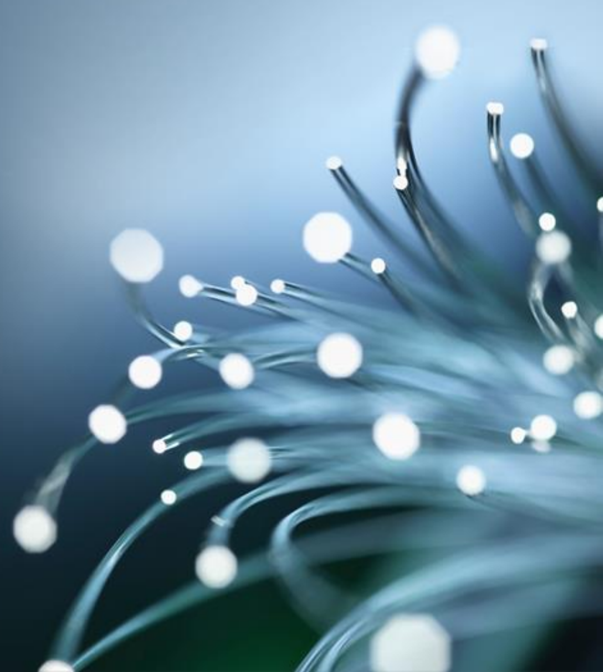
KPMG

The Pulse of Fintech Q3 2017

Global analysis of investment in fintech



7 November 2017

Welcome message

Welcome to the Q3'17 edition of KPMG's *Pulse of Fintech* — a quarterly report highlighting the key trends and issues facing the fintech market globally and in key regions around the world. Fintech investment remained strong for the quarter, with investor sentiment around fintech positive across the Americas, Asia and Europe.

A number of $100 million+ megadeals drove fintech investment globally during Q3'17. While many of the largest deals occurred in the United States (e.g. Intacct — $850 million, CardConnect — $750 million, Xactly — $564 million, etc.), companies in China, Germany and Canada were also among the top 10 global deals this quarter.

Insurtech is expected to see record levels of funding by the end of 2017, while blockchain technologies continue to see a significant amount of buzz. With some indications that production-capable blockchain solutions may be closer than envisioned — even from the start of the year — financial institutions are increasingly working to understand and leverage potential technologies. Artificial intelligence (AI), robo advisory and regtech remained hot in more mature fintech markets, while mobile banking services spurred investment in less developed jurisdictions.

Looking ahead, the fintech sector is expected to continue to evolve rapidly — with many companies, including both mature fintechs and large e-commerce players, looking to diversify into adjacent services. The imminent implementation of PSD2 in Europe and new regulatory guidance in Asia could also drive additional activity.

We examine these trends and other issues in this quarter's report, in addition to discussing a number of key questions driving investment and investor interest in the fintech market today, including:

- What will the next evolution of the fintech market look like?
- Are Asia-based fintech hubs set to become the base for fintech's future?
- Is blockchain truly on the cusp of becoming production-capable?
- Will regtech be the focus of the next big investment wave?

We hope you find the Q3'17 edition of the *Pulse of Fintech* informative and insightful. If you would like to discuss any of the information contained in this report in more detail, contact a KPMG advisor in your area.

KPMG is a global network of professional firms providing Audit, Tax and Advisory services. We operate in 152 countries and have 189,000 people working in member firms around the world. The independent member firms of the KPMG network are affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. Each KPMG firm is a legally distinct and separate entity and describes itself as such.

Jonathan Lavender
Global Chairman,
KPMG Enterprise,
KPMG International

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

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

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

Arik Speier
Co-Leader,
KPMG Enterprise Innovative
Startups Network, Partner,
KPMG in Israel

Contents

KPMG

In Q3'17, global investment in fintech companies hit

$8.2B

across

274 deals

Global investment in fintech stays strong even as volume diminishes

Worldwide, investment activity in fintech remains at an elevated rate, despite dipping by count quarter over quarter. More importantly, total deal value remained quite robust, registering $8.2 billion in aggregate even as transaction volume diminished.

Aggregate VC investment stays robust

Even though the number of completed fintech enterprise venture financings dropped considerably — primarily driven by a decline in the amount of angel and seed funding rounds — the total capital invested in Q3'17 grew slightly over the level recorded in Q2'17 to reach $3.3 billion. The third quarter was the fifth-highest on record for VC investment in fintech companies. The elevated level of early and late-stage VC activity speaks to ongoing venture firm interest in funding nascent startups, as well as the importance of exposure to larger fintech companies.

Despite a dip in Q3, role of corporate VCs remains significant

Corporate participation in all VC deals globally continues to contribute to overall transaction volume as well as support aggregate capital invested. Fintech is hardly an exception — despite quarterly fluctuations, the overall yearly figure for the proportion of VC activity with corporate participation stands at 18.4%, well over the 2016 tally of 16%. It should be noted that given the scope and size of the fintech space, associated deal value is down relative to 2015 and 2016, given the reduced incidence of mega-financings.

Fewer mega-deals in 2017 to date, large financings still occurring

One of the intriguing trends underlined in 2017 to date is the extent to which large venture financing rounds can still prop up overall deal value, even dwarfing the amount of M&A transaction value in some jurisdictions. That is more a testament to how separate fintech ecosystems are still evolving and maturing around the world, with some frankly more advanced than others in terms of diversity, while others are growing much more quickly in key arenas, such as how London is seeing significant fundings of fintech cybersecurity startups, while Beijing hosts consumer-focused businesses raking in hundreds of millions of dollars in financings.

Late-stage valuations remain low relative to prior highs as industry matures

The global median pre-money VC valuation at the late stage remains below the highs of the prior three years, but at $100 million, is hardly unimpressive. This trend has been driven more by the maturation of the industry in general, plus the increase in overall VC activity; as more rounds have occurred, the median necessarily comes down, unskewed by a smaller population of mega-financings. What is interesting to note, however, is that early-stage and even angel and seed pre-money valuations have been steadily creeping up for some time as well, cresting at new highs in 2017 to date. Partially owing to the fact so much dry powder is available for VC firms to deploy, the fact the fintech space alone is seeing this increase testifies to investors' willingness to deploy considerable sums within key fintech segments such as security, consumer finance and more.

US angel and seed financings enter plateau

Following a quarter with significantly high sums of VC invested, it was only typical of mean reversion for the US to record a decline in total deal value. That said, it does appear that by now angel and seed funding volume has entered a plateau after declining for several quarters. This aligns with the overall trend of much of the lower-hanging fruit in fintech in developed markets having already been snatched by currently fast-growing, much larger enterprises such as Oscar for health insurance, MetroMile for novel auto insurance applications and more. Accordingly, angel and seed financiers dialed down their investing activity and now are recording a more historically reasonable volume by pursuing more emergent niches of fintech.

Fintech investment in Europe remains substantial

After steady growth since plummeting in the back half of 2016, overall fintech deal value in Europe remains quite high. It is important to recall that overall fintech transactions will be significantly skewed in Europe on a quarterly basis, as indeed global figures are, simply due to how the fintech industry has evolved over the years. Currently, the European fintech scene is still maturing, driven by advances in key metropolitan hotbeds of innovation as well as increased policymakers' engagement.

All currency amounts are in USD, unless otherwise specified, data provided by PitchBook.

Global investment on a more sustainable trajectory

Total global fintech investment experienced a modest drop in Q3'17 following a significant rise in total investment during Q2'17. This decline is more reflective of the cyclical nature of the deal environment and is not expected to be an ongoing trend heading into Q4'17 and 2018. Despite a significant drop in the number of fintech deals globally, reflective of trends seen in the broader investment environment, investor interest in fintech remained very positive.

On the venture capital (VC) front, investment in fintech continued to rise steadily — marking the fourth straight quarter of investment growth. Meanwhile, the total number of fintech-related deals declined across every deal stage, with the decline in angel and seed deals most pronounced. This trend was not limited to fintech deals specifically, but rather reflects activity across the VC market.

Large deals propel fintech market globally

A significant number of large deals drove fintech investment in Q3'17. Companies in the United States accounted for more than half of Q3'17's biggest deals, with Intacct ($850 million), CardConnect ($750 million), Xactly ($564 million), Merchants' Choice Payments solutions ($470 million), Access Point Financial ($350M) and Service Finance Company ($304 million) among the top 10 global deals this quarter. Companies from four different jurisdictions rounded out the top deals, including Germany-based Concardis, UK-based Prodigy Finance, Canada-based TIO Networks, and China-based Dianrong.

Median deal size of early-stage deals grows

The median deal size of VC investments in fintech remained high relative to previous years. At the end of the third quarter, year-to-date median deal size for angel and seed stage deals was $1.4 million compared to $1 million in 2016, while the median deal size of early stage deals rose from $5.1 million to $5.5 million over the same timeframe. For later-stage deals, the median deal size held steady at $16 million.

The increase in investment for seed and angel deals suggests that investor knowledge and understanding related to fintech is growing, particularly around more mature areas of fintech such as payments and lending. As a result, investors are making bigger bets on fintech than they have historically. The number of deals involving companies looking to implement fintech proven in one jurisdiction in other markets has also increased. These types of investments are quite compelling to investors as they are considered to be somewhat lower risk compared to other potential investments.

Insurtech is on course for record year of VC investment

Insurtech activity continued to rise this quarter. Both the total VC investment in insurtech and the number of insurtech VC deals are on pace to exceed 2016 results by the end of the year and potentially exceed previous highs. As of the end of Q3'17, VC investment in insurtech sat at $1.53 billion across 179 deals, compared to $1.79 billion across 203 deals in all of 2016.

Insurtech is still considered a relatively new phenomenon when compared with banking and other areas of financial services, but it is rapidly catching up. In Q2'17, UK-based insurtech startup Gryphon raised £180 million in the biggest insurtech deal of the region by far. During Q3'17, China's first online insurer Zhong An held the World's first major insurtech IPO in Hong Kong, raising $1.5 billion on a valuation of $10 billion. These financings are raising investor confidence worldwide in insurtech's growth potential going forward.

Global investment on a more sustainable trajectory (cont'd)

Looking to the future, AI, the Internet of Things (IoT), robotics, and blockchain are all expected to be hot areas of insurtech investment. Corporate participation in fintech deals is also expected to rise in the insurtech space compared to other areas of financial services. This is because traditional VCs see the insurance ecosystem as complex and therefore like to include corporates with more understanding of the industry in their investments.

Blockchain evolves beyond finite test cases

Over the past several quarters, blockchain development has evolved rapidly, moving out of the experimental phase and becoming more focused on developing robust prototypes. There are also some indications that a number of companies are in the process of developing production blockchain systems. While there continues to be strong direct investment in blockchain, financial institutions are also investing heavily internally and are actively participating in blockchain syndicates and consortia.

Globally, the banking consortia R3 continues to be the largest of its kind. While R3 initially was quite varied in its development efforts, it has increasingly focused on specific areas of blockchain, including derivatives trading, payments, and trade settlements. R3's evolution highlights both the maturation of R3 as a consortium and the growing recognition that blockchain development needs to be well-attuned in order to ensure ongoing development progress and, hopefully, rapid commercialization.

While less mature than its banking counterpart, B3i — the insurance industry's largest blockchain syndicate — is growing rapidly, adding participants every quarter. While R3 and B3i may be the most prominent, there are also a growing number of smaller syndicates focused on blockchain solutions, many of which are focused on financial services. On a global level, numerous governments are supporting blockchain development and the creation of blockchain hubs. Singapore in particular is leading the way, but there is also interesting activity in the UAE and Kazakhstan. Other countries have also taken action on the blockchain front, with Spain recently introducing a new cross-industry blockchain consortia aimed at developing the country's blockchain ecosystem.

The rising tide of ICOs

Recently, there has been an explosion in interest in Initial Coin Offerings (ICOs) as an alternative means of raising funding — particularly for blockchain-based companies. Funding raised through ICOs rose exponentially over a 4-month period earlier in 2017 — from $103 million in April to $574 million in July.[1] With the rapid rise of ICOs, however, has come an increasing focus from regulators. In China, ICOs have been banned entirely, while regulators in other countries have increased their scrutiny over such activities. A number of jurisdictions are expected to put the brakes on ICOs until they are able to gather a greater understanding of the risks and opportunities and, therefore, provide a more coherent regulatory response. At the same time, a number of smaller jurisdictions like Malta, Mauritius, Switzerland, and Gibraltar have set their sights on becoming leaders in ICO-related innovation.

Mature fintechs become laser-focused on extending customer value

Historically, many fintech companies have been successful by focusing on improving a single area of the customer experience (e.g. payments, lending). Over the last few quarters, however, more mature fintechs, in addition to large e-commerce companies and technology players,have started to expand their service offerings into adjacent areas to extend their reach and provide more customer value. For example, in Q3'17, PayPal and Mastercard extended their partnership within Asia to increase PayPal's point of sale presence, while also providing opportunities for customers and small businesses to cash out funds to a Mastercard debit card.[2]

[1] https://www.forbes.com/sites/chancebarnett/2017/09/23/inside-the-meteoric-rise-of-icos/#31b70e805670
[2] http://www.mastercard.com/press-releases/mastercard-and-paypal-expand-partnership-in-asia-pacific-to-spur-mobile-and-digital-commerce

Global investment on a more sustainable trajectory (cont'd)

Retail banking continues to evolve

Despite the complexity of the retail banking sector, it has continued to evolve at a steady pace in recent quarters. Recently, a growing number of fintechs have applied for or obtained banking licenses, such as Square in the US and Klarna in Sweden. Over the past few quarters, there has also been growth in challenger bank offerings, particularly in Brazil and Malaysia. While there are over 100 challenger banks globally — to date, most have focused on niche products rather than the entire value chain of retail banking. While there are some efficient niche players, there will likely be some consolidation in the future in order to create better scale and enhance the ability to compete.

Some traditional banks are also expanding into digital banking, introducing nimble, standalone digital banks that operate independently and do not rely on their existing legacy systems. For example, Bank Leumi in Israel has introduced Pepper, Santander Group in Spain has launched Openbank, and Singapore DBS has introduced Digibank in India.

Regulators globally have also increased their focus on digital banking and on finding ways to encourage innovation and competition. For example, the Australian financial regulator is currently hosting consultations related to the introduction of a restricted license to make it easier for fintechs to do business.

Expanding number of fintech hubs

The growing breadth of fintech activities globally has led to the evolution of numerous distinct fintech hubs. While traditional hubs like the US, the UK, and Israel continue to dominate, other jurisdictions are working to become leaders in unique sub-sectors of fintech. For example, Japan is becoming a leader in fostering engagement around robotics process automation (RPA), while Taiwan is growing as a blockchain center, and Malaysia is defining itself as a hub for cybersecurity innovation.

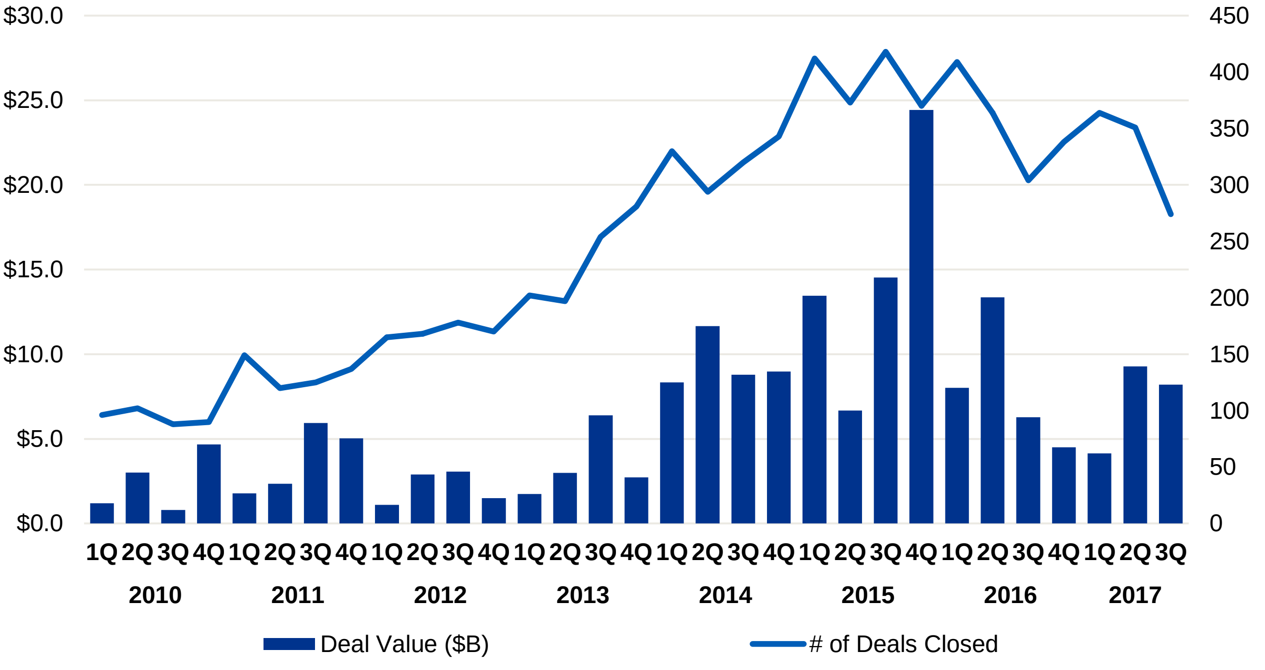
Trends to watch for globally

Globally, fintech is expected to continue to grow and diversify over the next few quarters. Artificial intelligence, insurtech, regtech, and blockchain are poised to remain hot areas of finvestment. The rapidly approaching implementation deadline for PSD2 in Europe, and consideration for similar regimes in other markets, including Australia, is expected to put an increased focus on open banking.

Over time, the importance of Asia-based fintech hubs, such as Singapore's insurtech innovation hub, is also expected to grow, particularly in the eyes of traditional corporates. As a result, it would not be surprising to see more companies from North America making investments in the region in order to gain more visibility and access to such innovations.

A quarterly dip can't offset overall momentum

Global investment activity (VC, PE and M&A) in fintech companies
2010 – Q3'17



Source: Pulse of Fintech Q3'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) November 7, 2017.

Note: refer to the Methodology section on page 81 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 81.

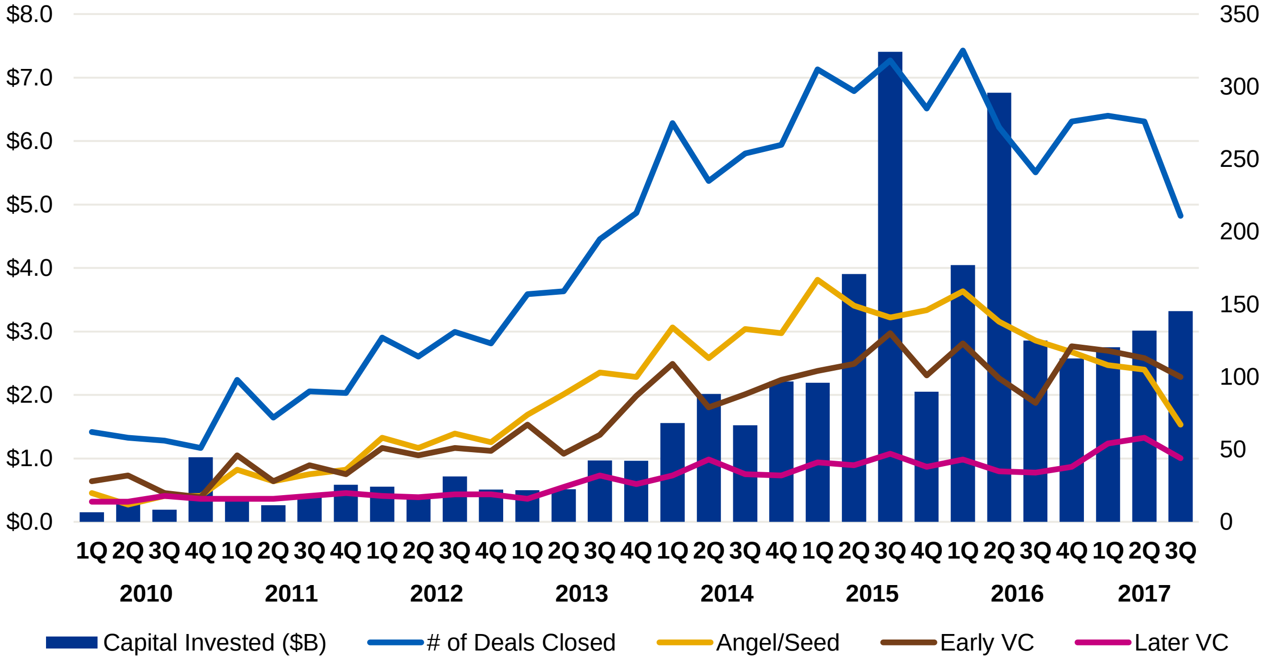
There is still variability in overall fintech investment activity on a quarterly basis, which is only to be expected given that multiple segments of the space are still relatively nascent. That said, aggregate activity and deal value remain at an elevated level relative to the period prior to late 2013, suggesting that investors' and acquirers' interest in fintech has entered a new normal of significant transactional volume.

"Fintech continues to rapidly evolve on a global level with an increasing diversity of funding participation and sources, geographic spread and areas of interest. We are seeing the emergence of fintech leaders in specific jurisdictions looking to scale their platforms internationally, while technology giants move into adjacencies. This is a trend that is expected to continue and will represent a growing concern for incumbent financial institutions, forcing many to take bolder steps in response."

Ian Pollari
Global Co-Leader of Fintech, KPMG International and Partner and National Sector Leader, Banking
KPMG Australia

A slide in angel and seed volume takes a toll

Global VC activity in fintech
2010 – Q3'17



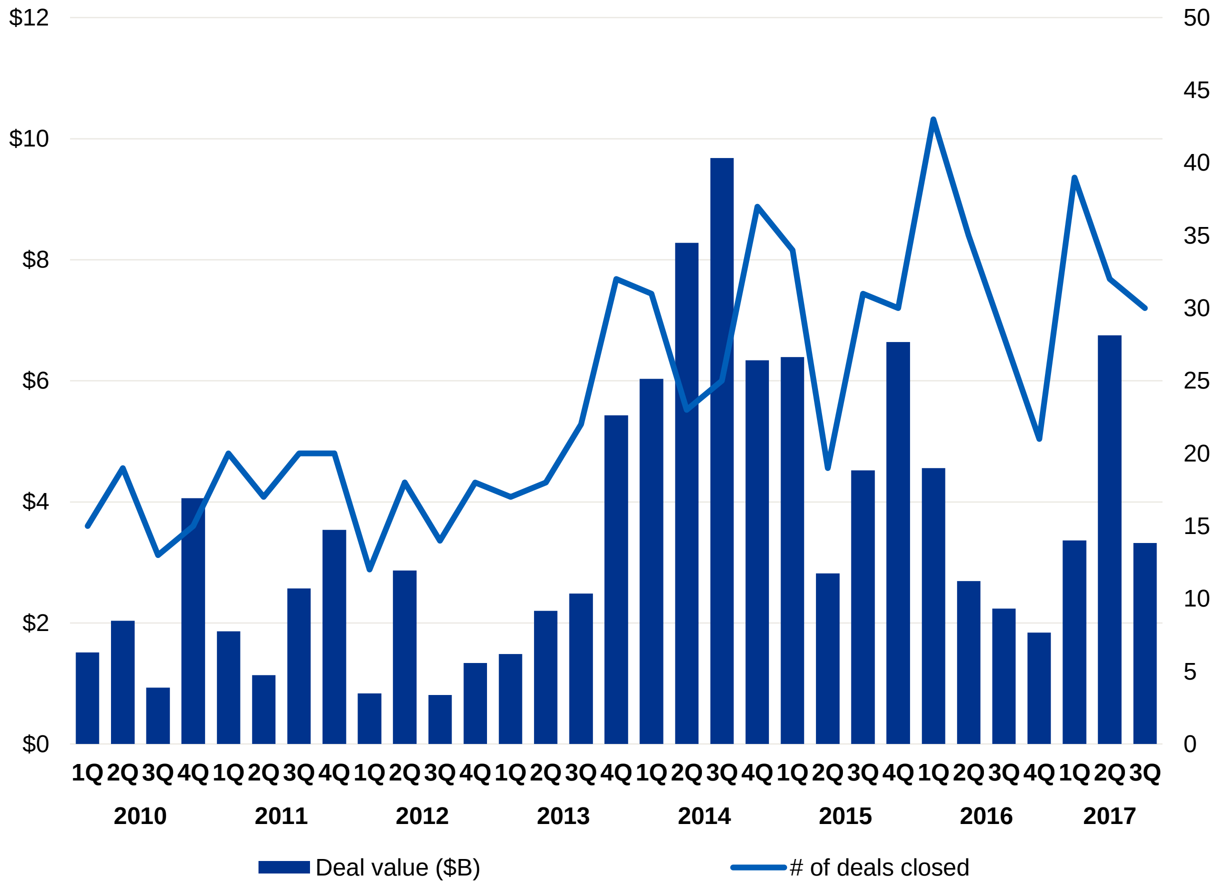
Source: Pulse of Fintech Q3'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) November 7, 2017.

Resembling general venture trends, a significant downturn at the earliest stage — angel and seed — led to a major decline in the tally of completed venture financings in Q3'17. Yet as VC invested remained quite healthy, it is clear investors are still quite interested in funding emerging segments of fintech overall, even if market leaders in certain areas, such as insurtech or payments technology, are increasingly dominating later-stage fundraising.

Activity remains healthy as deal value dips

Global PE activity in fintech

2010 – Q3'17

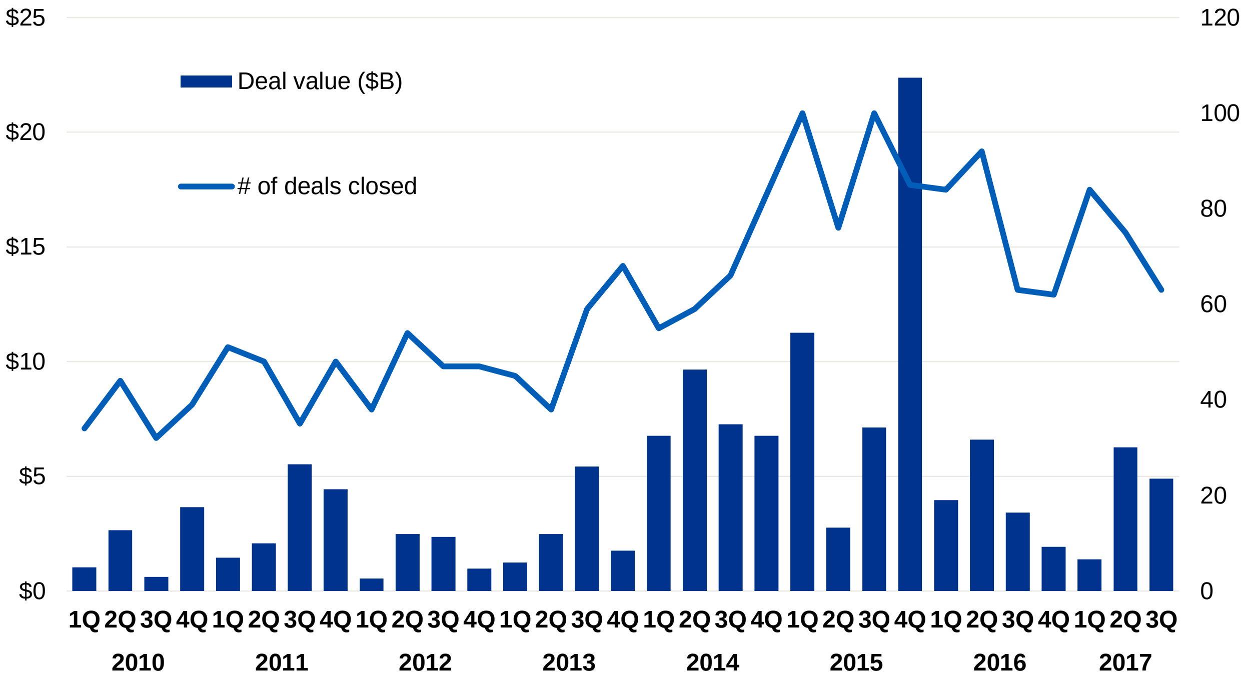


Source: Pulse of Fintech Q3'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) November 7, 2017.

As PE dealmakers grapple with a complex and challenging environment for finding new targets, their interest in the tech sector remains high. (A decline in deal value quarter-over-quarter was offset by sustained transaction volumes, highlighting PE interest in fintech-related opportunities.)

M&A remains within historical range

Global M&A activity in fintech
2010 – Q3'17

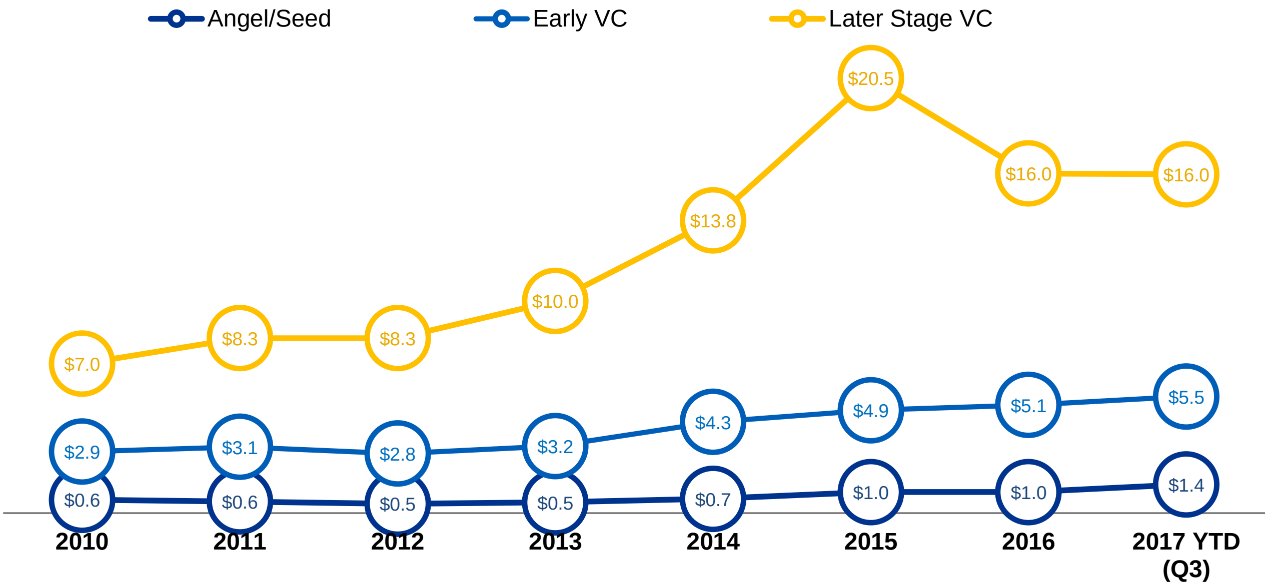


Source: Pulse of Fintech Q3'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) November 7, 2017.

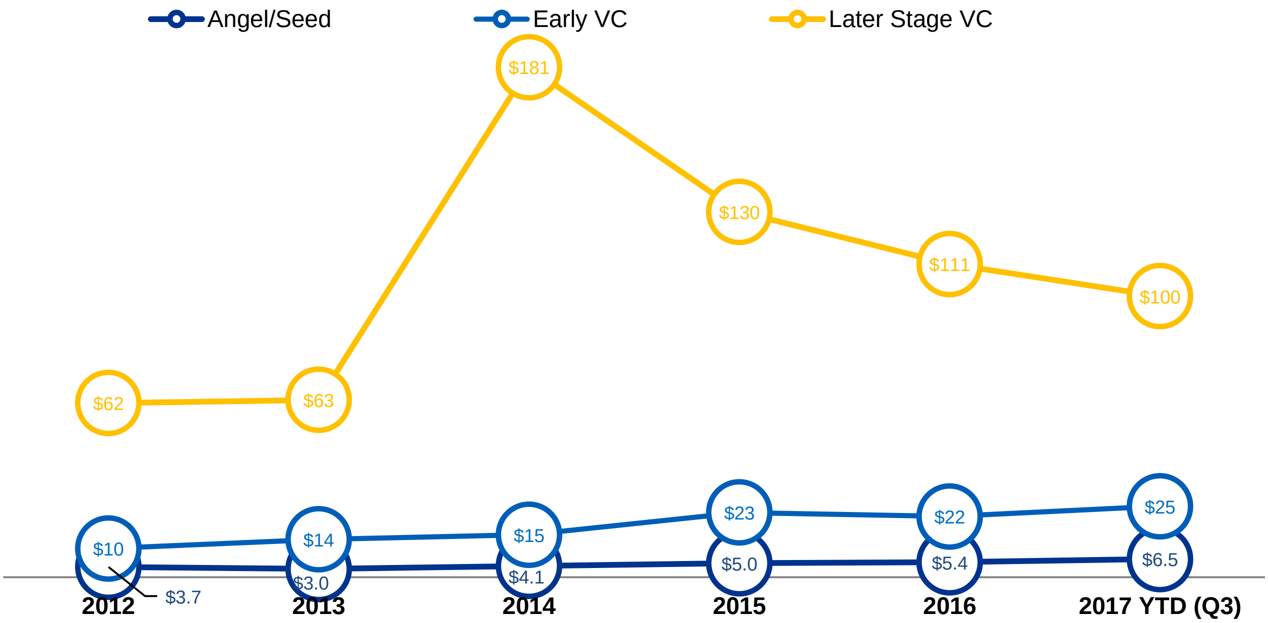
All in all, M&A volume still remains at an elevated level, especially compared to the years prior to 2014. Moreover, the tally of deal value is still relatively robust, hovering around the historical midrange of the decade thus far. It's clear that since only a handful of fintech subsectors have evolved far enough in their innovation cycles to generate significant amounts of M&A, investment activity in other key fintech segments remains largely dominated by venture capitalists.

Early-stage valuations inch upward

Global median venture financing size ($M) by stage in fintech
2010 – Q3'17



Global median pre-money VC valuation ($M) by stage in fintech
2012 – Q3'17

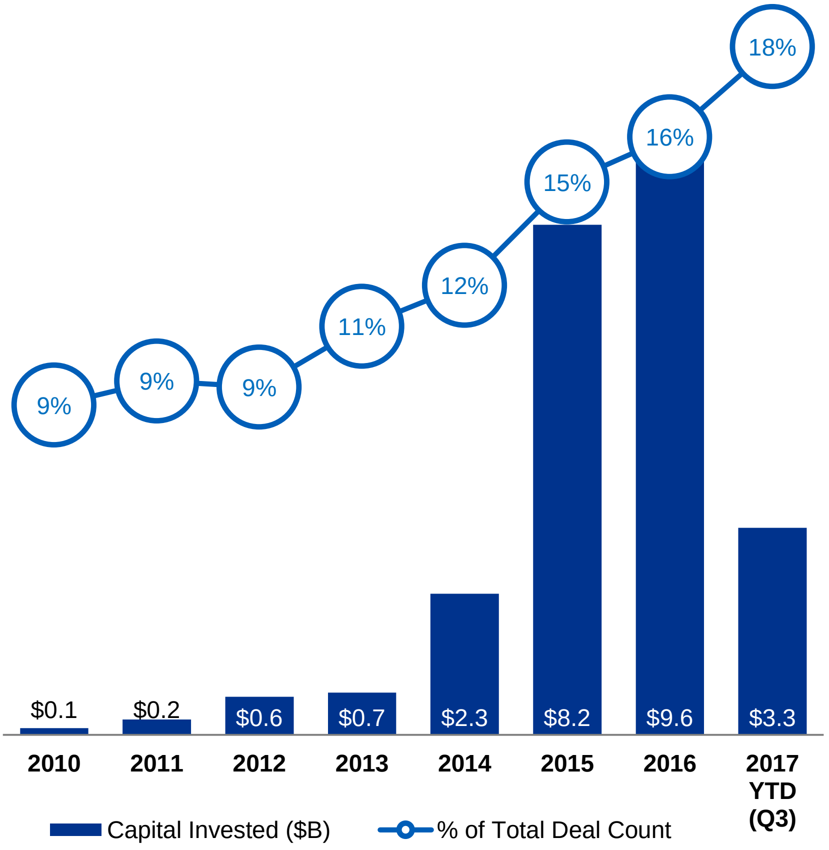


Source: Pulse of Fintech Q3'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) November 7, 2017

CVCs continue to stay highly active

Global venture activity in fintech with corporate venture participation

2010 – Q3'17



Partially driven by the fact the overall volume of financings has declined, thus mathematically upping their participation rate as a matter of course, corporate venture arms are still quite active when it comes to fintech. This can be chalked up to multiple multinationals looking to remain on top of R&D by outsourcing it to their corporate development and venture investing units, hoping to gain exposure via that method to the latest, key, emerging fintech innovations.

Source: Pulse of Fintech Q3'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) November 7, 2017.

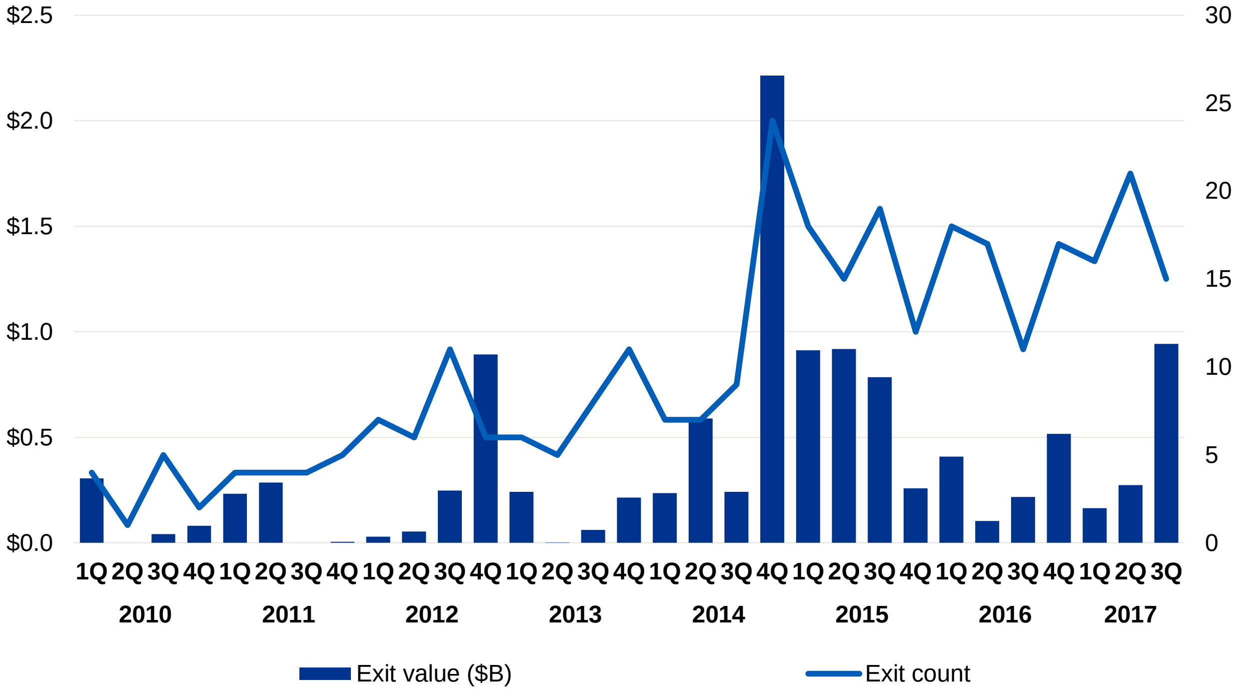
"Investors globally are becoming more mature about their investments in fintech, even as the startups themselves mature. Moving forward, we are likely going to see investors increasingly looking for companies to deliver value, and to demonstrate their ability to achieve results."

Jonathan Lavender
Global Chairman, KPMG Enterprise
KPMG International

Exit value resurges significantly in Q3

Global venture-backed exit activity in fintech

2010 – Q3'17

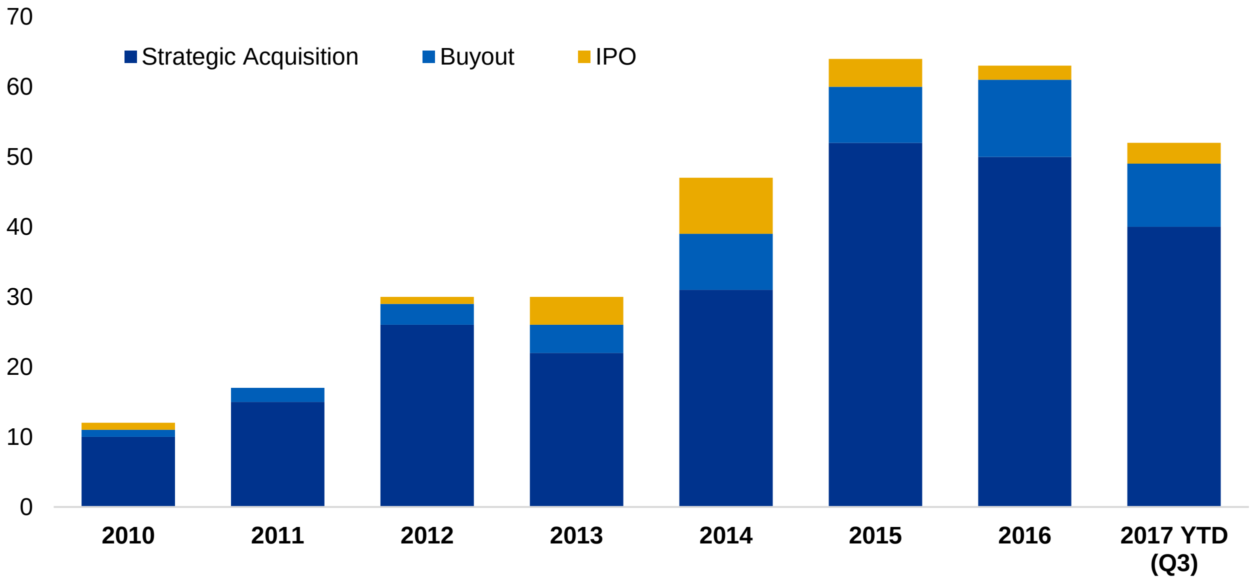


Source: Pulse of Fintech Q3'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) November 7, 2017.

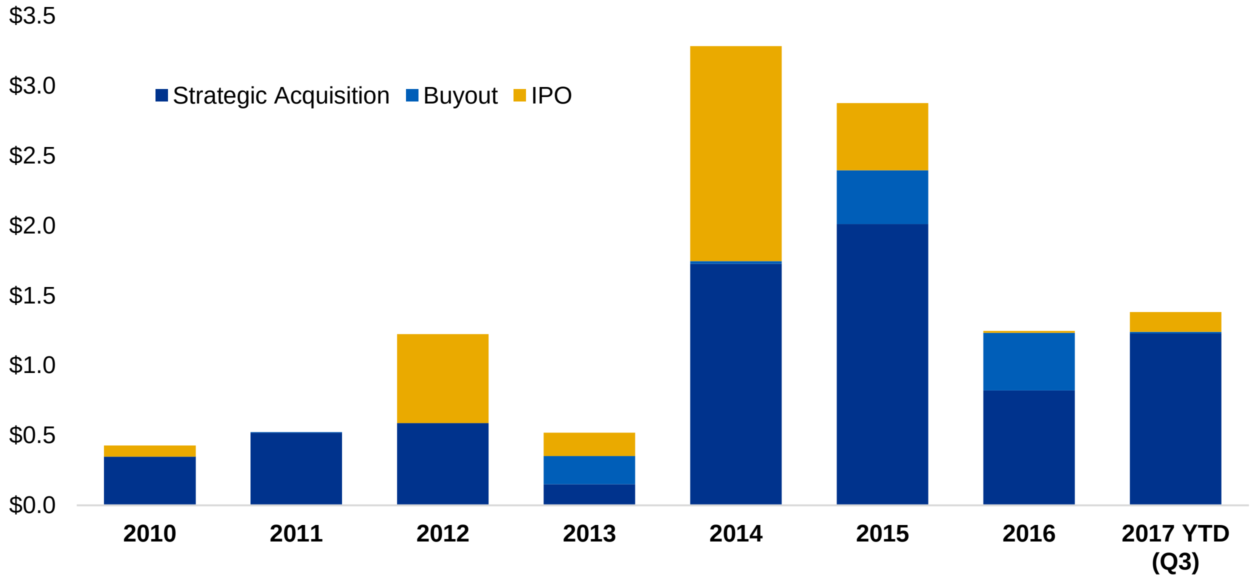
Although still overall at a subdued level given that enough mature fintech businesses have emerged to generate a hefty amount of selling, the fintech space can still experience outlier transactions that skew overall totals, such as the acquisition of Intacct by Sage Group in August 2017 for $850 million.

Strategic buyers drive most value

Global venture-backed exit activity by type (#) in fintech
2010 – Q3'17



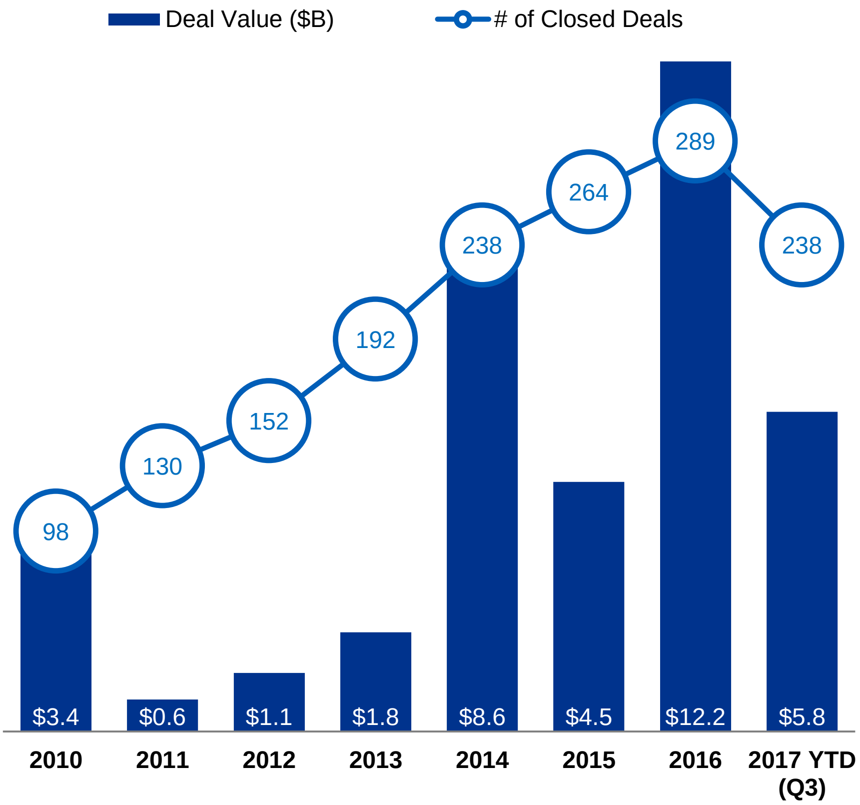
Global venture-backed exit activity by type ($B) in fintech
2010 – Q3'17



Source: Pulse of Fintech Q3'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) November 7, 2017.

Activity remains quite strong

Global VC, PE and M&A activity in insurtech
2010 – Q3'17



The exact delineation between traditional insurance businesses' technology operations and pure-play insurtech companies can lead to some shifting in figures as greater clarity is achieved quarter over quarter, but regardless, for the space as a whole it is clear that insurtech is occupying many dealmakers' attention. Given how increasing adoption of digital solutions and, most recently, artificial intelligence innovations may help transform risk, pricing and more for traditional insurers, it is clear that consolidation and accompanying investment in startups will likely continue to power insurtech activity going forward.

Source: Pulse of Fintech Q3'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) November 7, 2017.

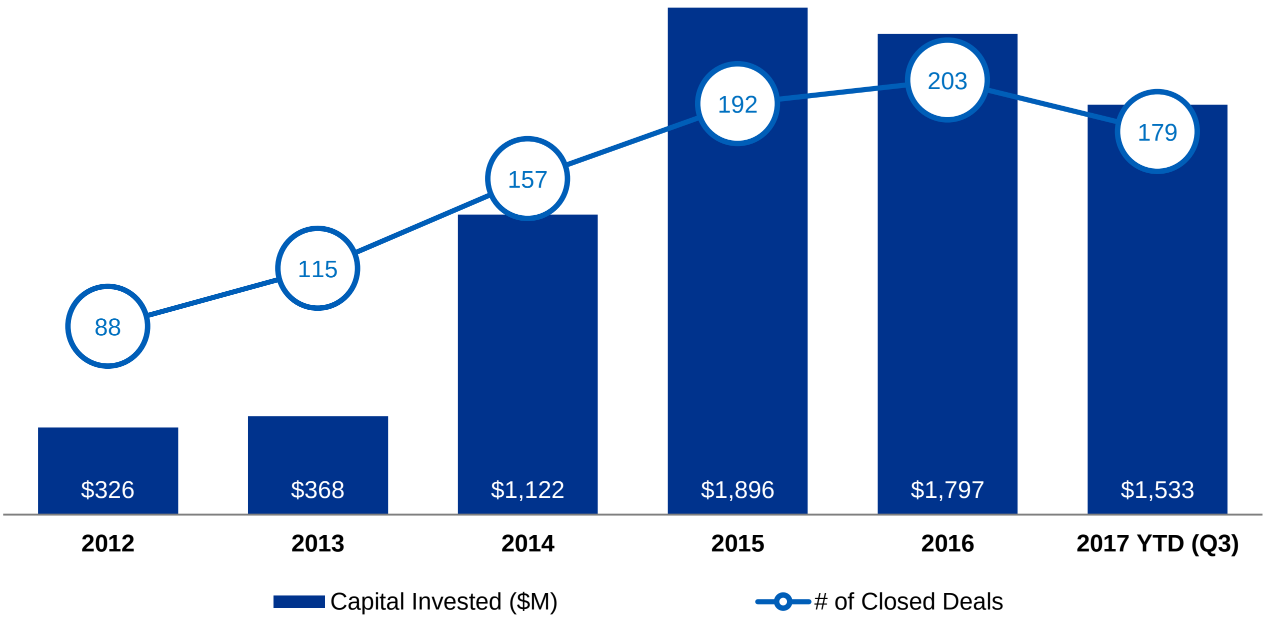
Note: this chart details overall investment (venture capital transactions, plus general M&A activity which includes private equity buyouts) in insurtech, in a departure from a prior edition of the Pulse of Fintech, which included just venture investment in insurtech. For example, the $12.2 billion deal value total in 2016 is increased significantly by the inclusion of M&A. 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 81, with PE activity by itself always depicted using extrapolated deal values.

"Innovation in the insurance industry is evolving at an accelerated rate as some insurance companies are leveraging the lessons learned from other industries to leapfrog ahead."

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

VC invested roars past $1.5 billion

Global venture activity in insurtech
2012 – Q3'17



Source: Pulse of Fintech Q3'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) November 7, 2017.

Without any sign of slowing, venture investment in 2017 stormed past $1.5 billion in terms of value, looking set to remain just as strong as in 2015 and 2016. Traditional insurance business lines are ripe for disruption via the application of advanced analytics leveraging artificial intelligence-reliant programs, while increasing connectivity amid devices and tools can also offer potential advances in efficient pricing and smoother customer experiences.

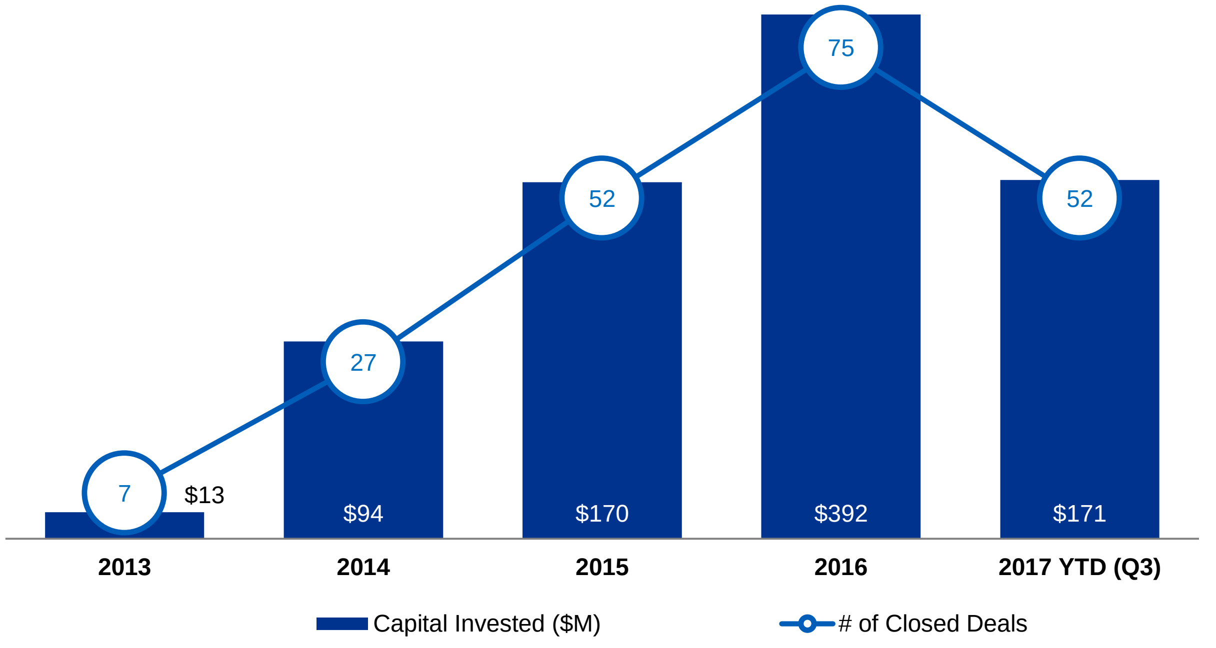
"This quarter, we saw the world's first major IPO of an insurtech company with Zhong An's successful $1.5 billion IPO in Hong Kong. Between this and last quarter's megadeal by Gryphon in the UK, there's little doubt that the sector is getting fresh wind in its sails. 2018 is looking very promising for insurtech from an investment point of view."

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

Will blockchain investment be impacted by ICOs?

Global venture investment in blockchain companies

2013 – Q3'17



Source: Pulse of Fintech Q3'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) November 7, 2017.

Note: when we look at the total amount invested this year, including amounts invested into rounds that have not yet closed, the 2017 YTD figure is significantly higher. The 2017 YTD number excludes the $107M raised by R3 as this amount only makes up the first two tranches of the funding round. The third and final tranche is expected later this year. Once the final tranche is closed, the total amount invested in the completed round will be recognized in our data.

"With a significant increase in ICOs over the past year, the "model" for ICOs has begun to evolve just as the regulators had devoted more attention and clarified the relevance of existing regulation. Specifically, ICO initiatives even in advance of regulatory guidance are ever more focused on transparency and integrity that addresses the needs of investors and creates a stronger foundation for confidence that will aid growth in this new market."

Eamonn Maguire
Global Head of Digital Ledger Services, KPMG International, Managing Director
KPMG in the US

Big tech and the banking industry: threat or opportunity?

Pressure from more than fintechs

The banking industry faces threats on multiple fronts. Recent quarters have seen not only the rise of challenger banks in global jurisdictions, but also an increasing number of large fintechs like Square and Klarna applying for banking charters. Yet while these growing players have made headlines, technology and ecommerce giants like Amazon, Google, Facebook and Apple may pose greater threats to the traditional banking model.

Customer focus driving encroachment from ecommerce giants

For ecommerce firms like Amazon and Alibaba, the focus on creating a frictionless, one-stop-shop for digital purchases is driving their entrance into areas traditionally dominated by financial players. Identification, verification and trust-based kite marks are increasingly on these firms' radar, under the banner of KYC. Ecommerce giants already hold and process significant volumes of customer data. By creating their own algorithms and verification processes, these companies can achieve greater efficiency while reducing costs compared to obtaining these services from a third-party provider. As an example, Amazon entered the lending market with Amazon Lending in 2011. Since then, more than $3 billion has been lent to small businesses in the US, the UK and Japan, who sell on the Amazon platform.

While Alibaba and Amazon's strategies are arguably the most developed, using customer data to better manage credit risk, working capital and liquidity, other ecommerce players are investigating similar approaches. Though the focus is currently on creating an exemplary experience for customers within their ecosystem, there is the potential for such services to be offered as a white label product in the future, further disintermediating traditional players.

Data-centric businesses apply pressure on other fronts

The focus of technology giants like Google, Apple and Microsoft's on developing and enabling data-centric business models provide threats from another front. While banks hold and process significant financial data, the speed and efficiency with which a data-centric business can achieve these same tasks is accelerating. In the future, the front-end user interface and data processing elements of traditional banking players may eventually yield to technology players that can deliver reliable results on a more expedient timescale.

Facebook is an example of a non-fintech player expanding into what is currently fintech-dominated space: digital payments. Coming from a social media background, Facebook's driver is the ability to monetize social communities as an integrated part of their ecosystem. While Facebook's strategy is not new, the size of its existing, engaged customer base offers opportunities unmatched by fintech or traditional payments firms.

Partnerships offer banks opportunities for modernization

Despite the encroachment, tech giants' growth into traditional financial services areas offer opportunities for banking players. Current trends show that technologies such as AI, machine learning and cloud computing will play increasingly critical roles in the financial services industry in coming years. Partnerships with technology giants with a deeper and more robust understanding of these technologies can provide significant advantages to banks and other financial services firms currently hobbled by legacy systems, processes and people. Increased social engagement, and technologies to better manage customer relationships in the digital sphere, offer other opportunities.

Big tech and the banking industry: threat or opportunity? (cont'd)

Through partnerships, tech giants can also offer advantages such as increased speed to market, inexpensive and scalable infrastructure, and modern data analytics capabilities, including access to proven machine learning and cognitive technologies. These are all areas in which tech and ecommerce giants excel, unencumbered by legacy technology.

China exhibits possible model for the future of retail banking

In developed nations, despite fintech and challenger bank innovations, consumer inertia has left traditional players with the lion's share of personal and retail transactions — for now. Yet in markets such as China, a new model is developing in which digital wallet providers aim to deliver a broad range of consumer services, of which banking and financial services are only one part. To address this threat of future disintermediation and continue to be viable as a customer interface, banks need to think more broadly about the services they provide in the real economy.

Achieving this goal requires greater technological competence in accessing and managing data as an asset. In developing markets, especially in Africa and Asia, ecommerce and telco firms have been able to "leapfrog" the traditional banks to offer modern banking services on mobile platforms; however, regulation and legacy infrastructure limits western banks' abilities in this regard. Diverse partnerships that offer competencies to engender similar services — whether with tech giants, ecommerce firms, fintechs or all of the above — will become increasingly critical for banks wishing to avoid obsolescence.

Looking forward

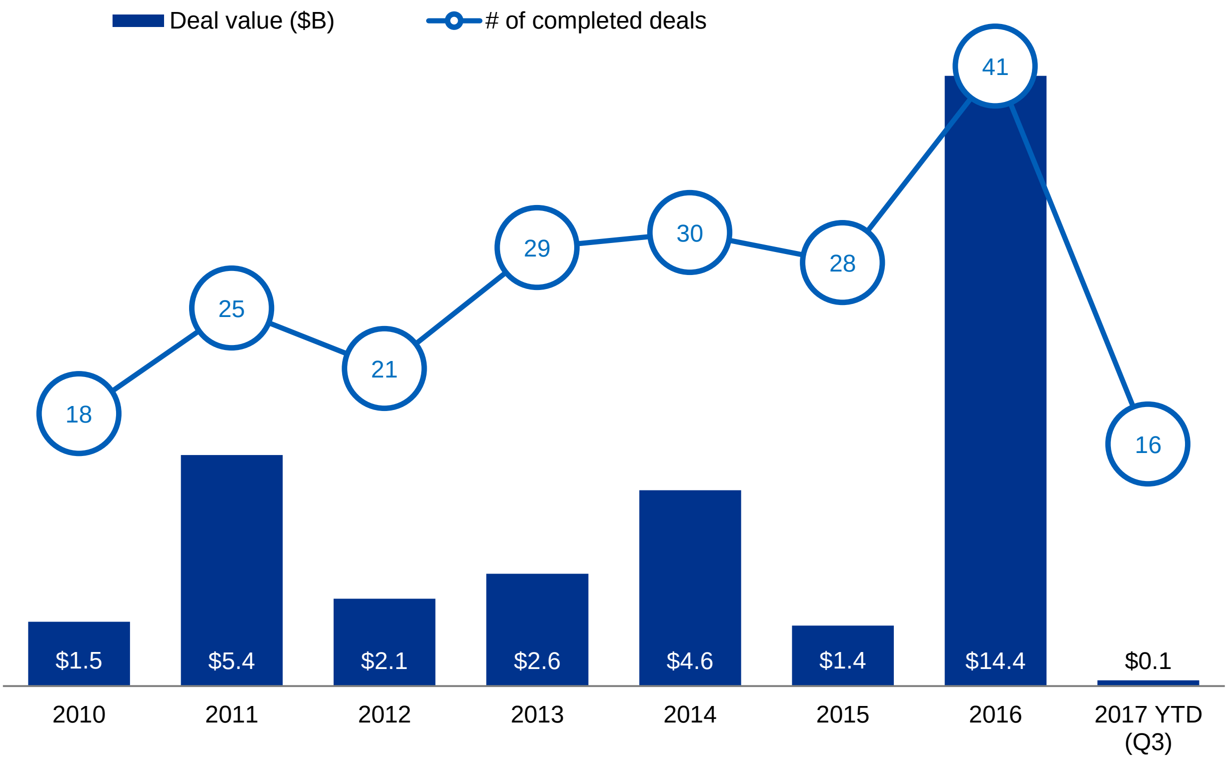
The push of technology and ecommerce giants like Amazon, Alphabet and Facebook into financial services is driving banks to reconsider their business models and question where they fit in the changing ecosystem. Some are considering whether to focus on utility services, transaction banking, or acting as a source of capital, while others are looking to become white-label platform providers of analytics, KYC and credit risk services to other firms.

Each of these paths offers challenges and opportunities in equal measure. Yet, as pressures mount from a myriad of sources, it becomes increasingly clear that for banks to survive, change is mandatory.

After active year, banks dial down M&A

Global M&A of technology companies with commercial banks participating

2010 – Q3'17



Source: Pulse of Fintech Q3'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) November 7, 2017.

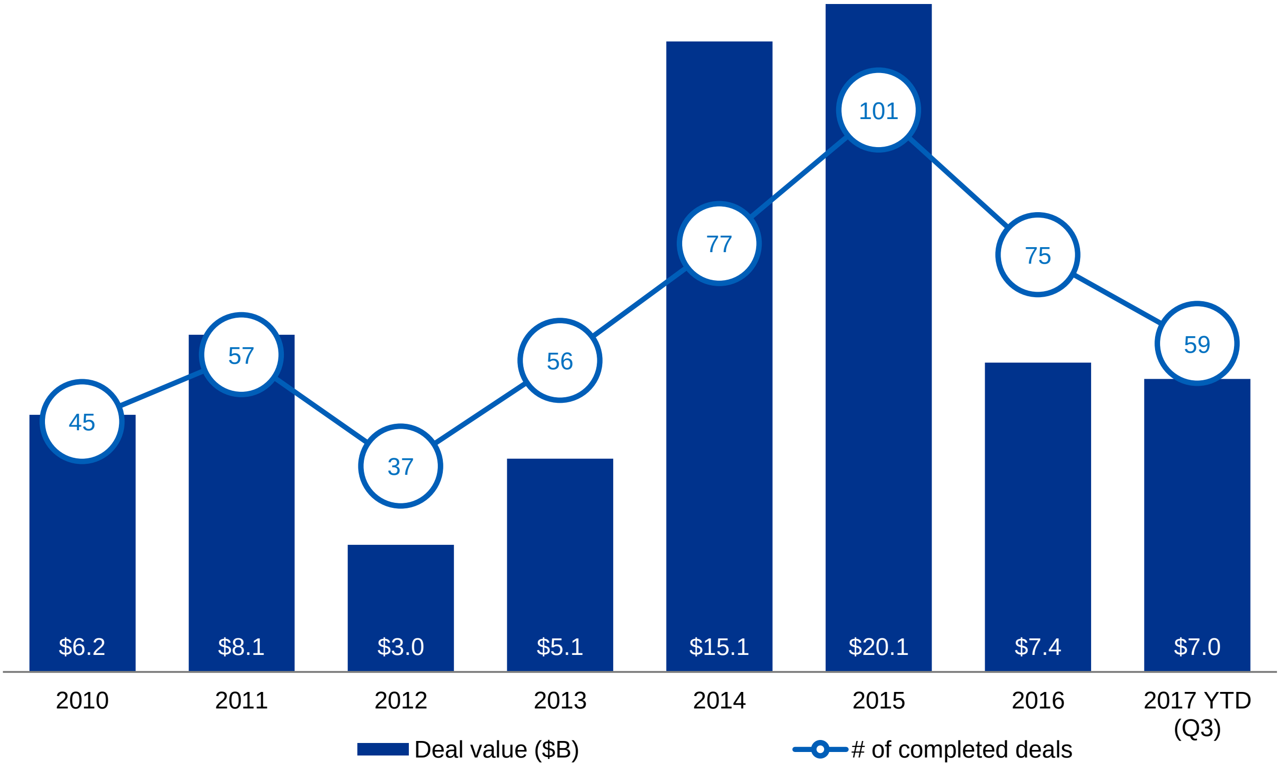
After a highly active 2016 — in which aggregate deal value was skewed significantly by a mammoth buyout of Qihoo 360 Technology Group by a consortium of investment firms — commercial banks have adopted a much slower pace this year, likely due to not only their relatively higher pace since 2013 but due to increasing investment in internal operations. M&A doesn't need to replace all R&D, after all.

"Just as we've seen the convergence of data, ecommerce and Telco companies to offer broad financial services in developing markets, we're witnessing ecommerce and technology giants making a similar play in developed markets. Unencumbered by legacy infrastructure, these new players' ability to manage and gain value from customer data far outstrips that of most traditional banks."

Joe Cassidy
Partner, Financial Services Advisory
KPMG in the UK

Deal value and volume set to hold steady

Global M&A of fintech companies with financial services firms participating
2010 – Q3'17



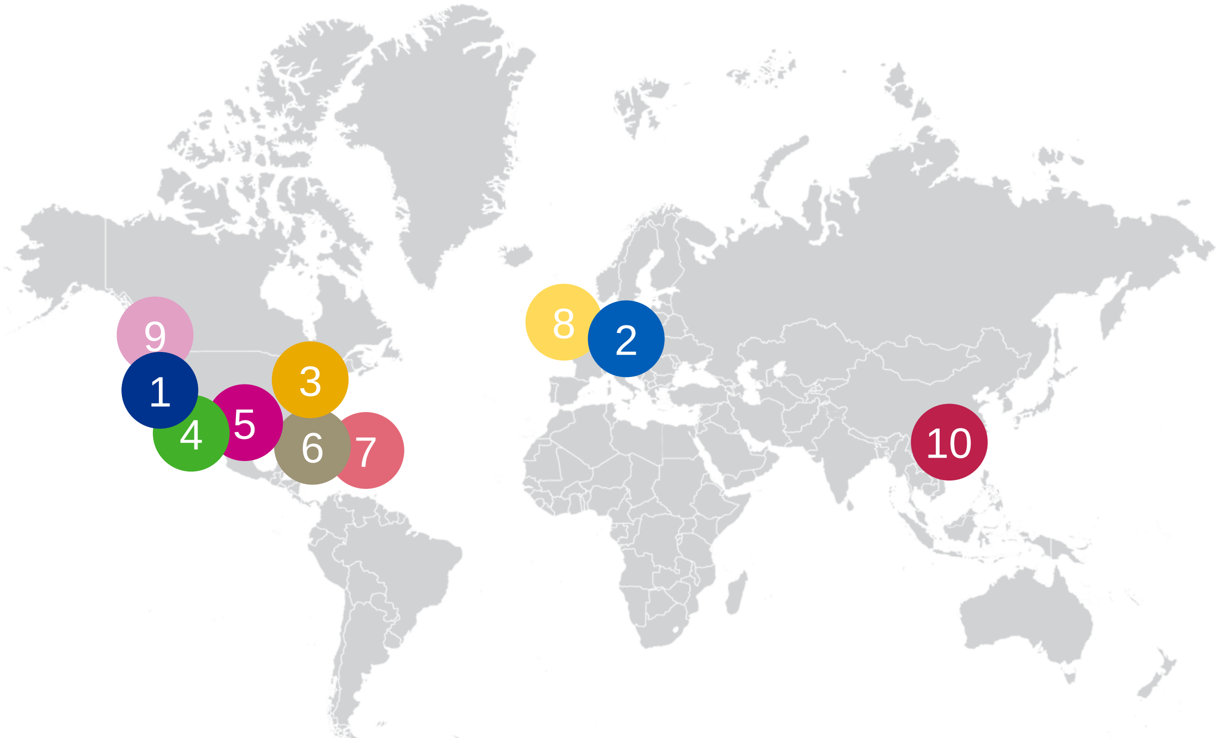
Source: Pulse of Fintech Q3'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) November 7, 2017.

It is important to note that on a historical basis, fintech M&A with financial services participating remains relatively high, even if 2015 still remains a clear peak. That is not so much driven by specific sector dynamics in fintech as the general cycling down of M&A volume over the past few years. Asset valuations remain high, which contributed to 2017 likely exceeding aggregate deal value in 2016.

"With increasing pressure from companies like Google and Amazon , as well as regulations like PSD2 designed to improve competition, banks need to think less like banking service providers and more like business service providers as they develop new value adding services."

Anton Ruddenklau
Partner & Head of Digital & Innovation, Financial Services
KPMG in the UK

Top 10 global fintech VC, PE and M&A deals in Q3'17



1. **Intacct** — $850M, San Jose, CA
   Institutional/B2B
   M&A
2. **ConCardis** — $806M, Eschborn, Germany
   Payments/transactions
   Secondary buyout
3. **CardConnect** — $750M, King of Prussia, PA
   Payments/transactions
   Public-private M&A
4. **Xactly** — $564M, San Jose, CA
   Institutional/B2B
   Secondary buyout
5. **Merchants' Choice Payment Solutions** — $470M, Shenandoah, TX
   Payments/transactions
   M&A
6. **Access Point Financial** — $350M, Atlanta
   Lending
   Buyout
7. **Service Finance Company** — $304M, Boca Raton, FL
   Lending
   M&A
8. **Prodigy Finance** — $240M, London
   Lending
   Series C
9. **TIO Networks** — $238.9M, Vancouver
   Payments/transactions
   M&A
10. **Dianrong** — $220M, Shanghai
    Lending
    Series D

Source: Pulse of Fintech Q3'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) November 7, 2017.

In Q3'17, fintech investment in the Americas hit

$5.35B

across

158 deals

Large US mega-rounds propel fintech investment in Americas

During Q3'17, fintech investment in the Americas continued to be dominated by deals being conducted in the US. Of the $5.35 billion invested across the Americas, the US accounted for over $5 billion. Outside of the US, fintech investment in other jurisdictions within the Americas was considerably slow during Q3'17, with only Canada seeing a significant level of fintech investment during the quarter. Fintech activity in Mexico, Brazil and other jurisdictions remained very weak, although positive non-investment activity related to fintech did occur.

Fintech investment in Americas dominated by US megadeals

Fintech investment in the Americas was strong in Q3'17, buoyed primarily by large megadeals in the US. Of the top ten deals in the Americas this quarter, nine occurred in the US. Of these, three exceeded $500 million, including Intacct ($850 million), Cardconnect ($750 million), and Xactly ($564 million). The US was also responsible for the quarter's only $100 million+ VC megadeals, including Bread Operations ($126 million, Series B), Coinbase ($108 million, Series D), and Blend Labs ($100 million, Series D). Only the July acquisition of a Canadian company — cloud-based, multi-channel payments company TIO Networks — by PayPal in a deal valued at $239.5 million managed to buck the US dominance trend.

Fintech investment in Canada remains strong in Q3'17

Excluding the mega-buyout of DH Corp in Q2'17, Canadian fintech investment remained relatively steady during Q3'17. Canadian banks have started to define their fintech strategies, with a number looking not only nationally, but internationally for innovation. During Q3'17 for example, TD opened an office in Tel Aviv focused on cybersecurity, while Scotiabank recently announced a partnership with NXTP Labs in order to gain access to startups in Mexico, Columbia, Chile, and Peru that can help it drive innovation.[1]

Artificial intelligence and regtech remain hot areas of investment in Canada, while insurtech is poised to see significant growth. Robo advisory is also starting to make waves in Canada with both Bank of Montreal and RBC ramping up their robo advisory activities. The Canadian government recently delayed its Review of the Federal Financial Sector Framework until 2019. It is expected that this review, once completed, could drive open banking innovation similar to PSD2 in Europe.

Latin America continues to be ripe for fintech, particularly in Brazil

While fintech investment in Latin America remains limited, the region is ripe for potential opportunities – particularly related to the unbanked and underbanked. According the Latin America Venture Capital Association, obtaining credit is incredibly difficult in the region and almost half of adults do not have a bank account.[2]

Investors are slowly starting to make inroads into Latin America, with Brazil taking the majority of interest and investment. In 2016, Brazil attracted $204 million in fintech investment, driven primarily by Nubank's $80 million fundraising round. While 2017 fintech funding has been significantly lower, it is expected that the region will continue to be an area of long-term focus for investors.

Mobile banking driving fintech activity in Mexico

Direct fintech investment activity in Mexico was weak in Q3'17. The country's most prominent fintech activity in Q3'17 was the announced acquisition of Bankaool — the country's first online bank — by traditional bank Ve Por Mas in July.

[1] www.investmentexecutive.com/-/scotiabank-announces-latin-america-fintech-partnership
[2] www.forbes.com/sites/mergermarket/2017/09/19/fintech-startups-attract-capital-in-latin-america//#4599fa904eeb

Large US mega-rounds propel fintech investment in Americas (cont'd)

Despite the weak investment this quarter, Mexico continues to be a hub of fintech innovation particularly in the mobile banking space, from digital wallets and aggregators to peer-to-peer and online lending. Accelerators continue to be a main driver of fintech innovation in the region, with global financial institutions taking active interest. In Q3'17, for example, HSBC and Ignia announced support for startup bootcamp Mexico. Over time, these accelerators are likely to spur fintech investment in the region.

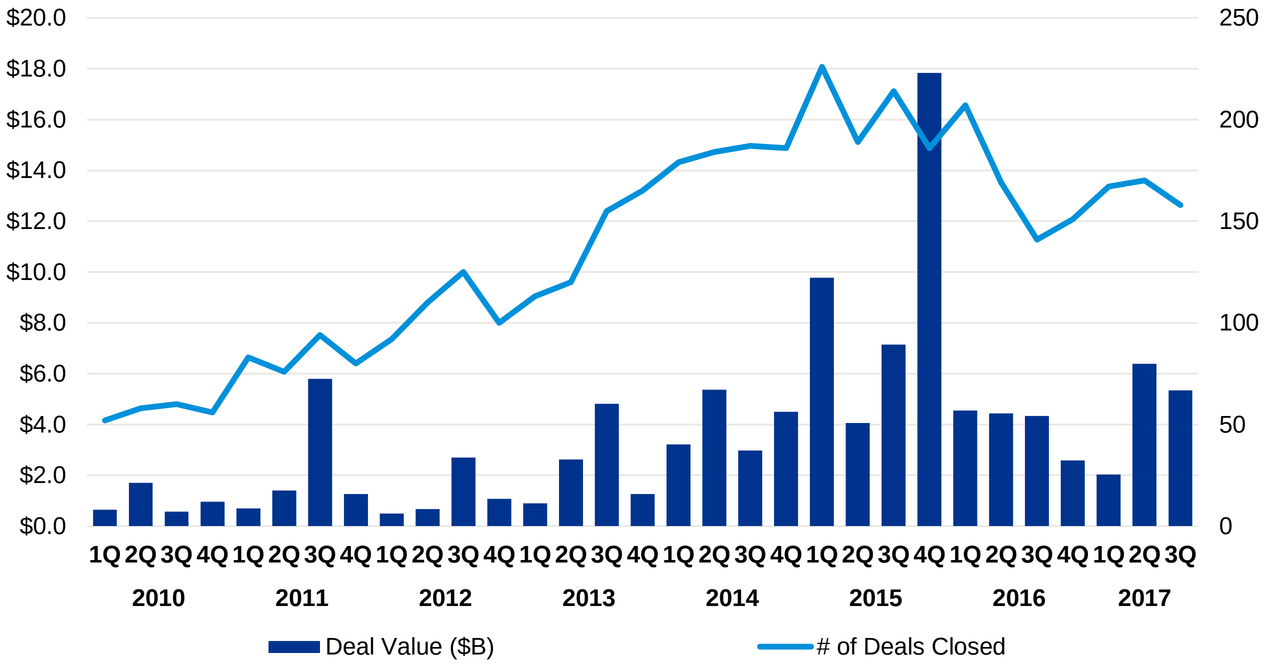
One of Mexico's biggest challenges with respect to attracting fintech funding revolves around the lack of a regulatory framework for key activities. Should the country move forward with such an endeavor, the clarity could provide a strong impetus for future investment.

Trends to watch for in the Americas

Over the next few quarters, AI, robo advisory, insurtech and regtech are expected to remain growth areas, particularly in the US and Canada. Fintech activity in Latin America is likely to remain focused on mobile banking, including payments and lending. The US is expected to continue to attract the lion's share of fintech investment in the Americas, followed by Canada. While investment in Latin America is expected to remain relatively weak over the short term, the region's potential bodes well for longer-term opportunities.

Investment slides only slightly by count

Fintech VC, PE and M&A activity in the Americas
2010 – Q3'17



Source: Pulse of Fintech Q3'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) November 7, 2017.

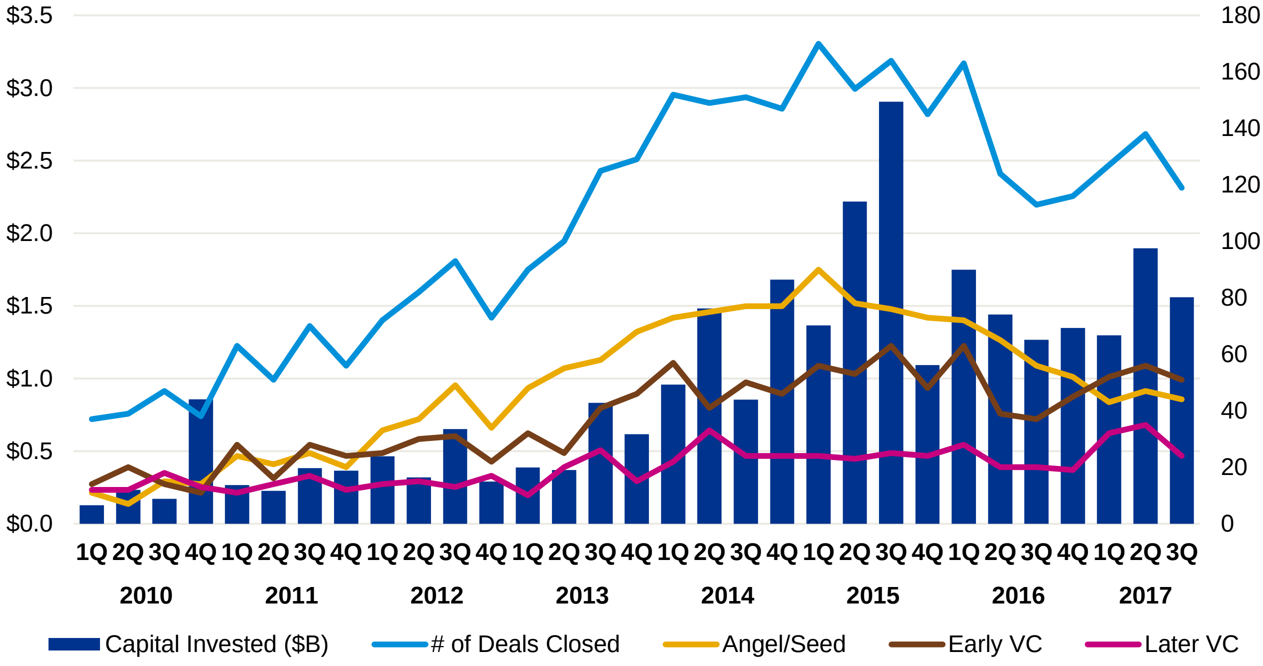
Note: please note that the separate PE and M&A data sets both include PE buyouts as a transaction type per the Methodology section on page 81.

With relatively small fluctuations, it does appear that investment activity within fintech in the Americas has by and large steadied at a new normal. Especially as the strong tally of deal value in Q3'17 suggests, there is still significant appetite on the part of dealmakers and venture firms alike to stay active within the fintech environment.

Activity steadies, by and large

Venture investment in fintech companies in the Americas

2010 – Q3'17

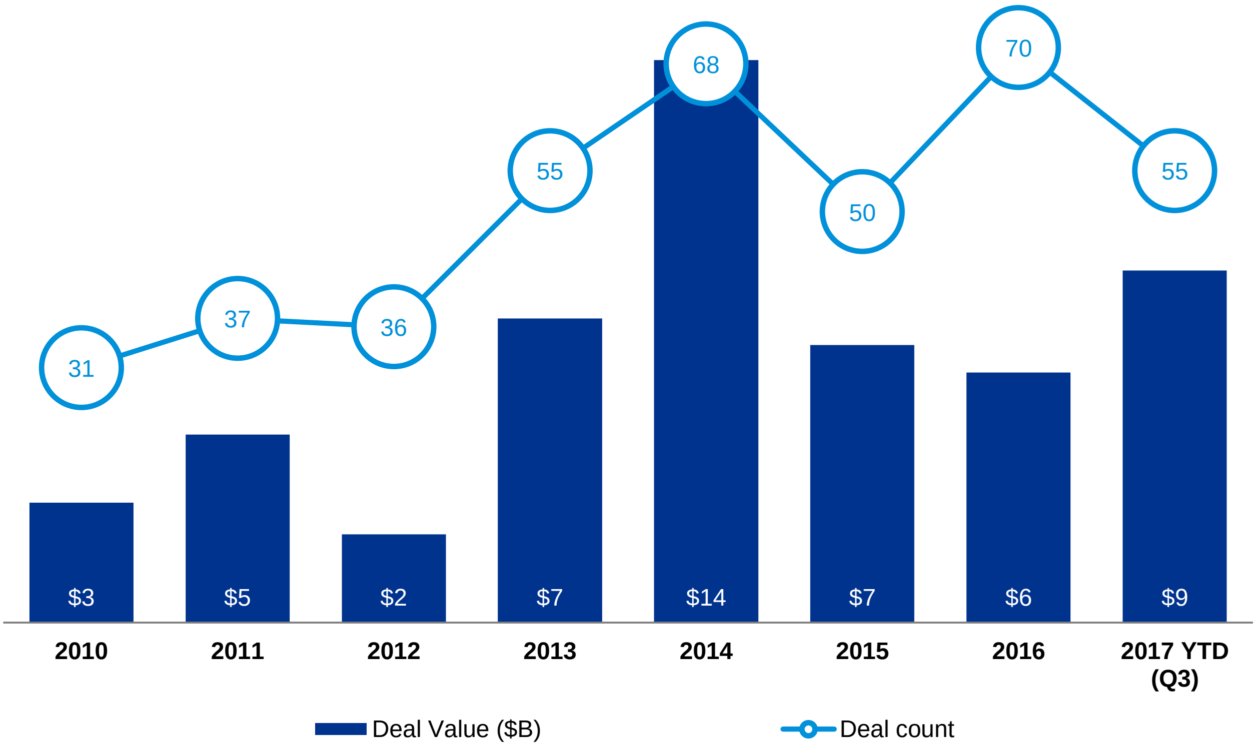


Source: Pulse of Fintech Q3'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook), November 7, 2017.

Key segments of fintech are still likely to attract venture investors' dollars, primarily as there remain significant advances to be made and consequently capitalized upon when it comes to outmoded financial technology. Whether tackling novel forms of lending by offering platforms for peer-to-peer transactions, or more efficiently pricing certain types of products, there are viable business opportunities aplenty. It is interesting to note, moreover, that even angel and seed funding volume has steadied in the Americas.

2017 set to go down as a strong year

Fintech PE activity in the Americas
2010 – Q3'17

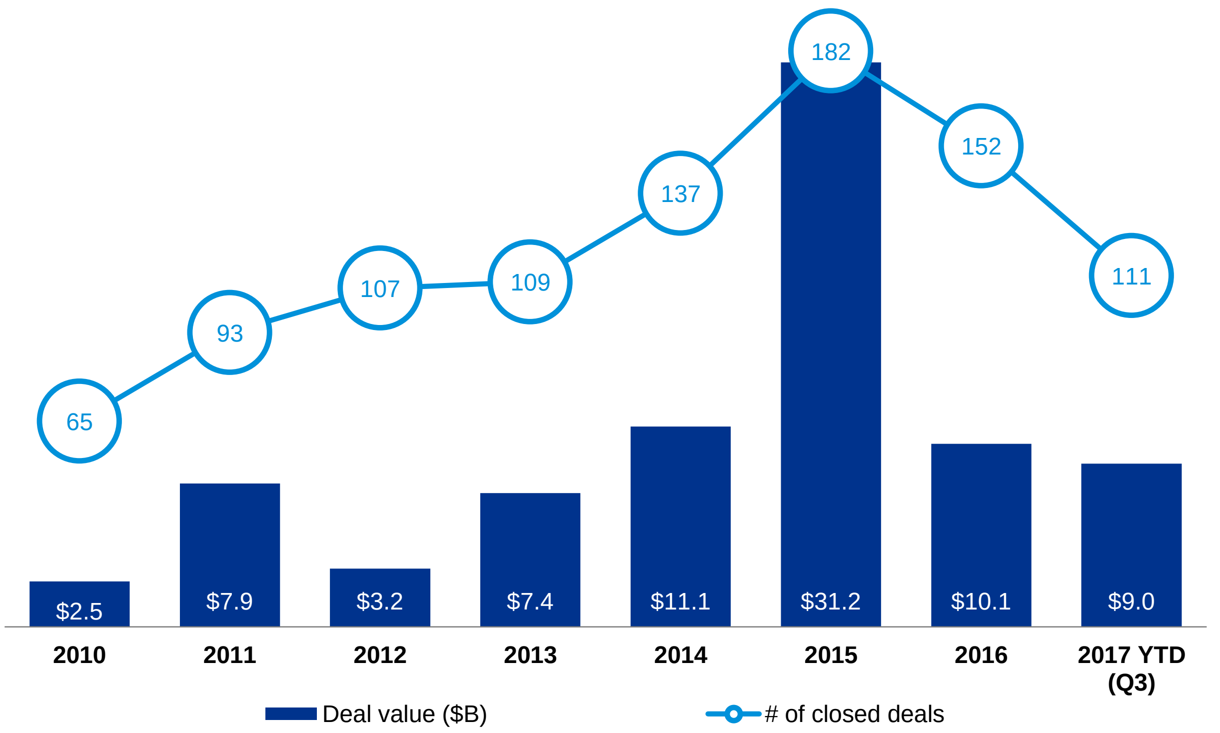


Source: Pulse of Fintech Q3'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) November 7, 2017.

Thanks in part to DH Corp.'s buyout, but notwithstanding a few other hefty transactions such as Access Point Financial's purchase, 2017 is set to go down as a strong year in terms of deal value, as well as volume.

Aggregate deal value stays resilient

Fintech M&A activity in the Americas
2010 – Q3'17

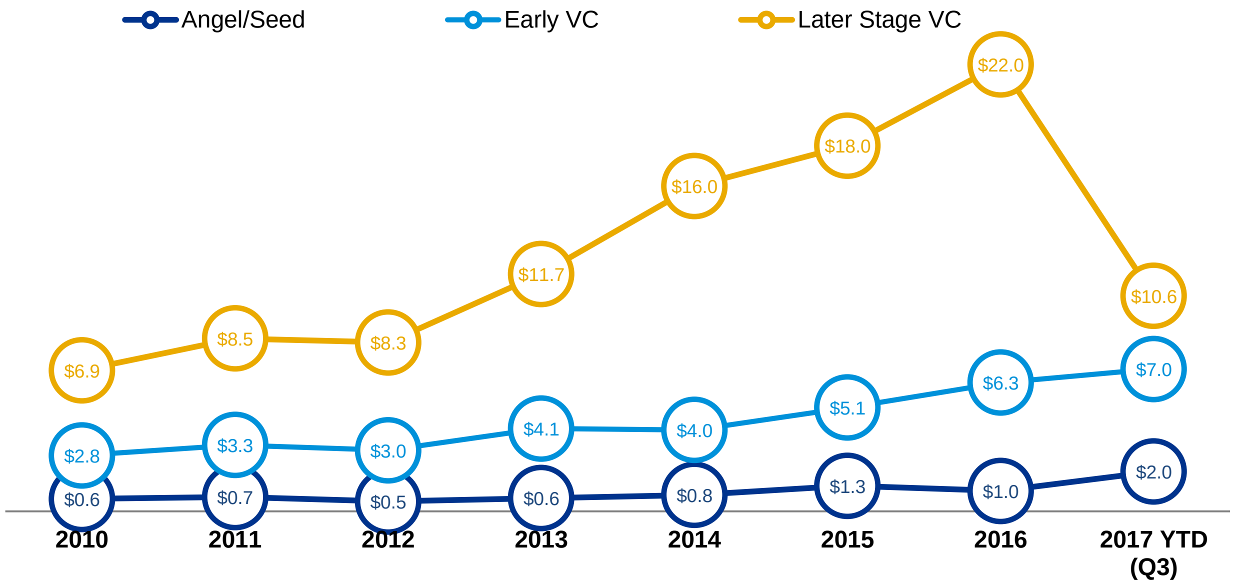


Source: Pulse of Fintech Q3'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) November 7, 2017.

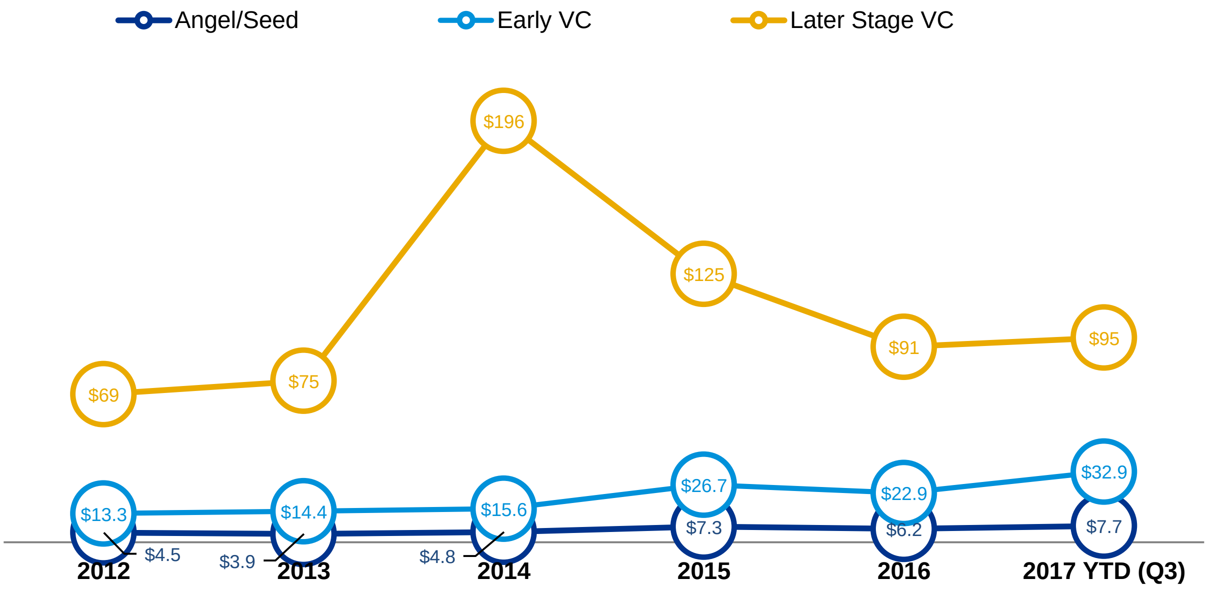
When assessing historical trends of the decade thus far, it would be tempting to presume that fintech M&A is on the downswing overall after a peak. That downturn is hardly fintech-specific, as globally the M&A cycle has been waning. Rather, what is clearer is that even within fintech significantly high valuations and relatively robust dealmaking will likely result in a very healthy aggregate deal value, even amid diminished volume.

Valuations have normalized, remain high

Median fintech venture financing size ($M) by stage in the Americas
2010 – Q3'17



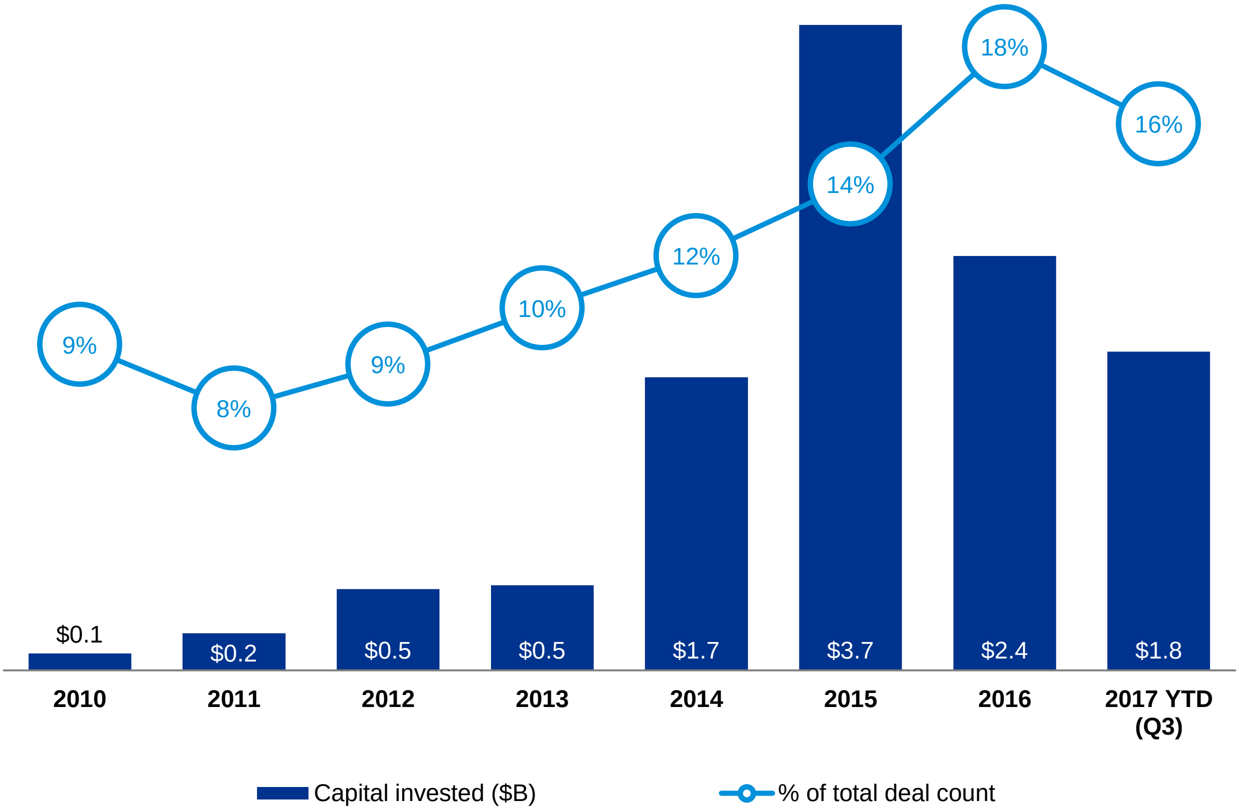
Median fintech venture pre-valuation ($M) by stage in the Americas
2012 – Q3'17



Source: Pulse of Fintech Q3'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) November 7, 2017.

Corporate participation reverses

Fintech VC activity in the Americas with corporate participation
2010 – Q3'17

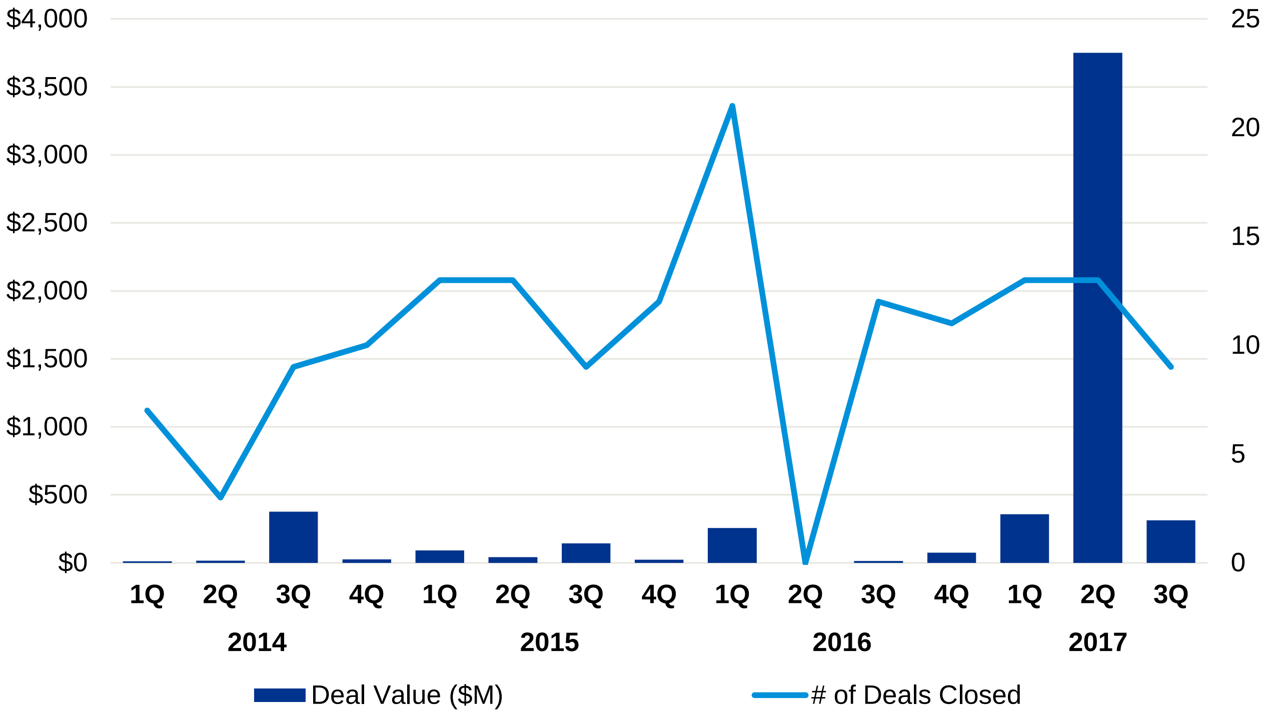


Source: Pulse of Fintech Q3'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) November 7, 2017.

Although still at an elevated level, CVC's portion of overall venture financing in 2017 year-to-date is down by a couple percentage points from that of 2016. All in all, that is driven by the size ranges of VC activity within fintech in general, as even one particularly slumping quarter can shift year-end trends. Accordingly, it is best to wait for full-year results to assess whether any true shifts in CVC participation in fintech VC financing in the Americas have occurred.

After a blockbuster quarter, a downturn

Fintech VC, PE and M&A activity in Canada
2014 – Q3'17



Source: Pulse of Fintech Q3'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) November 7, 2017.

Note: 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 81.

Canadian fintech activity will likely remain skewed for some time by that one mega-buyout of DH Corp. in Q2'17 — otherwise, Q3'17 figures would reside significantly within normal historical ranges, even allowing for a significantly sized deal such as Paypal's purchase of TIO Networks for C$302 million in July.

"Banks in Canada are getting much more serious about fintech, looking far beyond Canada for the technologies and companies able to help them achieve their desired objectives. From TD's new office in Tel Aviv to Scotiabank's new partnerships in South America, Canadian banks are proving to have the global mindset needed to ensure they are on top of future fintech opportunities."

John Armstrong
National Industry Leader, Financial Services
KPMG in Canada

In Q3'17, US fintech companies received investment of

$5.0B

across

142 deals

Investment in US fintech rises for the second-straight quarter

Total investment in fintech in the US rose for the second straight quarter, while the total number of fintech deals remained steady. While VC funding to fintech companies dipped slightly in Q3'17, it remained solid next to previous quarters.

Fintech sectors maturing and broadening

Robo advisory remained a big bet in the US during Q3'17 with the use of hybrid (i.e. human and technology) models gaining more traction over pure robo advisory. Institutions like Charles Schwab and Vanguard have continued their development of hybrid robo advisory services, while pure player Betterment has expanded into hybrid offerings — using humans to answer pressing customer questions.
Meanwhile, the online lending space has matured this past year after seeing a number of scandals and legal challenges during 2016. As of Q3'17, a number of the largest companies in this space have made substantial progress towards profitability.

Blockchain, regtech, artificial intelligence and insurtech also remained high on the investment radar during Q3'17, in addition to back office and B2B services.

M&A down significantly compared to the last 3 years

Total 2017 M&A value was at $4.8 billion at the end of Q3'17, well off pace compared to 2015 and 2016. This decrease is likely not reflective of the overall fintech market, but rather the after effects of a glut of M&A in recent years. A more positive sign of exit activity can be found in the total value of venture-backed exits of US fintech companies. At the end of Q3'17, exit value for these companies stood at $1.1 billion, already exceeding the total results for 2016 and matching the total from 2015.

First-time financings for fintech companies in the US bucking global trends

While the total number of first-time financings for fintech companies in the US is likely to remain down, the total capital invested was on track to exceed 2016's total by a fair margin at the end of Q3'17. The ability of fintech companies in the US to obtain early stage investments is significantly different compared to the first-time financing experiences of fintechs globally.

The focus investors have placed over the past year on finding companies with strong business models and well-defined paths to profitability has led companies to become smarter and more prepared for their funding requests. As a result, while fewer companies have obtained funding, they are of higher quality than in the past. This is reflected in the considerable increase in median deal size for angel/seed stage investments — from $1.1 million in 2016 to $2 million year-to-date in 2017.

The availability of higher quality companies may also be why VC seed/angel and early stage deal volume steadied in the US in Q3'17 compared to in Europe and Asia where deal volumes continued to drop.

Median deal size down dramatically for late-stage deals

Year-to-date median deal size for late stage deals dropped dramatically compared to 2016, from $23.5 million to $11 million. The drop in median deal funding for late-stage deals may reflect the resonating impact of the decline in early stage deals experienced in 2016 and early 2017. Given late-stage deals were quite significant in 2015 and 2016, the decline might also reflect the fact that companies are currently making use of earlier funding rounds before seeking a new influx of capital. 2018 could see a resurgence of activity should these companies choose not to go public.

Investment in US fintech rises for the second-straight quarter (cont'd)

Large fintechs and ecommerce companies expanding into adjacencies

Over the past 2 quarters, a number of fintechs and e-commerce companies have shown an increasing focus on vertical integration as it provides a way to extend their ability to address the needs of their customers in a frictionless way. For example, during Q3'17, Square announced plans to apply for an industrial loan charter to expand its lending arm, while online bank Varo submitted an application for a traditional bank charter.

At the same time, large e-commerce companies like Google, Amazon, Facebook and Apple have shown increasing interest in engaging with federal banking regulators in the US so as to provide services traditionally provided by financial institutions. These companies view the provision of such adjacent services as a means to improve customer service and reduce friction across their value chains.

Corporate investors focusing on partnerships

While corporate participation dipped slightly compared to 2016, corporate investment continued to be robust. More traditional financial institutions have recognized the value fintech offers both in terms of modernization of existing services and extending value to customers. Partnering continues to be a key mode for corporate participation in fintech. For example, during Q3'17, mortgage technology provider Blend Labs announced new partnerships with Wells Fargo and US Bank.

Regulatory fatigue driving regtech evolution

The myriad state, federal and, for some banks, international financial regulations and reporting requirements has led many financial institutions to become overwhelmed by the amount of effort and budget required to be in compliance. Over the past few quarters, this has driven many to focus on finding ways to use technology to streamline their compliance processes.

Interest in regtech is wide-ranging, from finding ways for financial institutions to become more proactive (e.g. KYC, authentication) to artificial intelligence solutions that can be used to monitor and ID issues in real time and technologies that can help identify and manage changing compliance requirements.

Trends to watch for in the US

Over the next few quarters, regtech interest and investment is expected to increase as traditional financial institutions look for ways to link compliance automation to other end-to-end process improvements — such as improved customer service. Blockchain interest could also skyrocket should a solution move into production in any significant way.

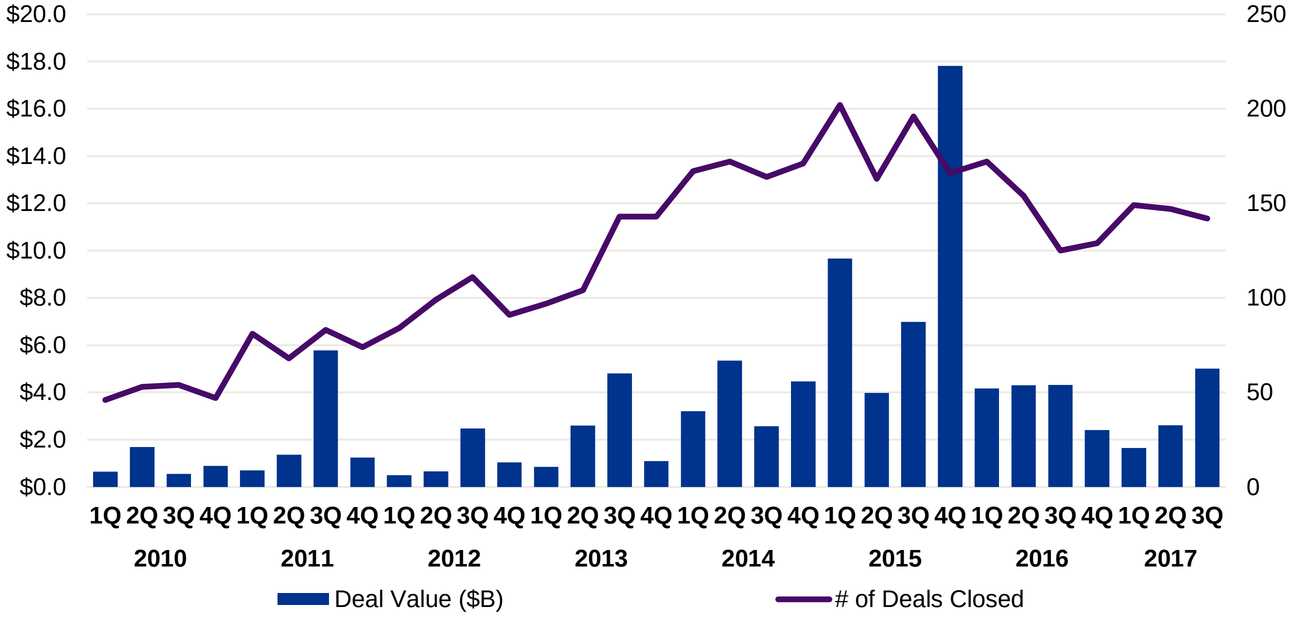
In Q4'17 and into 2018, corporate participation is expected to increase, particularly in insurtech. The complexity of the insurance industry presents a unique challenge. Many fintechs are interested in partnering with insurers in order to improve their potential, while corporates are interested in partnerships to make innovation leaps.

It is also expected that the high-quality companies able to attract angel and seed funding in 2017 will attract larger rounds in 2018. Exit activity is also expected to rise, although whether this will come through M&A or IPOs remains to be seen.

Deal value sees a bump upward

Total US fintech investment activity (VC, PE and M&A) in fintech companies

2010 – Q3'17



Source: Pulse of Fintech Q3'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) November 7, 2017.

Note: 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 81.

As the US is the most mature venture ecosystem, it stands to reason that relatively more fintech venture activity would help prop up its overall fintech investment figures. Accordingly, the decline since the heyday of 2015 through early 2016 has been softer in the US than in other regions, and, moreover, thanks to overall depth of its private markets, there can still be significant skew upwards as PE firms or corporate acquirers make plays in fintech.

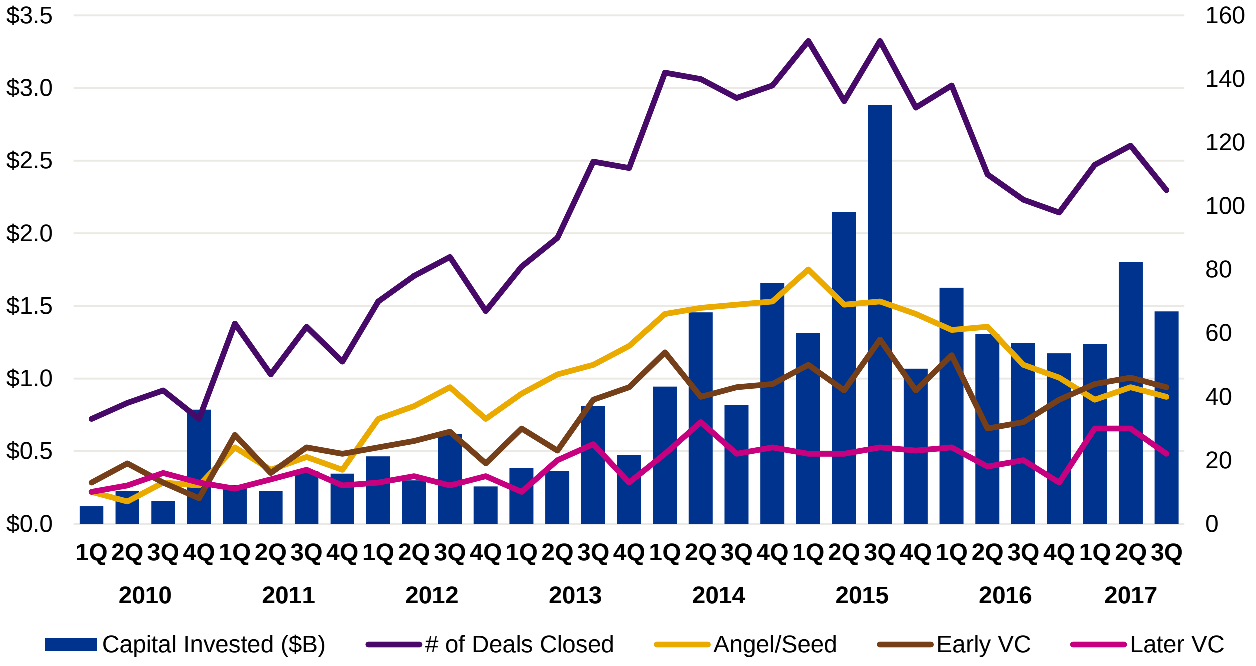
"There is a lot of optimism in the US fintech market right now - from the maturation of early stage industries, like robo advisory — to the rapid acceleration of others, like insurtech and regtech. We should also see a strong uptick in exit activity — although whether through M&A or IPO we will need to wait and see."

Conor Moore
National Co-Lead Partner, KPMG Venture Capital Practice
KPMG in the US

Overall VC invested stays robust

Venture investment in fintech companies in the US

2010 – Q3'17

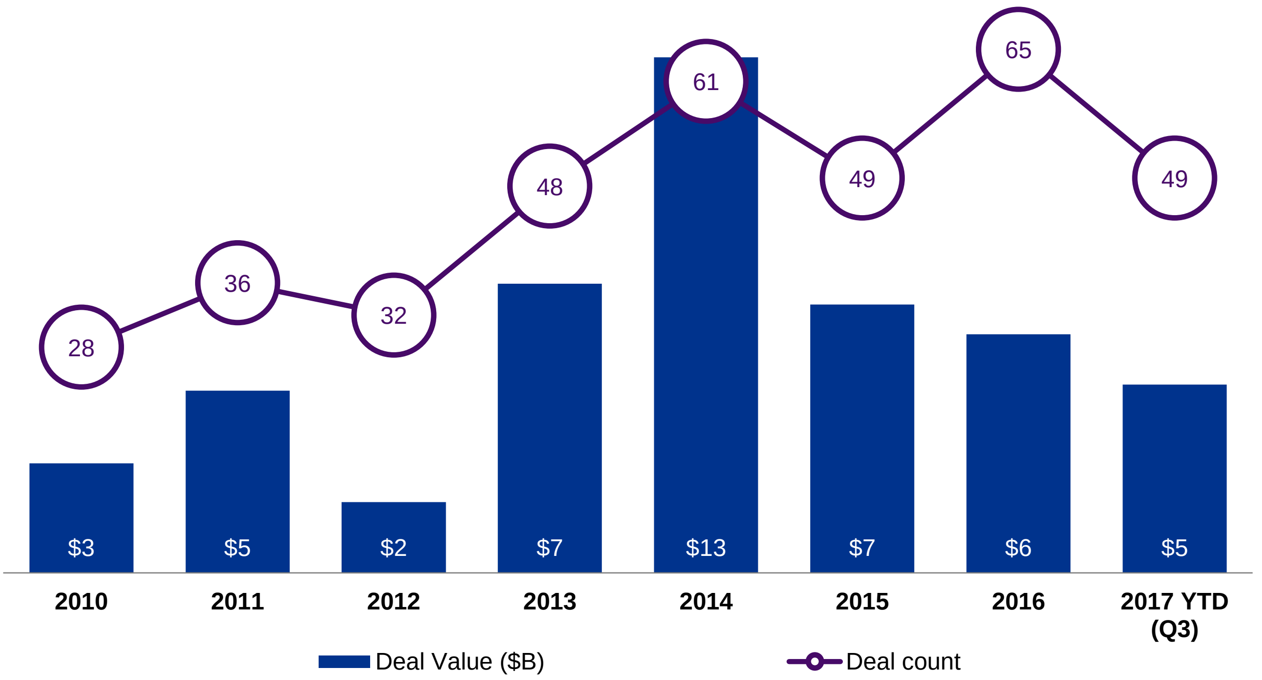


Source: Pulse of Fintech Q3'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) November 7, 2017.

The recent resurgence in fintech VC volume reversed in Q3'17, even as the total of VC invested remained quite high. At this point, especially when regarding quarterly tallies, fintech's emerging status helps ensure it will see such time-dependent variability. What is more important to note is that late-stage volume is still holding steady at a robust level.

PE firms set to turn in a solid performance

Fintech PE activity in the US
2010 – Q3'17

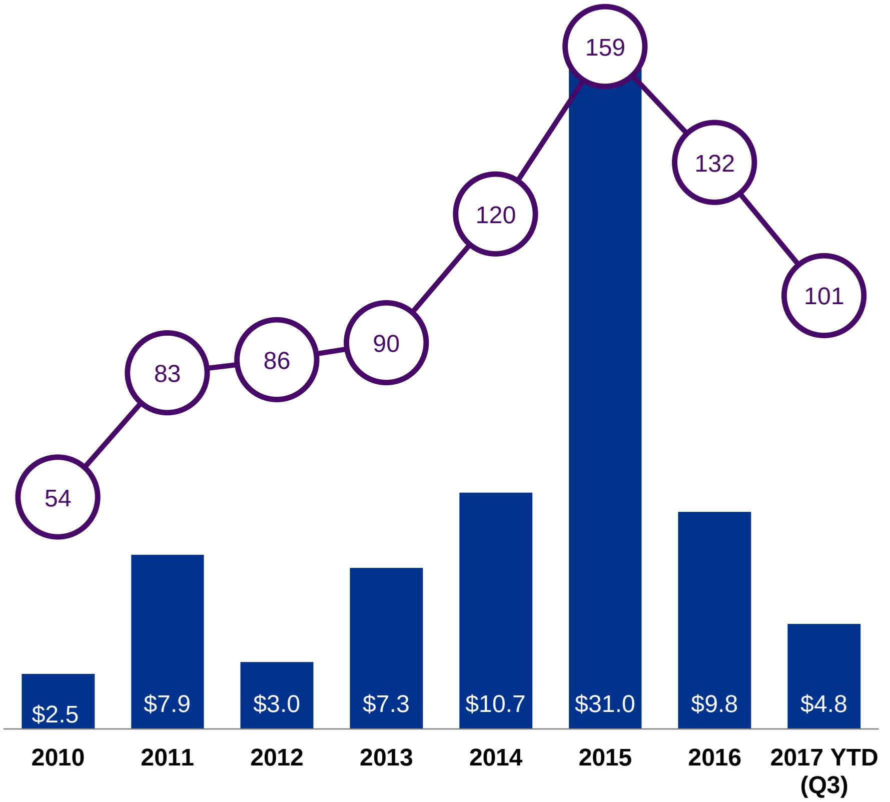


Source: Pulse of Fintech Q3'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) November 7, 2017.

PE investment in the technology sector is generally growing rapidly, at nearly a fifth of overall PE deal volume in the US in the year-to-date. Accordingly, it is of little surprise that PE firms are also staying active in the fintech segment. Two significant buyouts made it into the top 10 fintech transactions for the US in the whole of Q3'17—Wafra Capital Partners' purchase of Access Point Financial and Vista Equity's take-private of Xactly.

Waning M&A cycle impacts fintech numbers

Fintech M&A activity in the US
2010 – Q3'17



The slow decline in global M&A is certainly playing out on a regional basis as well. This is typical of a late-stage buying cycle, especially given how historically high general asset prices are. It is also important to note that in the context of a highly active 2015, 2017 full-year numbers are still on pace to end up at a historically healthy rate.

Source: Pulse of Fintech Q3'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) November 7, 2017.

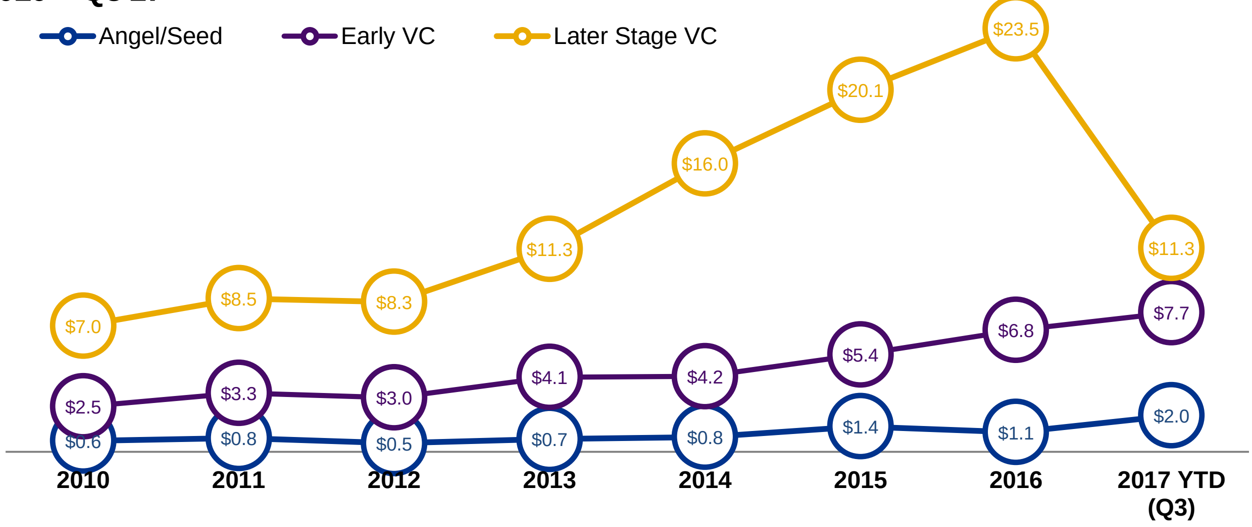
"Fintech M&A is set to continue as startups realize that in order to manage complex regulatory requirements and achieve scale, they need to partner with or be acquired by incumbents. Meanwhile, traditional financial institutions also recognize the opportunity fintechs present in terms of reducing their time to market and getting ahead even if they've had an early start to their innovation and digital programs."

Anthony Rjeily
Principal, Financial Services Digital and Fintech Practice Lead
KPMG in the US

Early-stage valuations rise once again, as the median late-stage financing remains low

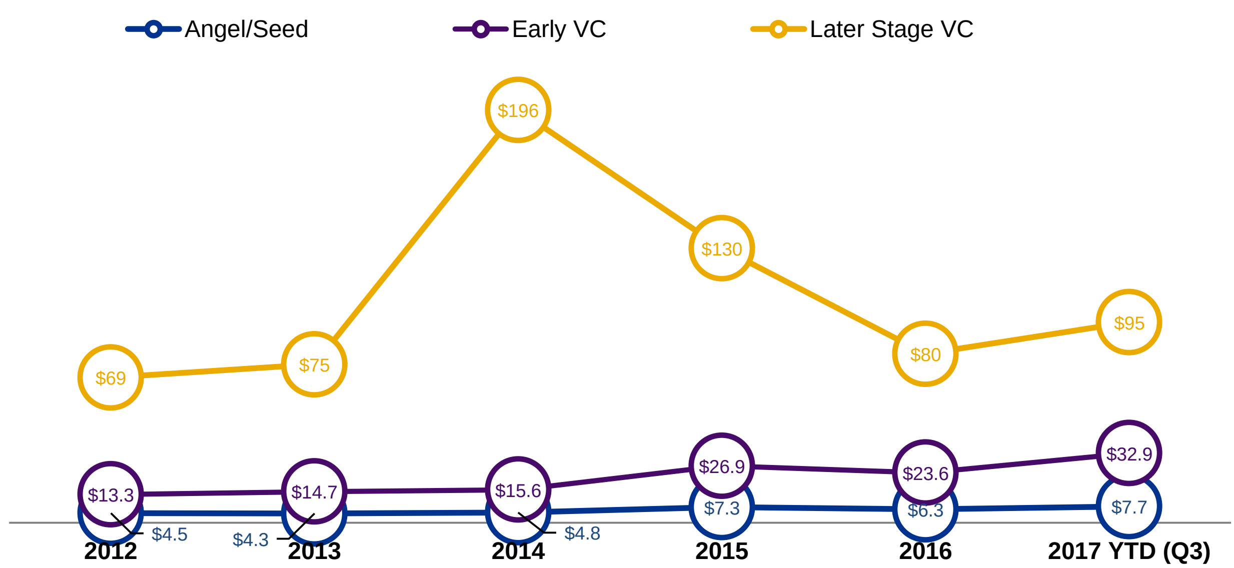
Median fintech venture financing size ($M) in the US

2010 – Q3'17



Median fintech venture pre-valuation ($M) in the US

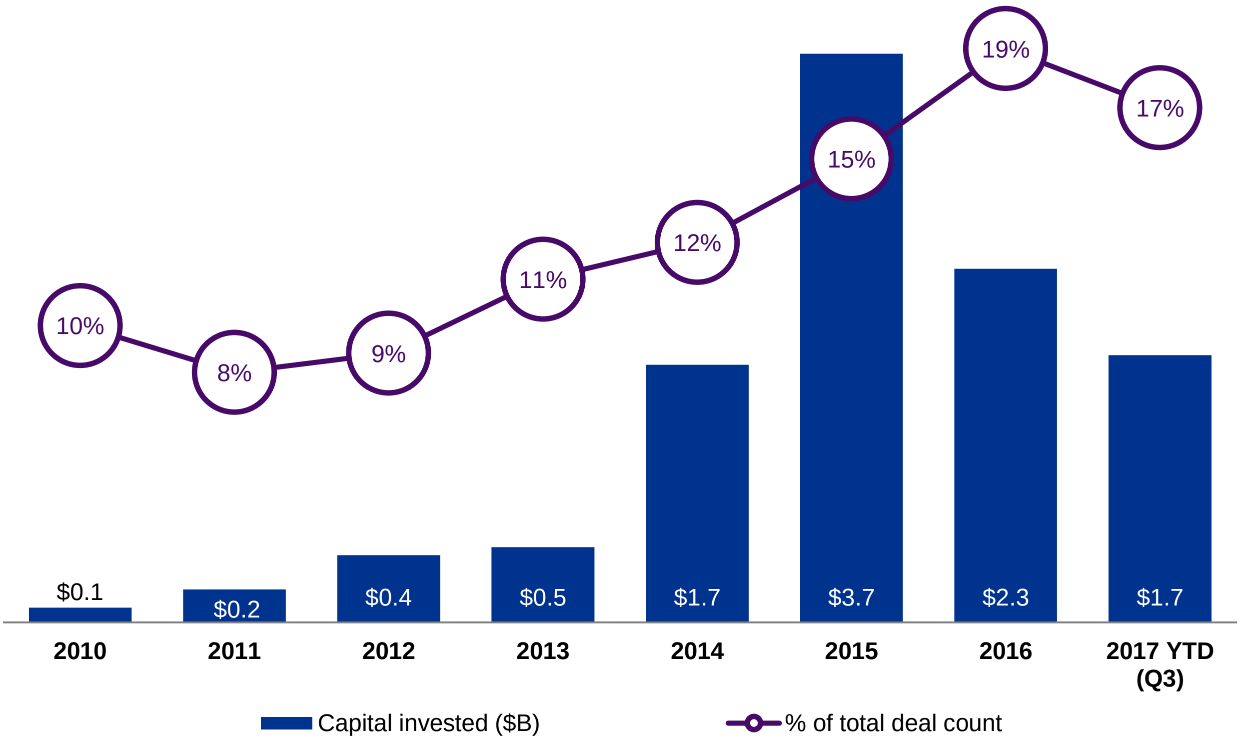
2012 – Q3'17



Source: Pulse of Fintech Q3'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) November 7, 2017.

CVC involvement slides, stays strong

Fintech venture capital activity in the US with corporate venture participation
2010 – Q3'17



Source: Pulse of Fintech Q3'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) November 7, 2017.

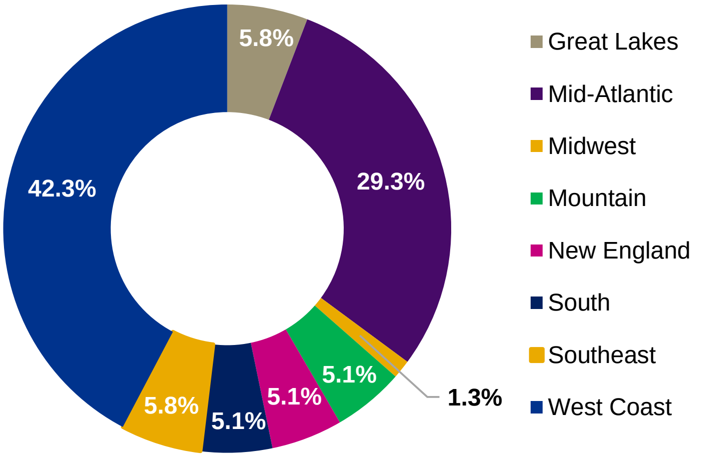
"After spending years and significant costs on regulatory remediation activities, traditional financial institutions are now seeking new and dynamic ways to optimize their compliance spend. They are shifting towards more proactive, intelligent automated solutions to become more effective and efficient as well as provide more value to their customers, shareholders, and business."

John Ivanoski
Global Head of Regtech, KPMG International
Partner, KPMG in the US

Mid-Atlantic slides significantly in VC invested

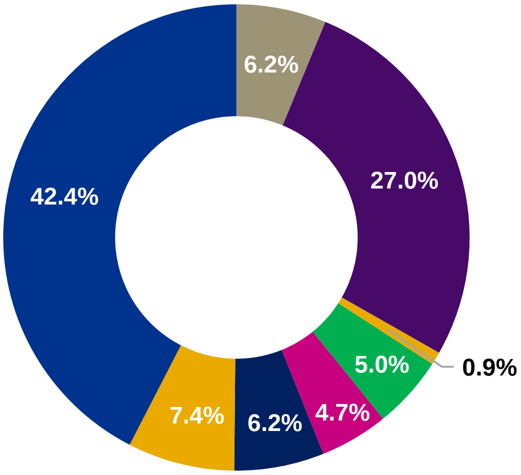
Fintech venture investment (#) in the US by region

2016



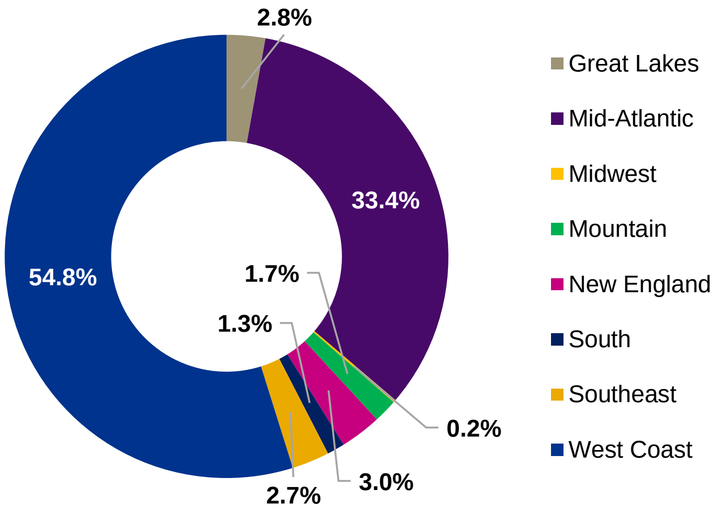
Fintech venture investment (#) in the US by region

2017 YTD (Q3)



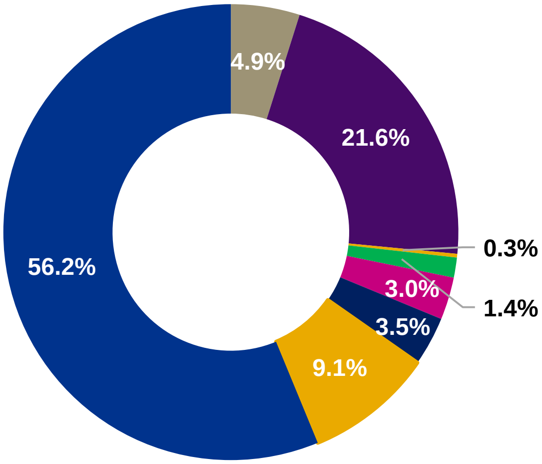
Fintech venture investment ($) in the US by region

2016



Fintech venture investment ($) in the US by region

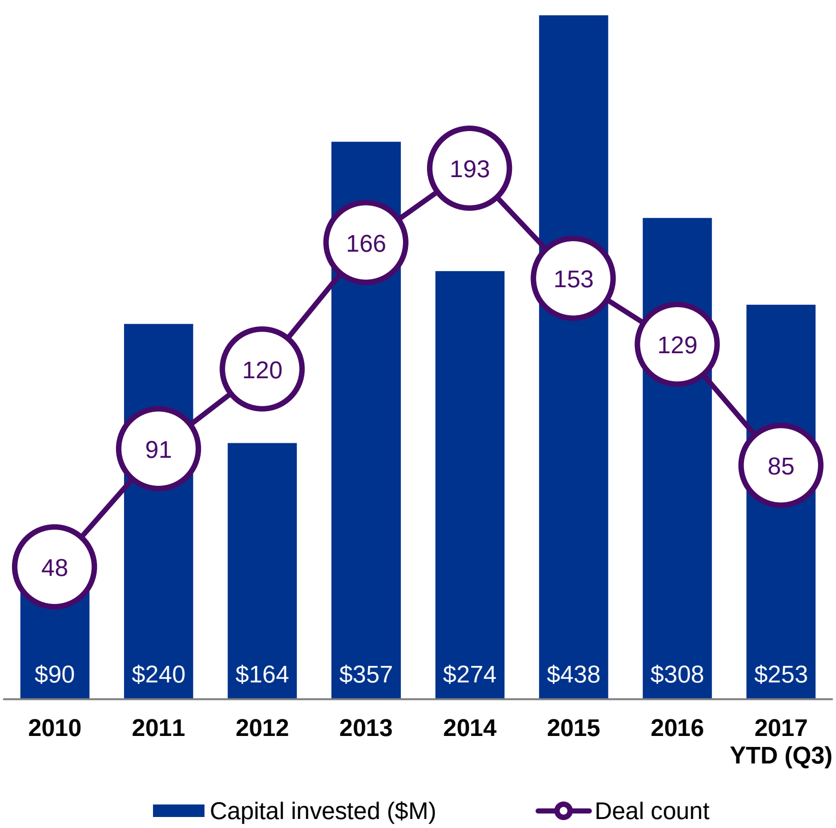
2017 YTD (Q3)



Source: Pulse of Fintech Q3'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) November 7, 2017.

First-time VC invested remains robust

First-time financings of fintech companies in the US
2010 – Q3'17

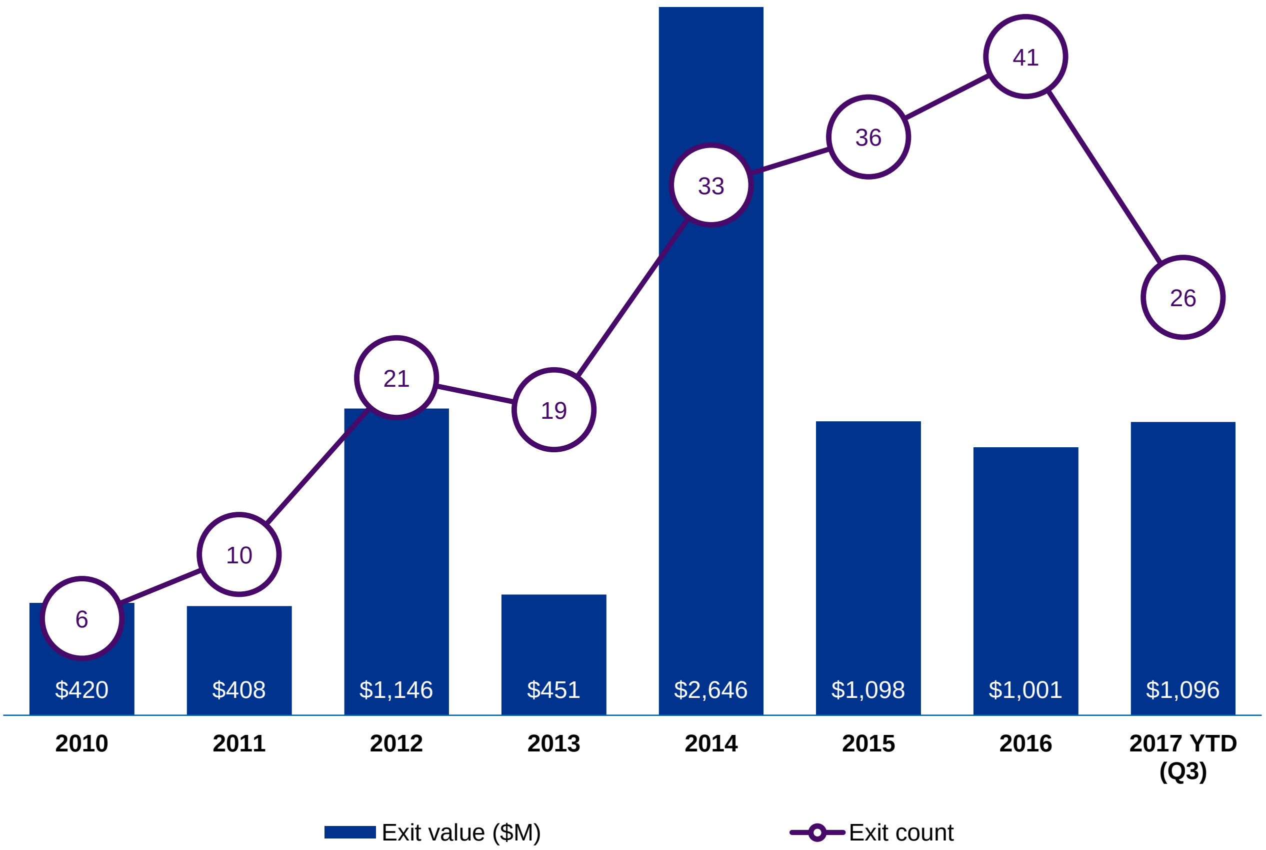


Even though the tally of completed first-time financings of fintech enterprises remains muted, VC invested remains quite strong. Although a much slower Q3 than expected resulted in 2017 seeming unlikely after all to overtop 2015's massive $438 million, such a strong performance in terms of VC invested even as volume diminishes is impressive. Moreover, it demonstrates that fintech is also benefiting from the venture industry's significant hoard of dry powder, with plenty of VC fund managers still tending to be more cautious than in past years, but willing to write hefty checks.

Source: Pulse of Fintech Q3'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) November 7, 2017.

2017 recording significant strength in exit value

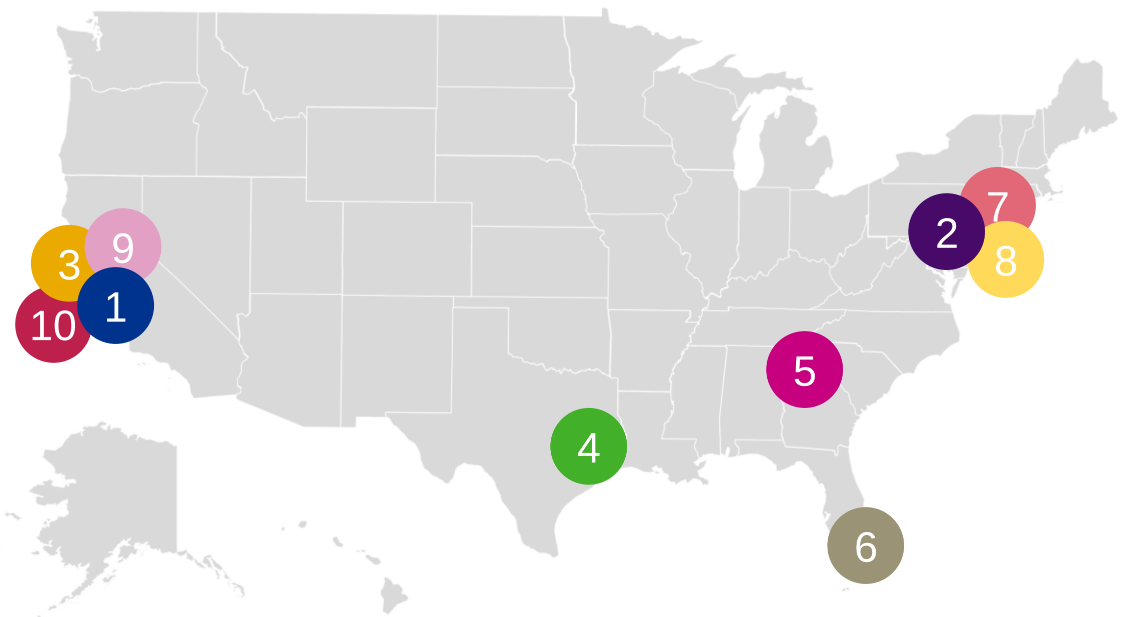
Venture-backed exits of US fintech companies
2010 – Q3'17



Source: Pulse of Fintech Q3'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) November 7, 2017

Until this year, venture-backed fintech companies exited at a steadily rising clip, boding well for early backers that were seeking liquidity. The decline in the volume of venture-backed exits of fintech businesses does not necessarily bode well for venture firms' portfolios, but what does still stand out is that significantly sized exits can still occur, as evidenced by the massive purchase of Intacct by Sage Group for no less than $850 million.

Top 10 US fintech deals in Q3'17



1 **Intacct** — $850M, San Jose, CA
Institutional/B2B
M&A

2 **CardConnect** — $750M, King of Prussia, PA
Payments/transactions
Public-private M&A

3 **Xactly** — $564M, San Jose, CA
Institutional/B2B
Secondary buyout

4 **Merchants' Choice Payment Solutions** — $470M, Shenandoah, TX
Payments/transactions
M&A

5 **Access Point Financial** — $350M, Atlanta
Lending
Buyout

6 **Service Finance Company** — $304M, Boca Raton, FL
Lending
M&A

7 **FastMatch*** — $153M, New York
Payments/transactions
M&A

8 **Bread Operations** — $126M, New York
Institutional/B2B
Series B

9 **Coinbase** — $108.1M, San Francisco
Payments/transactions
Series D

10 **Blend Labs** — $100M, San Francisco
Lending
Series D

Source: Pulse of Fintech Q3'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) November 7, 2017.

*Note: In the prior edition of the Pulse of Fintech, the closing date of FastMatch was assumed to be in Q2 given all available data; since then, some confidential information has been disclosed which revealed that the transaction's official closing date was officially pushed forward into Q3.

In Q3'17, investment in fintech companies in Europe hit

$1.66B

across

73 deals

European fintech activity remains steady in Q3'17

While overall investment in European fintech dipped slightly quarter-over-quarter, investment levels remained strong. VC investment was particularly solid, with over $700 million invested across 52 deals — making it one of the strongest quarters ever for VC investment, driven in large part by increasing deal sizes. The actual number of deals declined this quarter, primarily at the early and angel/seed deal stages.

Low interest rates, pressure to lower costs, and corporates seeking the disruptive technologies that can propel them to the top helped drive fintech investment this quarter. Positive government initiatives have also contributed, with several countries looking to attract startups by offering a more open regulatory environment, incentives and space to grow.

In Q3'17, investors appeared to favor follow-on investments into later stage companies, over seed and angel stage investments. At the same time, competition for these late stage deals continued to drive up valuations. The draw to later-stage companies can be seen in the large investments made in the more mature lending and payments spaces: six of the top 10 largest deals in Europe in Q3'17 went to companies in these sectors.

Early stage companies, meanwhile, continued to face significant pressure from VC investors to provide a clear path to growth, a product able to fit a defined industry need, a proven team, evidence of traction in the market, and an established customer base in order to win investments.

Corporates increasingly involved in fintech deals

Corporate VC investment continued to gain prominence in Q3'17 — reaching $647 million year-to-date, compared to $419 million in all of 2016. Corporate participation also increased dramatically, from 13% of deals in 2016 to 20% of deals so far in 2017. This increase reflects the fact that more traditional financial institutions in Europe are turning to fintech companies — whether through direct investment, partnerships, M&A or other models — to help advance their digital transformation initiatives.

Aviva's recent majority investment into digital wealth management startup Wealthify is one example. The acquisition will allow Aviva to offer additional services to customers through their MyAviva portal, while growing Wealthify's earnings through exposure to Aviva's client base.

Increasing focus on B2B

Europe's B2B fintech industry is booming. As of September, B2B-focused fintechs had secured 46% of all fintech funding raised in the EU this year. B2C fintech remains strong however many corporate investors increasingly see B2B as an area of opportunity to broaden their reach and scale more quickly.

Financial institutions have eagerly supported this shift as part of their desire to access innovative technologies that can help them improve efficiencies, decrease costs, respond to shifting customer needs, and extend their services to harder to reach markets, including the attractive SME sector.

European fintech activity remains steady in Q3'17 (cont'd)

Fintech companies seeking banking licenses in the UK

In the UK, a number of fintechs have been working to obtain banking licenses in an effort to provide services that were once exclusively available through traditional banks, such as the peer-to-peer lending business Zopa. Some fintechs have even made acquisitions themselves in order to leverage an existing banking license. For example, in Q3'17, digital challenger Tandem in the UK has signed an agreement to acquire Harrods Bank (subject to regulatory approval), which would allow Tandem to launch its services UK and operate under Harrods' existing license.

UK remains hotspot for fintech investment

Despite concerns about the effects of Brexit, London remains a hotbed of fintech activity. Companies have continued to move forward with a business as usual attitude while putting contingency plans in place to manage potential impacts. There has not been the exodus of established companies some might have expected and, while new startups may be eyeing other European centers, seven of the top ten European deals this quarter went to London-based companies, suggesting fintech investment is not going to fade from the UK anytime soon.

France offering incentives in an effort to attract fintech startups

The Government of France is working all-out to attract fintechs away from the UK. The recent introduction of fintech friendly regulations, combined with tax incentives aimed at encouraging innovation, have contributed to the steady growth of fintech in the country. The rapid evolution of France's fintech ecosystem has also been supported by the formation of LaFrench tech and new incubators — including the largest incubator in the world: Station F. With French President Macron seen as fiercely pro-business, it is expected that fintech will remain a priority for the foreseeable future.

Numerous fintech hubs making mark in Germany

Rather than focus on supporting one major fintech hub, Germany has fostered innovation initiatives across the country in order to foster more widespread fintech innovation. In addition to Berlin, fintech hubs have cropped up in Munich, Hamburg, and Frankfurt, in addition to smaller cities like Stuttgart and Cologne.[1] A number of new accelerators and incubators have appeared as a result, including InsurLab in Cologne. During Q3'17, FinLeap, the startup platform behind Germany's solarisBank, also raised €39 million to support its ongoing fintech incubator.

Trends to watch for in Europe

Increased regulations and the imminent implementation of PSD2 will likely move regtech and open banking solutions into the investment spotlight heading into Q4'17. Meanwhile, corporate investment is expected to propel investment in insurtech, with partnerships seen as one of the best ways to manage the industry's complexity. Over the next few quarters, there may also be some consolidation among challenger banks as they seek to gain the scale and product breadth they need to be competitive.

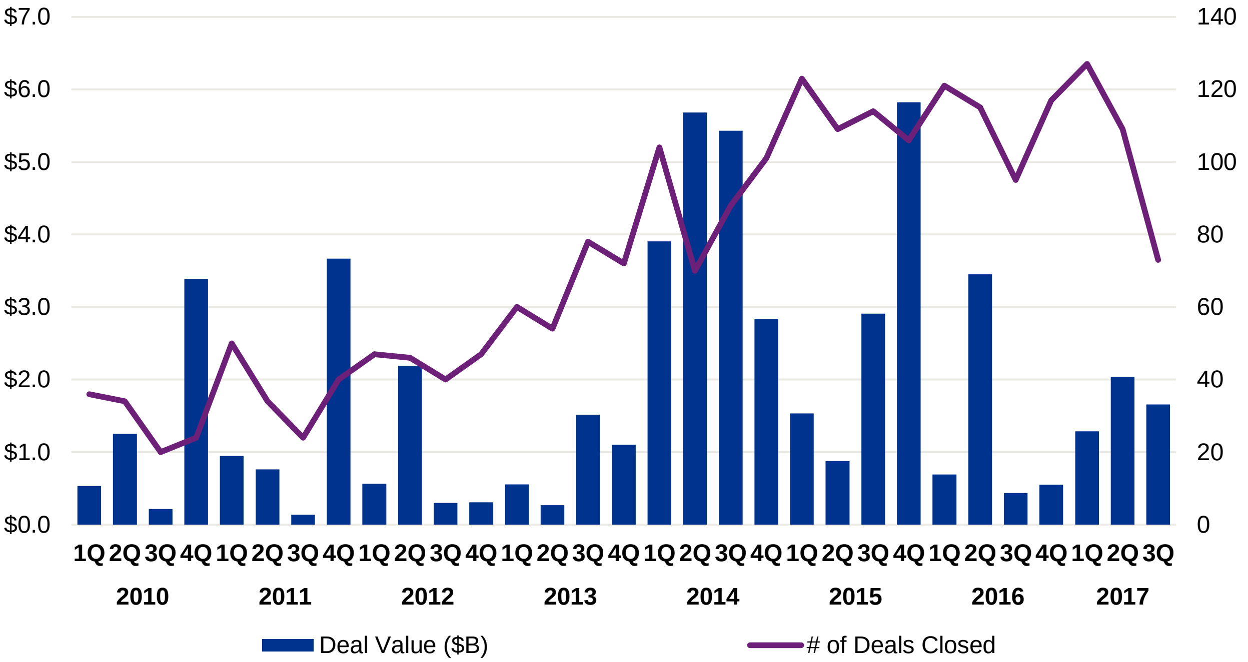
Given signs of decreasing seed and angel stage funding, fintech startups - particularly those with a core focus on blockchain - may look toward ICOs as an alternative funding mechanism. With regulators continuing to keep a close eye on ICOs, an increase in activity could spur them to put ICOs under a regulatory microscope.

New fintech ecosystems supported by platforms such as B-Hive in Brussels will continue to emerge throughout Europe as cities and countries work to promote their local fintech capabilities.

[1] https://thenextweb.com/eu/2017/05/24/how-germany-is-uniting-its-tech-hubs-to-build-its-own-silicon-valley/

One down quarter belies recent strength

Total European fintech investment activity (VC, PE and M&A) in fintech companies
2010 – Q3'17



Source: Pulse of Fintech Q3'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) November 7, 2017.

Note: 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 81.

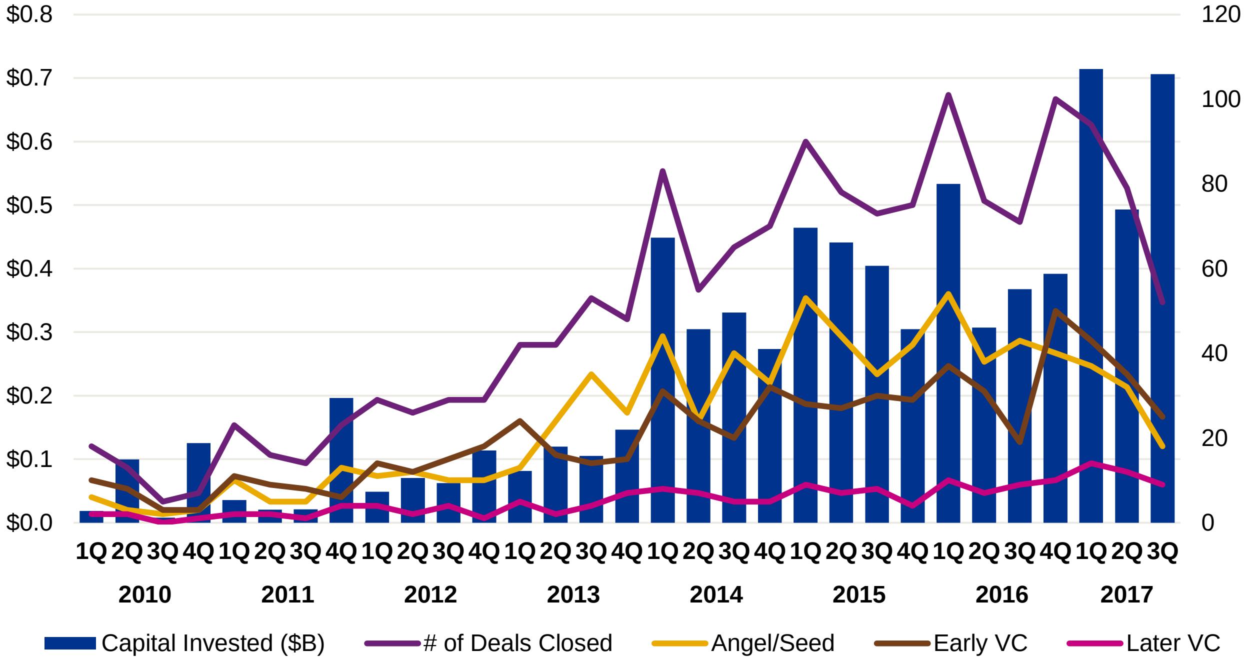
The fintech sector in Europe is prone to record quarterly vagaries in overall investing volume, especially as it does not benefit from the significant propping-up of hefty VC investing such as observed in the US. Accordingly, the significantly low volume in completed fintech transactions in Europe in Q3'17 should not be overinterpreted. It is likelier that activity returns to relatively healthy levels to close out the year in the continent.

"Investment in European fintech dipped in Q3'17, however the outlook remains strong. During the past quarter we saw a number of mega-deals in Europe including ConCardis, Prodigy Finance and Neyber. Over the first three quarters of the year, median late state deal size has remained well above 2016 levels and corporate VC investment has skyrocketed. We anticipate seeing an increase on both of these fronts as the European fintech ecosystem continues to mature."

Dorel Blitz
Director, Head of Fintech
KPMG in Israel

VC invested and volume diverge significantly

Venture investment in fintech companies in Europe
2010 – Q3'17



Source: Pulse of Fintech Q3'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) November 7, 2017.

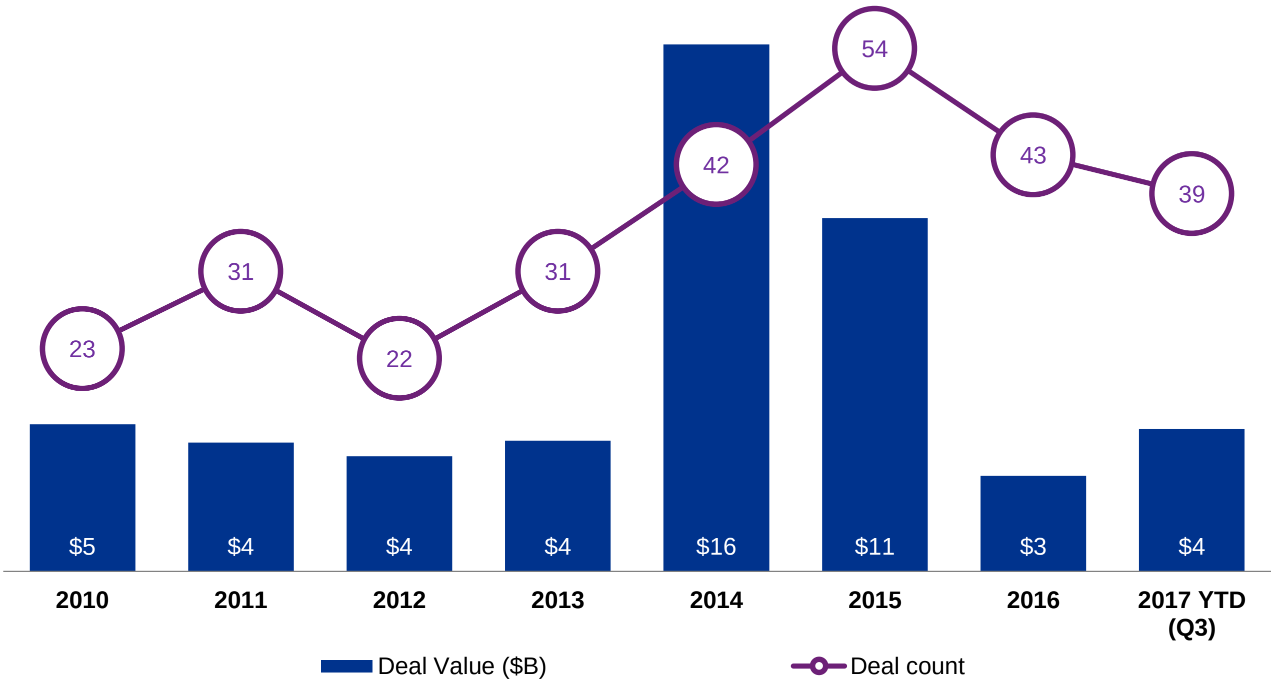
The European venture scene is largely a patchwork of highly active metropolises. As the fintech scene is not so different, it is clear that the significant decline in top-line VC volume in Q3'17 was more due to simultaneous declines in angel, seed and early-stage funding activity. Given the overall venture investing climate, it is possible that early-stage financing picks back up, but angel and seed investors seem to have by and large significantly dialed down their activity given current high prices and ramped-up macroeconomic and political risks.

"Fintechs are struggling to find sufficient investment at the early stages. Early startups have to offer an almost perfect offering that combines the right team with a stellar solution that includes the right technology with IP that can solve a big problem. If they get all the pieces right, they're rewarded with sizeable funding from eager investors."

Arik Speier
Co-Leader, KPMG Enterprise Innovative Startups Network and Head of Technology
KPMG in Israel

PE activity stays strong

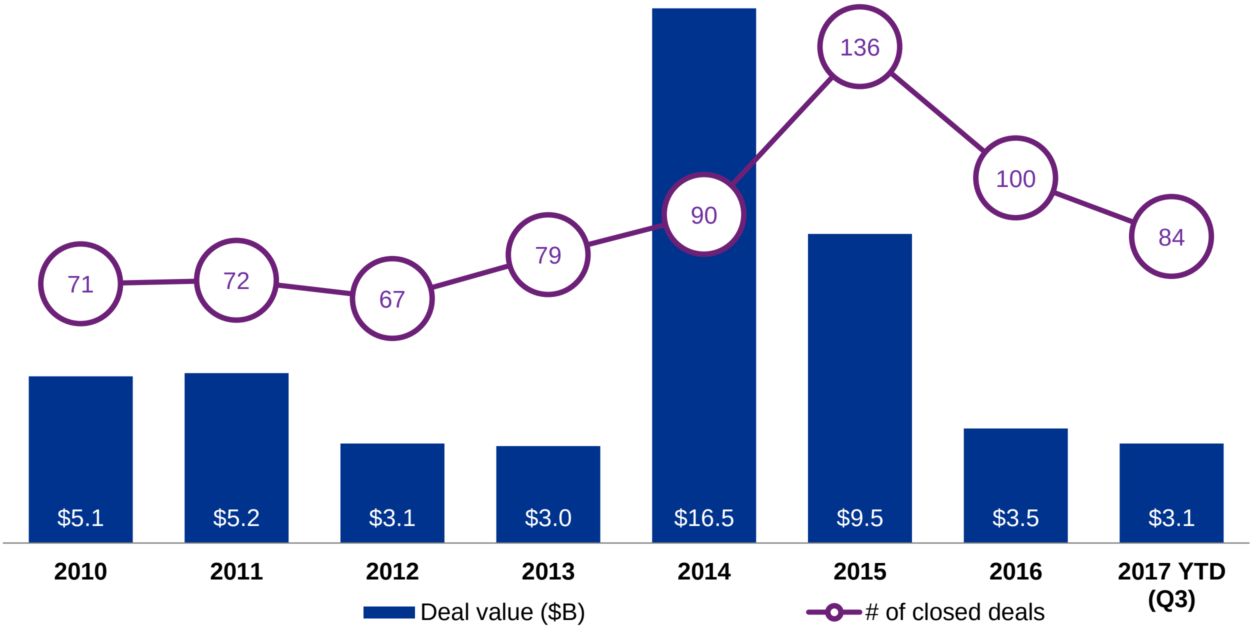
Fintech PE activity in Europe
2010 – Q3'17



Source: Pulse of Fintech Q3'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) November 7, 2017.

M&A set to remain even with 2016

Fintech M&A activity in Europe
2010 – Q3'17

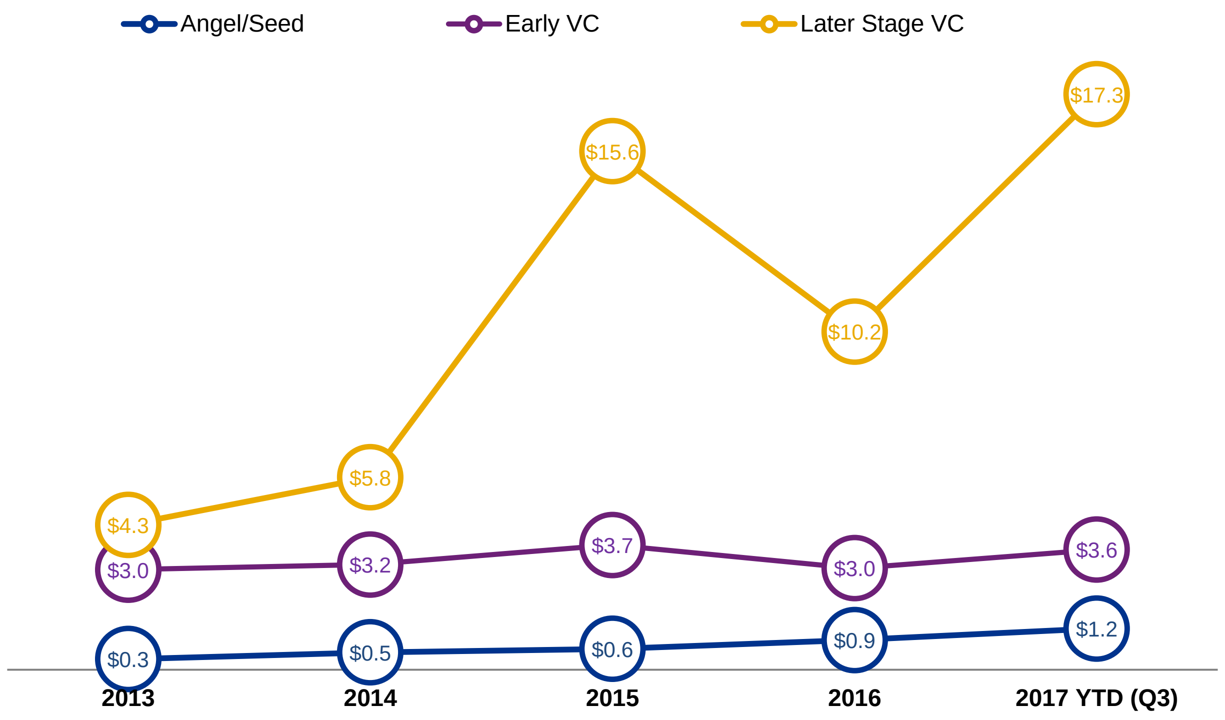


Source: Pulse of Fintech Q3'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) November 7, 2017.

Especially in the more fragmented European financial sector, and in the context of grappling with increased policy and macroeconomic risks in the ongoing ripple effects of the banking crises, it is clear financial institutions are looking to remain active in fintech dealmaking. Whether to streamline processes, stay abreast of innovation or some combination of both, M&A within fintech remains active on the continent.

Financing sizes stay high

Median fintech venture financing size ($M) by stage in Europe
2013 – Q3'17

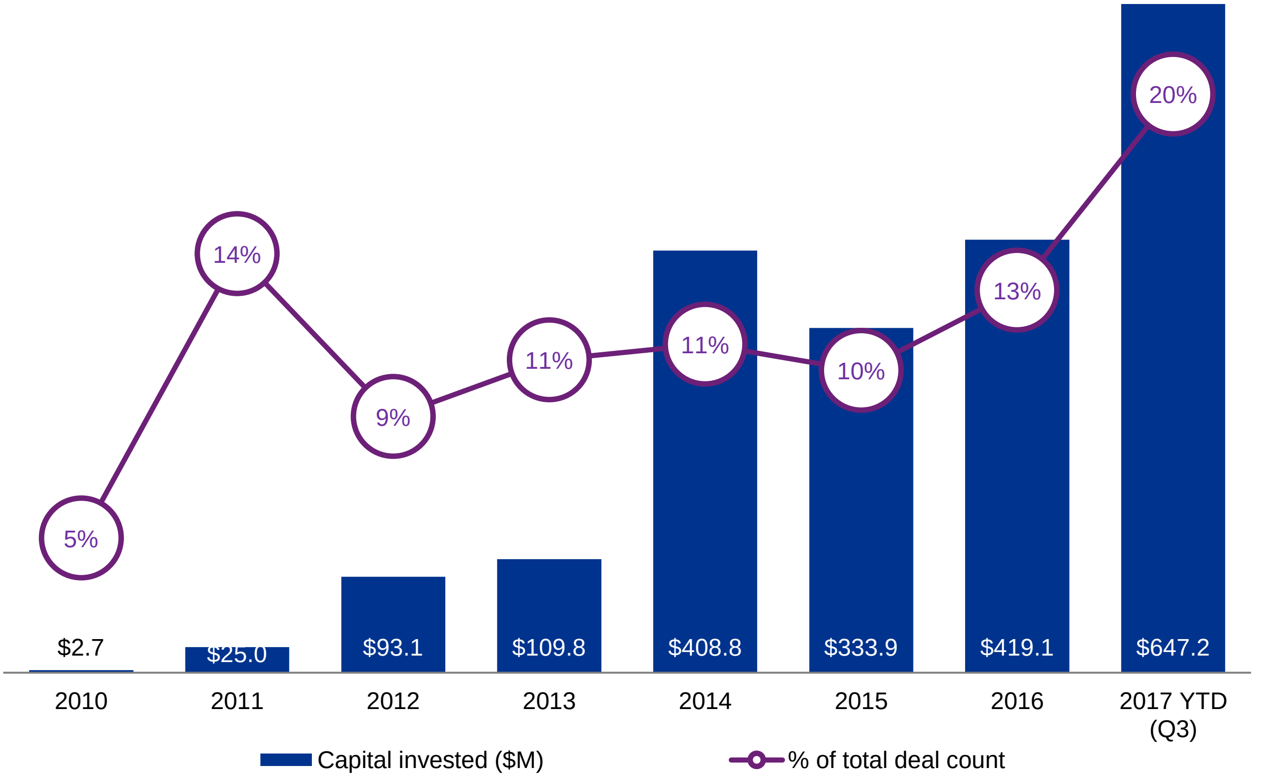


Source: Pulse of Fintech Q3'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) November 7, 2017.

It is worth noting that especially as there remain significant amounts of dry powder globally underpinning venture activity, median round sizes remain quite inflated, even for fintech. When it comes to Europe, a small crop of mature fintech startups are keeping late-stage financing numbers high in particular in 2017 to date.

Corporate VC participation hits a new high

Fintech venture activity in Europe with corporate VC participation
2010 – Q3'17



Source: Pulse of Fintech Q3'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) November 7, 2017.

As the end of 2017 approaches, it is easier to assess the momentum of certain trends by charting them out on a yearly basis. Accordingly, as hinted at by quarterly figures, corporate venture arms are significantly propping up overall fintech VC activity, participating in a full fifth of all completed transactions in 2017 to date.

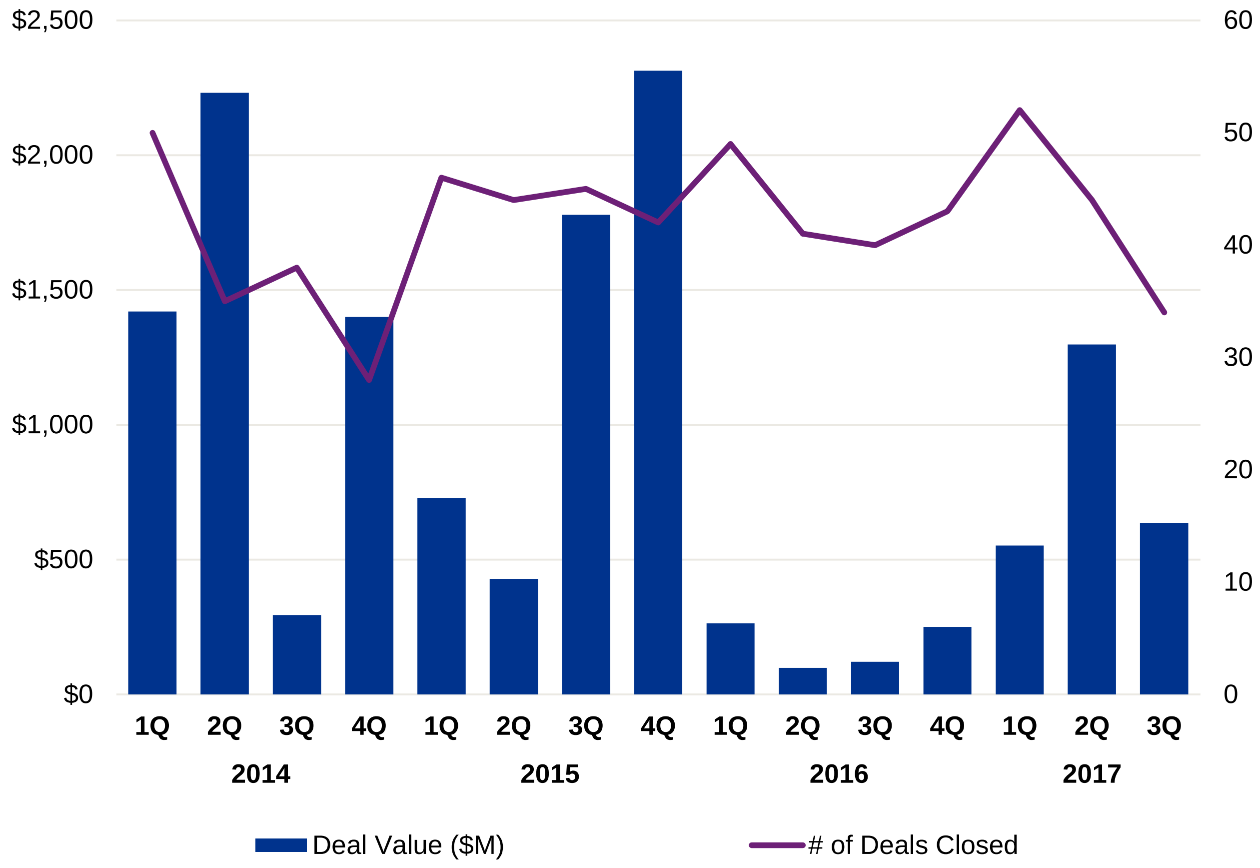
"Traditional financial institutions (Fis) recognise that digital transformation is critical. Build or buy is always an important consideration. FI's have started to heavily invest in Fintech companies as a strategy to give them the direct access to the new technologies they need to compete."

Anna Scally
Partner, Head of Technology and Media and FinTech Leader
KPMG in Ireland

UK deal value reverts to subdued level

Fintech VC, PE and M&A activity in the United Kingdom

2014 – Q3'17



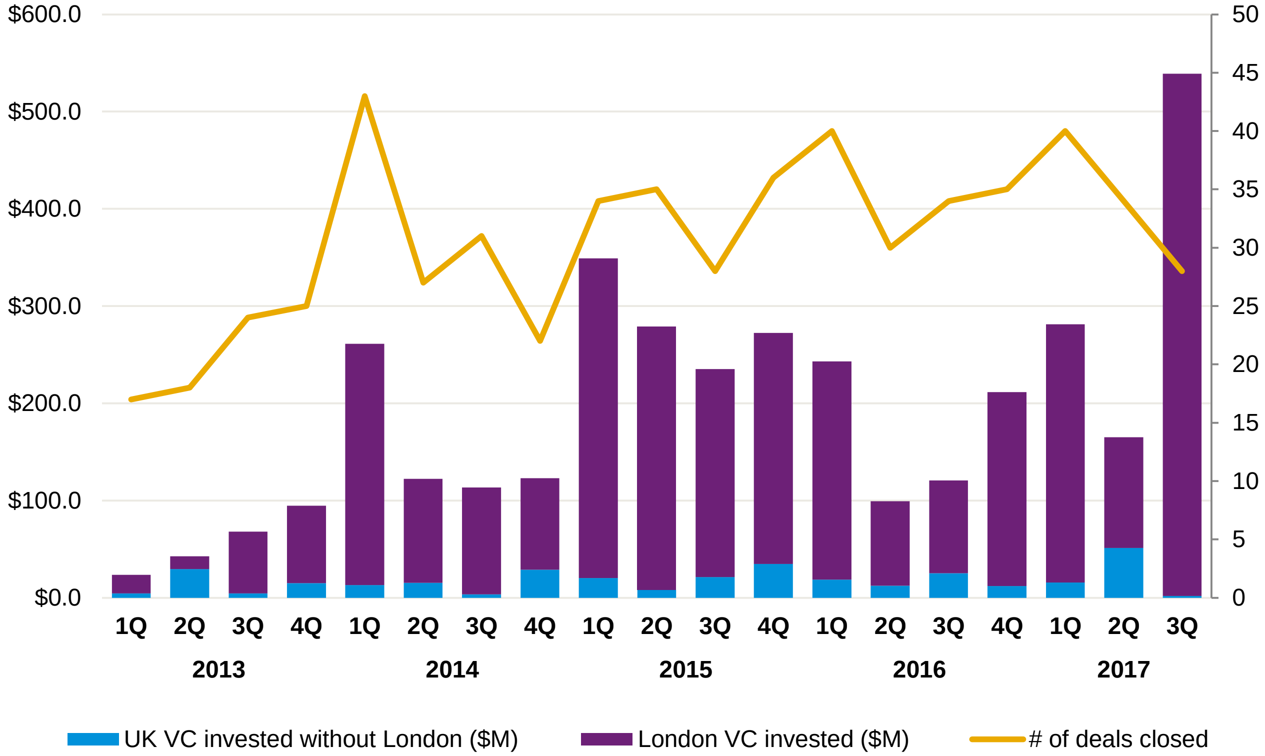
Source: Pulse of Fintech Q3'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) November 7, 2017.

Note: 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 81.

London-based fintechs can still command plenty of capital from investors, even in the midst of ongoing political and economic uncertainty, as the list of top 10 European fintech transactions for Q3'17 reveals below. That said, even perhaps the preeminent global financial hub can see significant skew in its fintech investing trends on a quarterly basis, as seen in the slump in aggregate deal value from Q2 to Q3'17.

London-based startups rake in all Q3 dollars

Fintech venture activity in the UK versus London
2010 – Q3'17



Source: Pulse of Fintech Q3'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) November 7, 2017.

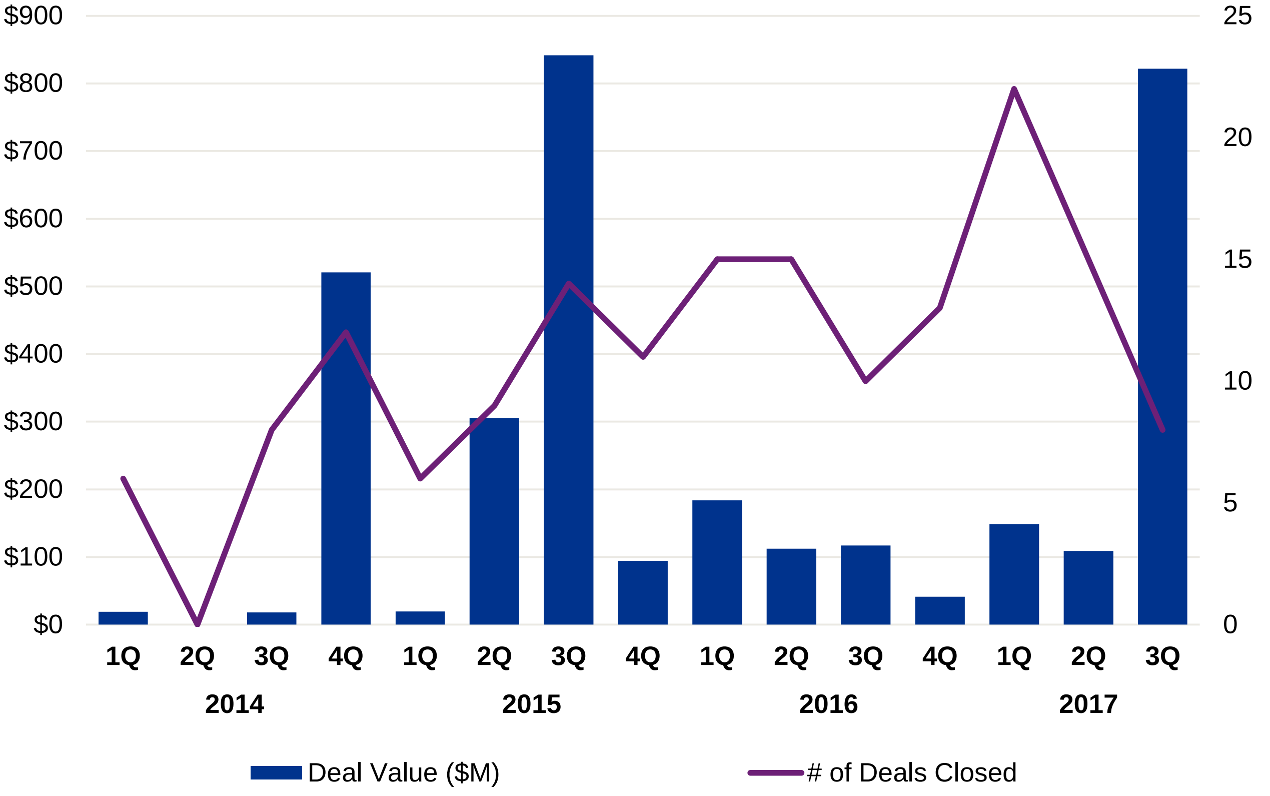
The extent to which European metropolises host venture activity, especially when it comes to certain areas, is only even more exaggerated when it comes to London. In Q3'17, the UK saw one single round with a known value outside of the capital.

"UK VC activity was exceptionally strong this quarter in particular in the B2B sector. Fintechs realize they have the opportunity to have a wider impact on the financial services sector and are looking to build solutions to help drive operational efficiencies within financial institutions. This shift is paying off and investors are paying close attention"

Rachel Bentley
Fintech Senior Manager
KPMG in the UK

ConCardis buyout boosts Germany's Q3 totals

Fintech VC, PE and M&A activity in Germany
2014 – Q3'17



Source: Pulse of Fintech Q3'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) November 7, 2017.

Note: 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 81.

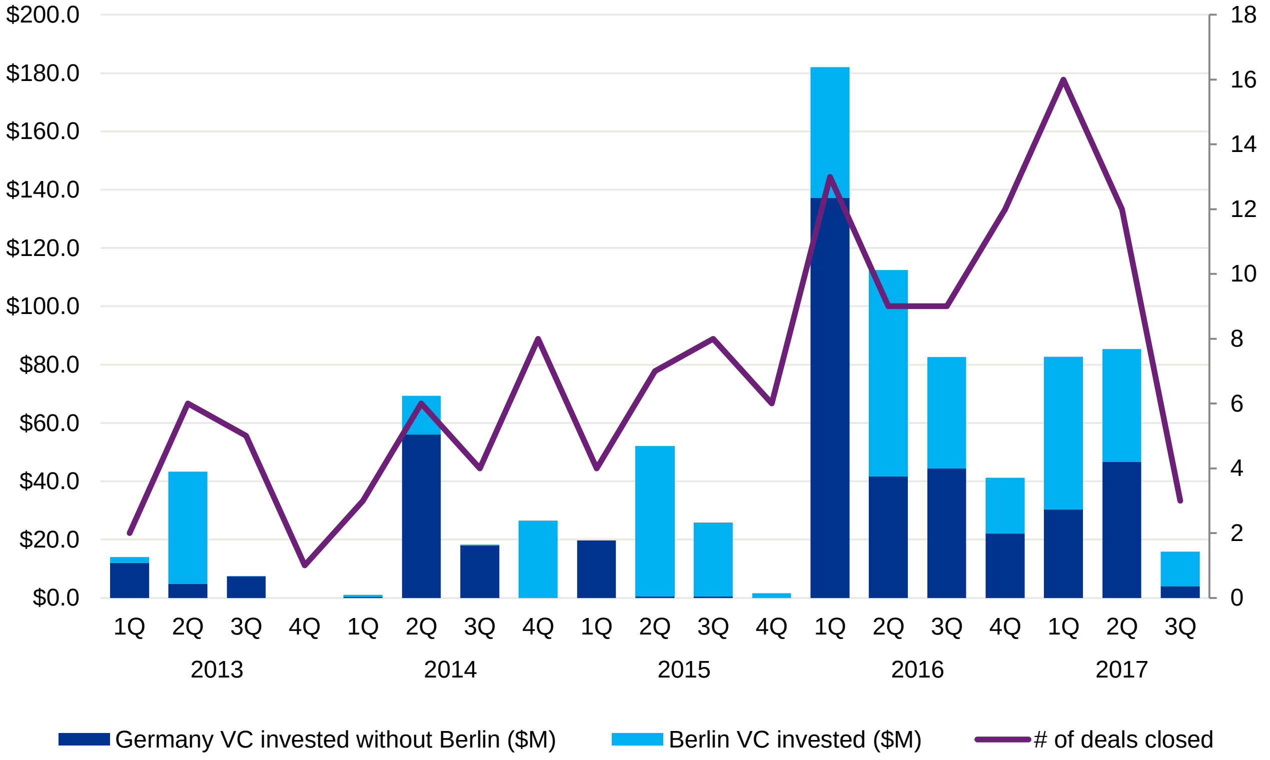
"Germany has seen a dramatic increase in the amount of corporate VC activity, particularly from insurance companies. Banks have traditionally led the way in CVC investments. Insurance companies are now looking to catch up, and one approach has been to provide significant investment in incubators across Germany that focus on the development of insurance-focused technology."

Sven Korschinowski
Partner, Financial Services
KPMG in Germany

A down Q3 still sees a diversified fintech scene

Fintech venture activity in Germany versus Berlin

2013 – Q3'17

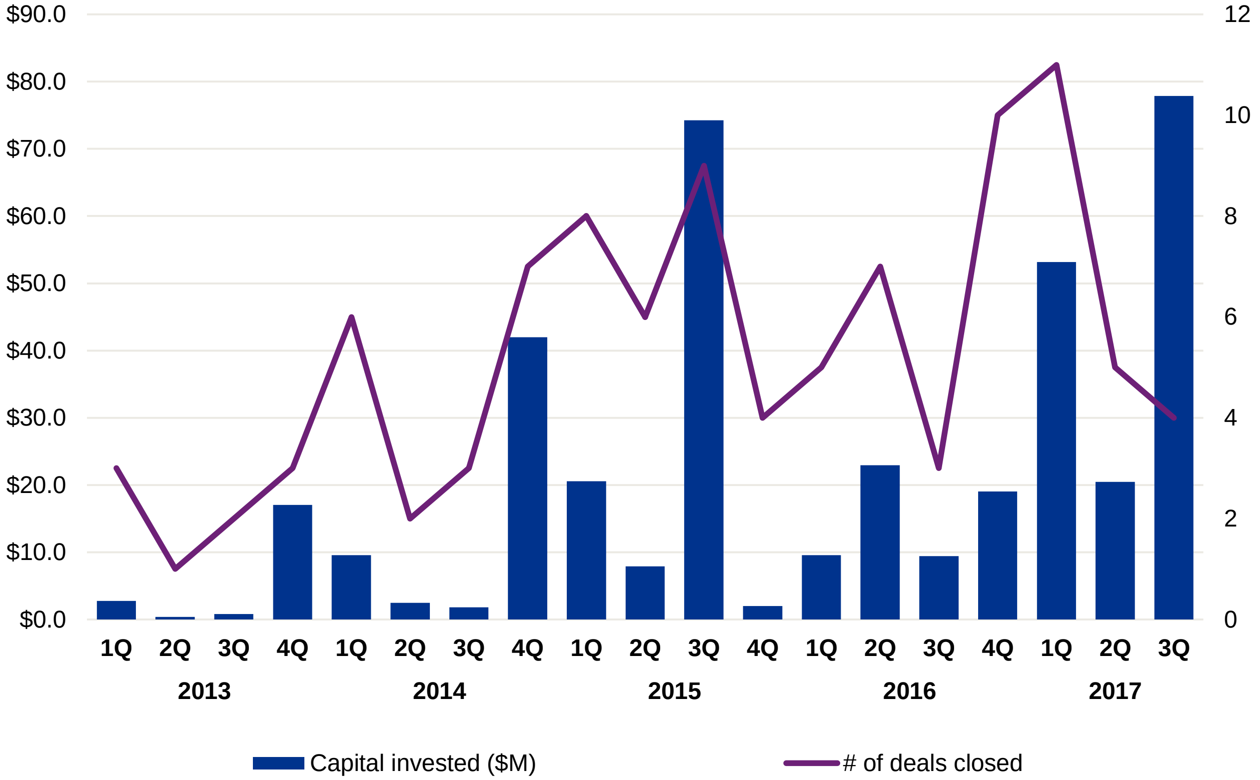


Source: Pulse of Fintech Q3'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) November 7, 2017.

Fintech VC in France booms to a new high

Fintech venture activity in France

2013 – Q3'17



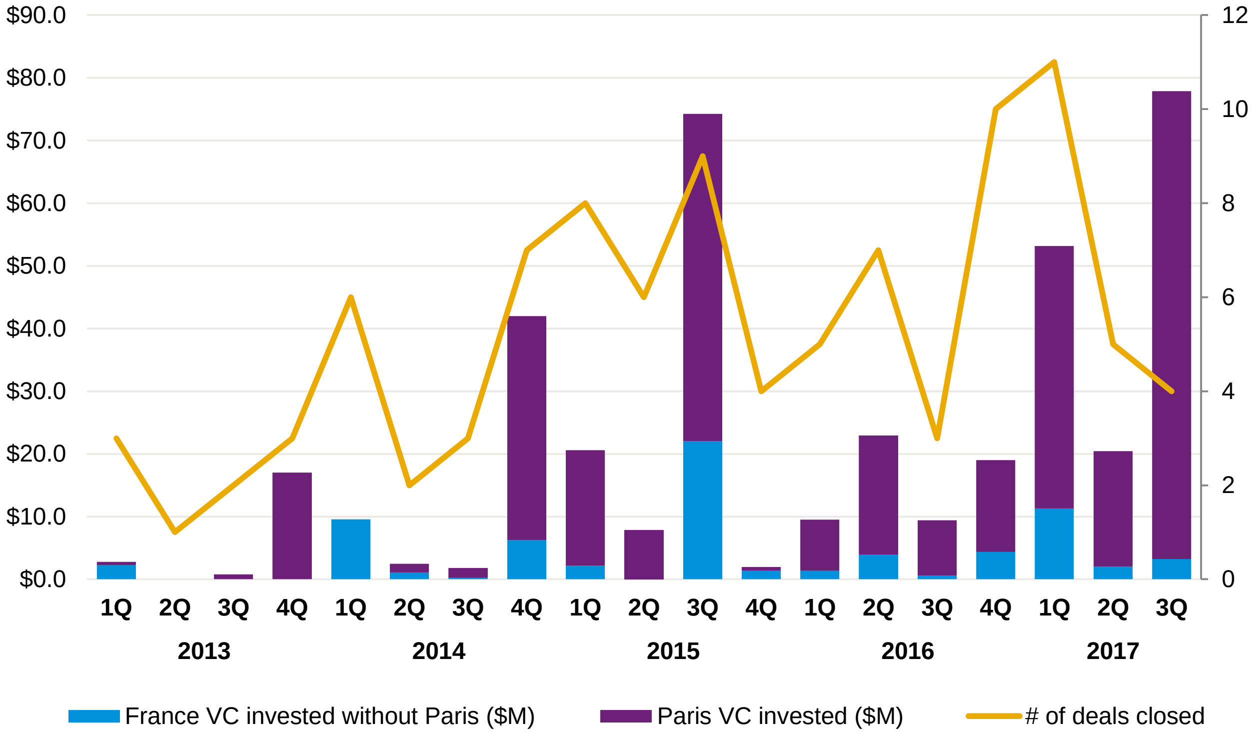
Source: Pulse of Fintech Q3'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) November 7, 2017.

"Until recently, the regulations in France made fintech investment more challenging. Now that regulations have become progressively more fintech friendly, investors have new incentive to catch up. The combination of tax incentives and a strong financing ecosystem has helped boost investment activities for fintech startups at every stage of their development."

Mikael Ptachek
Head of Fintech
KPMG in France

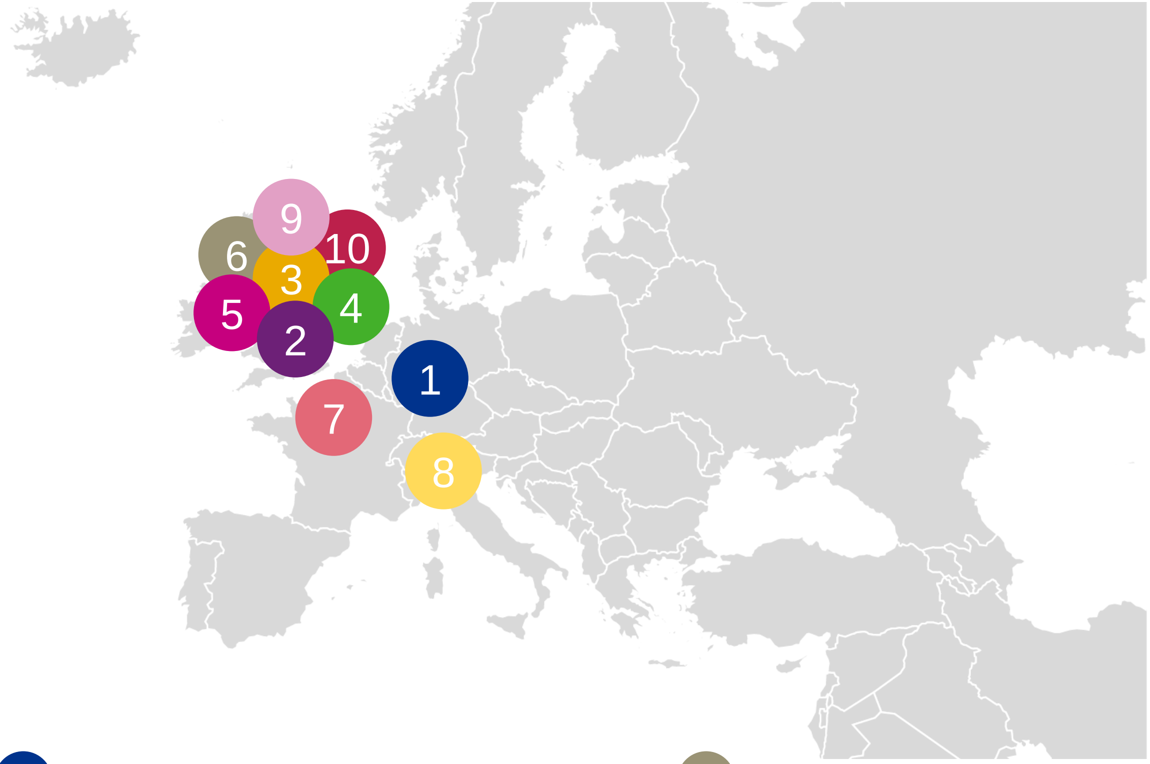
France still sees less concentration than the UK

Fintech venture activity in France versus Paris
2013 – Q3'17



Source: Pulse of Fintech Q3'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) November 7, 2017.

Top 10 European fintech deals in Q3'17



1. **ConCardis** — $806M, Eschborn, Germany
Payments/transactions
Secondary buyout

2. **Prodigy Finance** — $240M, London
Lending
Series C

3. **Neyber** — $149.1M, London
Lending
PE growth

4. **Monitise** — $97.3M, London
Payments/transactions
Public-private M&A

5. **Revolut** — $76M, London
Payments/transactions
Series B

6. **Receipt Bank** — $50M, London
Institutional/B2B
Series B

7. **Younited Credit** — $47.2M, Paris
Lending
Late-stage VC

8. **SimCorp Italiana** — $41.3M, Milan
Insurtech
M&A

9. **Digital Shadows** — $26M, London
Institutional/B2B
Series C

10. **Monzo** — $25.4M, London
Consumer finance
Series B

Source: Pulse of Fintech Q3'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) November 7, 2017.

KPMG

In Q3'17, investment in fintech companies in Asia hit

$1.21B

across

41 deals

Fintech investment in Asia jumps in Q3'17

In Q3'17, fintech investment in Asia grew to over $1 billion for the first time this year, despite a drop-off in the number of fintech deals. VC investment was particularly strong, reaching a 4 quarter high of $1.06 billion. While China received the majority of Q3'17 investment, companies in Hong Kong, India and Korea accounted for several of the region's top 10 deals (i.e. TNG Fintech Group, Korbit, Freecharge Payments Technologies, CompareAsia Group, and Capital Float).

Early-stage deal volume plummets

During Q3'17, deals volume in Asia decreased significantly, primarily as a result of a plunge in the number of angel and seed stage deals. Early-stage deals remained relatively steady, while the number of late stage deals experienced a slight uptick.

Corporate participation high, despite funding drop-off

Corporates continued to drive a large percentage of fintech deals in Asia, participating in 22 percent of deals so far in 2017 compared to 18 percent in 2016. Despite the increase in participation, corporate investments have fallen substantially, from $6.8 billion in 2016 to $840 million year-to-date. This slowdown likely reflects concerns around the Chinese government's tightening of financial controls. As the government's policies are clarified, corporate investment may increase.

China continues to see biggest deals in Asia

Six of Asia's largest Q3'17 deals occurred in China, including three of the region's four $100 million+ megadeals: Dianrong ($220 million, Series D), Feidee ($200 million, Series C), and Dashu Finance ($117 million, Series C).

China's tech giants have also spurred investment activity in Southeast Asia. For example, in recent quarters Alibaba, JD Finance, and Tencent have all made regional investments in order to expand their reach. Alipay is looking even more globally, using acquisitions to drive expansion into all countries with a significant Chinese footprint.

Chinese fintechs succeeding with IPOs

During Q3'17, a number of Chinese fintechs either conducted IPOs outside of the Chinese market or indicated plans to do so. For example, Qudian, one of China's largest online lenders, went public in New York, with shares closing up 22 percent on the first day of trading. Chinese peer-to-peer (P2P) lender Ppdai also announced plans for a New York IPO.

Insurtech Zhong An — China's first fully online insurance company — also hosted a successful IPO in Hong Kong during Q3'17, raising $1.5 billion on a valuation of $10 billion.

Insurtech slowly gaining momentum

Q3'17 saw increasing interest in insurtech in Asia, although investment activity remains considerably behind other jurisdictions. Insurtech investment, particularly in China, has been driven by corporates interested in AI and data analytics. Recently, two major insurers — China Life and Ping An Insurance - have announced separate $1 billion funds: Ping An will use its fund to invest in fintech and healthtech while China Life has partnered with internet search provider Baidu to create a fund aimed at investing in AI and finance operations.[1]

[1] https://www.ft.com/content/b16a7fa7-7588-33d6-a634-18e5af72c102;
https://www.reuters.com/article/us-china-fund-internet/china-life-and-baidu-to-launch-1-billion-internet-fund-idUSKCN1B41EX

Fintech investment in Asia jumps in Q3'17 (cont'd)

Singapore continues to evolve into leading fintech hub

The Monetary Authority of Singapore (MAS) remained the key driver behind the country's fintech ecosystem in Q3'17. With 2018 a key checkpoint year for Singapore's Smart Nation 2020 strategy, the MAS's focus on innovation is only expected to grow. One major priority for the MAS has been blockchain. To date, it has launched 10 blockchain projects — moving them through concept development to proof of concept. In 2018, some of these initiatives are expected to go to pilot, with the hope of implementation prior to 2020.

Focus on enabling technologies in Southeast Asia

In Southeast Asia, fintech evolution has focused primarily on enablement of traditional financial institutions rather than disruption. In a region where deal sizes remain relatively small, this focus provides an accessible avenue for growth as B2B solutions do not require the same resources to scale. For example, the region has seen some growth in robo advisory, with technologies focused on enabling financial institutions to provide better customer service. Smaller banks in Singapore and Southeast Asia have also been working with fintechs to service underbanked and unbanked communities.

Hong Kong expands fintech sandboxes

The government of Hong Kong, through its industry regulators, continues to be a key driver of fintech innovation. During Q3'17, the Hong Kong Monetary Authority announced upgrades to its existing fintech sandbox, while the Securities and Futures Commission and the Insurance Authority of Hong Kong both announced the development of specific fintech sandboxes. The availability of widespread opportunities to foster and test fintech solutions likely reflects Hong Kong's increasing desire to be seen as a base for Asia fintech.

China continues to tighten financial controls

In recent quarters, the Chinese central government has tightened controls around internet finance, particularly related to customer-facing activities.[1] Consequently, many fintechs that initially had a customer focus have shifted to B2B models. This has led to a boom in partnerships, with fintechs focused on providing credit assessment, risk assessment, and other financial solutions to licensed businesses rather than to consumers.

In Q3'17, the Central Bank also established a committee focused on analyzing the impact of fintech on financial sector stability and on applying regtech solutions to help manage innovation. It also announced the creation of Nets Union Clearing Corporation — a clearing house for mobile payments.[2]

ICOs also came under scrutiny in China this quarter. While ICO activity in China raised over $400 million early in 2017, in Q3'17, China's Central Bank banned ICOs, suggesting they disturbed financial order.[3] This ban may be temporary in order to give the Central Bank more time to explore the issue and define its position.

Trends to watch for in Asia

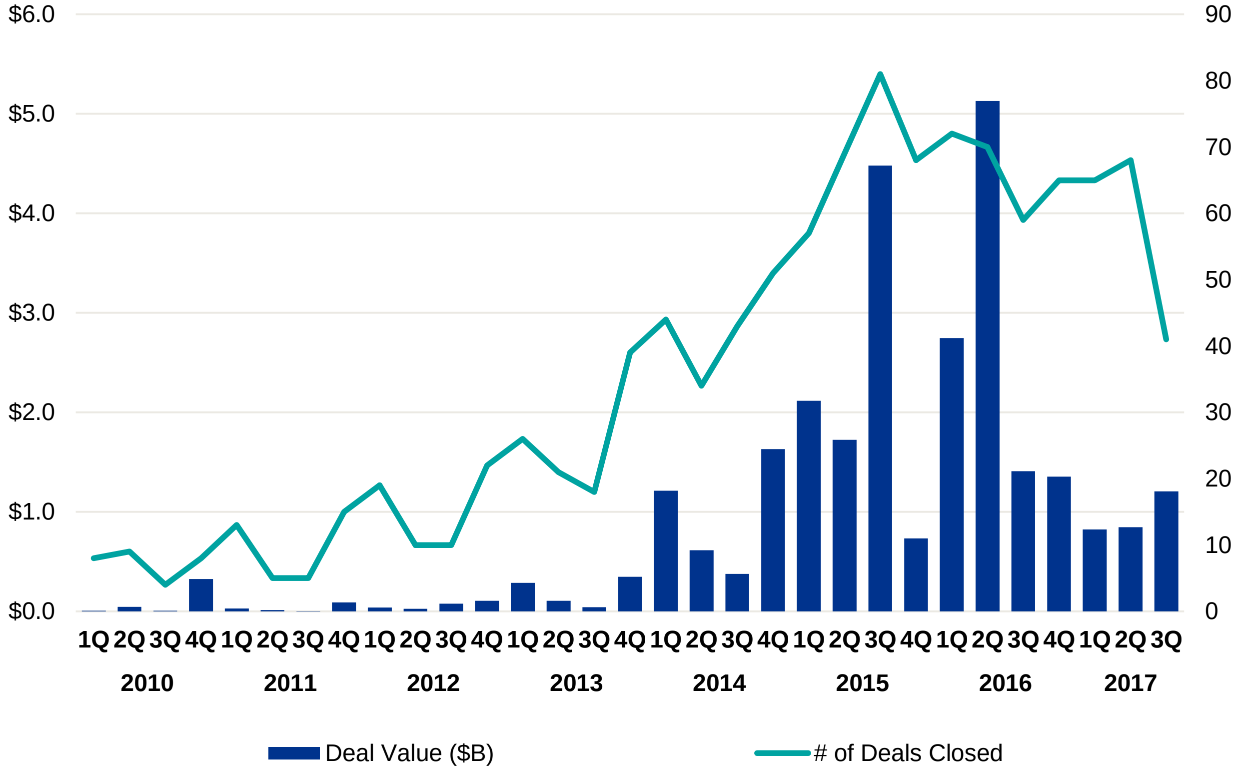
Over the next few quarters, Corporate VC (CVC) investments are expected to grow as more traditional corporates look to make strategic investments. The entire fintech ecosystem in Asia is also expected to expand as additional fintech hubs arise in different jurisdictions.

In China, the focus of startups is expected to continue to shift more to B2B solutions given the expanded controls over consumer-facing activities. P2P lending is also expected evolve as a result of new regulations. While the large P2P lenders may continue to grow, smaller lenders will likely struggle and either consolidate or disappear.

1 http://www.reuters.com/article/us-china-internet/china-to-further-tighten-its-internet-controls-idUSKBN1830AG
2 https://www.forbes.com/sites/jinshanhong/2017/08/18/how-chinas-central-bank-is-clamping-down-on-the-mobile-payment-industry/#63d009db50be
3 http://fortune.com/2017/09/12/cryptocurrency-china-initial-coin-offerings/

Deal value bounces upward

Fintech VC, PE and M&A activity in Asia
2010 – Q3'17



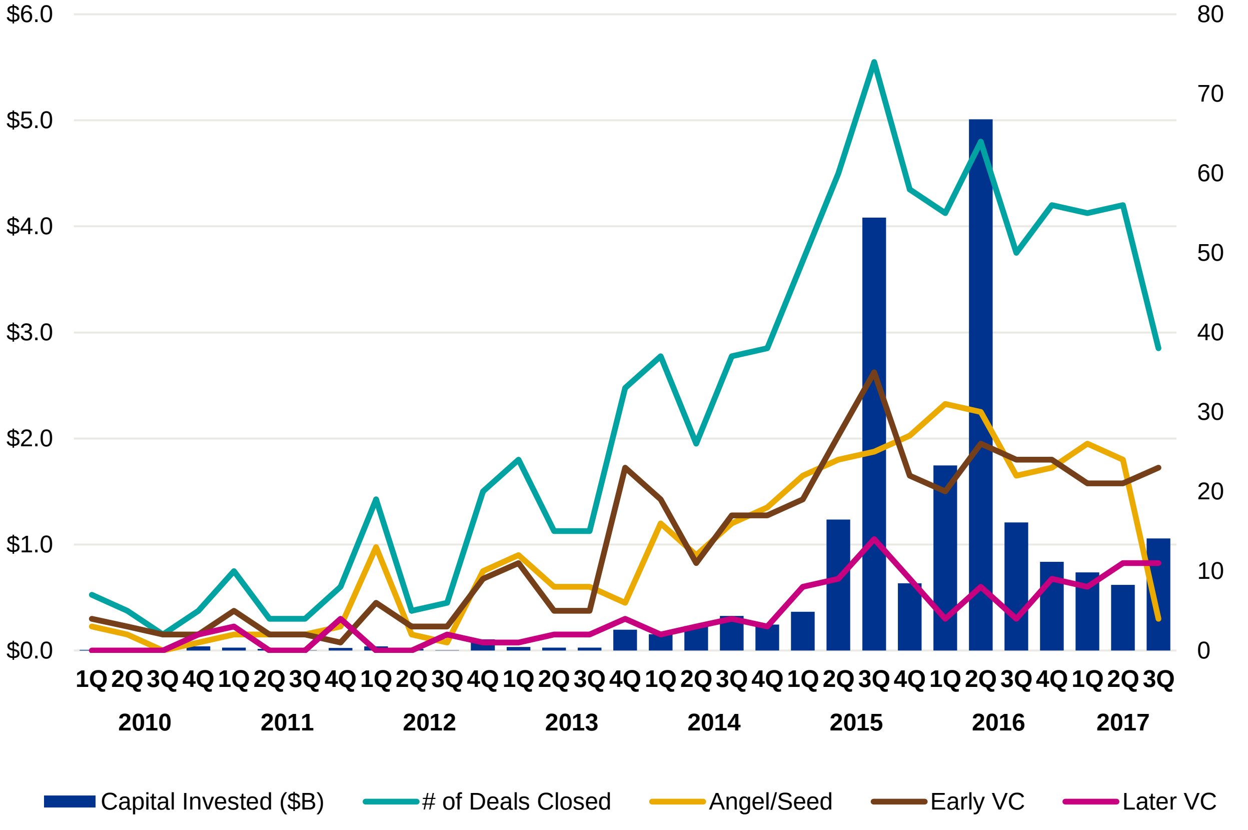
Source: Pulse of Fintech Q3'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) November 7, 2017.

Note: 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 81.

Thanks in no small part to a pair of massive venture financings, Q3'17 saw a significant resurgence in aggregate fintech deal value. That occurrence, in tandem with the plummet in completed transaction volume, mainly speaks to how the Asian fintech scene is still prone to seeing market leaders emerge rather rapidly in certain key segments that can dominate quarterly fundraising tallies by their tendency to rake in vast amounts of capital from non-traditional VCs and global venture investors.

Plunge in angel and seed volume responsible for Q3 decline

Fintech venture investment in Asia
2010 – Q3'17

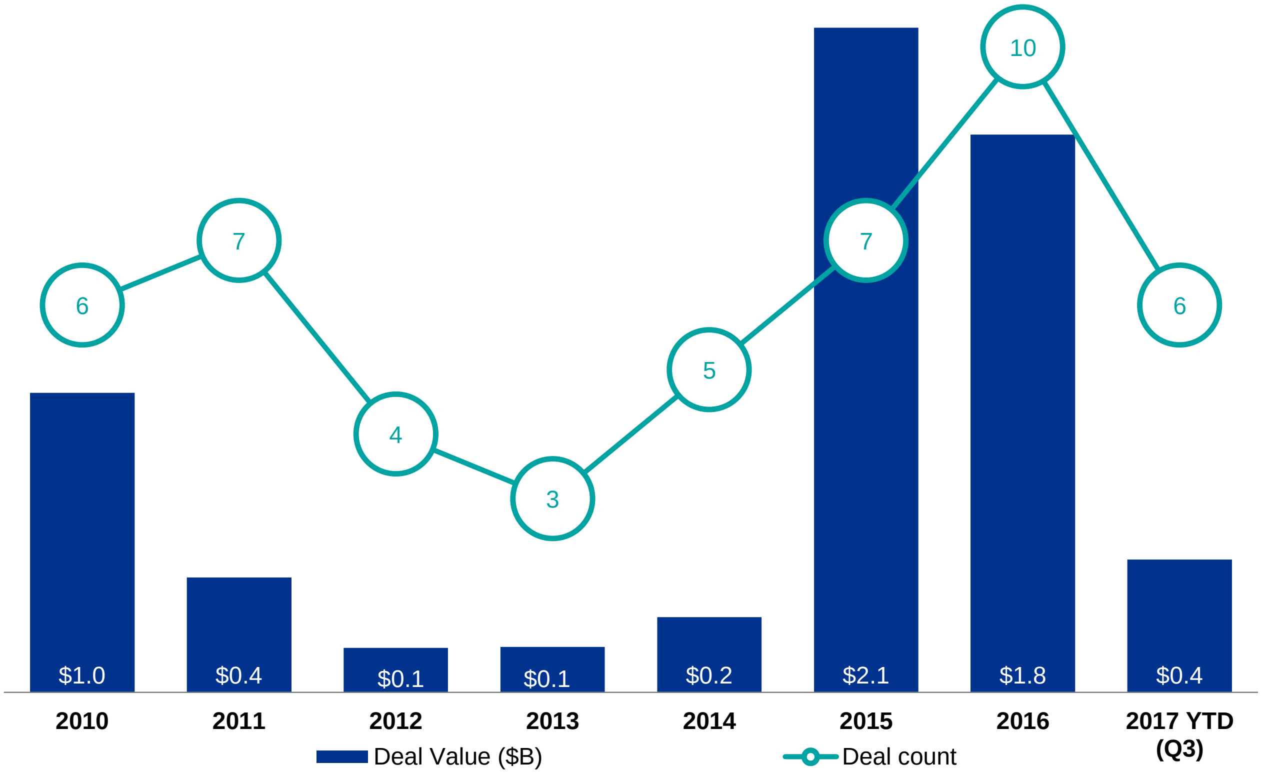


Source: Pulse of Fintech Q3'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) November 7, 2017.

Partially attributable to the opacity of such transactions' details when it comes to the emerging venture ecosystem of the Asia-Pacific region, and also a testament to just how volatile their trends can be, the sharp Q3 downturn was primarily owing to a precipitous decline in angel and seed financing.

PE activity remains softer than in years past

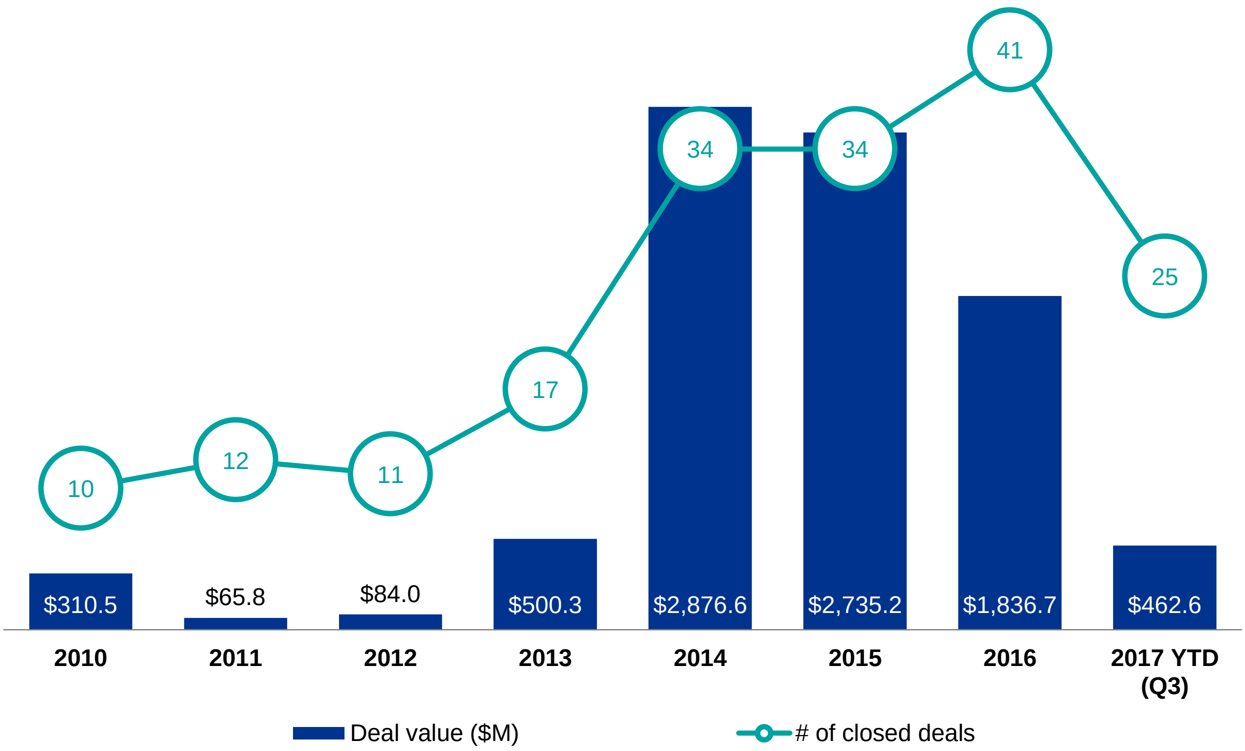
Fintech PE activity in Asia
2010 – Q3'17



Source: Pulse of Fintech Q3'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) November 7, 2017.

Pace of M&A remains respectable

Fintech M&A activity in Asia
2010 – Q3'17

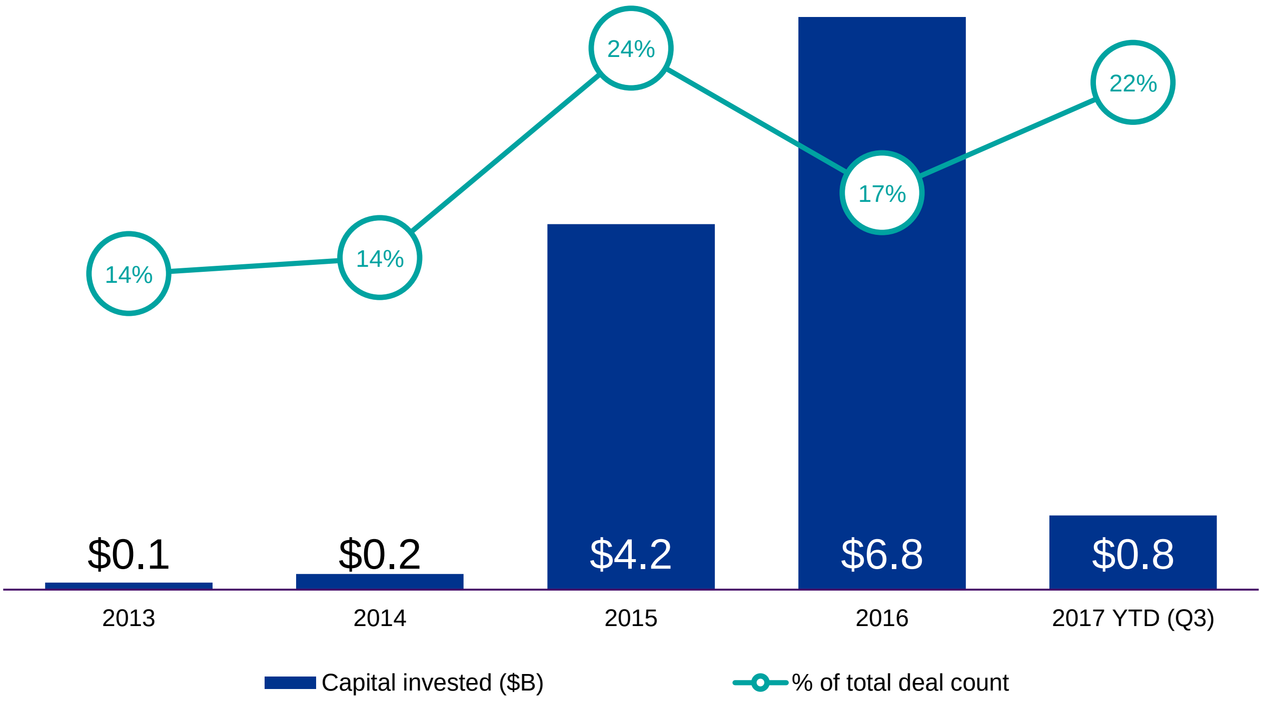


Source: Pulse of Fintech Q3'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) November 7, 2017.

When it comes to fintech, the push to acquire fast-growing startups focused on consumer offerings that cater to the rapidly expanding middle class, as well as payments-focused businesses that can align with China's push to orient the region toward a more unified economic ecosystem, will likely continue to drive M&A going forward.

CVCs continue to contribute significantly

Fintech venture capital activity in Asia with corporate VC participation
2013 – Q3'17

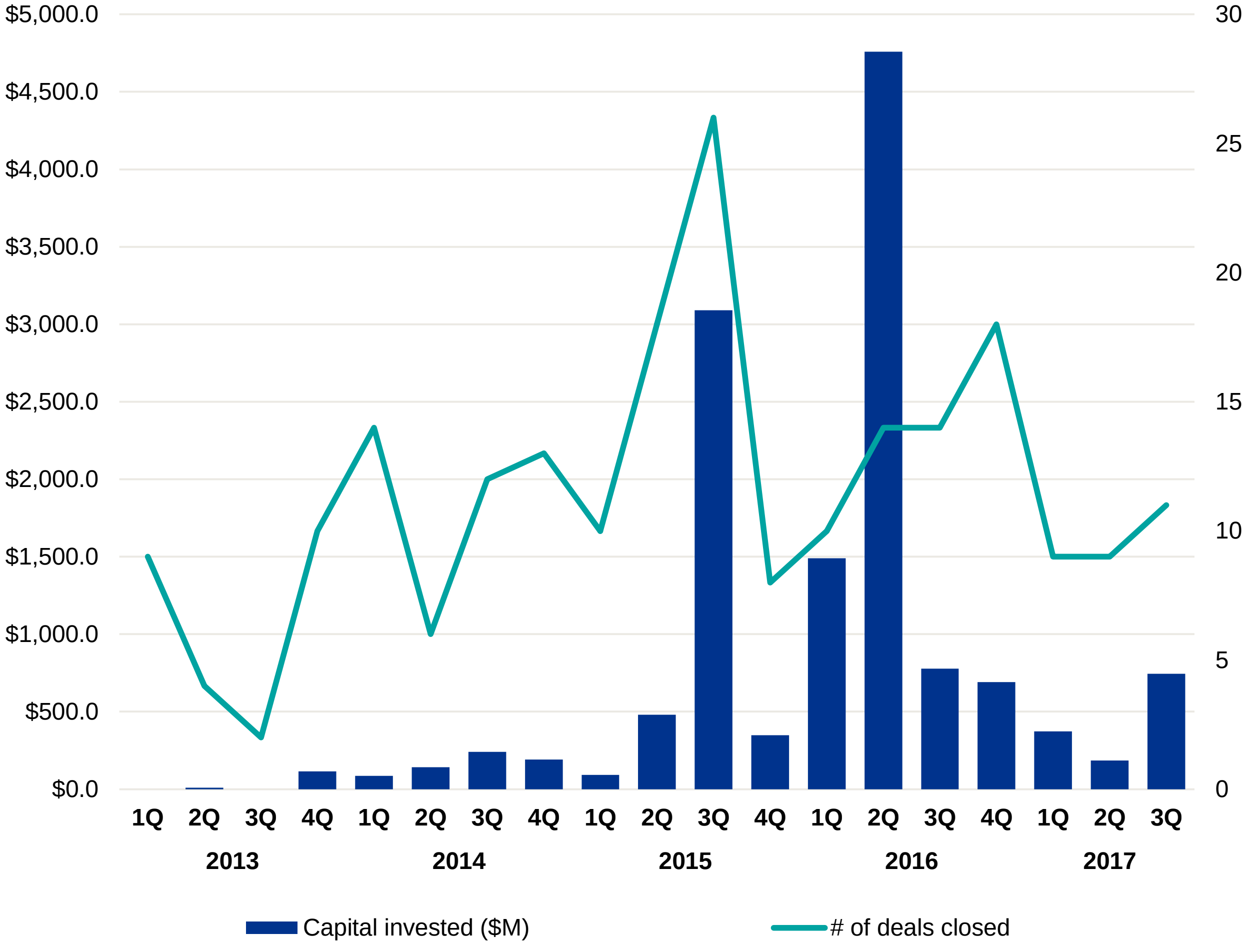


Source: Pulse of Fintech Q3'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) November 7, 2017.

Corporate venture arms are more dominant in Asia than in any other given venture ecosystem, which makes sense given the relative development of capital markets within the region. Accordingly, their commanding portion of nearly a quarter of all fintech VC investment makes sense, yet it is worth noting that the total of VC invested suggests an earlier-stage focus than is often seen in other sectors, as well as the absence of mega-deals in fintech VC as of yet.

VC invested and volume tick upwards

Fintech venture investment in China
2013 – Q3'17



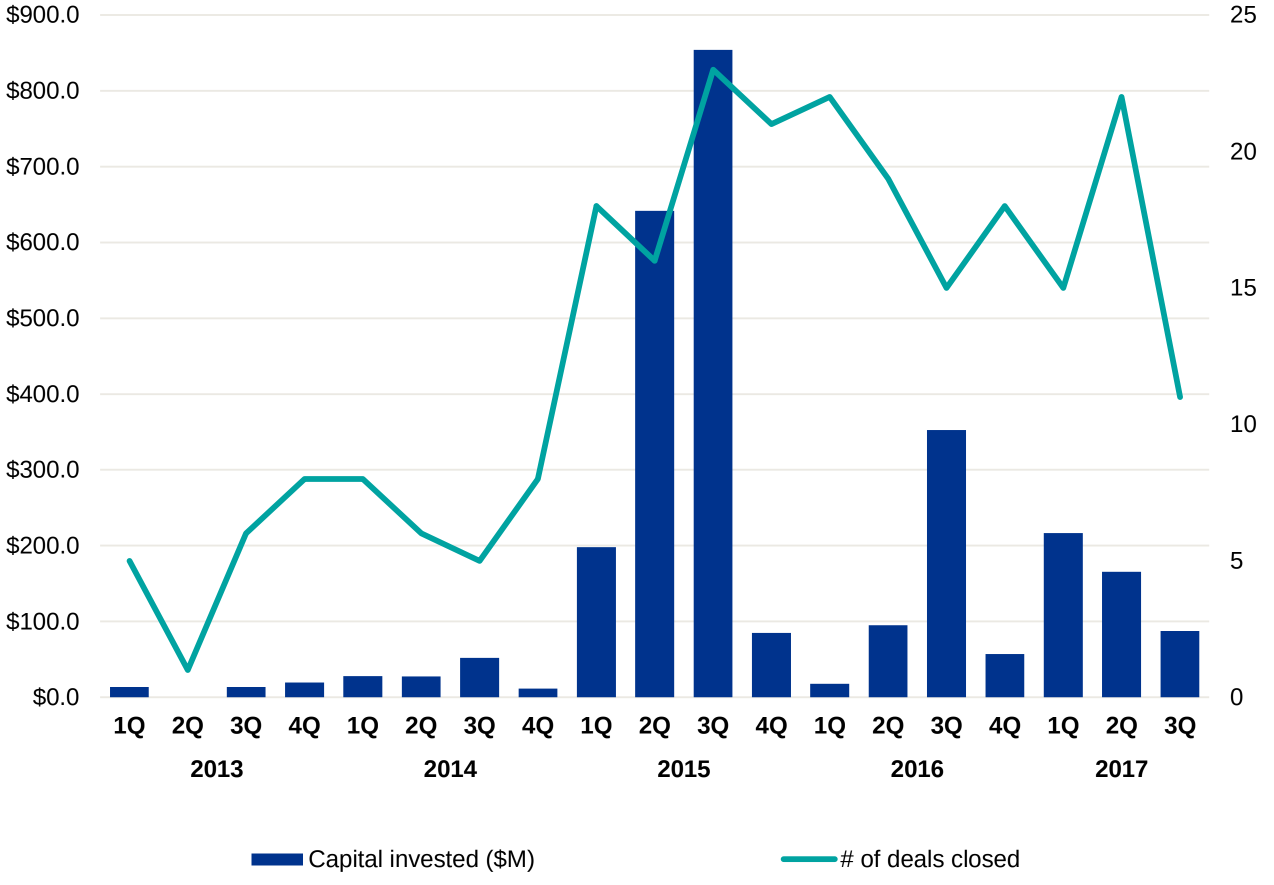
Source: Pulse of Fintech Q3'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) November 7, 2017.

"As China's central government continues to tighten controls around customer-facing internet finance activities, we have seen a major shift in fintech business strategy. Fintech companies that might have started with a customer focus are now embracing a B2B model, providing their solutions to traditional financial institutions in order to avoid the growing compliance requirements."

Arthur Wang
Partner, BJO and Financial Services
KPMG in China

Indian fintech VC volume skews down

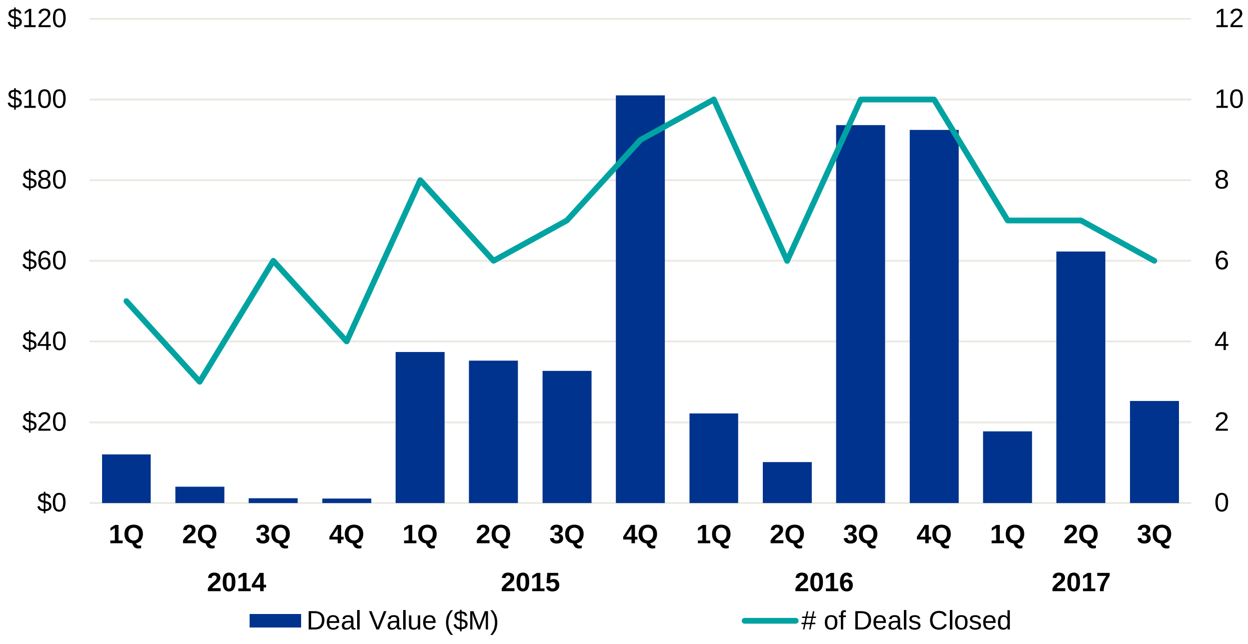
Fintech venture investment in India
2013 – Q3'17



Source: Pulse of Fintech Q3'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) November 7, 2017.

A lower quarter for Singapore

Fintech VC, PE and M&A activity in Singapore
2014 – Q3'17



Source: Pulse of Fintech Q3'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) November 7, 2017.

Note: 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 81.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.

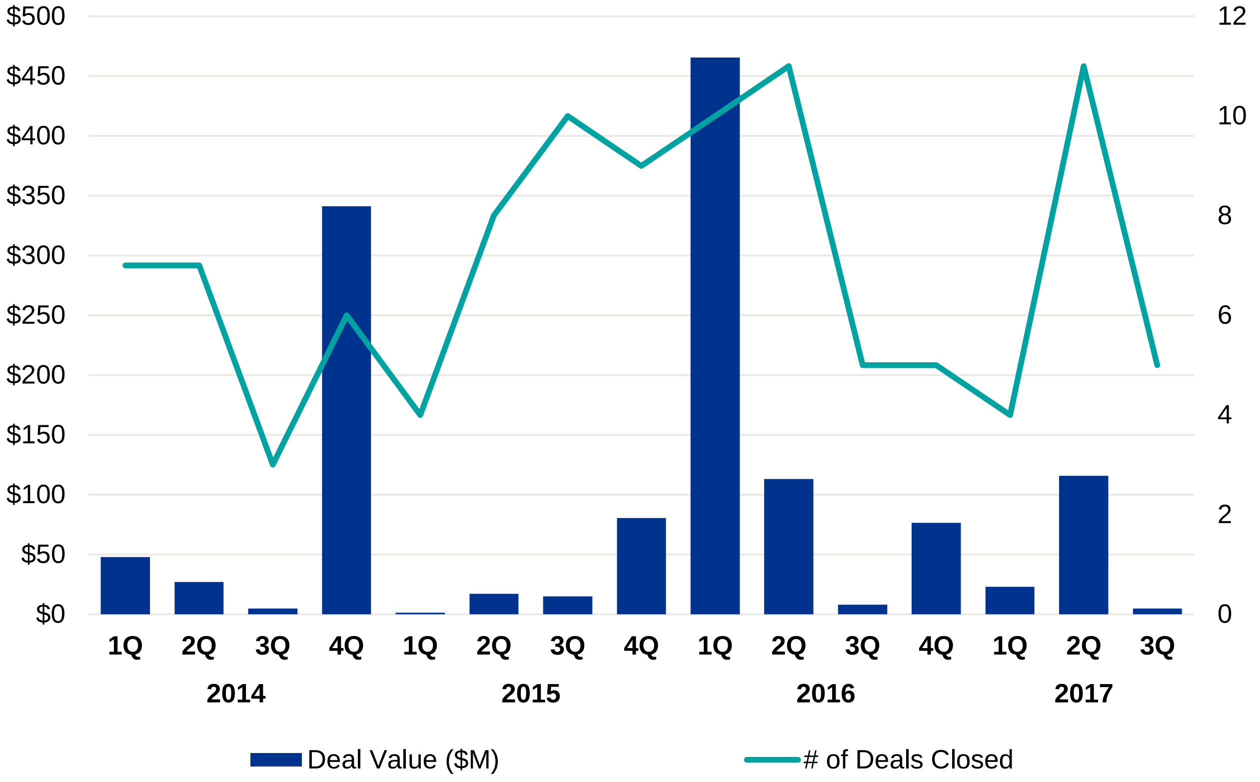
The role of timing when it comes to the level of fintech transactional volume in a given country, especially one that, when all is said and done, is as large as Singapore, can't be underrated. Accordingly, another down quarter isn't that historically uncommon, especially as the nascent fintech hub is still developing. That said, activity has remained consistent over the past several quarters, since the start of 2015.

"The MAS is putting a lot of emphasis into the development of blockchain, with high expectations for successful pilot projects heading into 2018. But blockchain isn't the only big ticket fintech focus in Singapore. Regtech is also a high priority — from using AI to make workflow processes more efficient to finding ways to provide real time or near-real time monitoring of transactions."

Tek Yew Chia
Head of Financial Services Advisory
KPMG in Singapore

After an upsurge, a decline in Q3

Fintech VC, PE and M&A activity in Australia
2014 – Q3'17



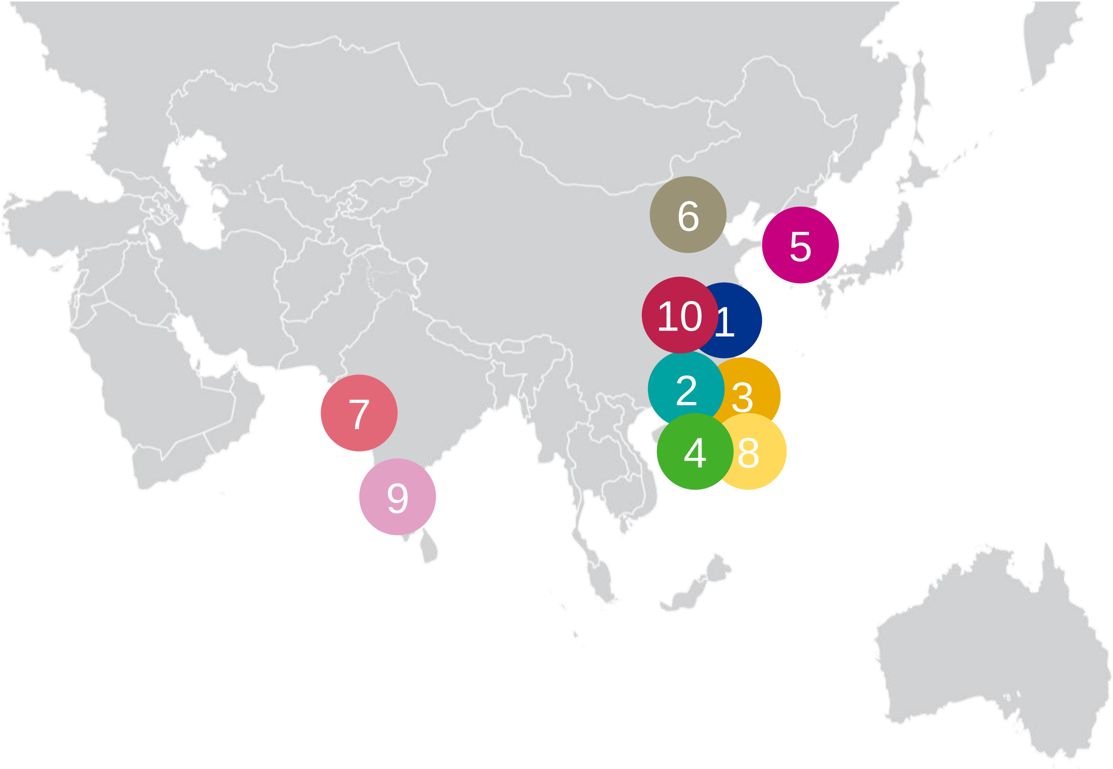
Source: Pulse of Fintech Q3'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) November 7, 2017.

Note: 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 81.

The above chart does not include the AUD 40 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.

Fintech financing volume took a bit of a slide in Q3'17 in Australia. In the wake of Rubik Financial's transaction in Q2'17, deal value especially took a hit, in more a testament to the still-ongoing growth of the fintech ecosystem within the nation than anything else.

Top 10 fintech deals in Asia in Q3'17



1 **Dianrong** — $220M, Shanghai
Lending
Series D

2 **Feidee** — $200M, Shenzhen
Consumer finance
Series C

3 **Dashu Finance** — $117M, Shenzhen
Lending
Series C

4 **TNG Fintech Group** — $115M, Hong Kong
Consumer finance
Series A

5 **Korbit** — $90M, Seoul
Payments/transactions
M&A

6 **Iqianbang.com** — $80M, Beijing
Lending
Series B

7 **Freecharge Payment Technologies** — $59.8M, Mumbai
Payments/transactions
M&A

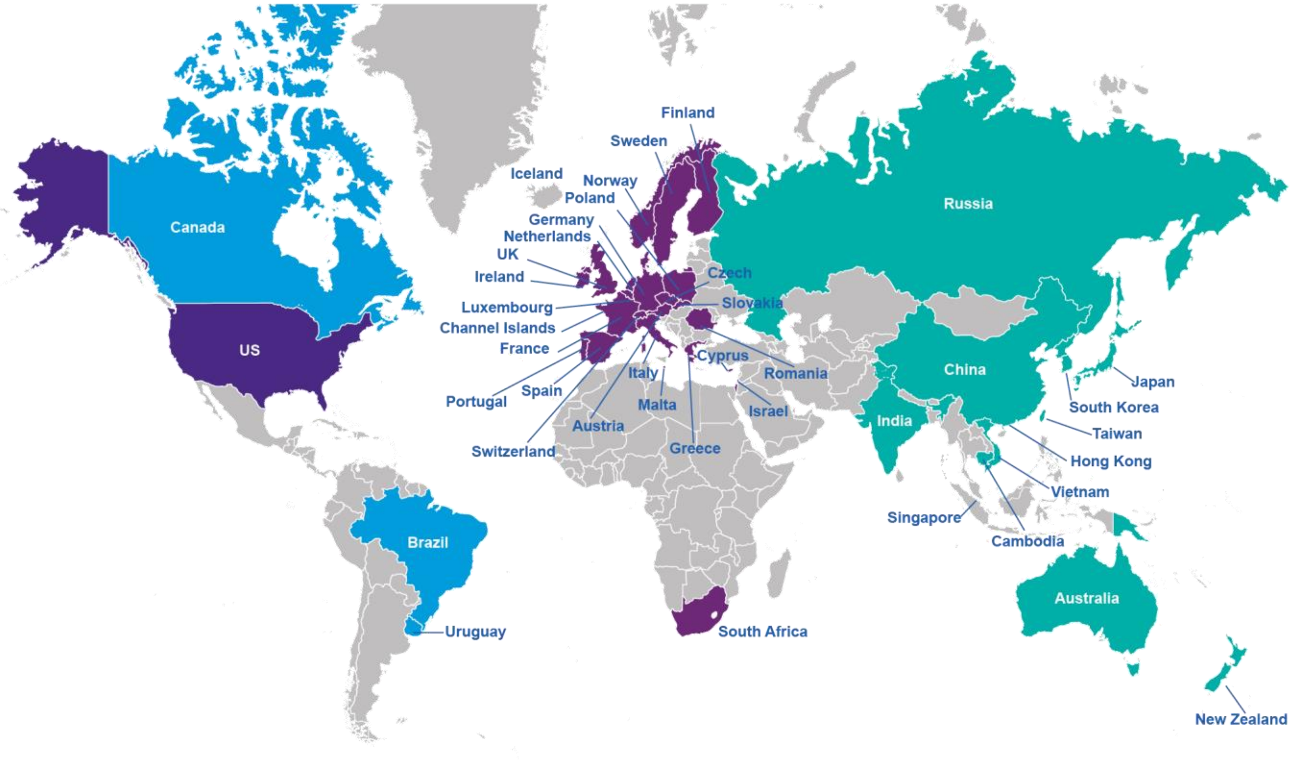
8 **CompareAsia Group** — $50M, Hong Kong
Consumer finance
Series B

9 **Capital Float** — $45.6M, Bangalore
Lending
Series C

10 **Fangsiling** — $45M, Nanjing
Consumer finance
Series E

Source: Pulse of Fintech Q3'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) November 7, 2017.

KPMG Enterprise Innovative Startup Network. From seed to speed, we're here throughout your journey



Contact us:

Brian Hughes
Co-Leader, KPMG Enterprise
Innovative Startups Network
E: bfhughes@kpmg.com

Arik Speier
Co-Leader, KPMG Enterprise
Innovative Startups Network
E: aspeier@kpmg.com

KPMG Fintech global network

Contact us:

Ian Pollari

Global Co-Leader of Fintech,
KPMG International
E: ipollari@kpmg.com.au

Murray Raisbeck

Global Co-Leader of Fintech,
KPMG International
E: murray.raisbeck@kpmg.co.uk

About KPMG Enterprise

You know KPMG, you might not know KPMG Enterprise.

KPMG Enterprise advisers in member firms around the world are dedicated to working with businesses like yours. Whether you're an entrepreneur looking to get started, an innovative, fast growing company, or an established company looking to an exit, KPMG Enterprise advisers understand what is important to you and can help you navigate your challenges — no matter the size or stage of your business. You gain access to KPMG's global resources through a single point of contact — a trusted adviser to your company. It's a local touch with a global reach.

The KPMG Enterprise global network for innovative startups has extensive knowledge and experience working with the startup ecosystem. Whether you are looking to establish your operations, raise capital, expand abroad, or simply comply with regulatory requirements — we can help. From seed to speed, we're here throughout your journey.

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, digitalisation, as well as continued regulatory and cost pressures. KPMG is passionate about supporting our clients to successfully navigate this transformation, mitigating the threats and capitalising on the opportunities. KPMG Global Fintech comprises of partners and staff in over 35 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.

Acknowledgements

We acknowledge the contribution of the following individuals who assisted in the development of this publication:

Jonathan Lavender, Global Chairman, KPMG Enterprise, KPMG International

Ian Pollari, Global Co-Leader of Fintech, KPMG International and Partner and National Sector Leader, Banking, KPMG Australia

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

Arik Speier, Co-Leader, KPMG Enterprise Innovative Startups Network and Head of Technology, KPMG in Israel

Brian Hughes, Co-Leader, KPMG Enterprise Innovative Startups Network and National Co-Lead Partner, KPMG Venture Capital Practice, KPMG in the US

Anna Scally, Head of Technology and Media and FinTech Leader, KPMG in Ireland

Anne Joyce, Senior Marketing Manager, Banking Capital Markets and Fintech, KPMG International

Anthony Rjeily, Principal, Financial Services Digital and Fintech Practice Lead, KPMG in the US

Anton Ruddenklau, Partner & Head of Digital & Innovation, Financial Services, KPMG in the UK

Arthur Wang, Partner, BJO and Financial Services, KPMG in China

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

Conor Moore, National Co-Lead Partner, KPMG Venture Capital Practice, KPMG in the US

Chris Higgins, Senior Manager, Fintech, KPMG in the UK

Dorel Blitz, Head of Fintech, KPMG in Israel

Eamonn Maguire, Global Head of Digital Ledger Services, KPMG International, Managing Director, KPMG in the US

Joe Cassidy, Partner, Financial Services Advisory, KPMG in the UK

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

John Ivanoski, Global Head of Regtech, KPMG in the US

Lindsay Hull, Associate Director, KPMG Enterprise Global Innovative Startups Network, KPMG in the US

Melany Eli, Head, Marketing and Communications, Global Executive, KPMG Enterprise, KPMG International

Mikael Ptachek, Head of Fintech, KPMG in France

Rachel Bentley, Fintech Senior Manager, KPMG Enterprise, KPMG in the UK

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

Sigrid I Seibold, Partner, Financial Services, KPMG in the US

Sonia Chiu, Manager, KPMG Enterprise, KPMG in the UK

Sven Korschinowski, Partner, Financial Services, KPMG in Germany

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

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.

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.

To connect with a KPMG adviser in your region email enterprise@kpmg.com

kpmg.com/fintechpulse
@kpmg

KPMG