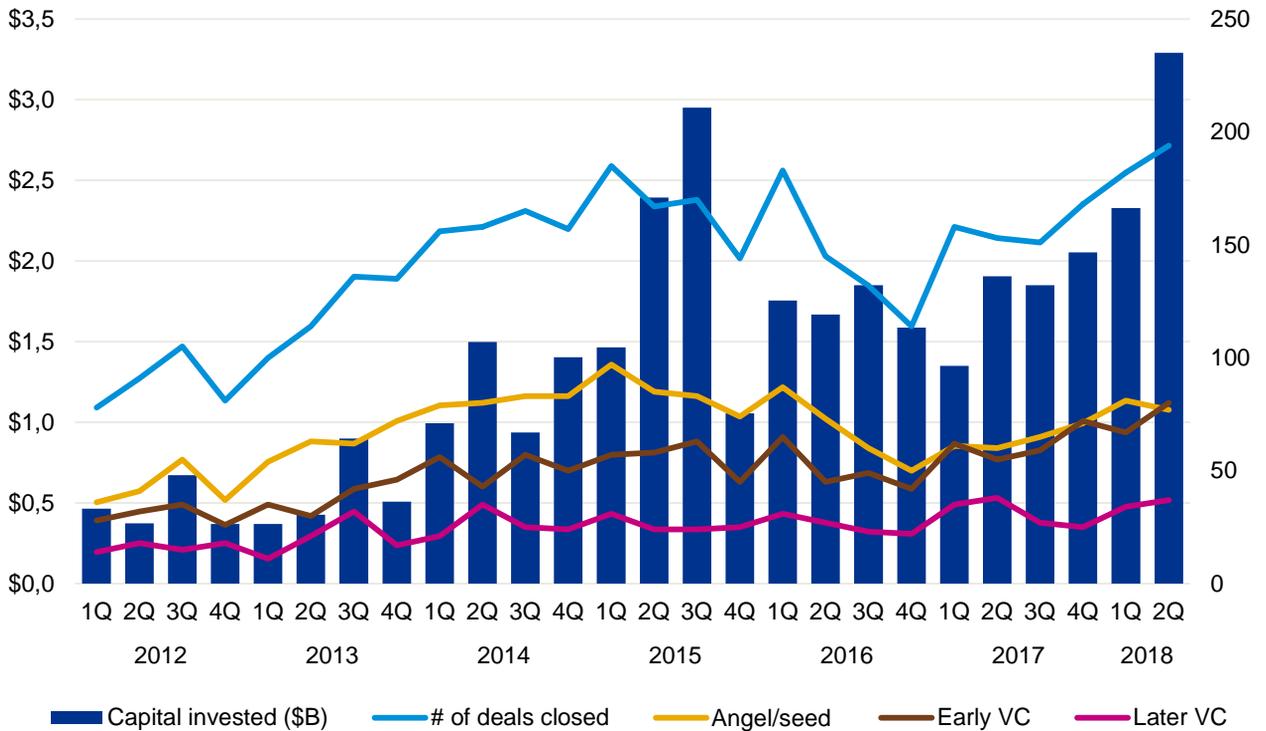
Source: Pulse of Fintech 2018, Global analysis of investment in fintech, KPMG International (data provided by PitchBook) 9 July, 2018.

Note: The separate PE and M&A data sets both include PE buyouts as a transaction type per the Methodology section on page 56.

For three quarters now, overall fintech investment volume in the Americas has been remarkably strong and the latest quarter was even stronger than normal, just barely setting a new record. Moreover, deal value has been strong.

Steady growth in VC activity

Venture investment in fintech companies in the Americas 2012 – 30 June 2018

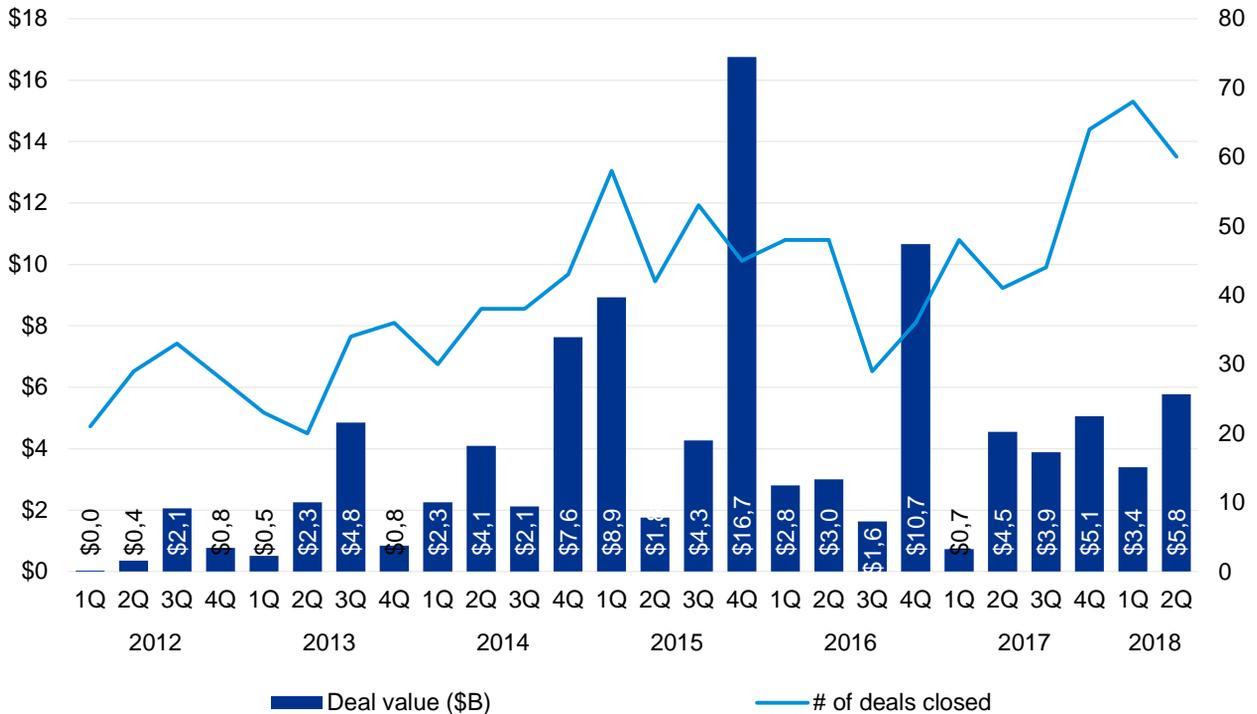


Source: Pulse of Fintech 2018, Global analysis of investment in fintech, KPMG International (data provided by PitchBook), 9 July, 2018.

Throughout 2015 and 2016, much of fintech VC activity was choppy, yet in the past three quarters, fintech venture volume has staged a remarkable comeback. What is again worth noting is such resilience is exhibited at the early stage of the capital stack, which is against the overriding trend across the venture industry in the whole. It is likely VCs are turning their attention to lesser-headed fintech sub-segments.

Key fintech sub-segments drive M&A

Fintech M&A activity in the Americas 2012 – 30 June 2018



Source: Pulse of Fintech 2018, Global analysis of investment in fintech, KPMG International (data provided by PitchBook) 9 July, 2018.

As predicted in the penultimate edition of the Pulse of Fintech, the M&A cycle in fintech is hardly on a major decline, but rather was set to experience at least a very healthy 2018 on the whole. That is primarily due to consolidation, especially in the most developed fintech market, that of the Americas. The entrance of PE buyout firms into the fintech fray definitely assisted as well.

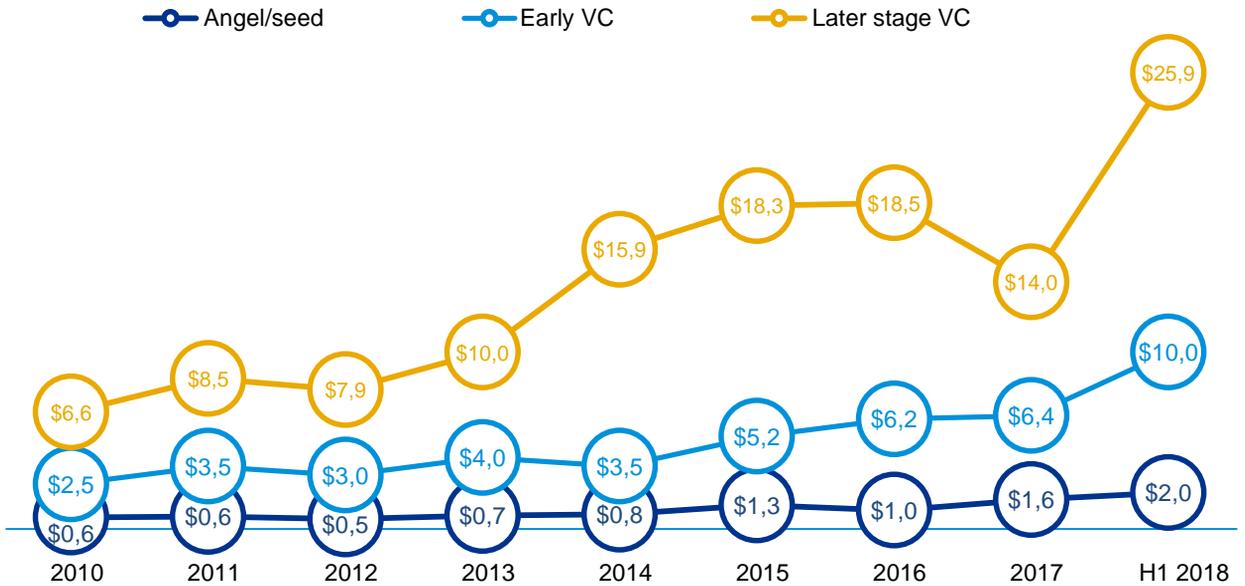
“We are starting to see insurance companies partnering more meaningfully with fintech companies — not just investing in them, but actually working with them to really test out insurtech and understand the impact it could have on efficiencies, etc. This is happening primarily in developed markets like the UK and the US, although it is slowly starting to occur elsewhere.”



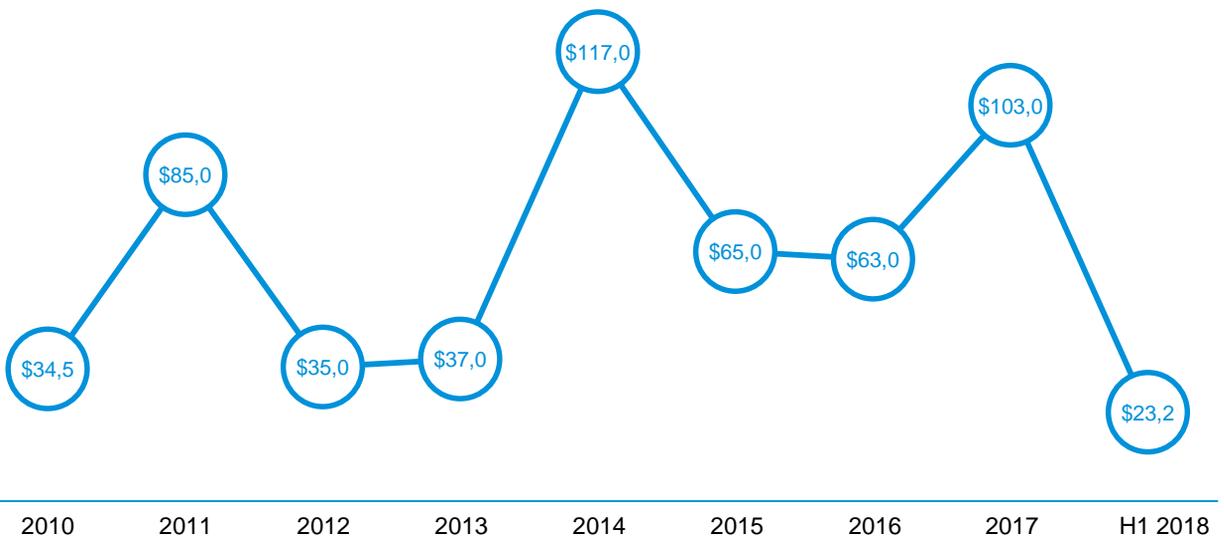
David Milligan
Global Lead, KPMG Matchi, and Associate Director
KPMG in South Africa

M&A skews to smaller end as VC soars

**Median fintech venture financing size (\$M) by stage in the Americas
2010 – 30 June 2018**



**Median M&A size (\$M) in the Americas
2010 – 30 June 2018**



Source: Pulse of Fintech 2018, Global analysis of investment in fintech, KPMG International (data provided by PitchBook) 9 July, 2018.

All currency amounts are in US\$ unless otherwise specified. Data provided by PitchBook unless otherwise specified.

Canadian fintech remains highly active

Fintech VC, PE and M&A activity in Canada 2014 – 30 June 2018



Source: Pulse of Fintech 2018, Global analysis of investment in fintech, KPMG International (data provided by PitchBook) 9 July, 2018.

Note: The separate PE and M&A data sets both include PE buyouts as a transaction type per the Methodology section on page 56.

The outlier quarter of Q2'17, which saw the massive buyout of DH Corp., still stands out across the Canadian fintech transactional landscape, however, overall volumes have remained quite robust.

“The Canadian fintech market continues to attract a significant amount of attention and investment. Toronto and Montreal have evolved into strong fintech hubs, drawing investors interested in leveraging the presence of global research leaders. Government initiatives are also expected to spark fintech growth over the next few years — with the payments modernization initiative expected to create opportunities for fintechs in the payments space, while the new Bank Act will provide opportunities for fintechs around open banking.”



John Armstrong
National Industry Leader, Financial Services
KPMG in Canada

*In H1'18, US fintech
companies received
investment of*

\$14.2B

across

427 deals





US-based fintechs see surge in VC funding — exceeding \$5 billion in H1'18

While M&A activity in the US fintech market was relatively quiet in the first half of 2018, VC investment in US-based fintech companies remained very strong, with quarterly VC investment reaching a new high of over \$3 billion in Q2'18.

Unlike the broader VC market, early stage fintech companies have continued to attract a solid amount of capital — with five of the top 10 deals in Q2'18 going to seed or early stage companies. At the same time, the fintechs able to attract later-stage funding so far in 2018 likely reflect investor confidence in their ability to become US market leaders, if they are not leaders already.

Diversity of subsectors drive ongoing US fintech investment

Fintech investment in the US was robust during both Q1 and Q2'18, in part thanks to fintech's wide-ranging scope. Over the 6-month period, the US saw more than 10 \$100 million+ megarounds in fintechs ranging from insurtechs Oscar and Lemonade to blockchain-based Circle Internet Finance.

In addition to insurtech and blockchain, wealth management and lending also obtained strong investor interest during the quarter. Regtech also gained some momentum, particularly among corporate investors in the banking industry interested in reining in their compliance costs.

Blockchain investment exceeds 2017 annual total

In the first half of 2018, blockchain investment in the US exceeded the total investment seen in 2017, led by \$100 million+ funding round to Circle Internet Finance. A number of other significant blockchain deals also occurred during Q1 and Q2'18, including Paxos' \$65 million Series B raise aimed at helping it scale operations for delivery of its blockchain platform.

Based on our experience, the rapid growth in blockchain investment overall can likely be attributed to a number of factors — including the widespread applicability of blockchain to help harness efficiencies within financial institutions. Blockchain's capabilities extend from recordkeeping and the registration of transactions to documentation management and supply chain management. While it has primarily been looked at from a banking and insurance point of view to date, the reality is blockchain opportunities abound and could enhance processes for any number of US and global businesses.

Regtech gains significant strength in first half of 2018

Since the 2008 financial crisis, financial institutions have faced an ever-increasing amount of regulations and compliance obligations. The rise in compliance costs has led many traditional banks to investigate and invest in regtech options with the hopes of being able to rein in costs and more efficiently manage regulatory reporting requirements, such as the recently enacted IFRS9. The need to better manage compliance is even more of an imperative for banks conducting business globally that need to comply with requirements in other jurisdictions, including PSD2 and GDPR in Europe.

While still a very young field, the regtech sector has evolved rapidly over the past 12 to 18 months — and is expected to continue to evolve quickly for the foreseeable future. Regtech companies in the US span a strong variety of offerings, from ComplyAdvantage — a data company focused on anti-money laundering (AML) to Ayasdi — a machine learning-based company aimed at solving regulatory problems, and Continuity — an automation-enabled platform that identifies and interprets changes to federal compliance requirements.

US-based fintechs see surge in VC funding — exceeding \$5 billion in H1'18 (cont'd)

Blank check companies on the rise in the US

During the first 6 months of 2018, over 20 new blank check companies were created, with more than a quarter noting their intent to seek out fintech opportunities. The use of blank check companies suggested the increasing importance investors are placing on fintech opportunities and the desire to raise the funds necessary to make a purchase when the right opportunity arises.

Payments companies see strong exits

The payments and lending sectors continued to be the most mature of the fintech subsectors during the first half of 2018 in developed nations, with most investment activity centered around late-stage companies and those companies seeking to exit. During Q1 and Q2'18, there was a significant degree of activity in the payments space with the successful IPOs of EVO Payments and GreenSky in the US, in addition to the US-based Vantiv's \$12.9 billion acquisition of UK-based WorldPay.

It is expected that more consolidation will occur in the payments and lending spaces both in the US and globally as dominant market players entrench their position and other companies find themselves unable to achieve scale.

Traditional banks invest in digital banking offerings

During the first half of 2018, a number of traditional US banks pressed down on the accelerator with respect to their digital banking initiatives. For example, JP Morgan Chase announced the success of a digital bank pilot project and its intent to roll out the digital bank option at a national level⁷. Citibank also announced a digital-only bank⁸, while Goldman Sachs announced the expansion of its Marcus initiative to the UK⁹.

Interest in cryptocurrency trading rises as investors look at ways to manage volatility

US investors continued to show interest in cryptocurrencies, although there is still some consternation with respect to enabling trading given the high volatility. New business models are starting to emerge aimed at reducing volatility, such as by pegging the trading against a real currency, like the US dollar, to control variability. The implementation of new business models related to the exchange of cryptocurrencies could have a positive impact on future uptake should results be positive.

Trends to watch for in the US

Looking ahead, the future continues to look bright for the US fintech market. We anticipate blockchain, regtech and insurtech are all expected to gain momentum, even as AI and RPA continue to drive cross sector opportunities. We will also likely start to see a continued emphasis on partnering, with retailers and aggressive tech leaders globally developing relationships with fintechs in order to steal a piece of the lucrative fintech value chain.

“There's more VC flow available than opportunities to invest — a sign of tremendous growth in the space. In particular, investments in blockchain doubled the first half of 2018 compared to 2017. Blockchain has the potential to transform banking and if banking systems were to be rewritten today they would be based on blockchain.”



Safwan Zaheer

Director, Financial Services Digital & US Fintech Lead
KPMG in the US

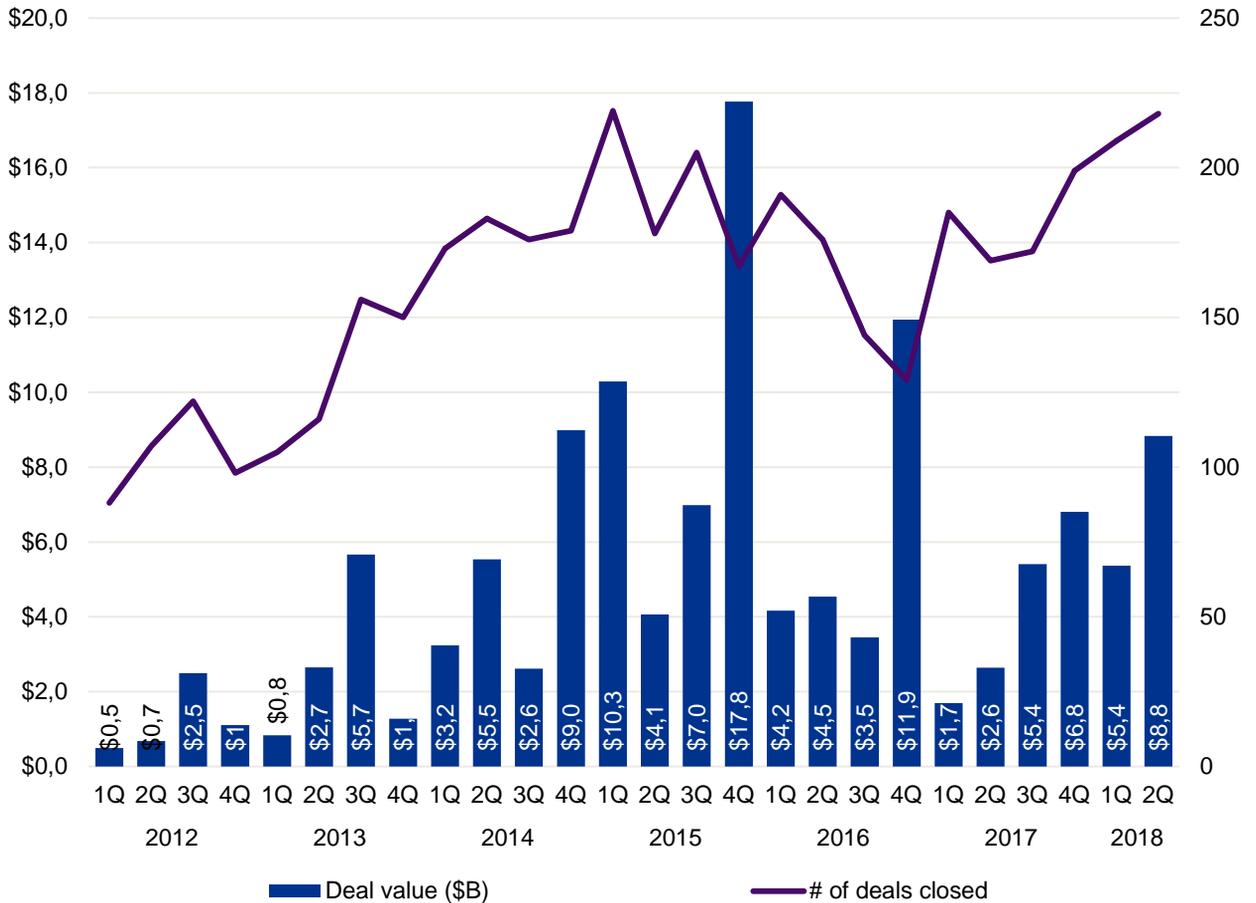
⁷ <https://www.businessinsider.com/jpmorgan-chase-launches-digital-only-bank-2017-10>

⁸ <https://www.citigroup.com/citi/news/2018/180326b.htm>

⁹ <https://www.forbes.com/sites/greatspeculations/2017/09/13/goldmans-retail-banking-ambitions-extend-to-u-k-with-plans-to-offer-online-deposits/#7aaa53811050>

Both value and volume rebound in H1'18

Total US fintech investment activity (VC, PE and M&A) in fintech companies 2012 – 30 June 2018



Source: Pulse of Fintech 2018, Global analysis of investment in fintech, KPMG International (data provided by PitchBook) 9 July, 2018.

Note: The separate PE and M&A data sets both include PE buyouts as a transaction type per the Methodology section on page 56.

“Fintech has a number of subsectors. During the past 6 months we have seen some very large investments — from Robinhood in wealth management to Oscar and Lemonade in insurtech and Circle Internet Finance in blockchain. The size of these deals speaks to some of the likely winners in each of these respective sectors.”

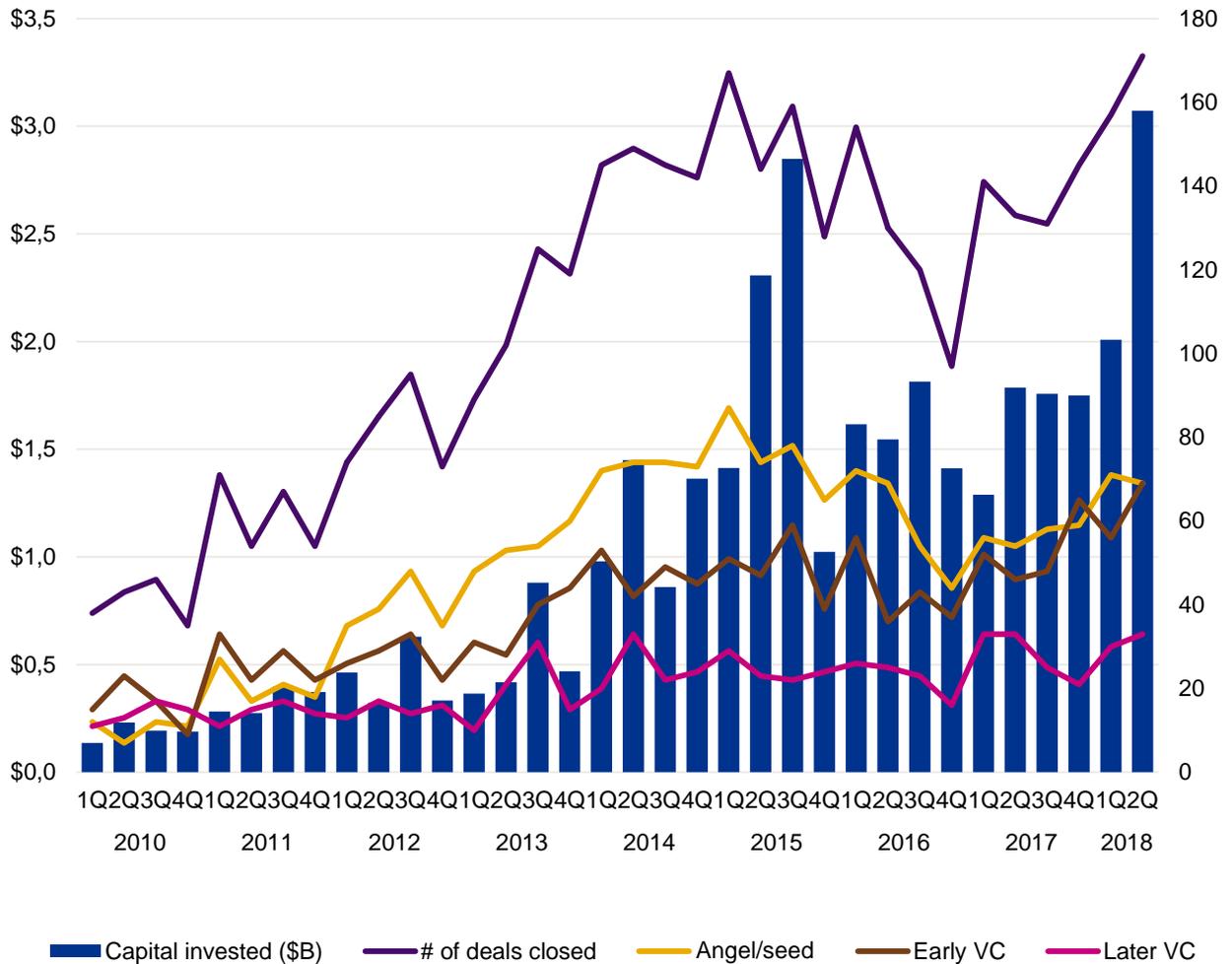


Brian Hughes

Co-Leader, KPMG Enterprise Innovative Startups Network, and Partner
KPMG in the US

VCs back newer plays, also double down

Venture investment in fintech companies in the US 2010 – 30 June 2018

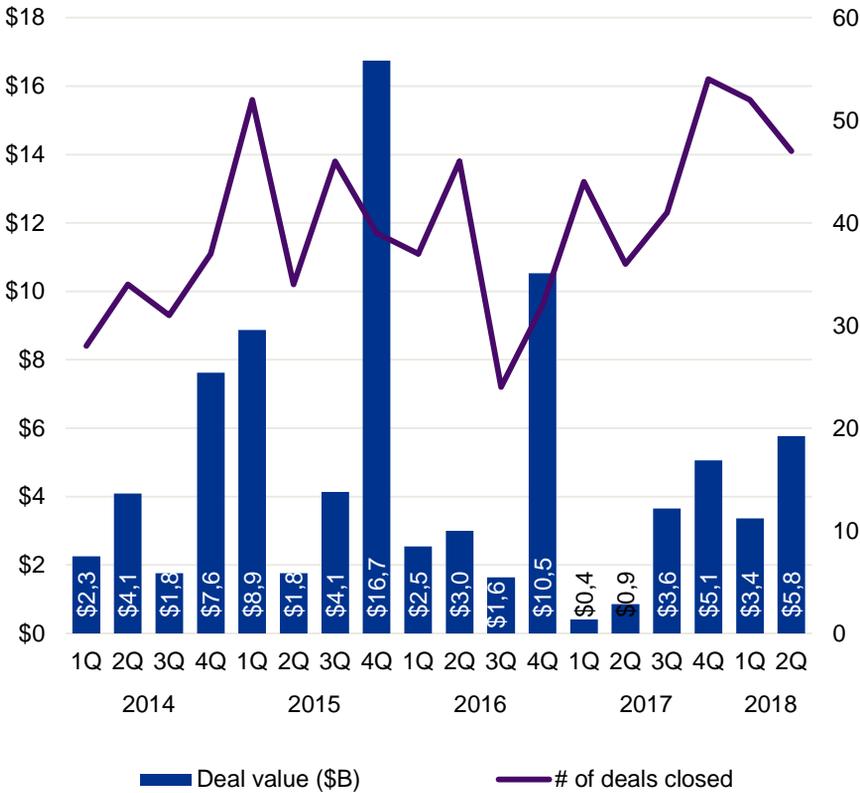


Source: Pulse of Fintech 2018, Global analysis of investment in fintech, KPMG International (data provided by PitchBook) 9 July, 2018.

When one trend, that of resurgent angel, seed and early-stage VC volumes, combines with the remarkably strong upward bounce in VC invested in Q2'18, it is clear that investors are not only plying newly emergent startups in lesser-heeded fintech sub-segments, such as regtech or investment banking, but also piling into large financings of mature, late-stage companies such as Robinhood, which raked in one of the largest deals in the first half of 2018.

M&A cycle rebounds to steadily high volume

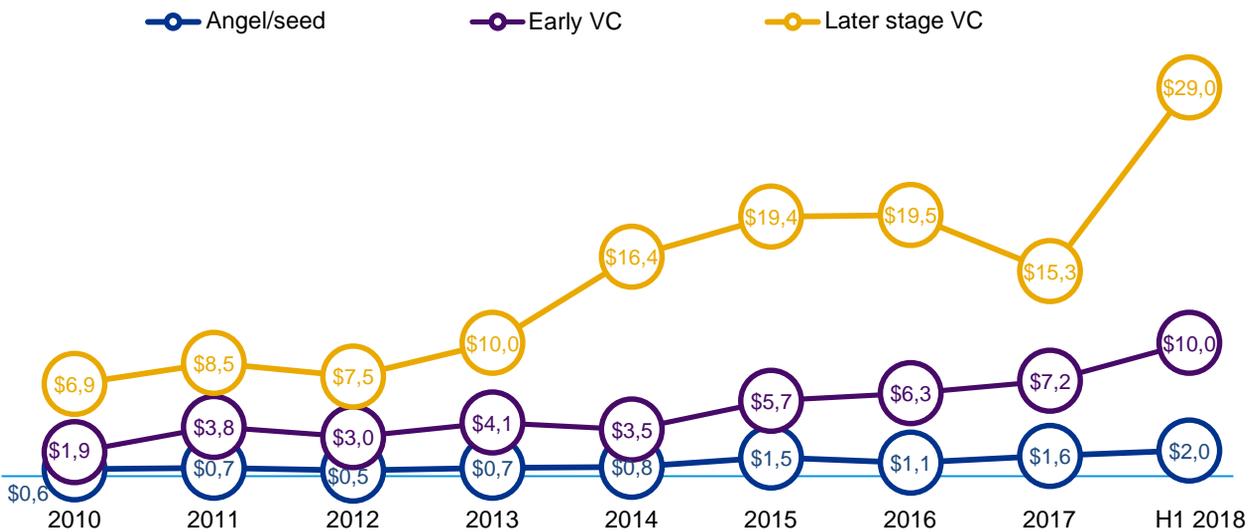
Fintech M&A activity in the US 2014 – 30 June 2018



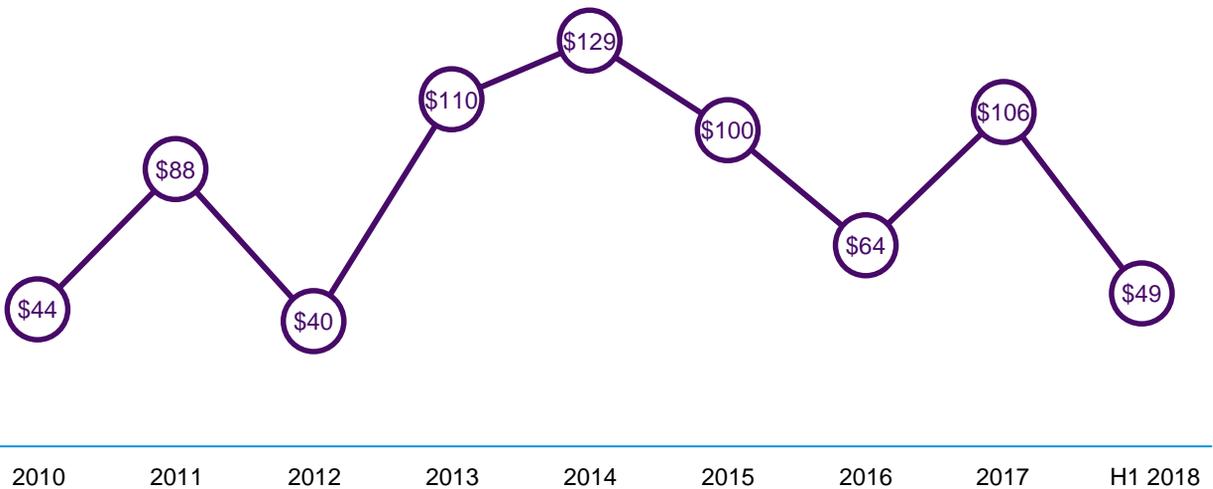
After experiencing significant swings in volume throughout the course of 2015, 2016 and the first half of 2017, M&A within the US began to build, peaking in the final quarter of 2017 and staying quite resilient since. As previously noted, both increasingly active PE buyout shops and consolidation among payments companies plus acquisitions of innovative startups by banks continue to propel M&A volume forward.

M&A skews toward SMEs, late-stage VC nearly doubles as VCs pay up for exposure to growth

Median fintech venture financing size (\$M) in the US 2010 – 30 June 2018



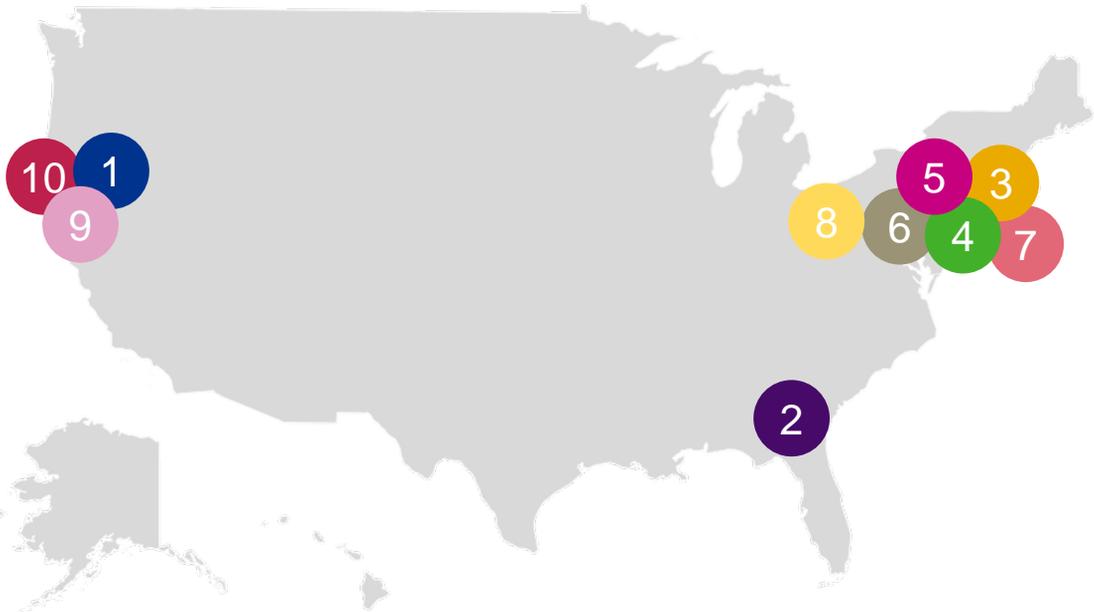
Median M&A size (\$M) in the US 2010 – 30 June 2018



Source: Pulse of Fintech 2018, Global analysis of investment in fintech, KPMG International (data provided by PitchBook) 9 July, 2018.

All currency amounts are in US\$ unless otherwise specified. Data provided by PitchBook unless otherwise specified.

Top 10 US fintech VC, PE and M&A deals in H1'18



- | | |
|--|--|
| <p>1 Blackhawk Network Holdings — \$3.5B,
Pleasanton, CA
Payments/transactions
<i>Buyout</i></p> | <p>6 BondPoint — \$400M, Jersey City, NJ
Investment banking/capital markets
<i>M&A</i></p> |
| <p>2 PowerPlan — \$1.1B, Atlanta, GA
Institutional/B2B
<i>M&A</i></p> | <p>7 Poloniex — \$400M, Boston, MA
Cryptocurrency
<i>M&A</i></p> |
| <p>3 Cayan — \$1.05B, Boston, MA
Payments/transactions
<i>M&A</i></p> | <p>8 J.G. Wentworth — \$382M, Radnor, PA
Consumer finance
<i>Buyout</i></p> |
| <p>4 OpenLink Financial — \$1B, Uniondale,
NY
Investment banking/capital markets
<i>Buyout</i></p> | <p>9 Robinhood — \$363M, Palo Alto, CA
Personal finance
<i>Series D</i></p> |
| <p>5 Kensho — \$550M, Cambridge, MA
Institutional/B2B
<i>M&A</i></p> | <p>10 Tradeshift — \$250M, San Francisco, CA
Institutional/B2B
<i>Series E</i></p> |

*In H1'18, investment in
fintech companies in
Europe hit*

\$26B

across

198 deals





M&A powers fintech market in Europe in first half of 2018

Overall fintech investment in Europe saw a big boost in the first half of 2018, driven by massive M&A deals, including the \$12.8 billion acquisition of WorldPay by Vantiv and the \$2.2 billion purchase of iZettle by PayPal.

On the VC front, fintech investment was more modest in Europe compared to Asia and the Americas but remained relatively strong during both Q1 and Q2'18 compared to previous quarters. VC investors focused significantly on more mature companies — with a lot of efforts going to support Series B and Series C stage deals. For earlier stage deals, VC investors were more cautious, although they continued to show a willingness to invest in fintechs with the right skills, technology and intellectual property at their fingertips.

Banking corporates in Europe increasing focus on developing VC funds

Over the past 12 months, there has been a significant increase in the emergence of new corporate VC funds in Europe, with a number of banks setting up funds in order to make fintech investments. VC fundraising activities have occurred across Europe, from Unicredit in Italy to DNB in Norway.

Corporate VC (CVC) funding was quite diverse over the past 6 months, although AI remained high on the priority list, along with regtech.

Challenger banks continue to excel in Europe

Challenger banks continued to thrive in Europe, particularly in the UK and Germany, where the regulatory environment has been very supportive of alternative banking models. The top two fintech deals during the first half of 2018 in Europe came from challenger banks — a \$250 million Series C round by UK-based Revolut and a \$160 million Series C round by Germany's N26. After showing some success locally, both Revolut and N26 are eyeing expansion internationally, with Revolut looking to enter the US and Canada and N26 looking at Spain and the US.

Further, we continue to see traditional banks in Europe setting-up their own standalone digital banking overings in order to compete with challenger banks — such as Pepper, the digital-only bank of Israel's Bank Leumi.

Investment in regtech on the rise in Europe

Europe has been a hotbed of new regulations over the past 6 months. Given the implementation of PSD2 and the UK's synonymous open-banking regulation and GDPR, it is no surprise that there has been a surge in regtech activity as European-based companies and companies doing business in Europe look for efficient ways to manage their compliance obligations and open-banking requirements.

Within Europe, the UK continued to be the main hub for regtech innovation, with two major deals in the first half of 2018: a \$25 million Series C raise by CloudPay solutions and a \$10 million raise by CloudMargin. While regtech is still a relatively immature subsector of fintech, as evidenced by the relatively small deal sizes, it is evolving rapidly in terms of scope. For example, European regtech companies range from UK-based CUBE, which uses machine learning to enable automated compliance management to Ireland's Gecko Governance, which offers a blockchain-based solution to manage compliance and Luxembourg-based REGIS-TR, which provides a one-stop reporting program for trade transactions across the EU.

M&A powers fintech market in Europe in first half of 2018 (cont'd)

Blockchain becoming EU priority

Over the past couple of years, there has been significant investment in blockchain investments across the EU. In April, 22 EU member countries signed a Declaration on the Creation of a European Blockchain Partnership in order to foster collaboration across various blockchain initiatives and to help reduce barriers to potential cross-border blockchain solutions.

UK still attracting significant interest

Despite concerns about a potential hard Brexit in 2019, VC investors remained relatively bullish regarding fintech opportunities in Europe. The first half of the year saw a number of significant raises in the UK, including four of the region's top 10 fintech deals over the past 6 months: a \$250 million raise by Revolut, a \$100 million raise by eToro, a \$60 million raise by Flender and a \$54 million raise by MoneyFarm.

During the first half of 2018, the UK government continued to take decisive action to support the continued strength of the UK fintech market. In March, it released its first Fintech Sector Strategy which is expected to help the UK retain its leadership in the fintech space in Europe¹⁰.

AI and RPA continued to be hot areas of investment for fintech investors in the UK, although interest in regtech also picked up a significant amount of momentum during the first half of 2018.

Germany fintech hubs expanding reach

Fintech investment in Germany remained strong in the first half of 2018, with significant raises by N26 (\$160 million) and SolarisBank (\$70 million). The strength of Germany's fintech market is becoming more globally recognized, drawing in large international investors. For example, China tech giant Tencent invested in N26's most recent raise¹¹.

While Berlin continued to be Germany's most prominent fintech hub, Hamburg and Frankfurt have also worked to develop innovation hubs.

Ireland fintech market strengthens

Ireland's fintech market continued to punch above its weight in terms of fintech activity in the first half of 2018. The country is quickly becoming an alternative powerhouse for fintech, with significant investments being made particularly by global companies looking for a European launch platform or to take advantage of Ireland's strong fintech innovation ecosystem. In the first half of 2018, a number of global companies announced expansion initiatives in Ireland. Mastercard, for example, announced plans to hire 175 more people in its Ireland-based research lab, while Stripe announced the establishment of an R&D centre.

The Government of Ireland continues to be a strong proponent of fintech innovation. It is currently in the process of updating its international financial services strategy (IFS2025)¹². The new plan is expected to have a strong fintech component, including blockchain and digital ledger technology (DLT) opportunities.

Trends to watch for in Europe

Over the next 6 months, we predict investment in fintech in Europe will remain robust, with investments increasing in areas like regtech, insurtech and wealth management. Fintechs focusing on the small business sector are also expected to be a key priority for investors. Similar to other regions of the world, Europe is also projected to see increasing interest in fintechs providing digital identification verification.

We will also likely see government interest in fintech grow in many jurisdictions across Europe as they begin to recognize the applicability of technologies like blockchain to improve the efficiencies of government processes.

In mature fintech areas like payments and lending, there will likely be a significant amount of consolidation over the next 6 to 12 months as the largest platforms become bigger and others fail to achieve scale.

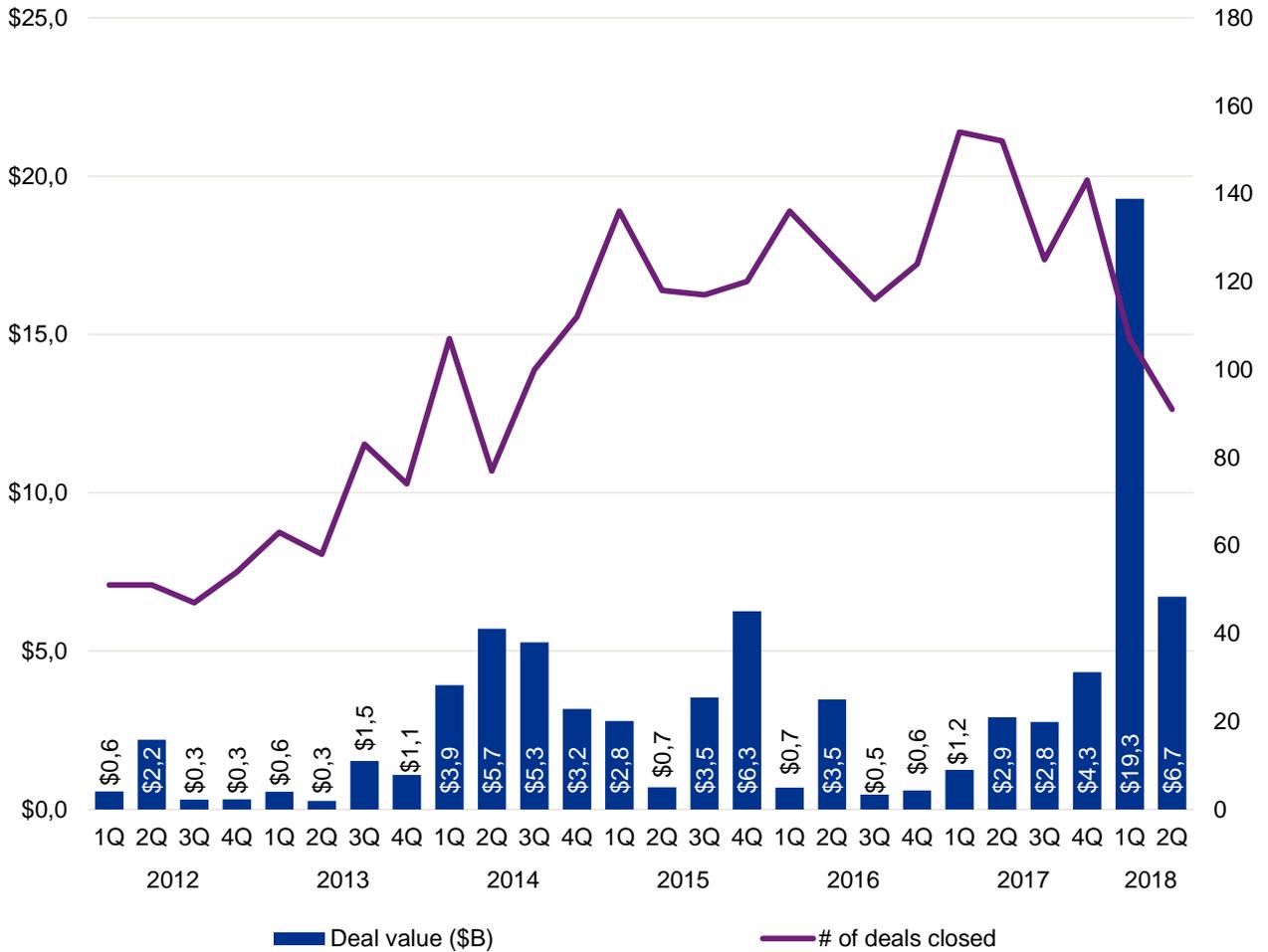
¹⁰ <https://www.gov.uk/government/publications/fintech-sector-strategy>

¹¹ <http://www.chinadaily.com.cn/a/201803/22/WS5ab30865a3105cdf6513812.html>

¹² <https://www.independent.ie/business/irish/new-state-plan-to-lure-financial-services-jobs-37091614.html>

Fintech investment remains historically robust

Total European fintech investment activity (VC, PE and M&A) in fintech companies 2012 – 30 June 2018



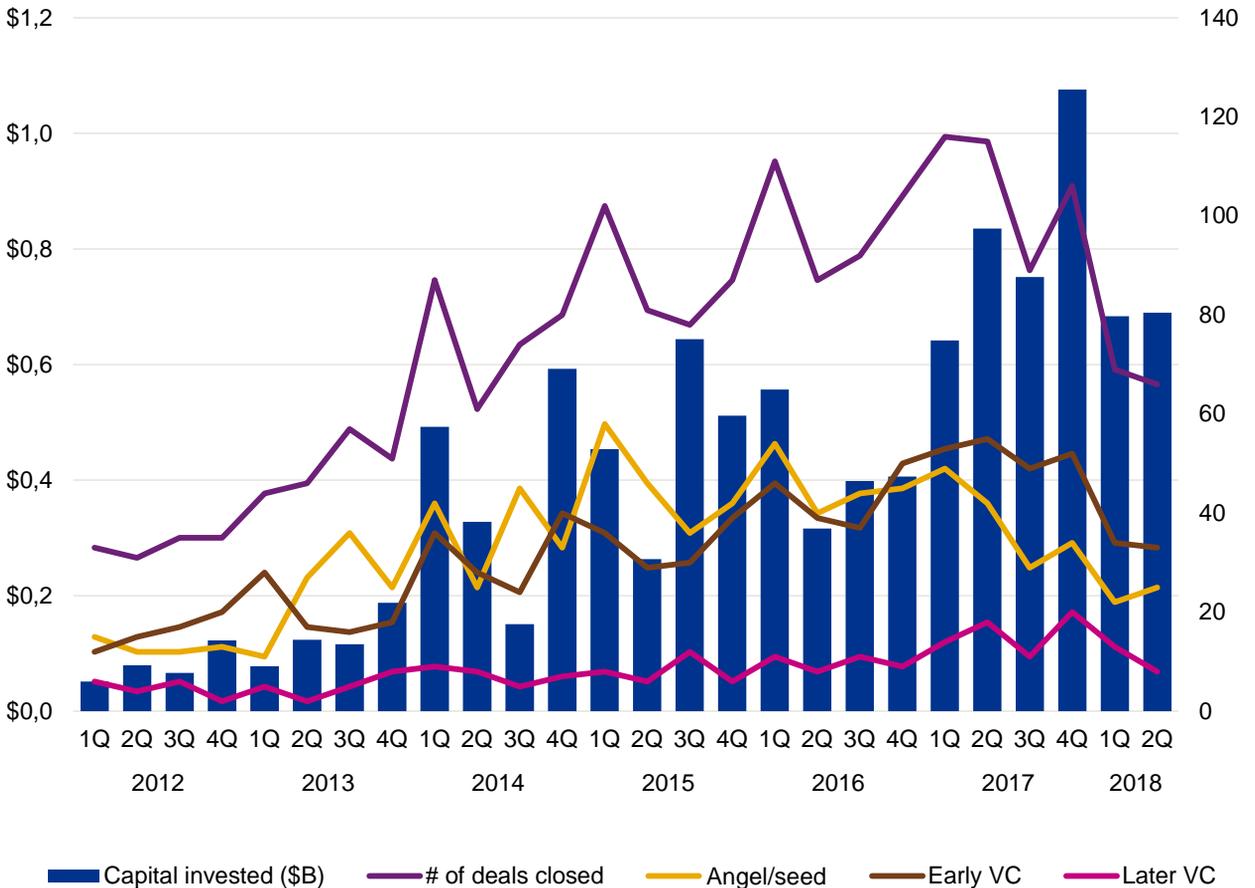
Source: Pulse of Fintech 2018, Global analysis of investment in fintech, KPMG International (data provided by PitchBook) 9 July, 2018.

Note: The separate PE and M&A data sets both include PE buyouts as a transaction type per the Methodology section on page 56.

After a sustained run of elevated, if choppy, investment activity, the fintech scene in Europe has recorded a downturn in the first half of 2018 in volume, although at the same time, deal values soared to the highest levels yet recorded. This divergence is primarily due to relatively sudden downturn in early stage VC volume.

VC invested steadies even as activity drops

Venture investment in fintech companies in Europe 2012 – 30 June 2018

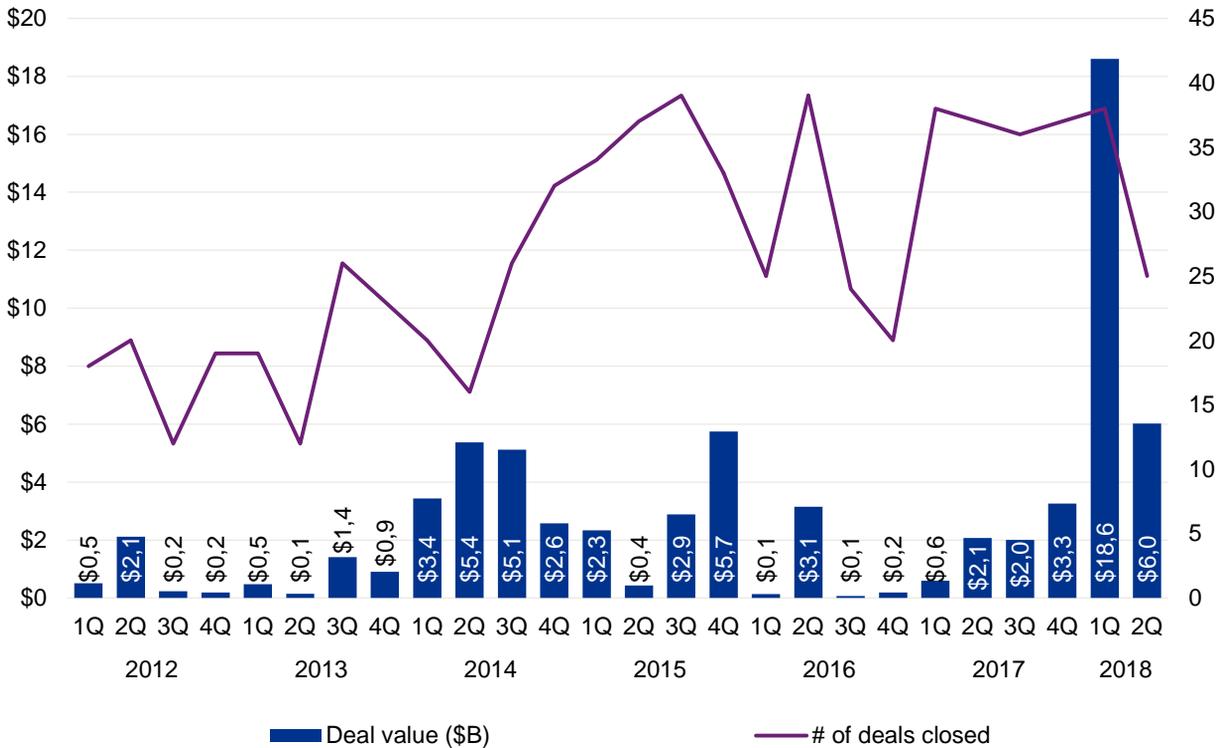


Source: Pulse of Fintech 2018, Global analysis of investment in fintech, KPMG International (data provided by PitchBook) 9 July, 2018.

The European venture scene is largely a patchwork of highly active metropolises, as stated in the prior edition of the Pulse of Fintech. Hence, the downturn in early stage volume, which is the primary culprit behind subdued fintech investment levels, can be further driven by an intermittent, infrequent decline in fintech investing enthusiasm in even one metropolis. That said, the evening out of angel and seed financing volume suggests venture volume will rebound somewhat within Europe’s fintech scene in coming quarters.

M&A volume has an off quarter, likely to rebound

Fintech M&A activity in Europe 2012 – 30 June 2018



Source: Pulse of Fintech 2018, Global analysis of investment in fintech, KPMG International (data provided by PitchBook) 9 July, 2018.

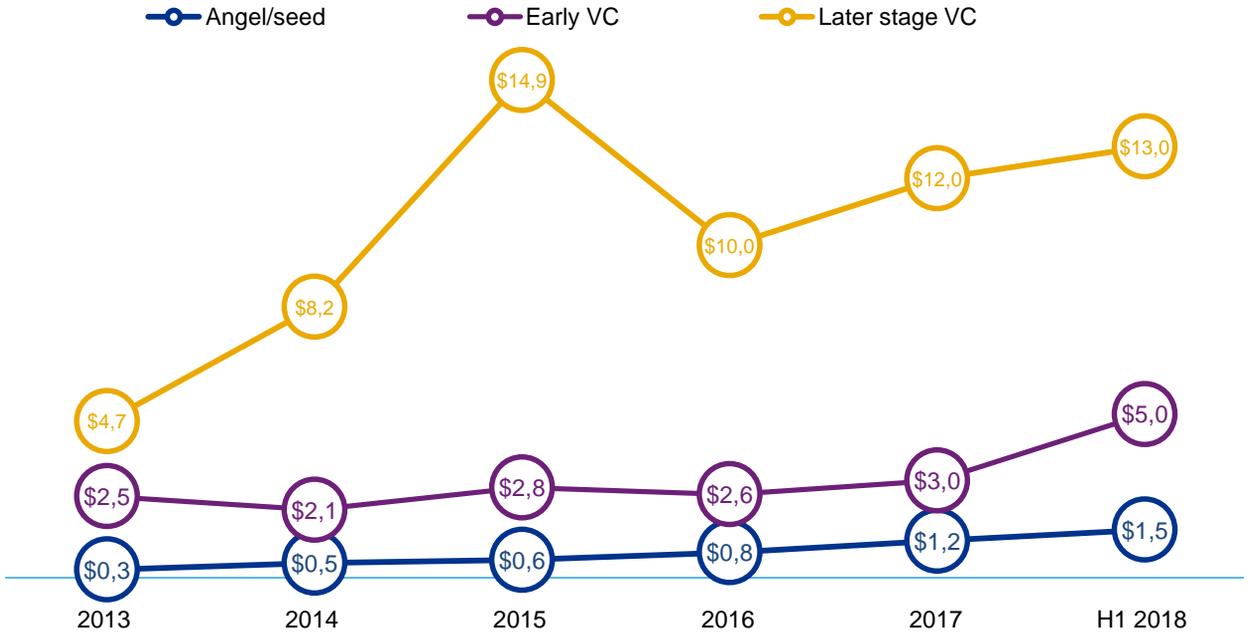
“The real impact of PSD2 and open banking has yet to be fully realized. In the months ahead we expect to see a rise in the number of business opportunities, with companies and big tech players more aggressively exploiting the data at their disposal. We should also see the emergence of new fintechs, leveraging a more level playing field and creating value”



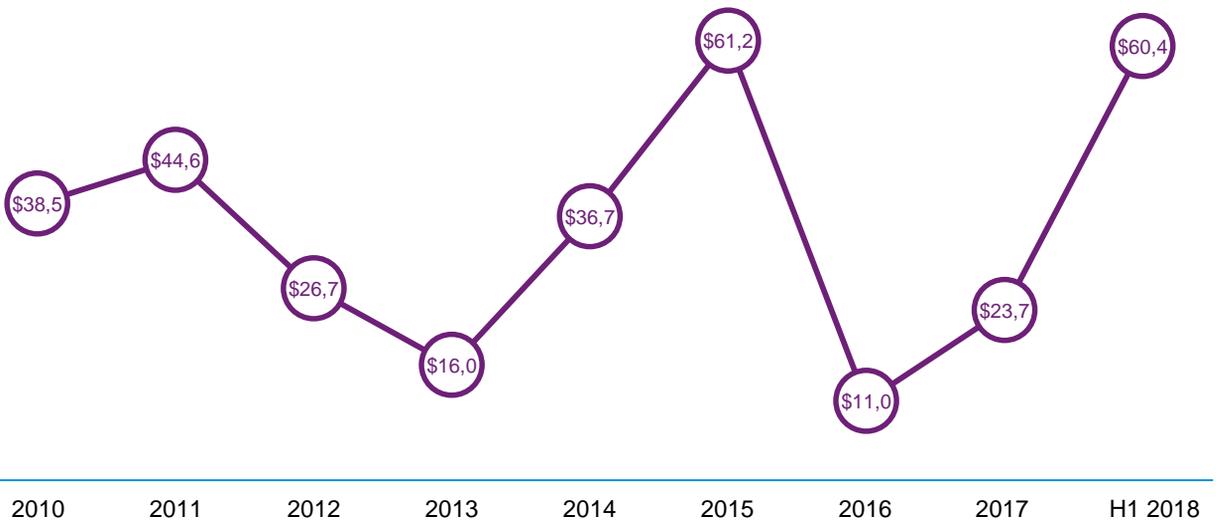
Anna Scally
Partner, Head of Technology and Media and Fintech Lead
KPMG in Ireland

VC dry powder underpins hefty deal sizes

**Median fintech venture financing size (\$M) by stage in Europe
2013 – 30 June 2018**



**Median M&A size (\$M) in Europe
2010 – 30 June 2018**

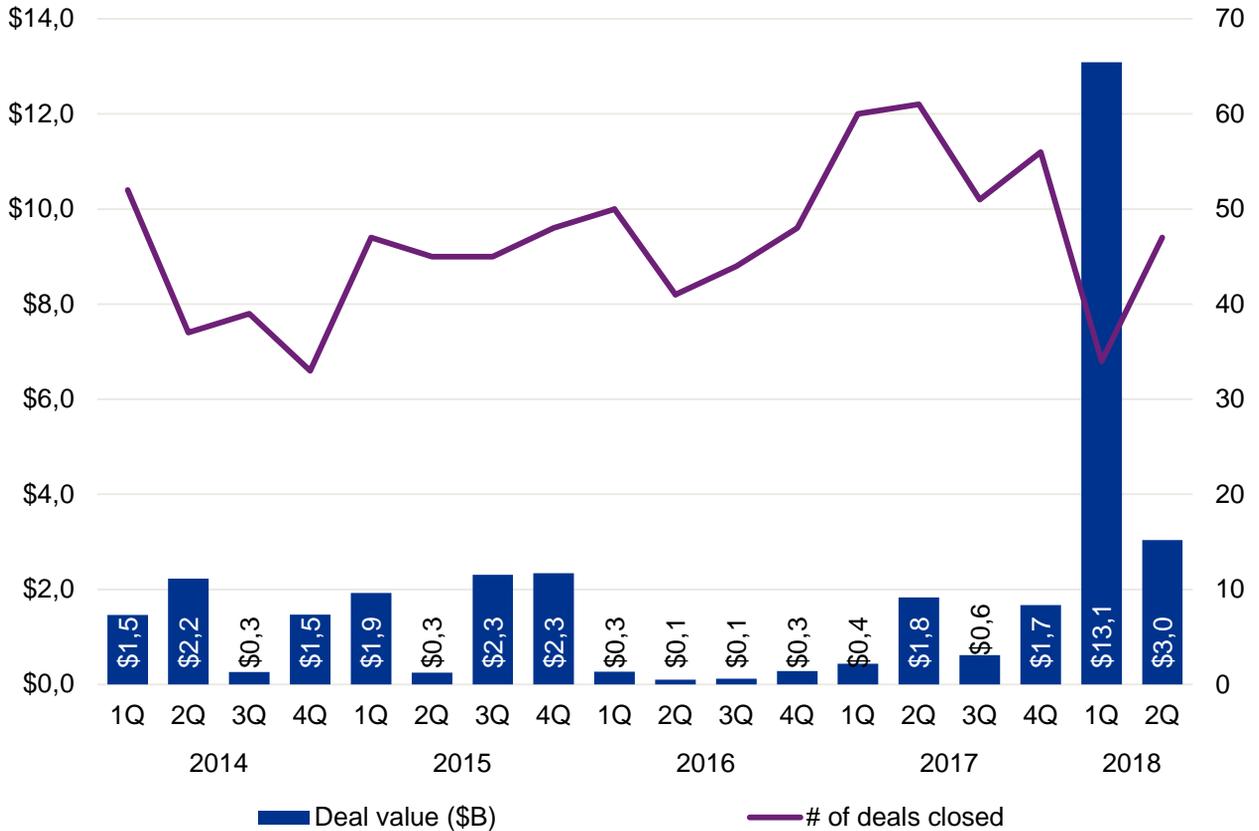


Source: Pulse of Fintech 2018, Global analysis of investment in fintech, KPMG International (data provided by PitchBook) 9 July, 2018.

All currency amounts are in US\$ unless otherwise specified. Data provided by PitchBook unless otherwise specified.

Fintech investment rebounds somewhat

Fintech VC, PE and M&A activity in the United Kingdom 2014 – 30 June 2018



Source: Pulse of Fintech 2018, Global analysis of investment in fintech, KPMG International (data provided by PitchBook) 9 July, 2018.

For any given country, fintech investment activity will likely remain choppy from quarter to quarter. The UK is no exception, although given its hosting of London, one of the global financial centers, it enjoys higher highs and lows than most. Accordingly, the blockbuster acquisition of WorldPay by Vantiv still stands out as one of the largest fintech transactions of all time.

“The UK continues to lead the charge for fintech investment in Europe — representing half of the top 10 deals during H1’2018. Fintechs are increasingly applying for and receiving banking licenses — and we anticipate consolidation in that space in particular as some of the traditional financial institutions make strategic acquisitions to position themselves for growth.”

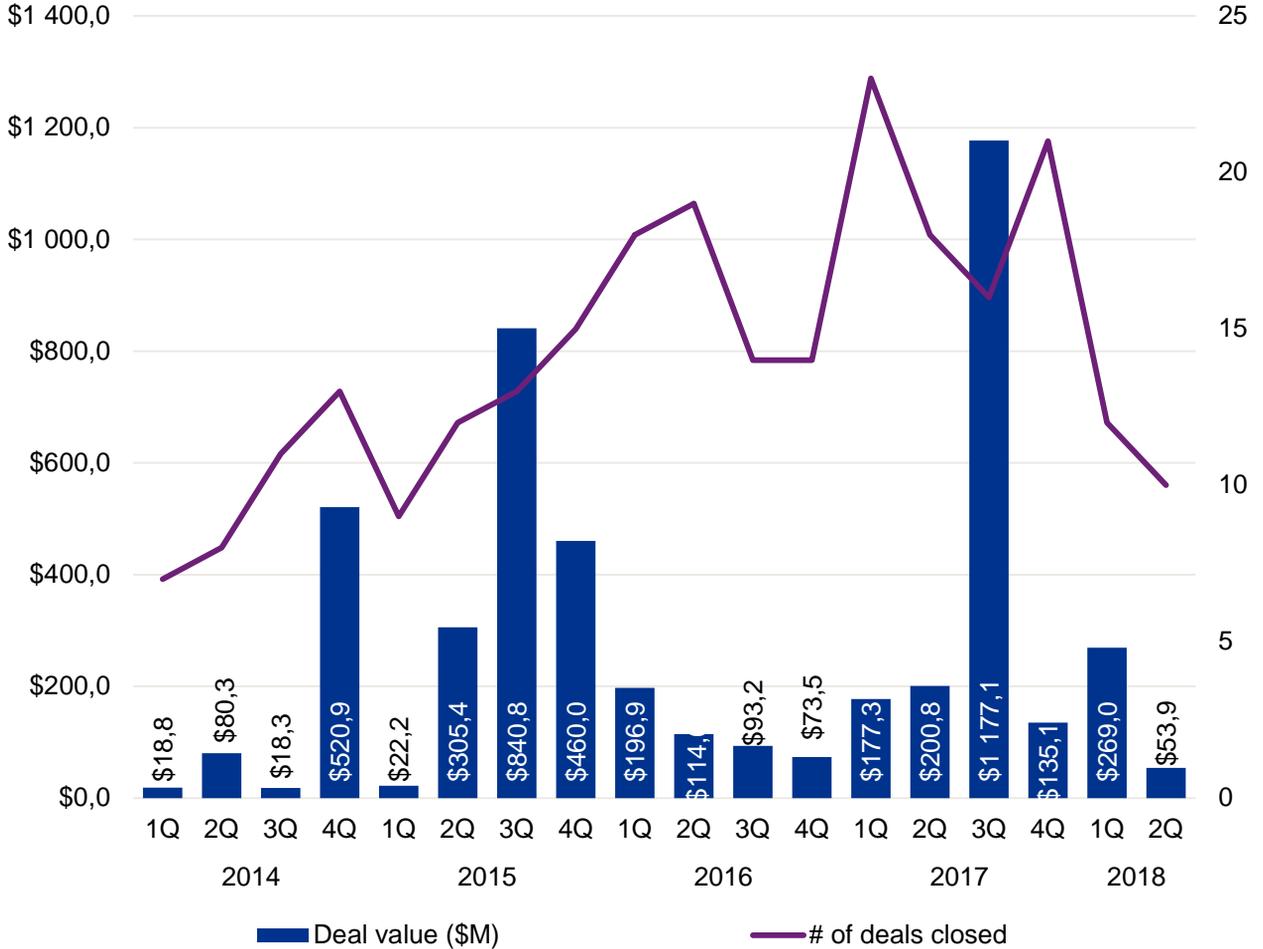


Anton Ruddenklau
Global Co-Leader of Fintech
KPMG International

A subdued period for German fintech

Fintech VC, PE and M&A activity in Germany

2014 – 30 June 2018



Source: Pulse of Fintech 2018, Global analysis of investment in fintech, KPMG International (data provided by PitchBook) 9 July, 2018.

Note: The M&A data sets include PE buyouts as a transaction type per the Methodology section on page 56.

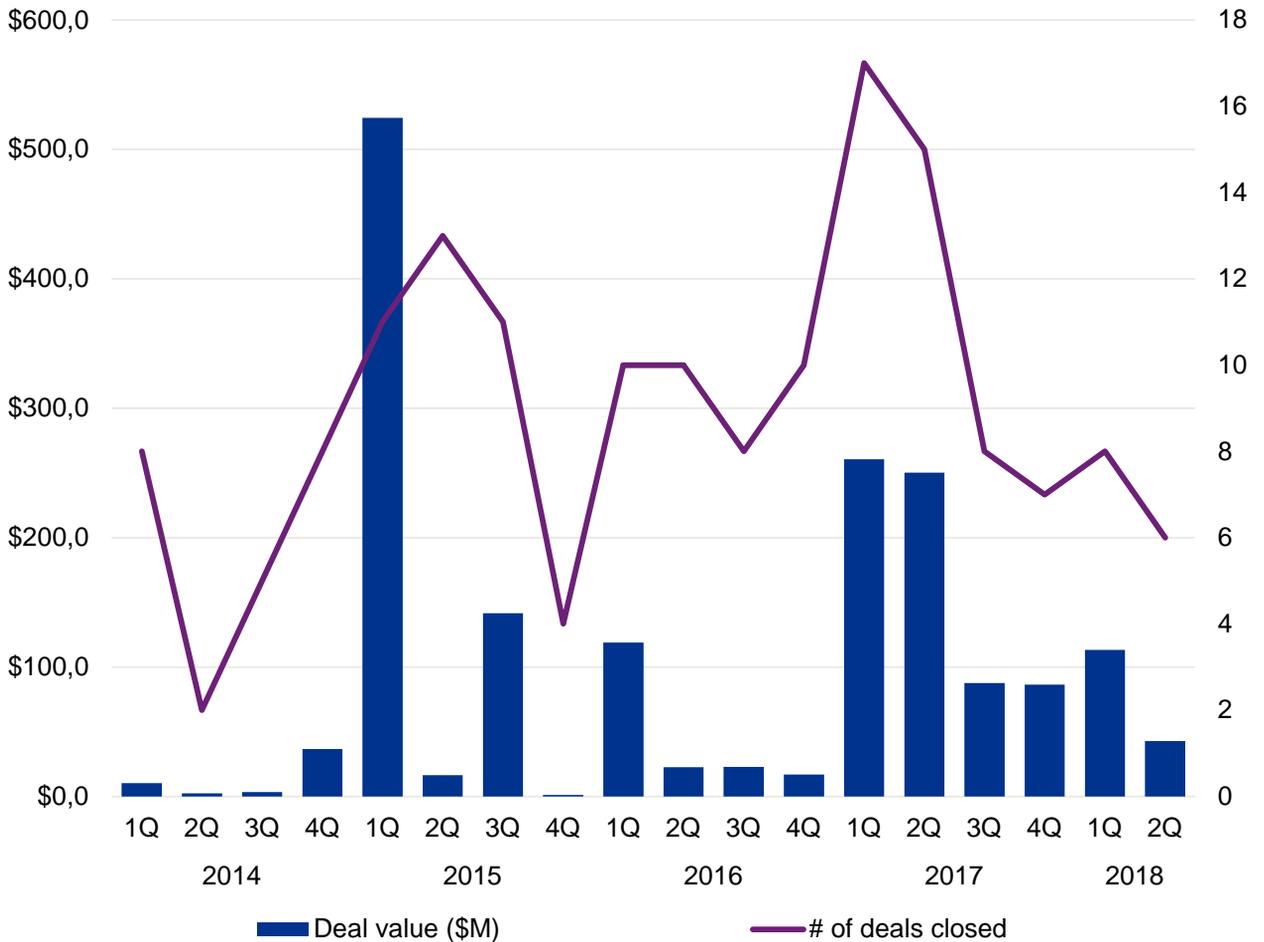
“European challenger banks are becoming very exciting to investors. N26 here in Germany and Revolut in the UK are outpacing themselves in terms of clients they have — driving further attention and interest not only from European VCs but from global investors like Chinese technology giant Tencent. This interest highlights the potential investors see in the market. Many global investors see digital banks as an entry point into the European market.”



Sven Korschowski
Partner, Financial Services
KPMG in Germany

Activity trends toward historical medians

Fintech VC, PE and M&A activity activity in France 2014 – 30 June 2018



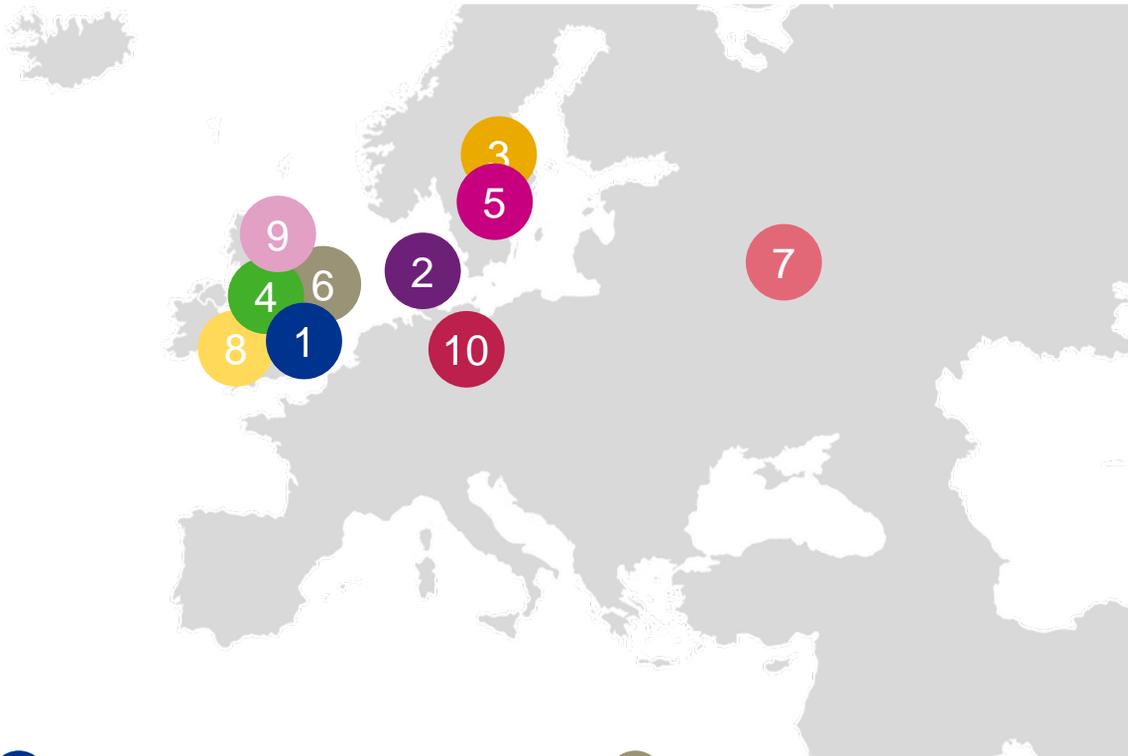
Source: Pulse of Fintech 2018, Global analysis of investment in fintech, KPMG International (data provided by PitchBook) 9 July, 2018.

“First half 2018 in France continue to perform in terms of deal number, funds raised and average funds raised per deal. This reflects an progressing maturity of Fintech in France and also a higher interest for emerging businesses such as Insurtech and Blockchain which are expected to bring a high added-value.”



Mikaël Ptachek
Head of Practice Fintech
KPMG France

Top 10 European fintech deals in H1'18



- | | |
|---|--|
| <p>1 WorldPay — \$12.9B, London, UK
Payments/transactions
<i>M&A</i></p> | <p>6 ETF Securities — \$611M, London, UK
Wealth management
<i>M&A</i></p> |
| <p>2 Nets — \$5.5B, Ballerup, Denmark
Payments/transactions
<i>Buyout</i></p> | <p>7 Yandex.Market — \$495.5M, Moscow, Russia
Payments/transactions
<i>M&A</i></p> |
| <p>3 iZettle — \$2.2B, Stockholm, Sweden
Payments/transactions
<i>M&A</i></p> | <p>8 Revolut — \$250M, London, UK
Payments/transactions
<i>Series C</i></p> |
| <p>4 IRIS Software Group — \$1.8B, Datchet, UK
Institutional/B2B
<i>Buyout</i></p> | <p>9 Atom Bank — \$208M, Durham, UK
Consumer finance
<i>PE growth</i></p> |
| <p>5 Nordax Group — \$788.4M, Stockholm, Sweden
Institutional/B2B
<i>Buyout</i></p> | <p>10 N26 — \$160.3M, Berlin, Germany
Consumer finance
<i>Series C</i></p> |

Source: Pulse of Fintech 2018, Global analysis of investment in fintech, KPMG International (data provided by PitchBook) 9 July, 2018.

All currency amounts are in US\$ unless otherwise specified. Data provided by PitchBook unless otherwise specified.

*In H1'18, investment in
fintech companies in
Asia hit*

\$16.8B

across

162 deals



\$14 billion Ant Financial deal propels fintech investment in Asia to massive record high

Ant Financial's record-shattering \$14 billion Series C funding round in Q2'18 lifted Asia's mid-year fintech investment to a massive \$16.8 billion compared to \$5.4 billion in all of 2017. The single deal accounted for over half of the \$23 billion in VC fintech funding seen globally during the 6-month period.

Excluding this massive outlier deal, Asia still saw strong fintech investment, with quarter-over-quarter increases in overall fintech investment in India, Australia and Singapore from Q1'18 to Q2'18. The number of deals in Asia also rose at each deal stage during both Q1 and Q2'18.

Fintech market in China thriving — setting pace for Asia

Fintech investment in China strengthened in the first half of 2018 compared to the end of 2017. In addition to Ant Financial's massive deal, China saw four other \$100 million+ megarounds — including \$290 million to Dianrong, \$160 million to WeCash, \$130 million to Meili Jinrong, and \$100 million to Tiantian Paiche.

The majority of banks in China have been expanding their focus to digital and developing transformation strategies. This has led to an increase in B2B focused fintechs able to enable banking transformation. Banks have invested in myriad areas, including blockchain, big data and AI.

Southeast Asia becomes target for fintech growth and global expansion

After achieving success domestically, a number of large fintechs — primarily from China — have set their sights on countries within Southeast Asia as the next step in their growth agenda. With a large population, relatively similar macroeconomics, large underbanked populations and a significant number of Chinese people overseas, the region is seen as a strong stepping stone to further global expansion. At the same time, a number of China's biggest companies are already making investments globally. In the first half of 2018, for example, Tencent invested in German challenger bank N26.

Within Southeast Asia, Singapore continued to drive regional collaboration — including the development of a regional fintech innovation sandbox. The MAS continued to focus on financial inclusion, but also started to intensify its focus on encouraging insurtech innovation.

Financial services regulations continuing to evolve in Asia

During the first half of the year, China's central government announced plans to combine the banking and insurance regulators into a single entity. This new authority will take ownership of much of the oversight related to alternative financing and micro-lending, which previously had been managed provincially. Because of the changes, the government has delayed the deadline for P2P regulatory filings until the end of the year. Hong Kong (SAR) also saw some changes during the first half of the year, particularly in the area of IPO exits as a result of new regulations allowing for different shareholder rights. The changes pave the way for more companies to qualify for an IPO on the HKSE. Poor performance of China's stock exchanges in recent months, however, could temper IPO activity somewhat.

Regtech slowly gaining traction in Asia

During the first half of 2018, regtech continued to gain slow traction in Asia, particularly in Australia and Singapore where regulators have been strongly supportive of fintech innovation and in India where technologies are required to enable the shift to a primarily cashless society.

\$14 billion Ant Financial deal propels fintech investment in Asia to massive record high (cont'd)

Regtech slowly gaining traction in Asia (cont'd)

Much of the regtech focus in Asia has been around KYC and fraud prevention. One of the more mature regtechs — 6-year old Australia-based KYC company Encompass expanded into Hong Kong early in 2018.

While India has seen the introduction of a number of KYC-focused companies, such as SIGNZY — an AI-driven real-time authentication platform, it has also seen a number of more traditional regtech startups, including Fintellix — which leverages existing data infrastructure to address local regulatory reporting requirements.

From a regulatory standpoint, in February, Commonwealth Bank of Australia reported on the success of a regtech pilot project it conducted in collaboration with ING¹³. The UK's Financial Conduct Authority acted as an observer on the project in order to gain greater understanding of how AI and regtech can be used to help organizations with managing compliance.

Techfins playing different role to fintechs in China

In China, a number of large tech players have made inroads into the provision of innovative financial services as part of their value proposition. These technology firms have framed their offerings as a way to extend value to their customers, rather than as a desire on their part to actively seek a role in the financial services market.

Australia issues first restricted banking license

In the first half of 2018, Australia's financial regulator provided its first restricted ADI license to a digital bank, Volt Bank¹⁴, although more are expected to be issued in the coming quarters. The purpose of the new license is to support digital banks entering the market and to encourage more competition.

Blockchain technologies slowly moving into production

In Asia, we continue to see Blockchain as a key priority for investors, similar to other regions of the world. While most blockchain initiatives remained at the proof-of-concept (PoC) stage, a small number have begun moving into production. For example, the Australia Stock Exchange is moving forward with a blockchain-based solution to replace its current post-settlements process¹⁵, while WeBank in China is implementing a production blockchain system¹⁶ to provide syndicated lending capabilities; the solution is currently is being used by three mid-tier banks.

Insurtech investment focused on process improvement

While insurtech investment lags behind investment in banking innovation in Asia, there has been increased investment in insurtech able to help insurers improve processes — such as intelligent automation, AI and smart underwriting. A number of larger fintechs have also begun to expand their services into insurtech — embedding the offering into their portfolio of services in order to provide more value to their customers.

Trends to watch for in Asia

We see Asia being well positioned for continued growth in fintech investment over the remainder of the year ahead. There will likely be a strong focus on global expansion among the larger, more mature fintechs. Blockchain and AI will likely continue to be key priorities for fintech investors, in addition to insurtech and regtech. Over the next few quarters, we also expect continued collaboration between organizations in Asia aimed at providing embedded service offerings, such as the provision of travel insurance payouts based on flight delay data from airlines.

¹³ <https://www.verdict.co.uk/retail-banker-international/opinion/ing-commonwealth-bank-regtech-pilot/>

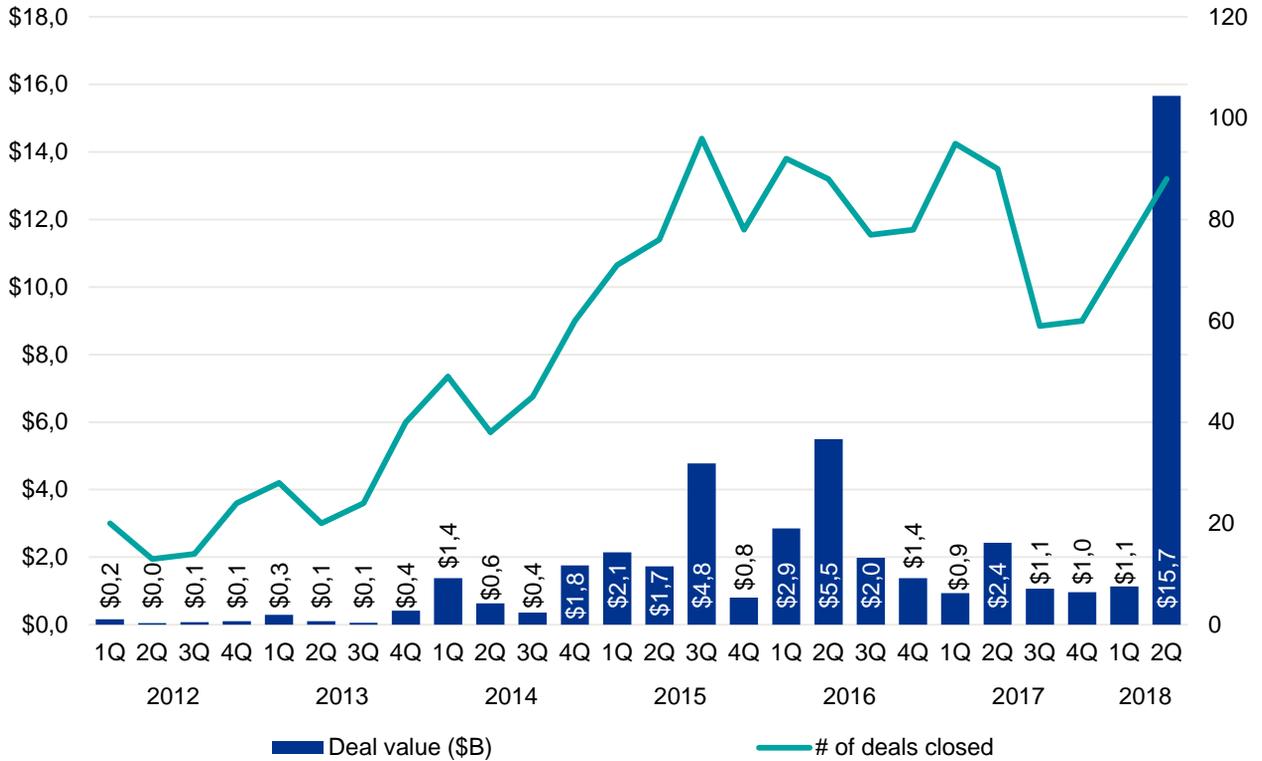
¹⁴ <https://www.itnews.com.au/news/volt-bank-lands-digital-license-to-operate-in-australia-490432>

¹⁵ <https://www.bbc.com/news/business-42261456>

¹⁶ <http://news.8btc.com/tencent-webank-blockchain-based-buisness-system-is-ready>

Record investment in Asia

Fintech VC, PE and M&A activity in Asia 2012 – 30 June 2018



Source: Pulse of Fintech 2018, Global analysis of investment in fintech, KPMG International (data provided by PitchBook) 9 July, 2018.

Note: The separate PE and M&A data sets both include PE buyouts as a transaction type per the Methodology section on page 56.

There has been a steady flow of investment in several key nations spanning the entire region: China, India, Singapore and Australia. However, Ant Financial's \$14 billion was a massive outlier deal.

"We are starting to see phase 2 of fintech innovation in Asia. Phase 1 was about domestic market domination with successes like Ant Financial, Alibaba, WeChat and Tencent. Phase 2 has these companies and other giants aspiring to expand globally. Already, we are seeing them making moves, particularly in Southeast Asia where a large population and similar cultural dynamics make for compelling growth opportunities."

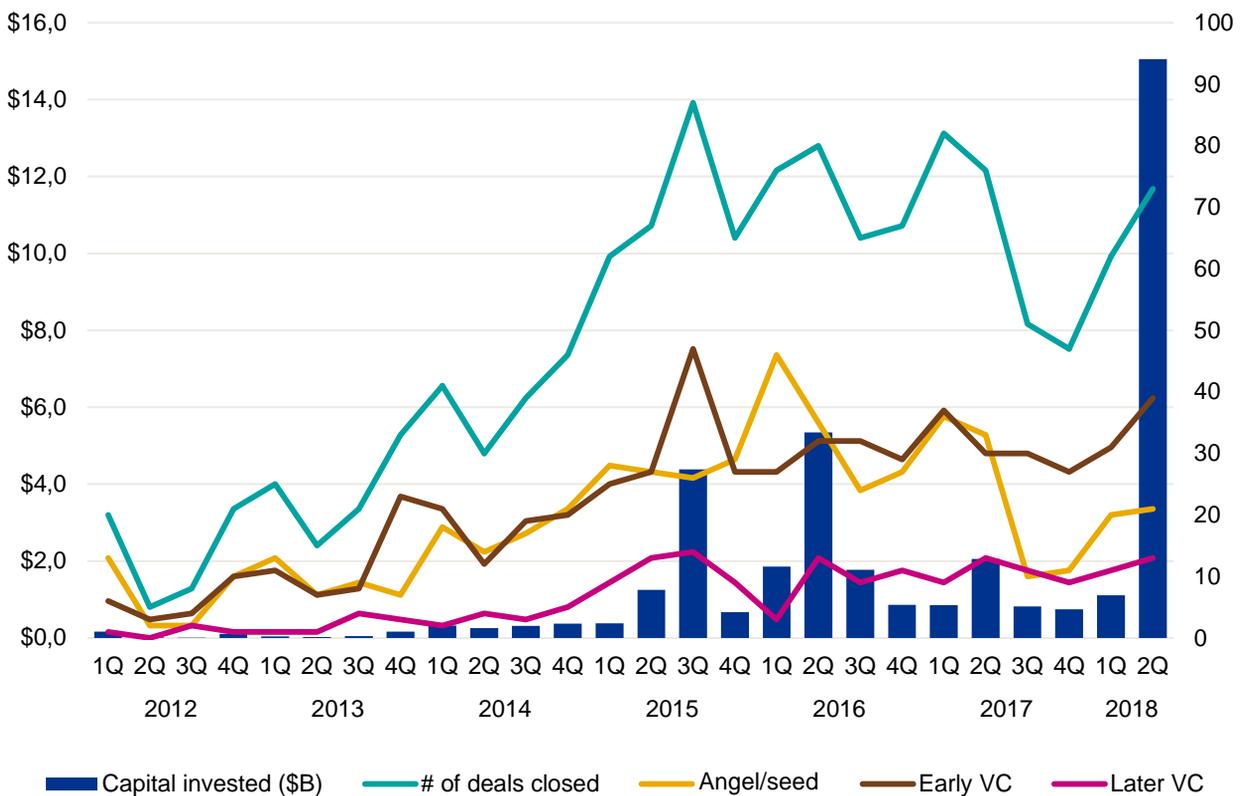


Tek Yew Chia
Head of Financial Services Advisory
KPMG in Singapore

Gradual rebound in angel and seed volume underpins rebound in activity

Fintech venture investment in Asia

2012 – 30 June 2018



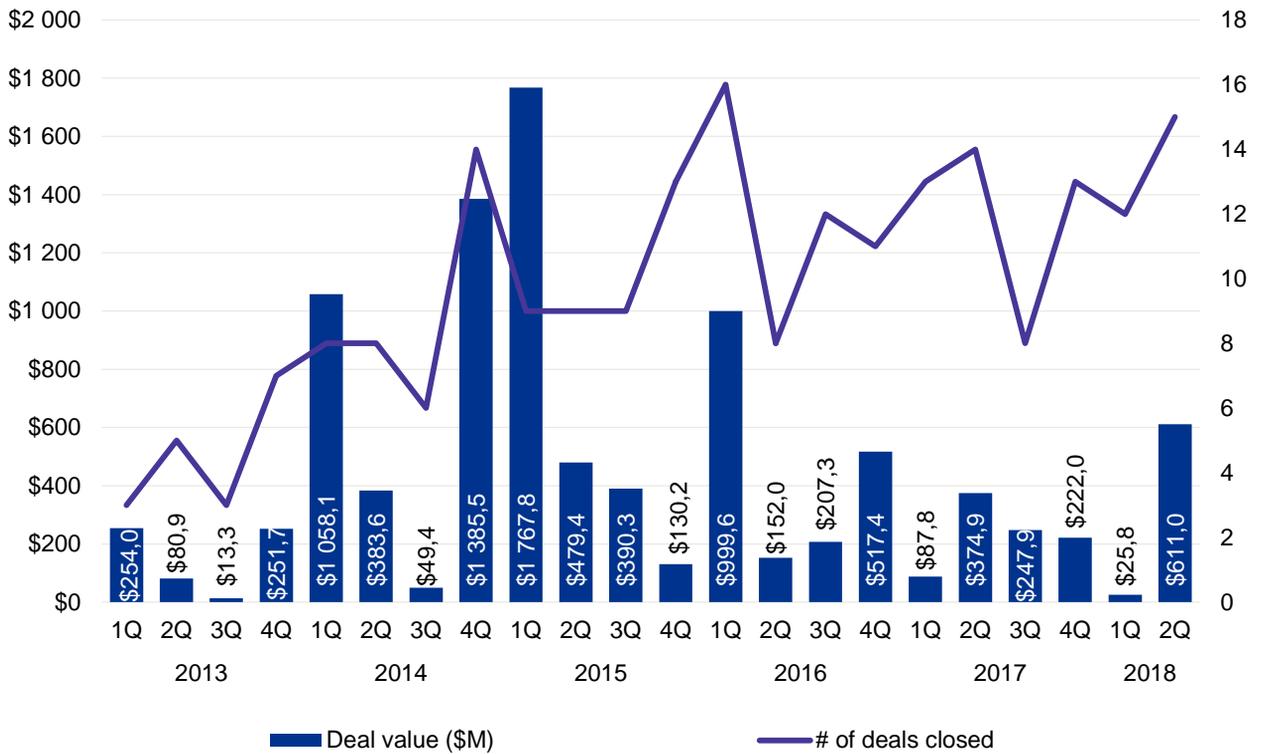
Source: Pulse of Fintech 2018, Global analysis of investment in fintech, KPMG International (data provided by PitchBook) 9 July, 2018.

The choppy yet resilient level of VC activity within the region over the past handful of years speaks to the encouragement of fintech entrepreneurship on the part of governments as well as the level of interest exhibited by foreign sources of capital.

Consolidation ticks upward, driving greater M&A volume

Fintech M&A activity in Asia

2010 – 30 June 2018

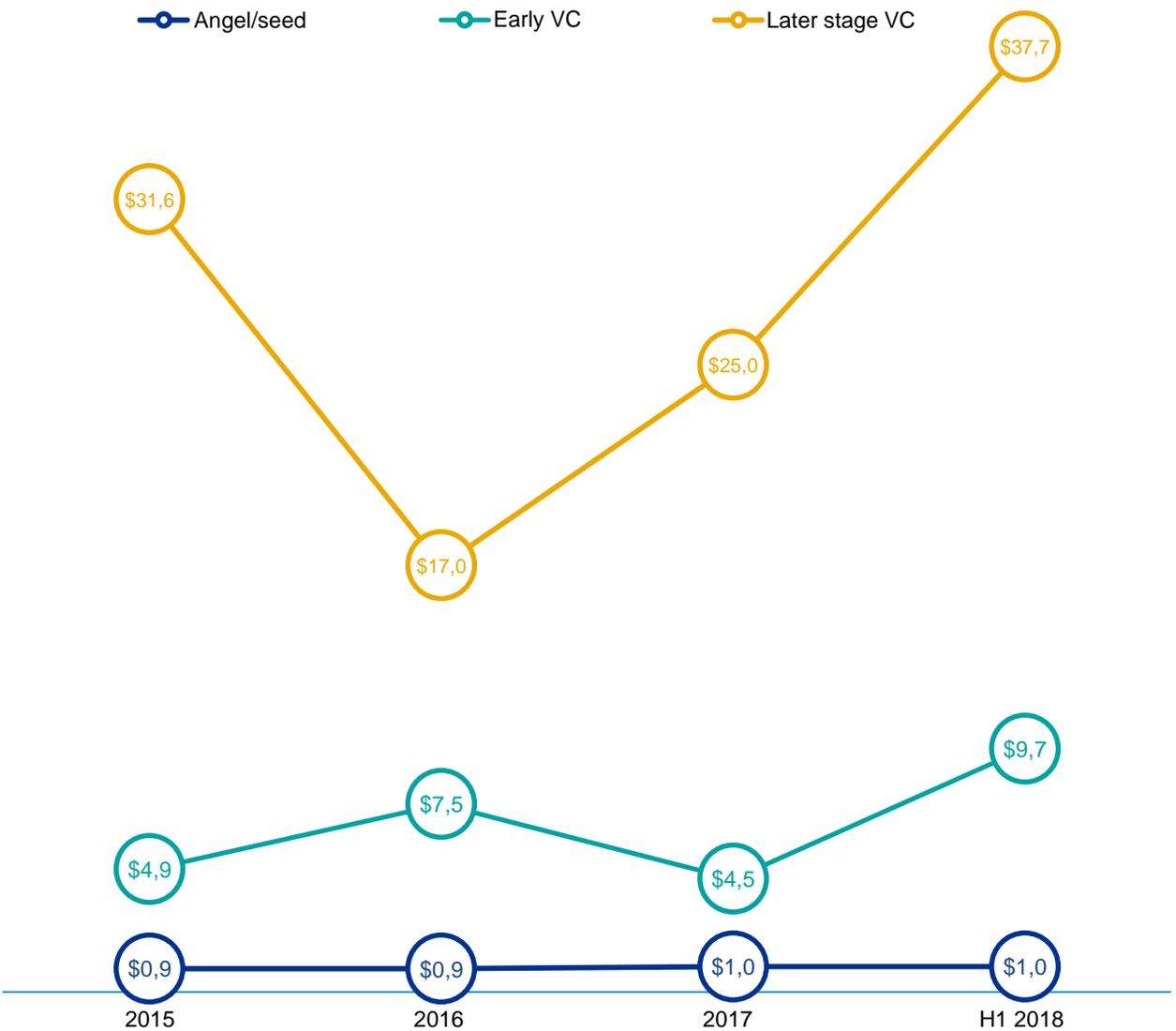


Source: Pulse of Fintech 2018, Global analysis of investment in fintech, KPMG International (data provided by PitchBook) 9 July, 2018.

It is clear that the Asian fintech scene is still maturing overall and still is not quite as developed as other regions, as consolidation is still kicking in. The fact that giant corporations dominate many aspects of fintech already has also contributed to lower M&A volume. However, the fact M&A can rebound speaks to increasing consolidation amid at least the smaller end of players, even if financial giants are holding mammoth sums of growth-stage or late-stage capital.

Late-stage figures soar upward steadily

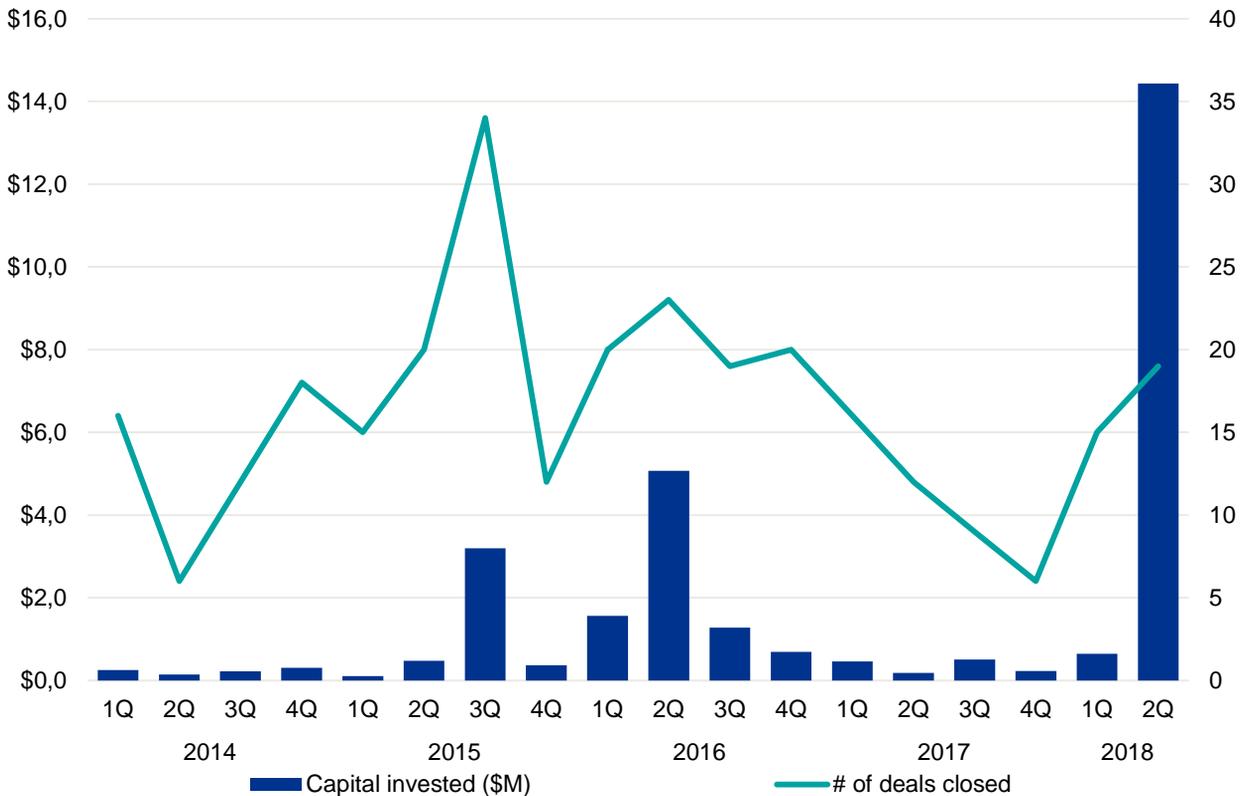
**Median fintech venture financing size (\$M) by stage in Asia-Pacific
2015 – 30 June 2018**



Source: Pulse of Fintech 2018, Global analysis of investment in fintech, KPMG International (data provided by PitchBook) 9 July, 2018.

After rebound in volume, a record broken

Fintech venture investment in China 2014 – 30 June 2018



Source: Pulse of Fintech 2018, Global analysis of investment in fintech, KPMG International (data provided by PitchBook) 9 July, 2018.

Recent coverage has asked what is next for the booming Chinese fintech scene and when analyzing transactional activity, the answer is relatively clear: consolidation amid the major fintech sub-segments that have dominated investment thus far, such as payments, while other startups will likely seek fervently for funding to fuel their efforts in lesser heralded areas such as financial infrastructure and business lending.

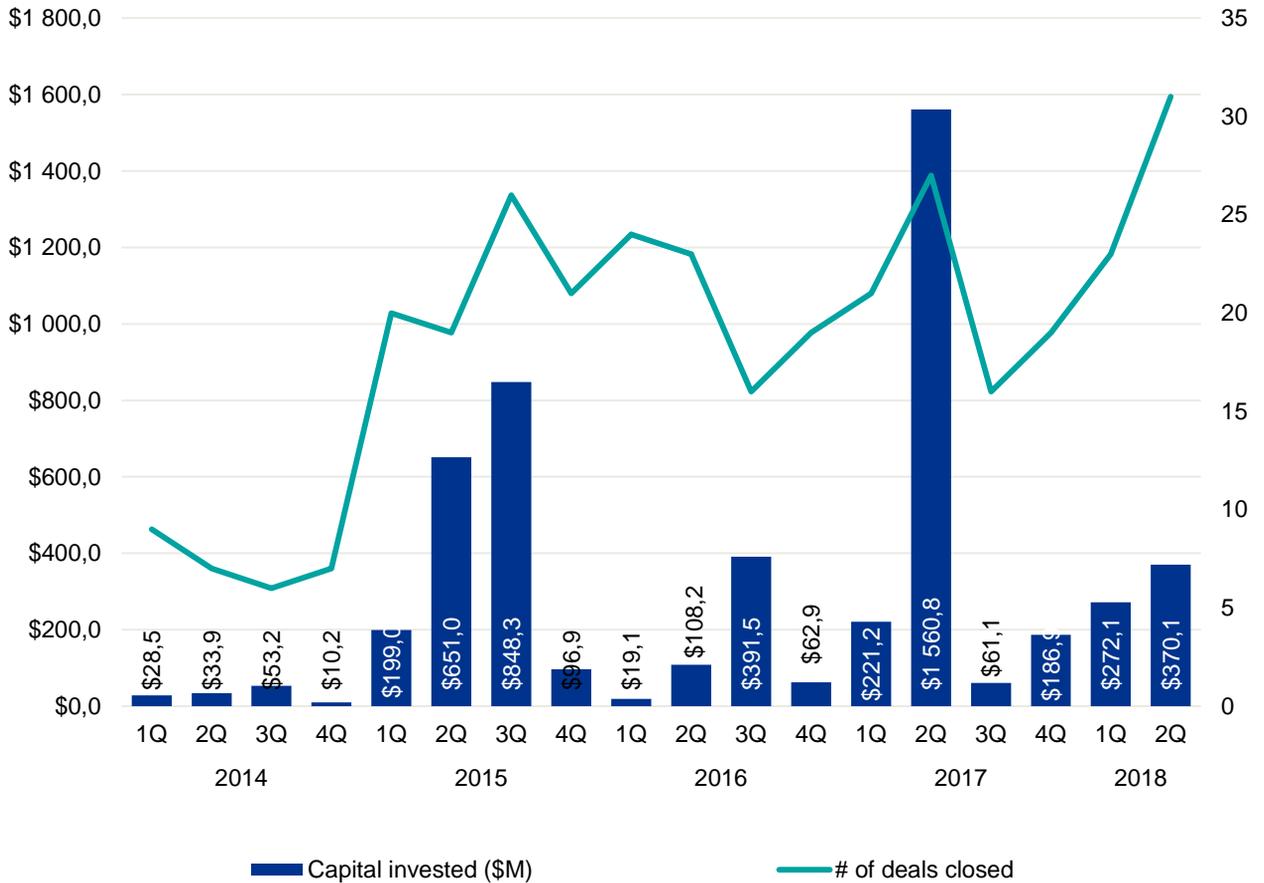
“We are seeing large technology companies in China enabling financial institutions. Rather than entering the market independently, they are finding ways to use their technology to serve customers better — making them techfins rather than fintechs. As long as they gain benefit from others applying their technology, they are happy not to play a financial services role. They would rather leave the financial services risk and control obligations to professional financial institutions.”



Arthur Wang
Partner, Head of Banking
KPMG China

Indian fintech VC volume resurges

Fintech venture investment in India 2014 – Q2'18

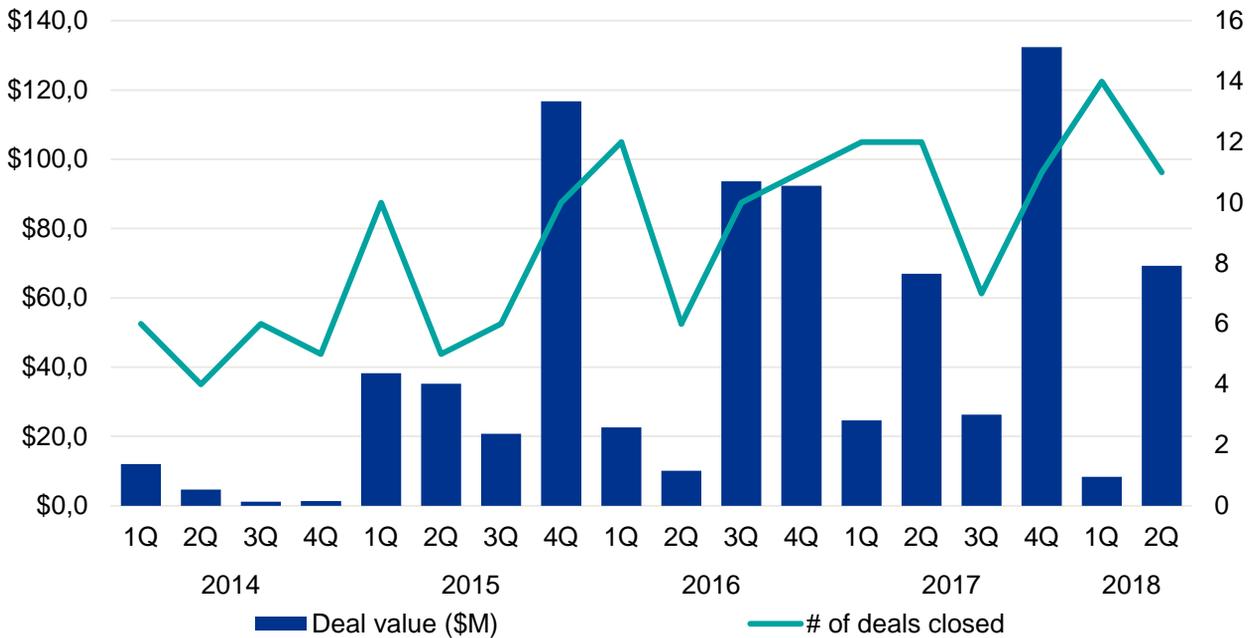


Source: Pulse of Fintech H1'18, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) July 9, 2018.

Consumer finance as well as B2B lending remain key areas of focus for not only foreign but also domestic financiers, both private and public. The steady rebound in investment throughout the past few quarters speaks to just how ripe some key segments are perceived to be by suppliers of capital, although aggregate VC invested is still often skewed by a couple large firms doubling down on their particular domains, such as PolicyBazaar.

A healthy half-year for Singapore

Fintech VC, PE and M&A activity in Singapore 2014 – 30 June 2018



Source: Pulse of Fintech 2018, Global analysis of investment in fintech, KPMG International (data provided by PitchBook) 9 July, 2018.

Note: The separate PE and M&A data sets both include PE buyouts as a transaction type per the Methodology section on page 56. An adjustment has been made to some of the prior quarters due to a reassessment of the underlying companies to ensure accuracy of the underlying dataset.

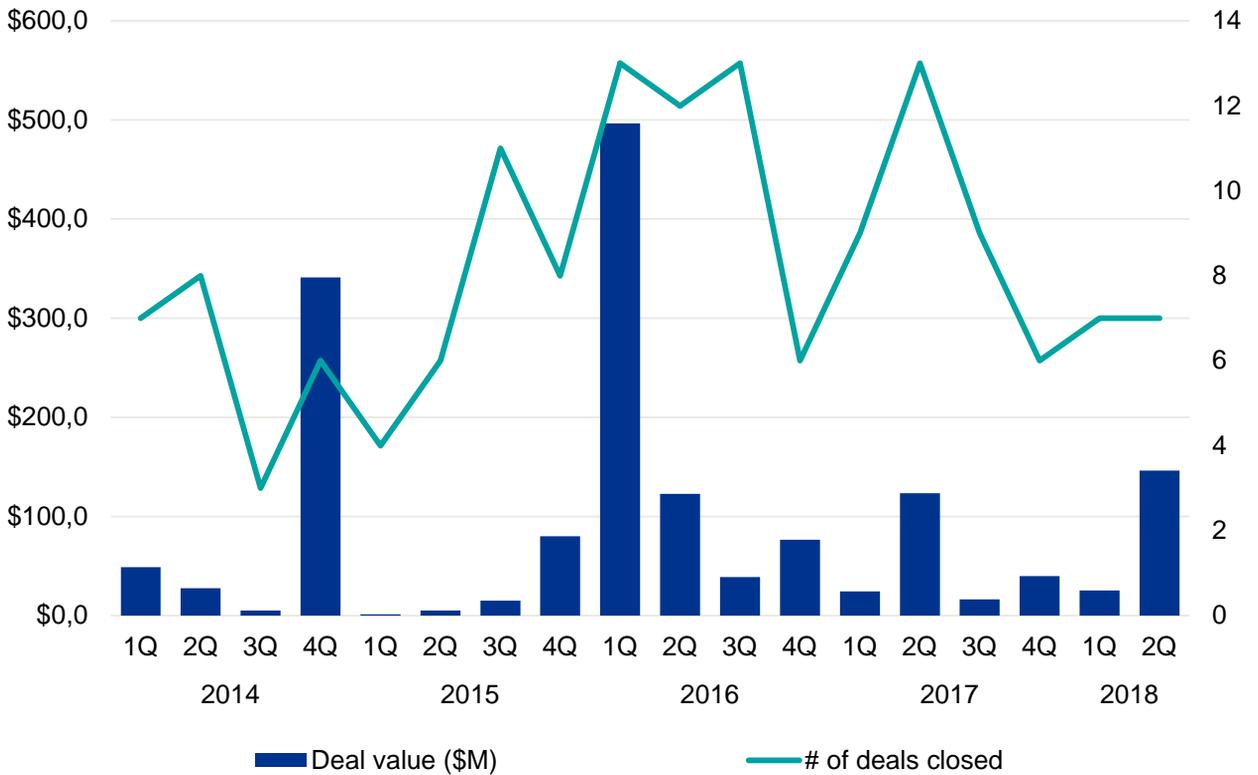
“Southeast Asia is becoming very significant for the development of blockchain. The cultural ecosystem, economy, and many governments are focused on driving blockchain development. This holistic innovation effort is also evident in the Middle East, where governments are playing a significant role in innovating and stimulating their economies through the economic development associated with technology. In other regions, government adopts a more neutral approach where innovation is driven directly by the commercial sector.”



Eamonn Maguire
Global Lead of Blockchain
KPMG International

Steady investment volume continues

Fintech VC, PE and M&A activity in Australia 2014 – 30 June 2018



Source: Pulse of Fintech 2018, Global analysis of investment in fintech, KPMG International (data provided by PitchBook) 9 July, 2018.

Note: The separate PE and M&A data sets both include PE buyouts as a transaction type per the Methodology section on page 56.

The above chart does not include the AUD40 million investment in zipMoney by Westpac as this was a private investment in public equity and such deal types are specifically excluded from the scope of this report.

Top 10 fintech deals in Asia in H1'18



- | | |
|---|---|
| <p>1 Ant Financial — \$14B, Hangzhou, China
Institutional/B2B
<i>Series C</i></p> | <p>6 Tiantian Paiche — \$100M, Shanghai, China
Payments/transactions
<i>Corporate</i></p> |
| <p>2 Dianrong — \$290M, Shanghai, China
Lending
<i>Series D</i></p> | <p>7 Lendingkart — \$87.7M, Ahmedabad, India
Lending
<i>Series C</i></p> |
| <p>3 PolicyBazaar — \$200M, Gurugram, India
Consumer finance
<i>Series F</i></p> | <p>8 Pine Labs — \$82M, Noida, India
Payments/transactions
<i>PE growth</i></p> |
| <p>4 Wecash — \$160M, Beijing, China
Consumer finance
<i>Series D</i></p> | <p>9 Capital Float — \$67M, Bengaluru, India
Lending
<i>Series C</i></p> |
| <p>5 Meili Jinrong — \$129.9M, Beijing, China
Lending
<i>Series B</i></p> | <p>10 9F — \$65M, Beijing, China
Lending
<i>Series D</i></p> |

Source: Pulse of Fintech 2018, Global analysis of investment in fintech, KPMG International (data provided by PitchBook) 9 July, 2018

All currency amounts are in US\$ unless otherwise specified. Data provided by PitchBook unless otherwise specified.

KPMG Fintech global network (countries and jurisdictions)



Contact us:

Ian Pollari

Global Co-Leader of Fintech,
KPMG International

E: ipollari@kpmg.com.au

Anton Ruddenklau

Global Co-Leader of Fintech,
KPMG International

E: anton.ruddenklau@kpmg.co.uk

About KPMG Fintech

The Financial Services industry is transforming with the emergence of innovative new products, channels and business models. This wave of change is primarily driven by evolving customer expectations, digitalization, as well as continued regulatory and cost pressures. KPMG firms are passionate about supporting clients to successfully navigate this transformation, mitigating the threats and capitalizing on the opportunities. KPMG Global Fintech professionals include partners and staff in over 45 fintech hubs around the world, working closely with financial institutions and fintech companies to help them understand the signals of change, identify the growth opportunities and to develop and execute on their strategic plans.



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Fabiano Gobbo, Global Head of Regtech, KPMG International and Risk Consulting Partner, KPMG in Italy

John Armstrong, National Industry Leader, Financial Services, KPMG in Canada

Mikaël Ptachek, Head of practice Fintech, KPMG in France

Pauline Berry, Marketing Coordinator, Financial Services, KPMG International

Safwan Zaheer, Director, Financial Services Digital & Fintech Lead, KPMG in the US

Sven Korschinowski, Partner, Financial Services, KPMG in Germany

Tek Yew Chia, Head of Financial Services Advisory, KPMG in Singapore

Will Pritchett, Global Head of Regtech, KPMG International and Financial Services Technology Partner, KPMG in the UK

Methodology

Within this publication, only completed transactions regardless of type are tracked by PitchBook, with all deal values for general M&A transactions as well as venture rounds remaining un-estimated. Standalone datasets on private equity activity, however, have extrapolated deal values.

Please note that the MESA and Africa regions are NOT broken out in this report. Accordingly, if you add up the Americas, Asia-Pacific and Europe regional totals, they will not match the global total, as the global total takes into account those other regions. Those specific regions were not highlighted in this report due to a paucity of datasets and verifiable trends.

Venture deals

PitchBook includes equity investments into startup companies from an outside source. Investment does not necessarily have to be taken from an institutional investor. This can include investment from individual angel investors, angel groups, seed funds, venture capital firms, corporate venture firms, and corporate investors. Investments received as part of an accelerator program are not included, however, if the accelerator continues to invest in follow-on rounds, those further financings are included. All financings are of companies headquartered in the US.

Angel/seed: PitchBook defines financings as angel rounds if there are no PE or VC firms involved in the company to date and it cannot determine if any PE or VC firms are participating. In addition, if there is a press release that states the round is an angel round, it is classified as such. Finally, if a news story or press release only mentions individuals making investments in a financing, it is also classified as angel. As for seed, when the investors and/or press release state that a round is a seed financing, or it is for less than \$500,000 and is the first round as reported by a government filing, it is classified as such. If angels are the only investors, then a round is only marked as seed if it is explicitly stated.

Early-stage: Rounds are generally classified as Series A or B (which PitchBook typically aggregates together as early stage) either by the series of stock issued in the financing or, if that information is unavailable, by a series of factors including: the age of the company, prior financing history, company status, participating investors, and more.

Late-stage: Rounds are generally classified as Series C or D or later (which PitchBook typically aggregates together as late stage) either by the series of stock issued in the financing or, if that information is unavailable, by a series of factors including: the age of the company, prior financing history, company status, participating investors, and more.

Growth equity: Rounds must include at least one investor tagged as growth/expansion, while deal size must either be \$15 million or more (although rounds of undisclosed size that meet all other criteria are included). In addition, the deal must be classified as growth/expansion or later-stage VC in the PitchBook Platform. If the financing is tagged as late-stage VC it is included regardless of industry. Also, if a company is tagged with any PitchBook vertical, excepting manufacturing and infrastructure, it is kept. Otherwise, the following industries are excluded from growth equity financing calculations: buildings and property, thrifts and mortgage finance, real estate investment trusts, and oil & gas equipment, utilities, exploration, production and refining. Lastly, the company in question must not have had an M&A event, buyout, or IPO completed prior to the round in question.

Corporate venture capital: Financings classified as corporate venture capital include rounds that saw both firms investing via established CVC arms or corporations making equity investments off balance sheets or whatever other non-CVC method actually employed.

Corporate: Corporate rounds of funding for currently venture-backed startups that meet the criteria for other PitchBook venture financings are included in the Pulse of Fintech as of March 2018.

Methodology (cont'd)

Exits

PitchBook includes the first majority liquidity event for holders of equity securities of venture-backed companies. This includes events where there is a public market for the shares (IPO) or the acquisition of majority of the equity by another entity (corporate or financial acquisition). This does not include secondary sales, further sales after the initial liquidity event, or bankruptcies. M&A value is based on reported or disclosed figures, with no estimation used to assess the value of transactions for which the actual deal size is unknown.

Fundraising

PitchBook defines venture capital funds as pools of capital raised for the purpose of investing in the equity of startup companies. In addition to funds raised by traditional venture capital firms, PitchBook also includes funds raised by any institution with the primary intent stated above. Funds identifying as growth-stage vehicles are classified as PE funds and are not included in this report. A fund's location is determined by the country in which the fund is domiciled, if that information is not explicitly known, the headquarters country of the fund's general partner is used. Only funds based in the United States that have held their final close are included in the fundraising numbers. The entirety of a fund's committed capital is attributed to the year of the final close of the fund. Interim close amounts are not recorded in the year of the interim close.

M&A

PitchBook defines M&A as a transaction in which one company purchases a controlling stake in another company. Eligible transaction types include control acquisitions, leveraged buyouts (LBOs), corporate divestitures, reverse mergers, mergers of equals, spin-offs, asset divestitures and asset acquisitions. Debt restructurings or any other liquidity, self-tender or internal reorganizations are not included. More than 50% of the company must be acquired in the transaction. Minority stake transactions (less than a 50% stake) are not included. Small business transactions are not included in this report.

Fintech

A portmanteau of finance and technology, the term refers to businesses who are using technology to operate outside of traditional financial services business models to change how financial services are offered. Fintech also includes firms that use technology to improve the competitive advantage of traditional financial services firms and the financial functions and behaviors of consumers and enterprises alike.

1. **Payments/Transactions** — Companies whose business model revolves around using technology to provide the transfer of value as a service and/or ANY company whose core business is predicated on distributed ledger (blockchain) technology AND/OR relating to any use case of cryptocurrency (e.g. Bitcoin).
2. **Lending** — Any non-bank who uses a technology platform to lend money often implementing alternative data and analytics OR any company whose primary business involves providing data and analytics to online lenders or investors in online loans.
3. **Investment Banking/Capital Markets** — Companies whose primary business involves the types of financial intermediation historically performed by investment banks.
4. **Insurtech** — Companies whose primary business involves the novel use of technology in order to price, distribute, or offer insurance directly.
5. **Wealth/Investment Management** — Platforms whose primary business involves the offering of wealth management or investment management services using technology to increase efficiency, lower fees or provide differentiated offerings compared to the traditional business model. Also includes technology platforms for retail investors to share ideas and insights both via quantitative and qualitative research.
6. **Personal Finance** — Companies that provide a technology-driven service to improve retail customers' finances by allowing them to monitor spending, savings, credit score or tax liability OR leveraging technology to offer basic retail banking services such as checking or savings accounts outside of a traditional brick and mortar bank.
7. **Institutional/B2B Fintech** — Companies that offer technology-driven solutions and services to enterprises or financial institutions. These include software to automate financial processes, well financial security (excluding blockchain), authentication as well as traditional and alternative data utilized by financial or other institutions and enterprises to make strategic decisions.
8. **Regtech** — Companies who provide a technology-driven service to facilitate and streamline compliance with regulations and reporting as well as protect from employee and customer fraud.
9. **Techfin** — Primarily focused on serving existing financial institutions and models, techfin seeks to optimize extant processes and technologies via incremental improvements, such as offering a better user experience on the mobile application of a traditional bank, as opposed to developing a full-service mobile bank offering.



Fabrice Odent
Partner
Head of Financial Services
Mobile: +33 (0)1 55 68 72 27
Email: fodent@kpmg.fr



Mikaël Ptachek
Head of Practice Fintech for France
Mobile: +33 (0)1 55 68 72 09
Email: mptachek@kpmg.fr



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