The Pulse of Fintech, Q2 2016

Global Analysis of
Fintech Venture Funding

August 17, 2016

Welcome message

In Q2'16, global funding to VC-backed fintech companies dropped substantially. Despite this quarter's decline, funding is on pace to exceed 2015 investment levels.

Given global market uncertainties associated with the UK Brexit vote and its initial impact, the approaching US presidential election, ongoing concerns about valuations and significant headwinds in the marketplace lending space, it was not surprising to see VC investors taking a pause, particularly from making significant fintech mega-deals. It is expected that this cooling-off period may last through the remainder of the year as investors take a 'wait and see' approach expecting market conditions to stabilize over the next few months.

While some VC investors are being cautious, many corporates are forging ahead with fintech-related activities. Banks, financial institutions and insurance companies seem to be continuing to shift their view of fintech companies as disruptors and competitors to one where they are viewed as partners and enablers. Over the quarter, many traditional companies, globally, focused on creating opportunities to leverage fintech, whether through direct investment, acquisition or the creation of innovation labs.

While confidence in marketplace lending took a hit following revelations about wrongful activities with one of the market leaders* in addition to news about shutdowns, layoffs and weaker than expected volumes and margins, other areas of fintech continued to see substantial interest. InsurTech and blockchain distributed ledger technologies in particular accounted for a number of the large funding rounds during Q2'16.

Regionally, the US continued to dominate VC deals in the fintech market — accounting for $1.3 billion of the total $2.5 billion raised during the quarter. In Europe, deals funding rose slightly overall, from $300 million in Q1 to $400 million in Q2, despite a slight drop in UK-based fintech funding.

Asia experienced the most dramatic quarter-over-quarter decrease in funding to VC-backed companies — from $2.6 billion in Q1 down to just $800 million in Q2, despite a rise in the total number of fintech deals. This decline can be attributed to the lack of significant mega-rounds within the quarter. While VC-specific funding to fintech companies may be down in Asia, fintech's popularity in the region should not be discounted. The world's largest private technology funding round occurred during this quarter when Ant Financial raised $4.5 billion in China.

* Reference: LendingClub Is Ruining It for the Rest of Fintech, Bloomberg, May 20, 2016.

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CB Insights is a National Science Foundation backed software-as-a-service company that uses data science, machine learning and predictive analytics to help our customers predict what's next—their next investment, the next market they should attack, the next move of their competitor, their next customer, or the next company they should acquire.

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Welcome message (cont.)

In this quarter's The Pulse of Fintech Report — a collaboration between KPMG International and CB Insights — we examine the key trends, diverse opportunities and challenges related to fintech in Asia, North America and Europe. As a part of our analysis, we explore answers to a number of questions, including:

— What areas of fintech are gaining momentum around the world?

— How is the definition of fintech continuing to evolve?

— What are the recent developments around regulatory frameworks?

— What is driving VC investment in InsurTech?

We hope you find this edition of The Pulse of Fintech Report informative. If you would like to discuss any of the results in more detail, contact a KPMG adviser in your area.

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WHAT THE PULSE OF FINTECH REPORT COVERS

The Pulse of Fintech Report gives a detailed look at trends and data covering ***equity transactions to venture capital-backed fintech companies globally***. For a full definition of data included in this report, see page 87.

While fintech covers a diverse array of companies, business models and technologies, companies generally fall into several key verticals, including:

Lending tech: Lending companies on the list include primarily peer-to-peer lending platforms as well as underwriter and lending platforms using machine learning technologies and algorithms to assess creditworthiness.

Payments/billing tech: Payments and billing tech companies span from solutions to facilitate payments processing to payment card developers to subscription billing software tools.

Personal finance/wealth management: Tech companies that help individuals manage their personal bills, accounts and/or credit as well as manage their personal assets and investments.

Money transfer/remittance: Money transfer companies include primarily peer-to-peer platforms to transfer money between individuals across countries.

Blockchain/bitcoin: Companies here span key software or technology firms in the distributed ledger space, ranging from bitcoin wallets to security providers to sidechains.

Institutional/capital markets tech: Companies either providing tools to financial institutions such as banks, hedge funds, mutual funds or other institutional investors. These range from alternative trading systems to financial modeling and analysis software.

Equity crowdfunding: Platforms that allow a collection of individuals to provide monetary contributions for projects or companies provisioned in the form of equity.

InsurTech: Companies creating new underwriting, claims, distribution and brokerage platforms, enhanced customer experience offerings and software as a service to help insurers deal with legacy IT issues.

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TABLE OF CONTENTS

All monetary references contained in this report are in USD

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SUMMARY OF FINDINGS

FINTECH FUNDING DROPS 49% IN Q2'16; CORPORATES GET BUSY IN FINTECH

Funding to VC-backed fintech companies hit $2.5B across 195 deals in Q2'16: Total fintech funding, including activity by angels, PE firms, mutual funds and hedge funds, reached 374 deals and hit $9.4B, driven primarily by China's Ant Financial deal, worth $4.5B.

VC-backed deal activity declines: After fintech deal activity rebounded in Q1'16, deals dropped 12% in Q2'16 on a quarterly basis and were down 11% from the same quarter last year.

North America sees bigger fintech deal drop than Europe or Asia: While Asia and Europe saw VC-backed fintech deal levels remain nearly level in Q2'15, North America saw fintech deals drop over 26% on a quarterly basis.

Corporate participation in fintech deals rises to nearly one-third of all deals: Corporate participation in VC-backed fintech deals rose to a 5-quarter high and surpassed the 30% mark in Q2'16 to hit 32%, compared to 23% in Q2'15.

NORTH AMERICA FINTECH: $1.3B ACROSS 97 DEALS TO VC-BACKED COMPANIES IN Q2'16

Deals hit 5-quarter low: In North America, deal activity fell to a 5-quarter low in Q2'16, falling from 130 deals in Q1'16 to 97 deals in Q2'16. Deal activity in North America fell 26% in Q2'16 from the same quarter last year.

Corporate participation in North American fintech deals hits quarterly high: Corporates played a larger role in deals to North American VC-backed fintech companies in Q2'16, participating in 30% of all fintech deal activity, up from 23% in Q1'16.

California tops NY for Q2'16 fintech funding: After New York overtook California for fintech funding in Q1'16 behind mega-rounds to Betterment and Oscar, California topped NY for fintech funding by 200% in Q2'16.

Early-stage deal sizes in North America hit 5-quarter high: Median early-stage fintech deals were $4.6M in Q2'16, hitting a 5-quarter high and 53% increase over Q1'16.

Note: Report focuses on all equity rounds to VC-backed fintech companies.
This report does not cover companies funded solely by angels, private equity firms or any debt, secondary or line of credit transactions. All data is sourced from CB Insights. Page 87 details the rules and definitions we use.

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SUMMARY OF FINDINGS

EUROPE FINTECH: $369M ACROSS 43 DEALS TO VC-BACKED COMPANIES IN Q2'16

European fintech deals on pace for new high in 2016: VC-backed fintech companies in Europe raised $369M in funding across 43 deals in Q2'16. At the current run rate, European fintech funding is on pace to fall from 2015's 5-year high, but deals are on pace to top 2015's total by 13%.

Germany outpaces UK for fintech funding in Q2'16: Germany saw more than 80% more funding to VC-backed fintech companies than the UK did in Q2'16. Notable Q2'16 German fintech rounds went to startups including N26 and Finanzcheck.

Corporate participation in European fintech hits 5-quarter high: Corporate participation in the number of European fintech deals rose for the second straight quarter to 28% in Q2'16 compared to 12% in the same quarter last year.

No European fintech mega-rounds in Q2'16 (YTD): When it came to VC-backed fintech companies, there were no $50M+ financing rounds registered in the first 6 months of 2016 in Europe compared to eight or more in both Asia and North America.

ASIA FINTECH: $772M ACROSS 46 DEALS TO VC-BACKED COMPANIES IN Q2'16

Asian fintech funding drops from Q1'16 spike: Funding to VC-backed fintech companies in Asia fell from over $2.6B in Q1'16 to $772M in Q2'16. Despite funding slowing down in Q2'16, Asia fintech deal and funding activity is on pace to surpass 2015's high at the current run rate.

Asian fintech deals hit 5-quarter high in Q2'16: Asian fintech startups saw funding total $772M in Q2'16, a decrease of 71% from Q1'16, primarily due to two Q1'16 mega-rounds in China. Deal activity to VC-backed fintech companies reached a 5-quarter high in Q2'16, with 46 deals recorded.

Asian fintech early-stage deal share remains dominant: Early-stage VC-backed fintech companies in Asia accounted for 61% of deal share in Q2'16. Mid-stage deal share at the Series B and Series C stage took 30% of Q2'16 fintech deal share in Asia.

Asian corporate activity rebounds in Q2'16: Corporate participation in Asian VC-backed fintech deals rebounded to 39% in Q2'16 from 31% in Q1'16. Corporates saw slightly less deal share in Q2'16 than the same quarter last year when corporates participated in 41% of Asian fintech deals.

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In Q2 2016 VC-backed fintech companies raised

$2.5B

across

195 deals

Overall fintech investment reached $9.4B

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Global fintech future positive despite Q2 decline

Globally, fintech is expanding. New companies and ideas, rapidly evolving technologies and innovations in other industries are being used to advance and drive new offerings in the banking, financial services and insurance sectors. While there was a decline in global funding to VC-backed companies, this pause is not reflective of the sectors' unique strengths and potential for growth; Rather, the decline is most likely a result of global market conditions. Even with the Q2'16 decline, investment into VC-backed fintech companies is on pace to exceed 2015 levels.

Fintech experiencing a plateau

In 2015, there was an explosion in fintech opportunities — with increasing numbers of new business models, revenue streams, products and services coming onto the investment radar. This activity led to a major increase in VC funding, partly driven by alternative lending companies entering the fray of late-stage investing and driving private company valuations up.

In 2016, concerns about those high valuations, the lack of significant IPO exits and macro-economic factors seem to have led investors to be more cautious. Over the first 2 quarters of the year, VC investors focused on more experienced companies with proven technologies or business models.

North America leads fintech activities, but activities in other regions growing

In Q2'16, North America accounted for over half of fintech funding globally ($1.3 billion). However, while the region experienced a decline in funding during the quarter, Europe experienced a slight increase — buoyed primarily by additional fintech activity in Germany. Meanwhile, Asia-based fintech funding to VC-backed companies also fell, although this news was tempered by Ant Financial's $4.5 billion round, the largest private sector technology funding round ever, during the quarter. While this report focuses only on VC-backed fintech deals, the Ant Financial deal reflects a monolith of investment in Asia and cannot be ignored.

Q2'16 also saw countries in different regions working together to enhance fintech opportunities. The UK and Singapore announced a fintech bridge — aimed specifically at assisting fintechs expand more readily between the two countries. This bridge, in addition to other similar activities, reflects growing recognition that fintech is a global industry and that more regulatory cooperation between countries is required in order to help it flourish.

Definition of fintech continues to evolve

While payments and lending platforms continue to gain attention, particularly in Asia where there are many challenges and opportunities associated with providing services to the underbanked, other areas of fintech are moving into the spotlight. Over the last quarter, a number of fintech subsectors gained traction, including blockchain, InsurTech and robo advisory.

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Global fintech future positive despite Q2 decline (cont.)

On the blockchain front, Q2'16 saw a number of banks and financial institutions globally begin focusing on proof-of-concept initiatives, moving from initial ideas to actual pilot testing of solutions. Several large Q2 funding rounds went to blockchain focused companies, including Circle Internet — which raised $60 million, primarily to fuel its expansion into China.

Interest in InsurTech is also growing as the industry finally begins to play catch-up with its banking and financial services counterparts. While the industry has been slow to change, companies like AIA are helping propel the industry into the future. AIA is utilizing wearables to help people become healthier — and rewarding people based on analytics of corresponding data.

Other companies, like Trov Insurance, are providing options to help attract business from a high number of uninsured millennials. As InsurTech opportunities become more visible, many established insurers are also beginning to make their own investments — looking for ways to leverage InsurTech to improve their own organizations and customer service.

A shift to co-creation in fintech

One noticeable trend seen in Q2'16 involves traditional corporates shifting their attention to co-creation opportunities. A number of larger corporates have invested in internal innovation labs or innovation garages in order to bring together fintech companies to help them respond to challenges and test technologies — even while providing participating fintechs with the support they need to grow. There has also been an increase in traditional financial institutions working with fintech companies on all manner of proof-of-concept initiatives. Over the next several quarters, it is likely that a number of these collaborative activities will bear fruit.

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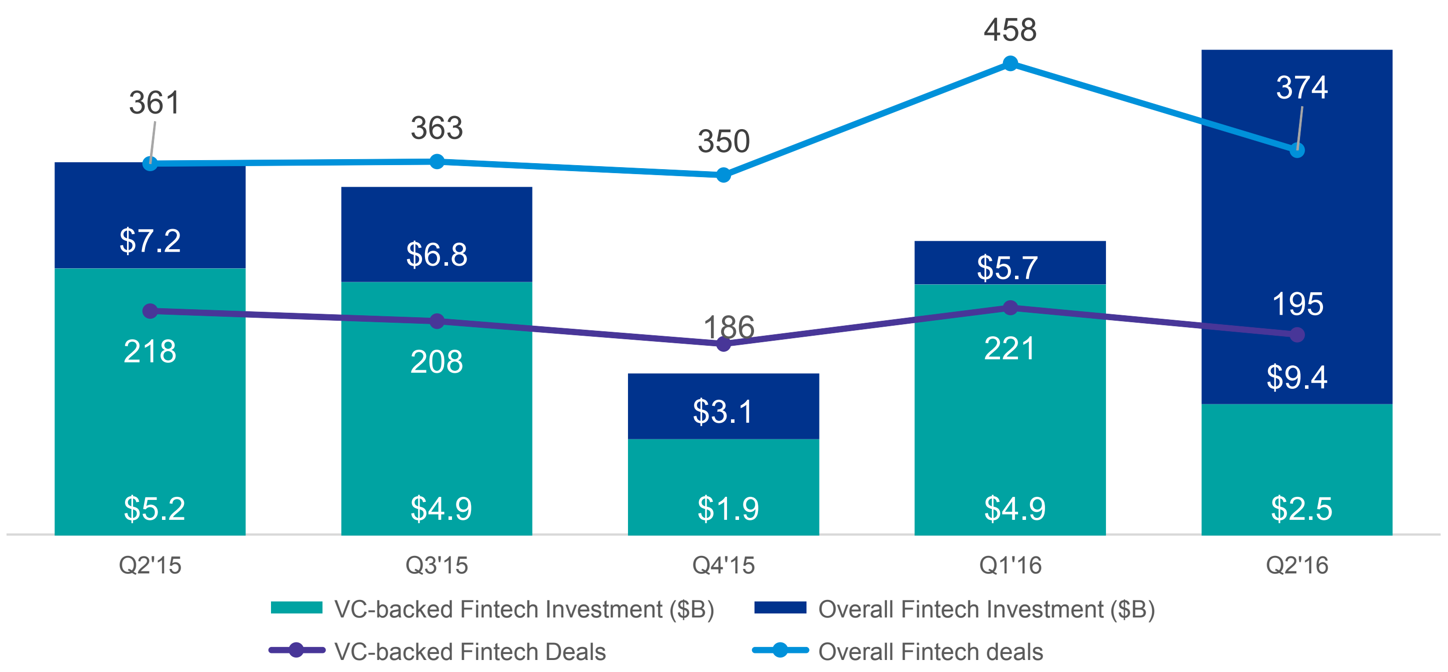
$2.5B TO VC-BACKED FINTECH COMPANIES; $9.4B TO FINTECH OVERALL

VC-backed fintech funding took just 27% of the $9.4B in overall fintech funding. The overall funding figure included a large $4.5B round to Alibaba's financial services arm Ant Financial. VC-backed fintech took over half of overall fintech deal activity.

Quarterly Global Fintech Financing Trend

VC-Backed Fintech Companies vs. Overall Fintech Investment, Q2'15 – Q2'16*



*Overall investment includes fintech funding by angel investors, angel groups, private equity firms, mutual funds, hedge funds, VC, corporate and corporate VC investors.

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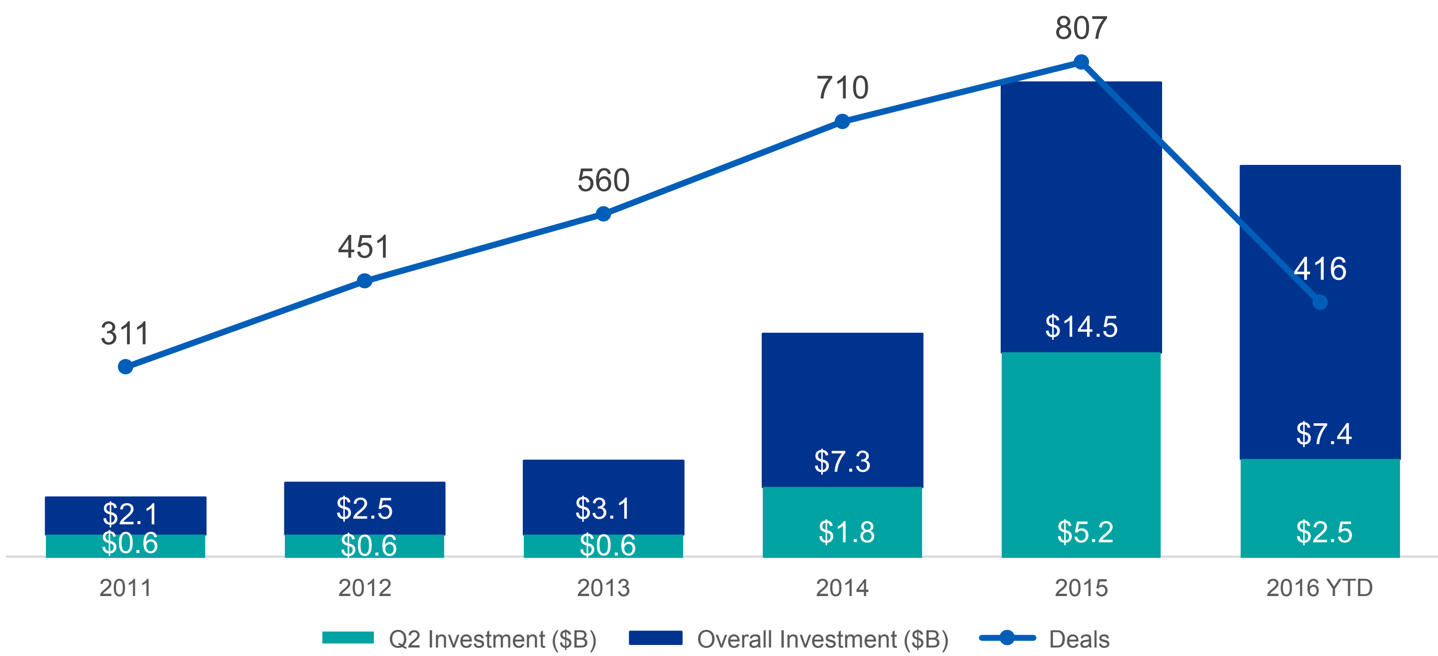
$7.4B DEPLOYED ACROSS 416 DEALS TO VC-BACKED FINTECH COMPANIES IN H1’16

Limiting the data to equity funding involving VC-backed fintech companies shows 2016 on pace to see more fintech deals and dollars than 2015 at the current run rate.

Annual Global Financing Trends to VC-Backed Fintech Companies

2011 – 2016 YTD (Q2’16)



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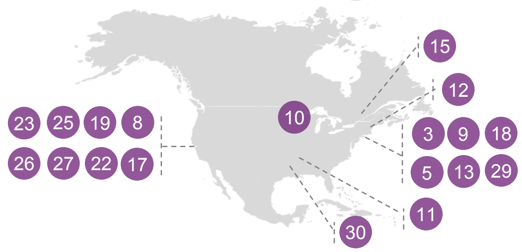
30 LARGEST VC FINTECH DEALS OF 2016 (YTD)

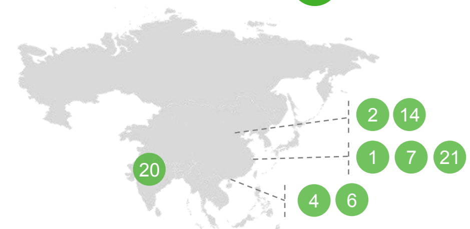
North America ($1,541.76M)



South America ($52M)

Europe ($86M)

Asia ($2,933M)



1	Lu.com	Lending	$1216M	Series B	16	Nubank	Mobile banking	$52M	Series C
2	JD Finance	Lending	$1010M	Unattributed VC	17	Aria Systems	Payments	$50M	Series E
3	Oscar Health Insurance Co.	Insurance	$400M	Series C	18	Cadre	Real estate	$50M	Series B
4	Fenqile	Lending	$235M	Series C	19	LendUp	Lending	$50M	Series B
5	Clover Health	Insurance	$160M	Series C	20	MobiKwik	Payments	$50M	Series C
6	Welab Holdings	Lending	$160M	Series B	21	Paymax	Lending	$50M	Series C
7	Weidai	Lending	$153M	Series C	22	Personal Capital	Wealth management	$50M	Series E
8	Affirm	Lending	$100M	Series C	23	Payoff	Lending	$46.76M	Series D
9	Betterment	Wealth management	$100M	Series E	24	Finanzcheck	Lending	$46M	Series C
10	Bright Health	Insurance	$80M	Series A	25	Plaid Technologies	Financial data	$44M	Series B
11	StoneEagle	Payments	$76M	Growth Equity	26	Blend Labs	Real estate	$40M	Series C
12	Circle Internet Financial	Blockchain	$60M	Series D	27	BlueVine	Lending	$40M	Series C
13	Digital Asset Holdings	Blockchain	$60M	Series A	28	N26	Mobile banking	$40M	Series B
14	Duanrong	Lending	$59M	Series B	29	OLO	Payments	$40M	Series D
15	Blockstream	Blockchain	$55M	Series A	30	Open Lending	Lending	$40M	Private Equity

Lending | Insurance | Wealth management | Payments | Blockchain | Mobile banking | Real estate | Financial data

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“We are seeing a continued diversification across many dimensions of fintech — the growth of different subsectors, the size of organizations participating, the geographic location of fintech companies attracting investment and increasing levels of activity from companies outside of the traditional financial services industry.”

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

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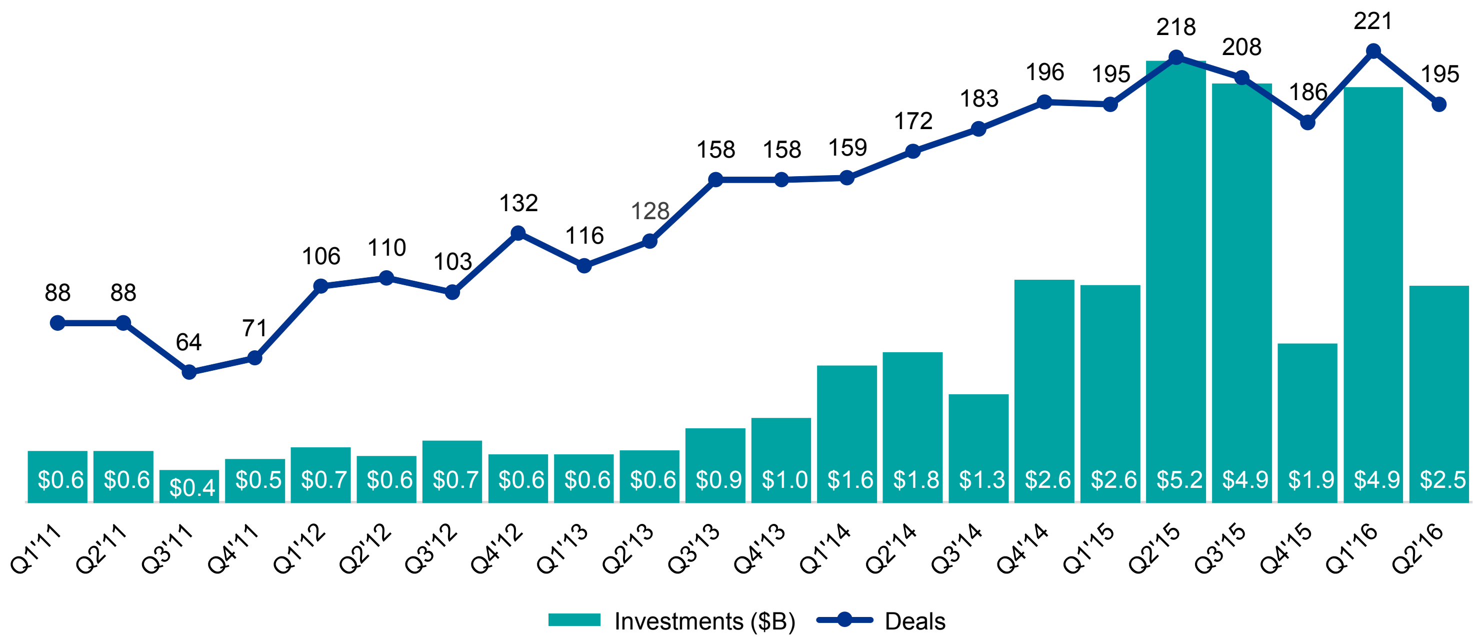
Q2'16 SEES VC-BACKED FINTECH FUNDING, DEALS DROP

Funding to VC-backed fintech companies dropped 49% on a quarterly basis in Q2'16, while deal activity fell 12% from Q1'16's total.

Quarterly Global Financing Trends to VC-Backed Fintech Companies

Q1'11 – Q2'16



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“There are over 160 unicorns globally, including 20 in fintech. However, over the past few quarters we’ve seen a decline in valuations and unicorn birth rates as many investors — in particular mutual funds — are cutting the value of their startup investments at an accelerating pace and are making fewer investments. No sector has been immune — not even fintech.”

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

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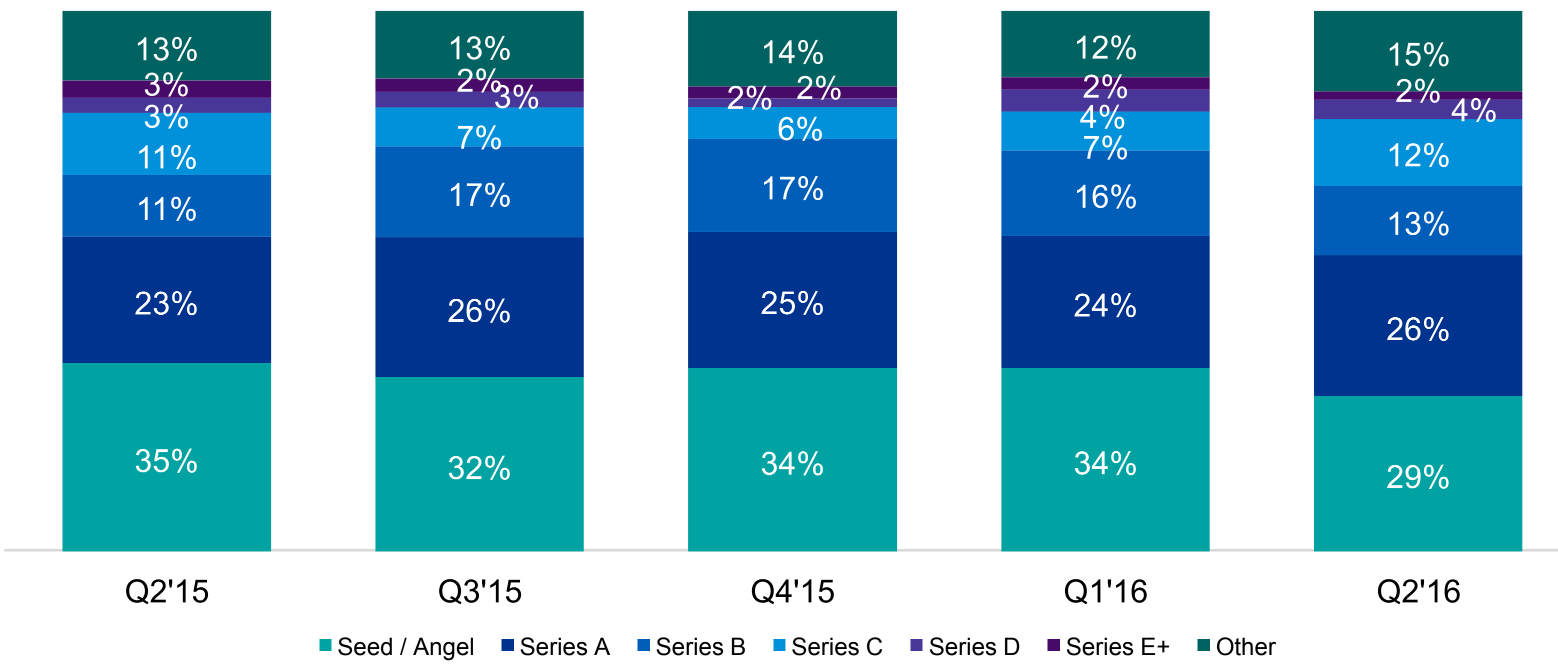
SEED-STAGE ACTIVITY FALLS TO 5-QUARTER LOW

Fintech seed deal share fell to a 5-quarter low in Q2’16 at 29% from 34% in Q1’16. Series C deal share rose to a 5-quarter high in Q2’16 at 12%.

Quarterly Global Fintech Deal Share by Stage

Q2’15 – Q2’16



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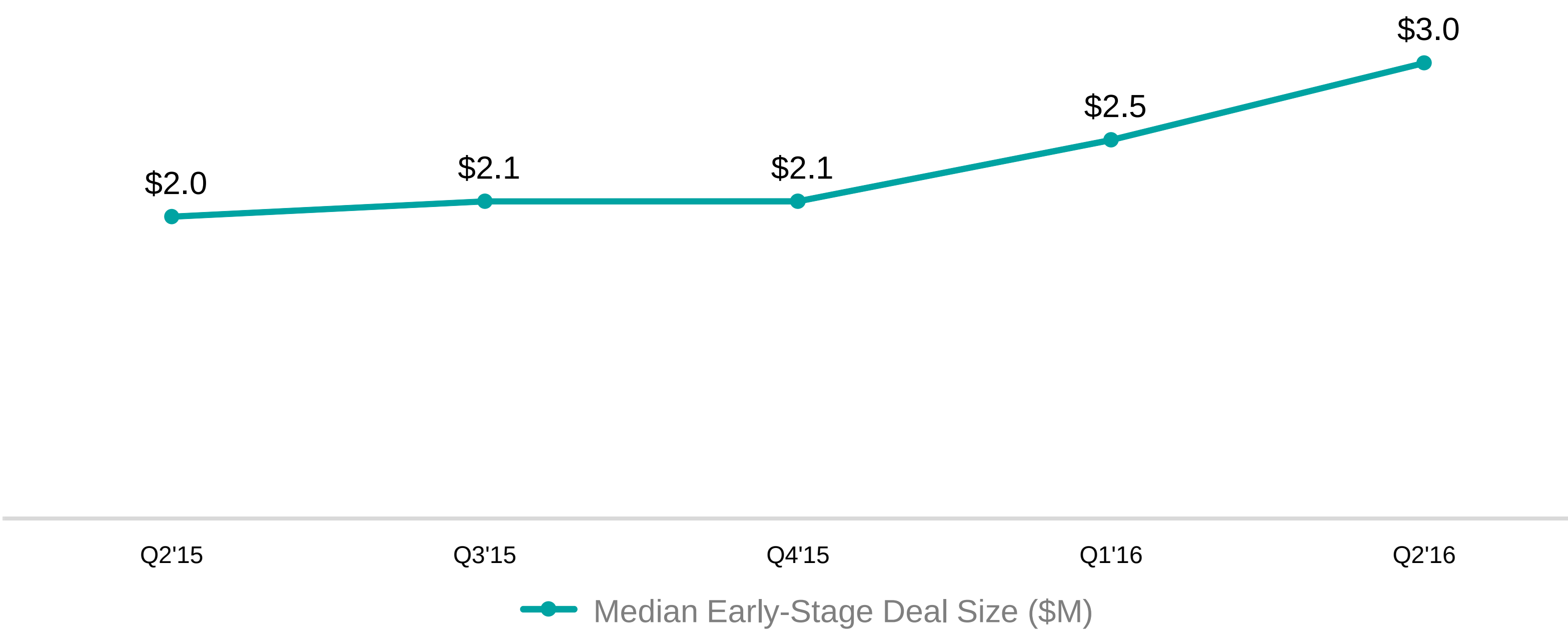
MEDIAN EARLY-STAGE FINTECH DEAL SIZE HITS 5-QUARTER HIGH

Median early-stage (Seed - Series A) deal size among all VC-backed fintech companies was $3M in Q2’16, a 5-quarter high and 20% higher than Q1’16.

Global Early-Stage Fintech Deal Size

Q2’15 – Q2’16



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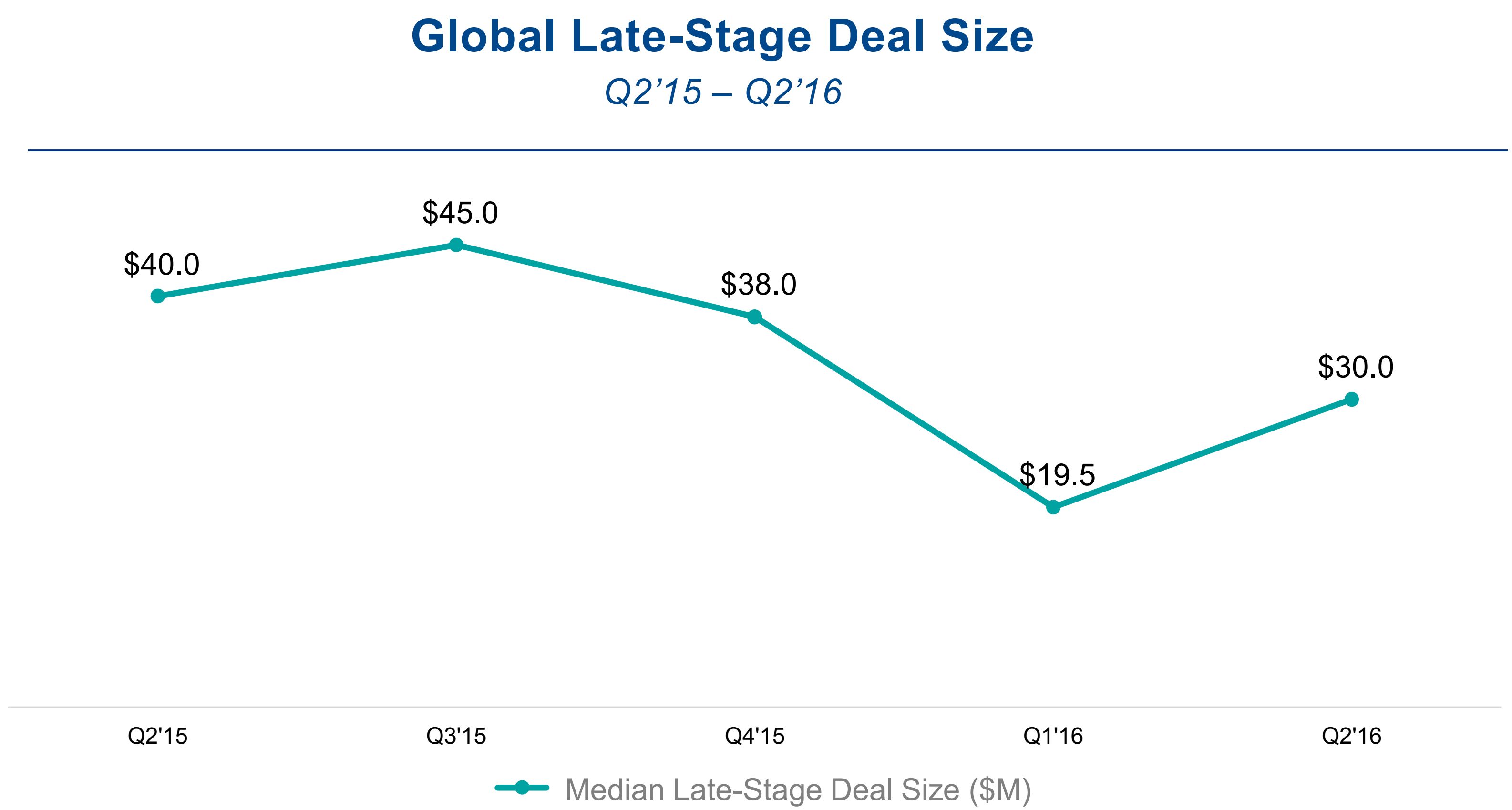
GLOBAL MEDIAN LATE-STAGE DEAL SIZE REBOUNDS IN Q2'16

The median late-stage deal size in fintech rose in Q2'16 to $30M after dropping for 2 consecutive quarters. Q2'16's median late-stage fintech deal size was 25% lower than that of the same quarter last year.



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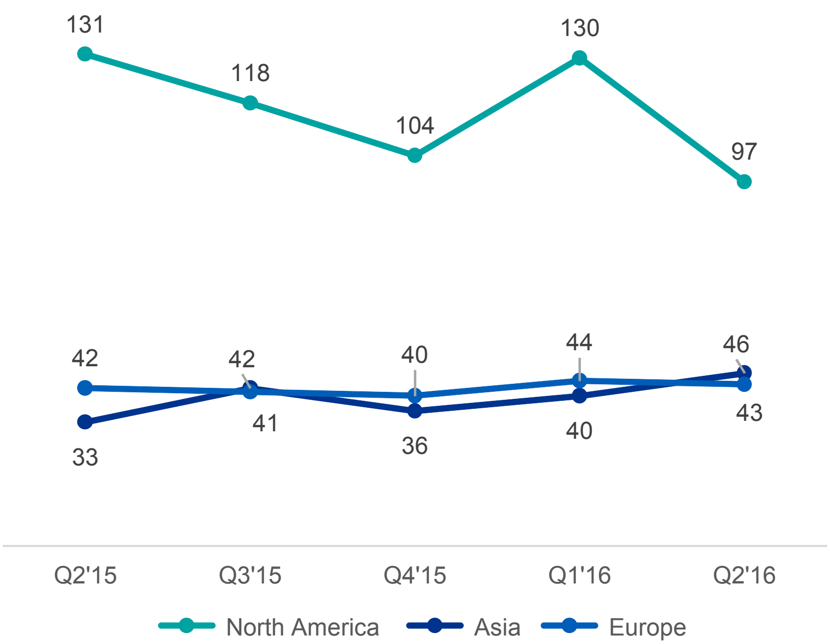
VC-BACKED FINTECH COMPANIES SEE FUNDING DROP IN ASIA AND NORTH AMERICA

Asia fintech funding fell 69% in Q2'16 on a quarterly basis, while North America fintech funding dropped 28%. North America saw a more significant fintech deal drop than Asia and Europe in Q2'16 at 25%.

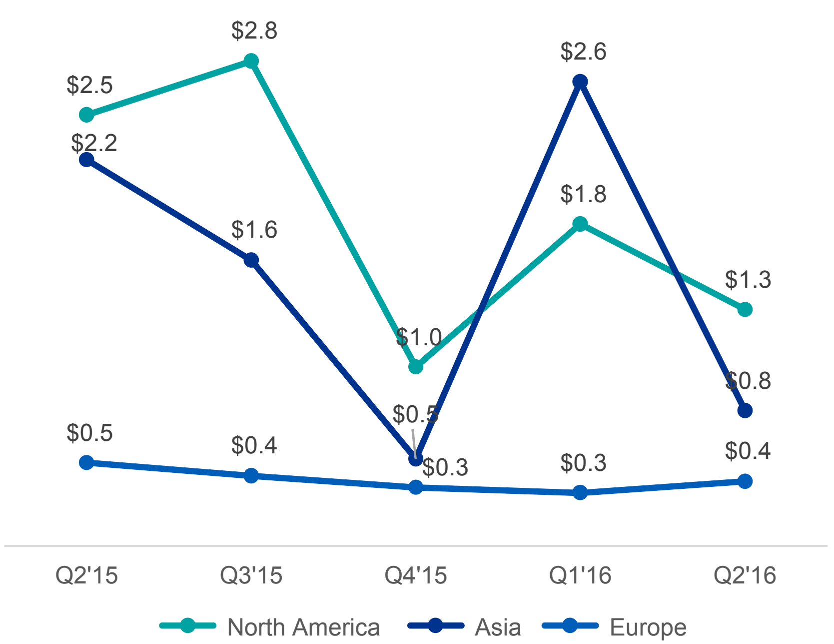
Deal Count by Continent

Q2'15 – Q2'16



Investment ($B) by Continent

Q2'15 – Q2'16



Source: The Pulse of Fintech, Q2 2016, Global Analysis of Fintech Venture Funding, KPMG International and CB Insights (data provided by CB Insights) August 17th, 2016.

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“Startups focused on fintech are innovating faster than regulators can adapt the rules. This is something that is acknowledged as a gap. It is also what is good about the regulatory sandbox… I think more countries will come up with a sandbox approach to address fintech innovation.”

Jan Reinmueller
Head,
Digital Village,
KPMG in Singapore

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THE MOST ACTIVE VC INVESTORS IN FINTECH

500 Startups, QED Investors and Nyca Partners were the most active VC investors in unique fintech companies over the last 5 quarters.

Most Active VC Investors in Fintech Companies

Q2'15 – Q2'16

Rank	Investor	Rank	Investor
1	500 Startups	10	Blumberg Capital
2	QED Investors	10	Bain Capital Ventures
3	Nyca Partners	10	Accel Partners
4	Route 66 Ventures	14	Sequoia Capital China
4	Index Ventures	14	Spark Capital
4	New Enterprise Associates	14	Slow Ventures
4	General Catalyst Partners	14	American Express Ventures
4	Khosla Ventures	14	Blockchain Capital
10	RRE Ventures		

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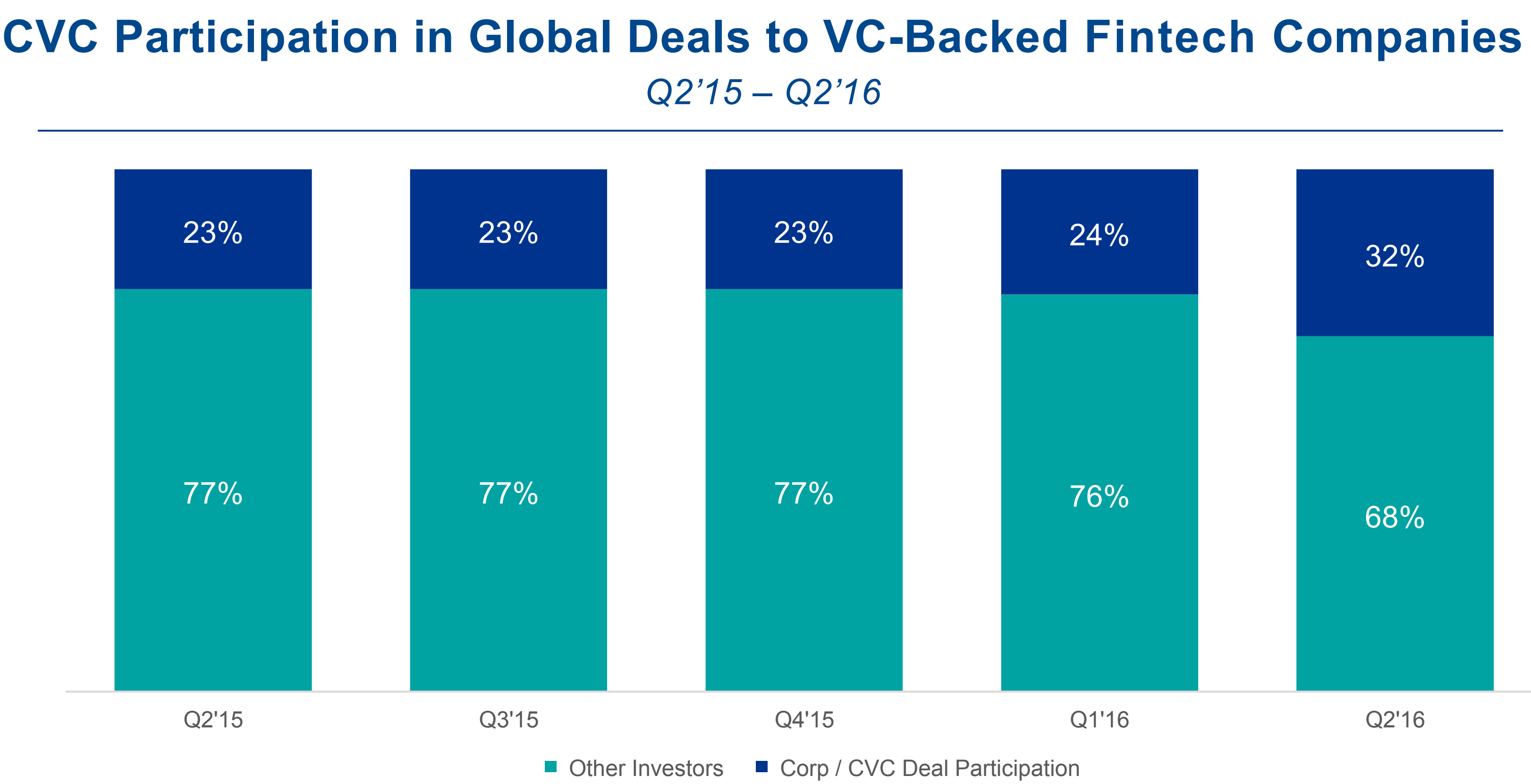
CORPORATES PARTICIPATE IN NEARLY ONE-THIRD OF FINTECH DEALS

Corporate participation in VC-backed fintech deals rose to the 5-quarter high and surpassed the 30% mark in Q2’16 to hit 32% compared to 23% in Q2’15.



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“Collaboration is happening differently in fintech globally. We’re seeing a new mechanism — a mix between incubation of new startups and in-house R&D (from the banking or insurance company perspective). Instead of looking for a direct return, companies want to collaborate on products and be able to pilot technologies within their organization.”

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

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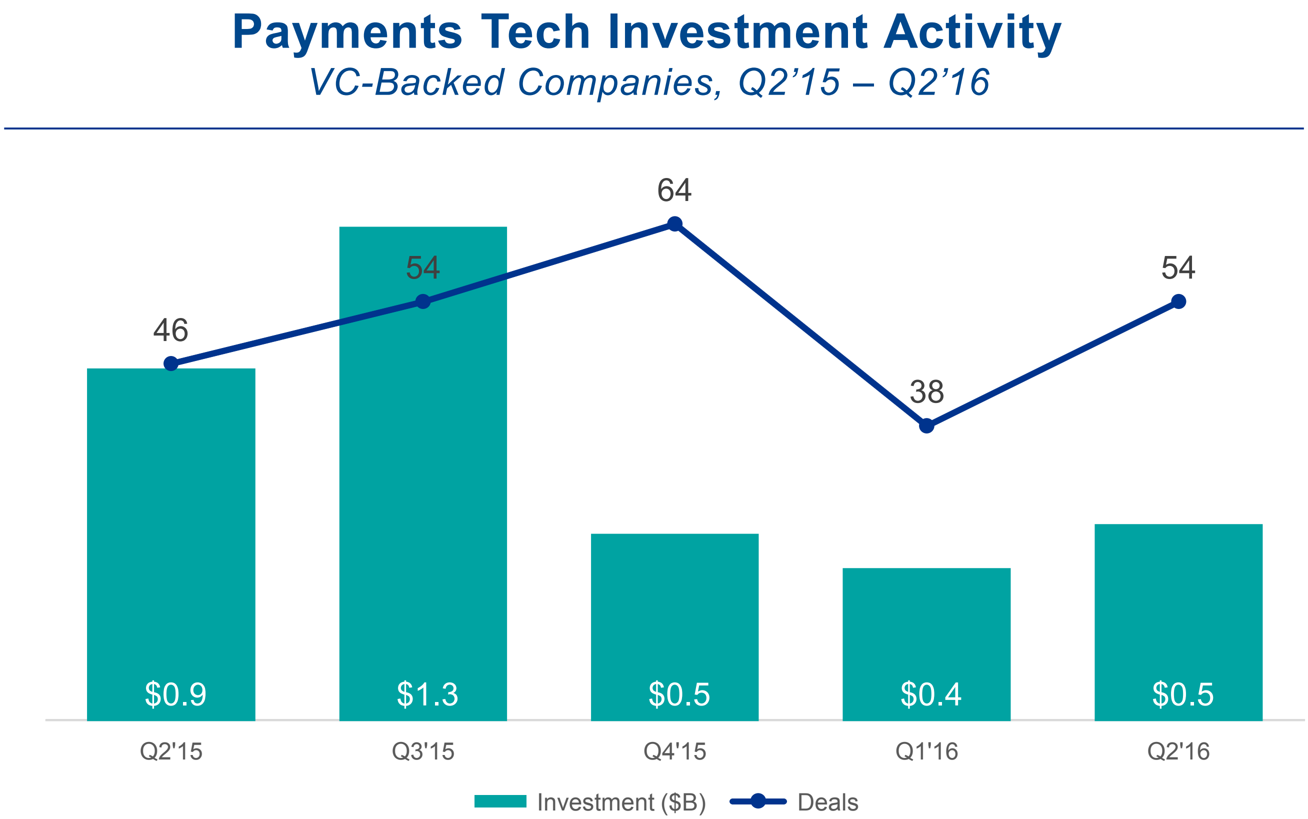
PAYMENTS TECH VC-BACKED INVESTMENT ACTIVITY

Top Deals & Countries, Q2'16



Top Deals

Affirm

$100M // Series C

Mobikwik

$50M // Series C

Remitly

$38.5M // Series C

Top Countries

United States

26 Deals // $251M

Germany

5 Deals // $64.9M

United Kingdom

3 Deals // $42.4M

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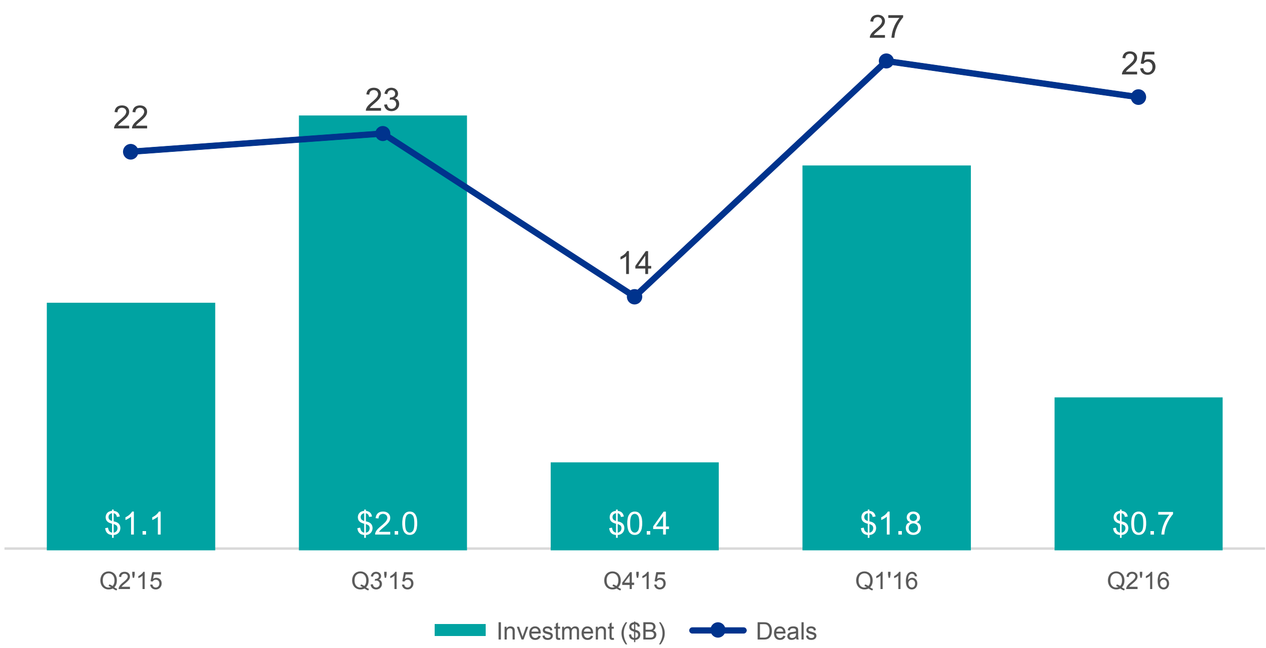
LENDING TECH VC-BACKED INVESTMENT ACTIVITY

Top Deals & Countries, Q2'16

Lending Tech Investment Activity

VC-Backed Companies, Q2'15 – Q2'16



Top Deals

Fenqile

$235M // Series C

Weidai

$153M // Series C

Affirm

$100M // Series C

Top Countries

United States

9 Deals // $180.3M

China

4 Deals // $422M

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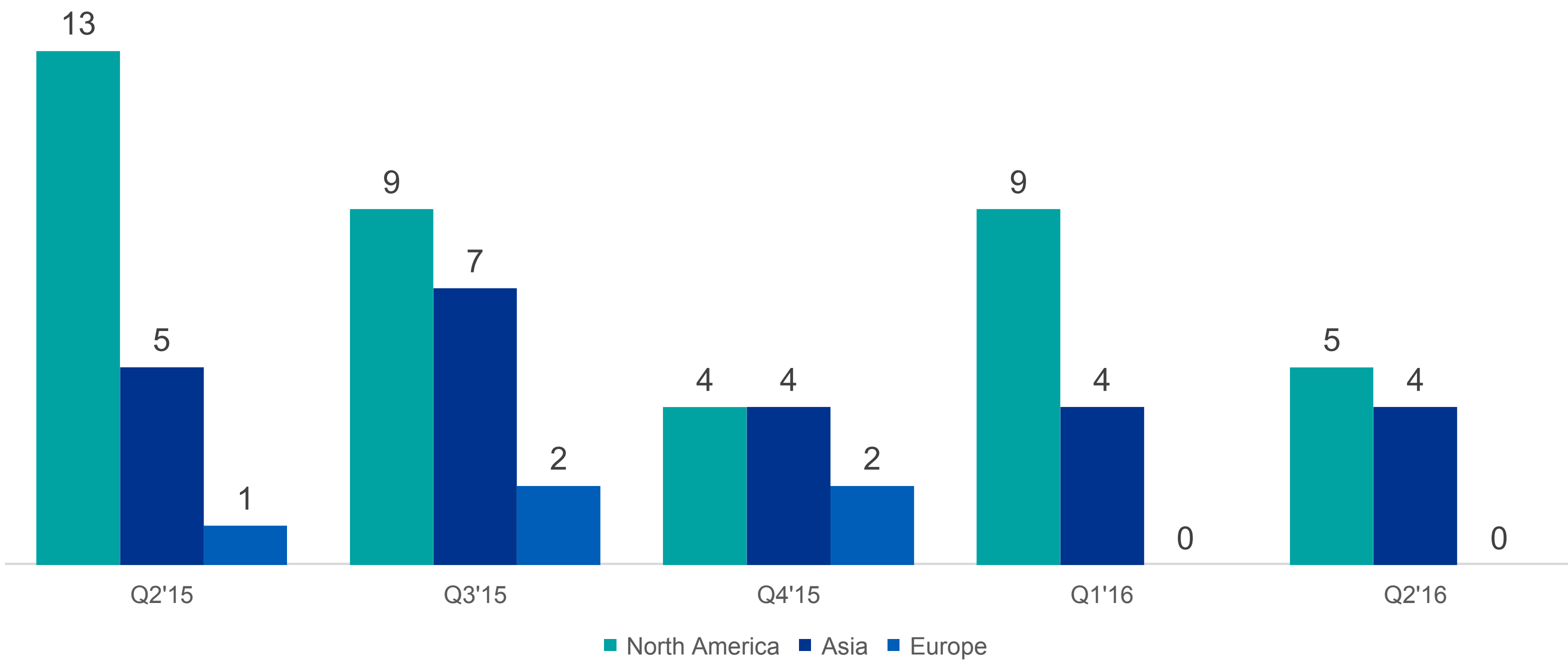
FINTECH MEGA-ROUNDS IN NORTH AMERICA FALL; ASIA STAYS LEVEL; EUROPE DRAWS A BLANK

$50M+ rounds to VC-backed fintech companies in North America fell from nine in Q1’16 to five in Q2’16. Asia saw $50M+ fintech rounds stay level for the third straight quarter while Europe has not registered a $50M+ round to a VC-backed fintech company in 2016 to date.

$50M+ Financings to VC-Backed Fintech Companies

North America vs. Asia vs. Europe, Q2’15 – Q2’16



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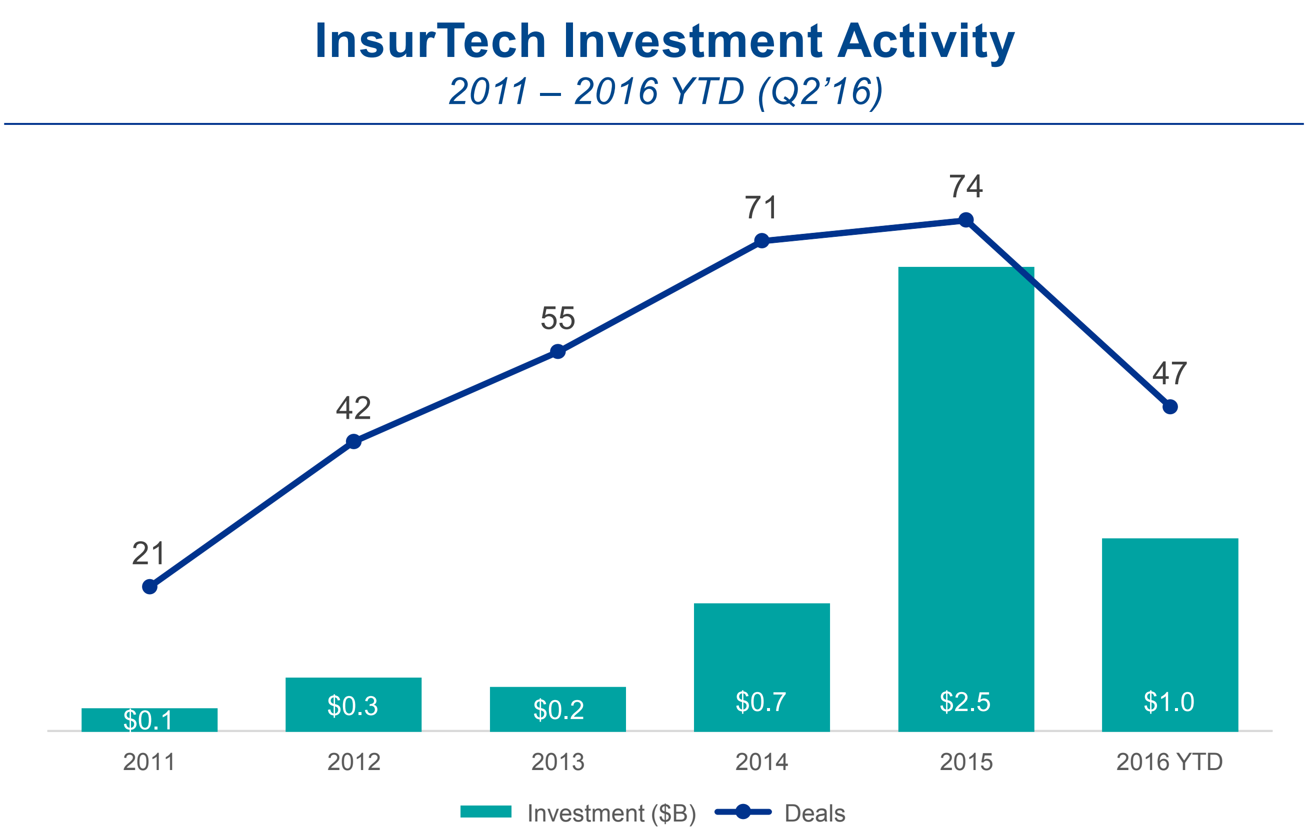
INSURTECH INVESTMENT ACTIVITY

Top Deals & Cities, 2016 (YTD)



Top Deals

Oscar Health

$400M // Series C

Clover Health

$160M // Series C

Bright Health

$80M // Series A

Justworks

$33M // Series C

Top Cities

San Francisco

8 Deals // $213M

New York

5 Deals // $467M

Source: The Pulse of Fintech, Q2 2016, Global Analysis of Fintech Venture Funding, KPMG International and CB Insights (data provided by CB Insights) August 17th, 2016.

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Insurance: An industry ripe for disruption

At a macro level, insurance is an industry ripe for disruption. Insurers around the world are struggling with a myriad of challenges: low levels of consumer trust, high competition, a low interest rate environment, shrinking profitability and legacy IT issues. Addressing these challenges and creating opportunities for growth can be difficult as any solutions, especially those involving technology, can be complicated, expensive and potentially high risk.

While many InsurTech companies are looking to compete with traditional insurers by providing more tailored responses to customer needs, others see a key opportunity in helping traditional insurers solve their problems and create more customer value. However, it is only recently that traditional insurance companies appear to have started to recognize they need help.

Customers themselves are also driving change — demanding more personalized and relevant services similar to what they are now getting in other industries such as banking. New companies have appeared providing personalized and targeted insurance solutions in response to these changing demands. Successful funding rounds to a number of these companies have helped amplify investor attention on InsurTech, both from traditional VC investors and from corporates.

InsurTech top priority for investors

In 2015, InsurTech came into its own, attracting $2.5 billion of VC investment, a massive leap in funding compared to the previous 4 years. By comparison, the first 2 quarters of 2016 have seen over $1 billion in VC investment and tremendous activity by many traditional insurers that are increasingly creating their own venture capital funds in order to invest in InsurTech companies.

VC Investments centered on US — for now

On a global basis, over 60% of VC-backed InsurTech deals occurred in the US during Q2’16. However, the UK is also seen as an important leader in the space, not just for healthcare, but also for automotive insurance, comparison websites and data management. Other countries are also forming unique niches in the global InsurTech space. Australia, for example, is seen as an attractive place to test customer-focused activities. This was one reason why Trov Insurance — a company focused on providing insurance for customer-identified products — was founded in the US but first rolled out in Australia.

Partnering: a key opportunity for InsurTech

While some technology companies are looking to take market share by offering unique products and services, the business proposition of many others is to partner with one or more traditional insurers to enhance their products and services and provide more value to their customers. In return, InsurTech companies gain access to existing distribution systems and customers. Without this access, most InsurTech companies would not be able to scale their business in a meaningful way.

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Insurance: An industry ripe for disruption (cont.)

In Q2'16, one of the most noticeable partnering models was the creation of digital garages: in-house innovation units where insurers can foster entrepreneurial thinking. Within this model, InsurTech companies can come together to help resolve specific challenges identified by the innovation unit while providing InsurTech companies with support and expert advisers to help fuel their own growth. Examples of digital garages include Aviva's digital garage, developed to bring together creative designers and commercial teams to test new ideas and solutions. Another is Met Life's LumenLab in Singapore, which is focused on driving insight driven solutions. Most recently, Allianz announced a Singapore-based Data Lab in May 2016 focused on harnessing digital innovations and advanced analytics.

Leveraging technology from other industries

One of the most unique attributes of InsurTech is its ability to harness technology from a wide range of other industries to develop and enhance insurance offerings — from using wearables to adjust insurance premiums to using the 'Internet of Things' to provide risk identification and mitigation. Some InsurTech companies are even working to leverage blockchain technology as a mechanism for providing automatic payouts, particularly in the peer-to-peer insurance space where smart contracts could ensure payouts are made accurately, efficiently and at a reduced cost. While such activities are still in their infancy, many investors are excited about the potential opportunities for the future.

As these different technologies evolve, companies that can analyze and harness any related data and use it to inform real customer driven solutions will likely also be highly sought after by investors.

Looking forward

The most exciting part of InsurTech is that it is very young. As companies and investors focus on improving a broad range of insurance activities, including risk assessment processes and portfolio management, it's likely that funding rounds will be volatile from quarter-to-quarter and could be a while before consistent investment trends emerge.

In the near term, investments will likely focus on finding ways to engage customers in more meaningful ways across online and mobile platforms — from improving policy handling to improving claims payment processes. There is also expected to be an increase in the use of blockchain and smart contracts, data analytics to provide more customer insights and the use of the 'Internet of Things' and wearables to enable more effective insurance operations.

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"Most insurers struggle to leverage existing data to deliver deeper insights. Fintech companies that have behavioral analytics and advanced data analytics capabilities can help these insurers gain a deeper understanding of behavioral trends and insights into individuals, allowing for the development and creation of much more customized solutions or fast-tracking customer service."

Martin Blake
Subject Matter Expert
InsurTech,
KPMG Australia

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TOP 20 INSURTECH DEALS IN FIRST HALF OF 2016 TOTALED OVER $980M IN FUNDING

AT A GLANCE (YTD)

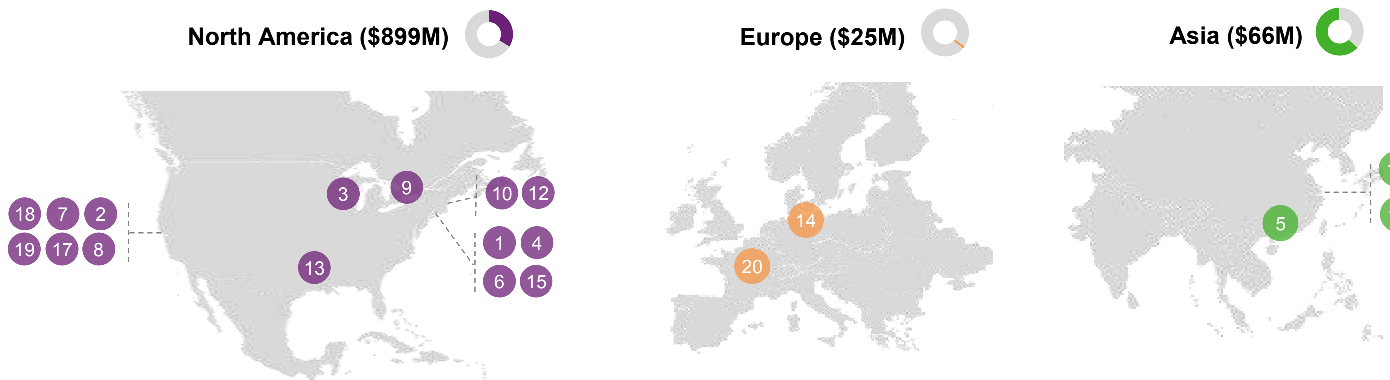
~$1B
VC funding

82
VC Deals

47%
Deals at seed-stage

63%
Deals to US-based startups

TOP 20 DEALS OF 2016 (YTD)



1	Oscar Health	$400M	Series C	11	Xishan Information Technology	$20M	Series B
2	Clover Health	$160M	Series C	12	Goji	$19M	Series D
3	Bright Health	$80M	Series A	13	Insurance Zebra	$17M	Series A
4	Justworks	$33M	Series C	14	Friendsurance	$15M	Series B
5	Huize Insurance	$31M	Series B	15	PolicyGenius	$15M	Series B
6	Namely	$30M	Series C	16	Joyowo.com	$15M	Series B
7	Trov	$26M	Series C	17	Zendrive	$14M	Series A
8	Gusto	$25M	Series B	18	Next Insurance	$13M	Seed VC
9	LEAGUE	$25M	Series A	19	Embroker	$12M	Series A
10	Maxwell Health	$22M	Series C	20	Shift Technology	$10M	Series A

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“Low levels of consumer trust, high competition, declining profitability and challenges around legacy IT systems make the insurance industry ripe for disruption. InsurTech is increasingly enabling insurers to solve these issues through new and emerging applications in P2P, blockchain, IoT and SaaS.”

Murray Raisbeck
Subject Matter Expert
InsurTech,
KPMG in the UK

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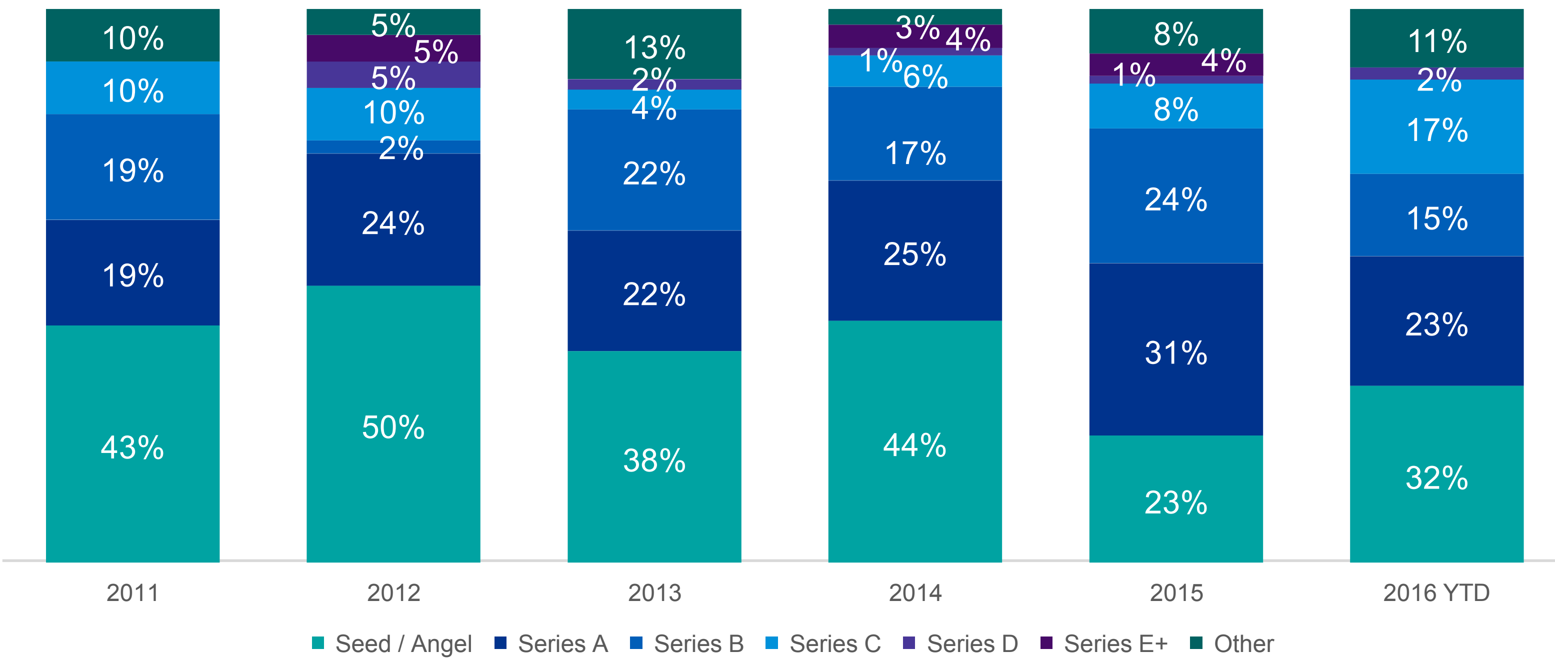
INSURTECH DEAL ACTIVITY SEES MID-STAGE DEAL FLOW GROW

While still a nascent sector, InsurTech has seen Series B and Series C deal share hit a combined 32% in the first half of 2016 and in 2015. Seed and Series A deals in InsurTech have continued to take 50%+ of overall share in 2016 year-to-date.

Annual InsurTech Deal Share By Stage

2011 – 2016 YTD (Q2'16)



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GOLDMAN SACHS, CITIGROUP, BANCO SANTANDER LEAD BIGGEST BANKS BY FINTECH INVESTMENTS

Over the past 5 quarters, Goldman Sachs, Citigroup and Banco Santander or their corporate venture units have each completed seven or more deals to VC-backed fintech companies.

Major Bank Investments to VC-backed Fintech Companies

Q2'15 – Q2'16

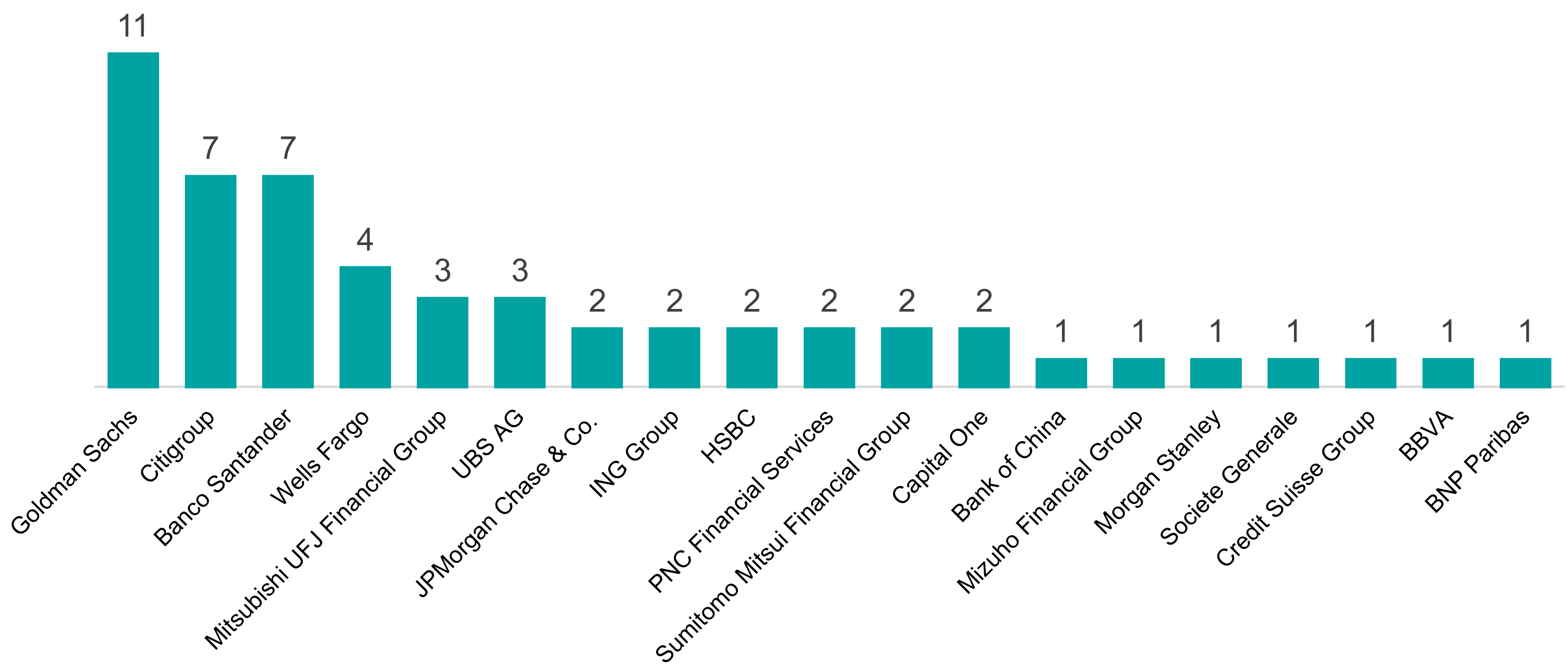

**Chart includes largest banks in US, Europe and Asia by AUM with disclosed fintech investments. Does not include data from independent venture firms associated with the above banks.*

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NOTABLE 'REST OF WORLD' VC-BACKED FINTECH FINANCINGS: Q2'16 (YTD)

Company	Round	Country	Select investors
Nubank	$52M (Series C // Q1'16)	Brazil	Founders Fund, Kaszek Ventures, Sequoia Capital, Tiger Global
MoneyMe	$30M (Venture // Q1'16)	Australia	Undisclosed Investors
SocietyOne	$19M (Series C // Q2'16)	Australia	Australian Capital Equity, Consolidated Press Holdings, News Corp Australia
GuiaBolso	$17.3M (Series C // Q2'16)	Brazil	Ribbit Capital, QED Investors, Kaszek Ventures, IFC
PromisePay	$10M (Series A // Q2'16)	Australia	Carsales, Cultivation Capital, Reinventure, Rampersand
BankFacil	$4.4M (SeriesA // Q2'16)	Brazil	Kaszek Ventures, Quona Capital, Redpoint e.ventures
ContaBilizei	$2.1M (Series A // Q2'16)	Brazil	e.Bricks Digital, Kaszek Ventures
Hepstar	$1.2M (Seed // Q1'16)	South Africa	Amadeus Capital Partners
FinanZero	$1.2M (Minority // Q1'16)	Brazil	Vostok Emerging Finance, Webrock Ventures
HashChing	$780K (Seed // Q2'16)	Australia	Sapien Ventures

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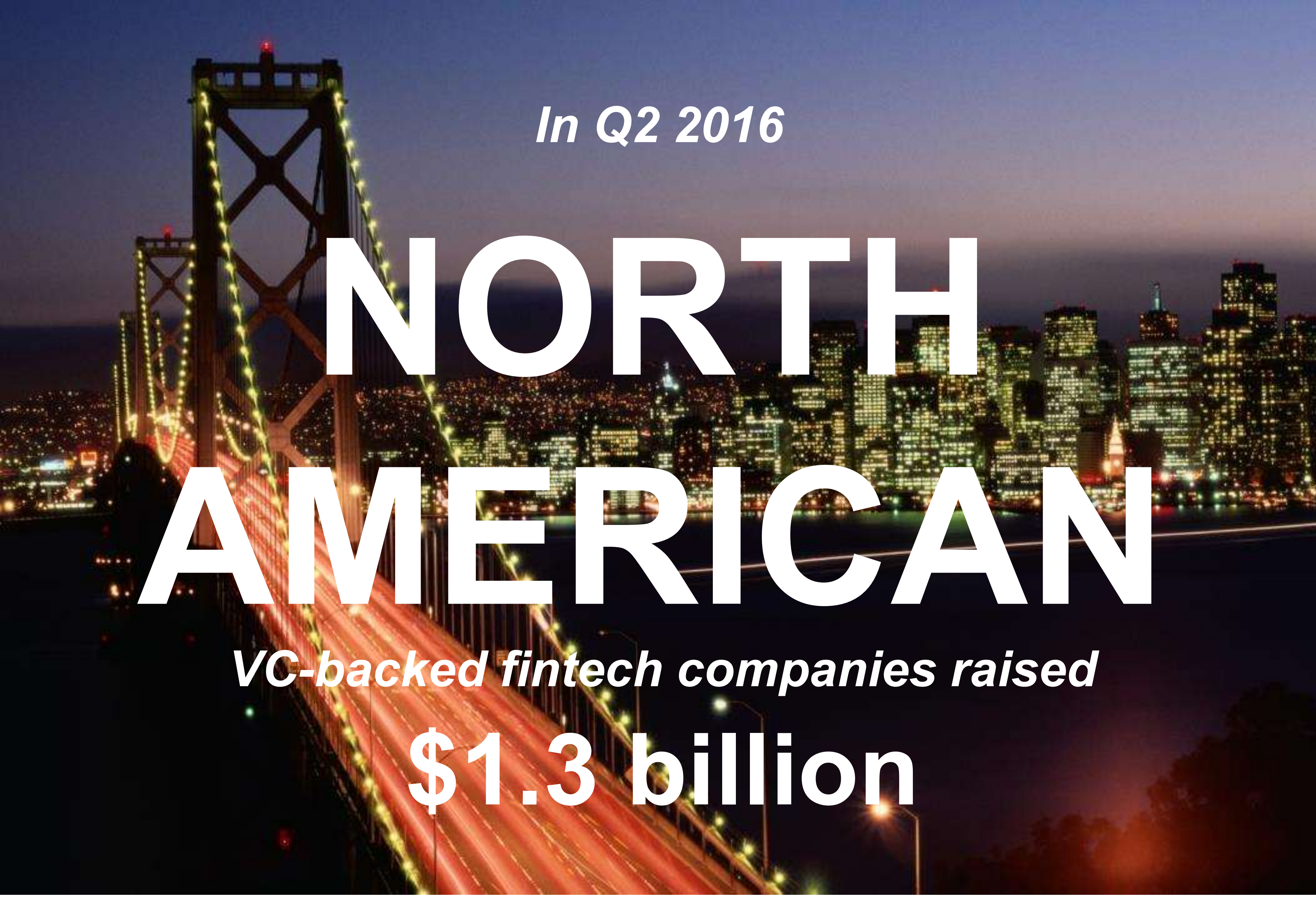

In Q2 2016

NORTH AMERICAN

VC-backed fintech companies raised

$1.3 billion

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Fintech funding dip not expected to hold North America back for long

Fintech funding in North America declined in Q2'16 — from $1.8 billion to $1.3 billion — despite an uptick in overall VC funding in the region during the quarter. A lack of fintech mega-deals likely kept total deal value down in tandem with investor concerns regarding fintech business models and paths to profitability.

The online lending space was one of the first subsectors of fintech to see significant VC investment — with the market quick to reward some significantly high premiums in terms of valuations. That 'first out of the gate' investment mentality seems to have shifted over the past couple of quarters. Now, with allegations regarding the activities of one of the market leaders revealed during Q2'16, the space has lost even more luster. A number of marketplace lenders have undertaken layoffs while others have decreased volumes or shut down all together.

As a result, it is expected that there will be a shakeout among market participants in the lending space. While some companies will continue to introduce new lending models — including strong corporates like American Express — the more unstable online lenders will likely disappear.

Lack of unicorn growth continues

2016 continues to be characterized by a smaller number of unicorn births compared to last year — a trend affecting many areas of VC investment including fintech. This decline may be attributed to a number of unicorns getting ahead of themselves in terms of valuations as a result of alternative lending companies — primarily mutual funds — jumping into late-stage investing and driving up private company valuations during 2014 and 2015.

Newer fintech areas gaining investment momentum

During the first 2 quarters of 2016, it became apparent that investors are focusing more attention on newer areas of fintech when it comes to their investments. InsurTech and blockchain were among the big winners during the quarter, with a number of significant funding rounds coming in these two sub-sectors, including rounds by Clover Health Insurance, a company focused on offering data-driven health insurance options ($350 million) and Circle Internet, a company that allows users to send payments for free ($60 million). It is expected that these areas will continue to gain momentum as investors grow more cautious regarding payments and lending opportunities.

Other areas of fintech expected to see increased investment interest over the next few quarters include robo advisory and artificial intelligence.

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Fintech funding dip not expected to hold North America back for long (cont.)

Corporates focusing on customer demand

As customer demand for alternatives to traditional banking, financial services and insurance increases, corporates are becoming more active in the fintech space than ever before. Over the last quarter, the fintech engagement model at many banks and financial institutions has shifted dramatically — from denial that change is required to a realization that change is necessary and a growing interest in learning how fintech can help better meet the needs of their customers.

These institutions are taking a variety of approaches toward fintech, from forming partnerships with fintech companies to establishing in-house incubators and acquiring fintech companies outright. While there is no single path to successful fintech investment, corporate investors are, in many instances, paying close attention to the focus of individual fintech companies. For example, corporates may target fintech companies that are one-activity focused (e.g. payments companies) for acquisition while looking for partnerships with fintech companies that have a broader range of services or a more sustainable business model.

US regulatory activities expected to rise as current administration ends

A number of factors suggest that regulatory activities surrounding fintech in the US may rise over the next quarter. The issues surrounding one of the market leaders have enhanced calls for both additional investor and consumer protections. At the same time, the current US administration is drawing to a close — an activity that is likely to be preceded by an increasing push to get legislation approved before the end of the term in addition to an increase in regulatory proposals.

Future outlook remains bright for North American fintech

There has been real strength in the US equity markets which bodes well for fintech investments in North America over the longer term even as short-term uncertainties are driving current VC investors to be cautious. As investors become more comfortable with the outcome of Brexit and its potential implications and impact, there will likely be renewed interest in fintech from VC investors — if not in the third quarter, perhaps in the fourth quarter once the US presidential election has been decided.

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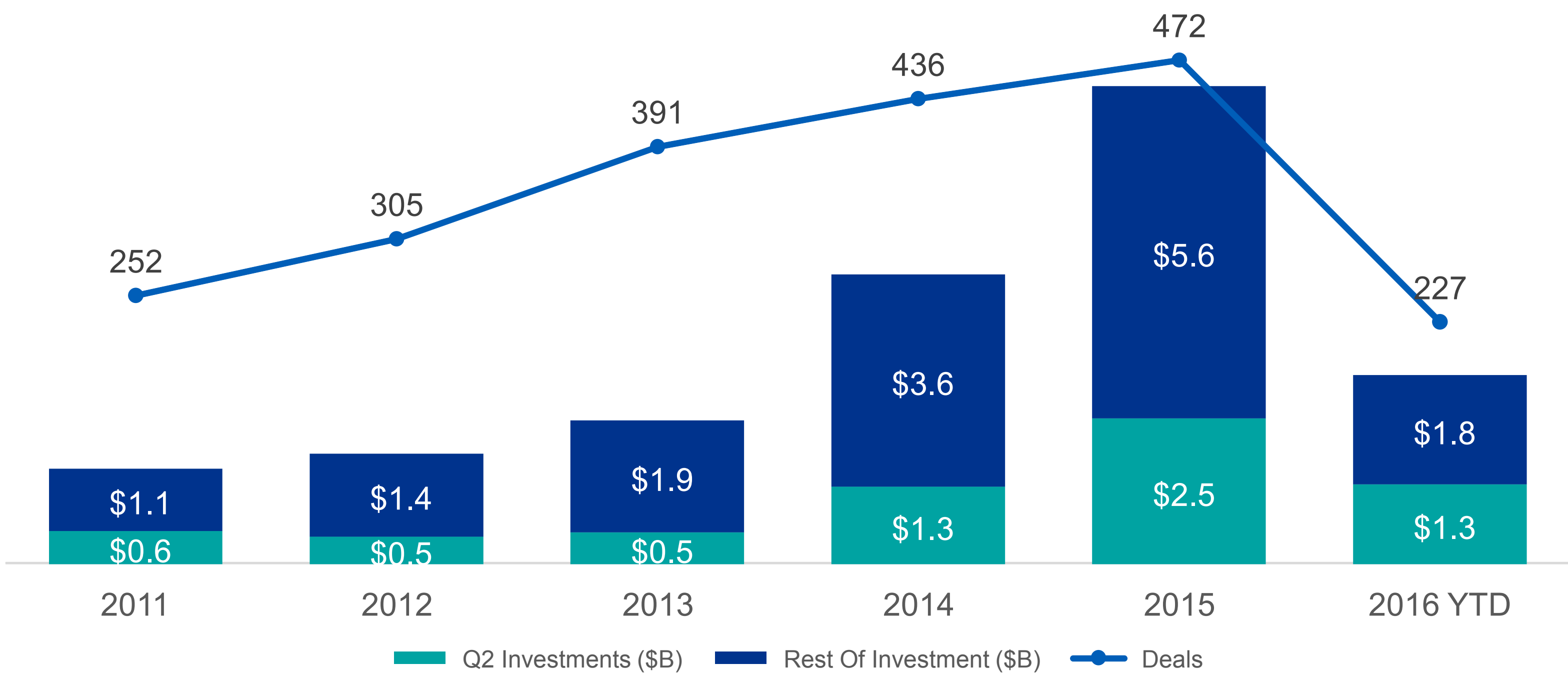
NORTH AMERICA: $1.3B ACROSS 97 DEALS IN Q2'16

In North America, the $1.3B registered to VC-backed fintech companies in Q2'16 represents a 48% funding drop when compared to Q2'15. VC-backed fintech deal activity in 2016 is on pace to top 450 deals at the current run rate.

North American Annual Financing Trends to VC-Backed Fintech Companies

2011 – 2016 YTD (Q2'16)



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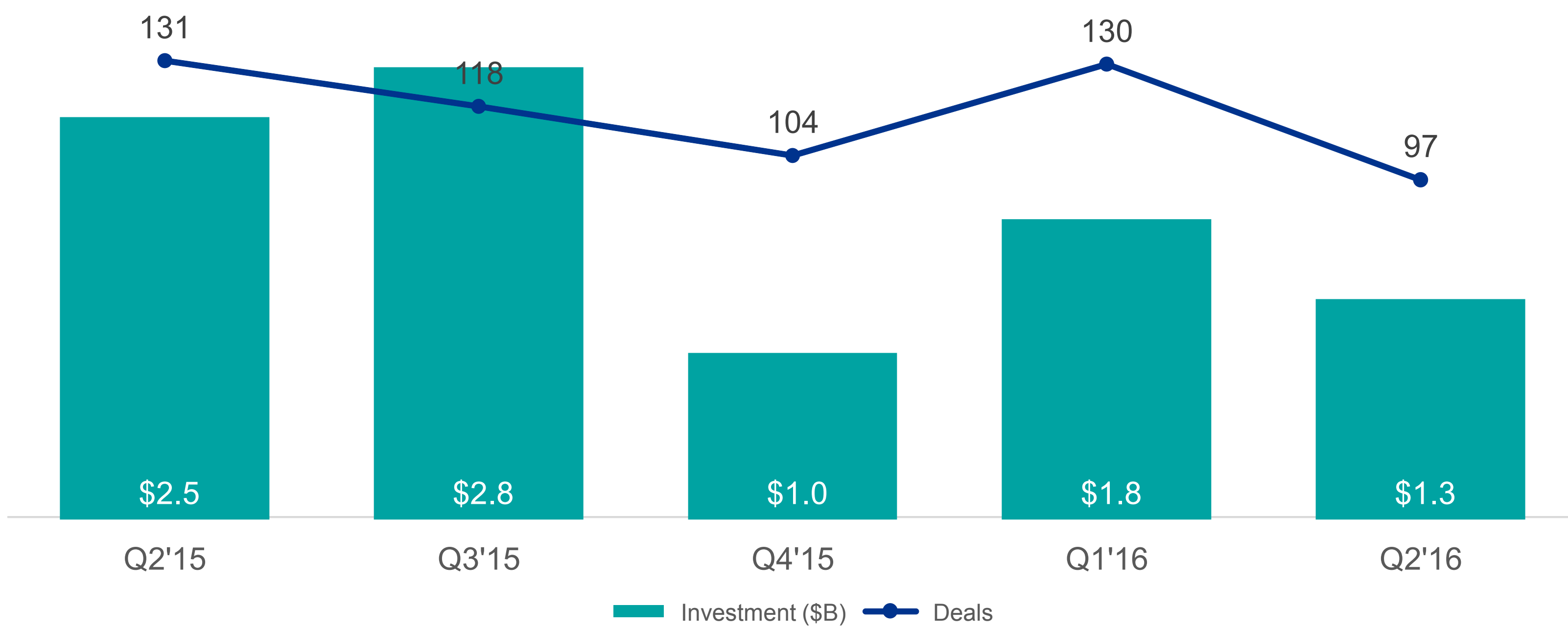
FINTECH FUNDING AND DEALS IN NORTH AMERICA DROP IN Q2'16

Deal activity to VC-backed North American fintech companies in Q2'16 dropped 25% on a quarterly basis. Fintech funding fell 28% from Q1'16 to hit $1.3B in Q2'16.

North American Quarterly Financing Trends to VC-Backed Fintech Companies

Q2'15 – Q2'16



Source: The Pulse of Fintech, Q2 2016, Global Analysis of Fintech Venture Funding, KPMG International and CB Insights (data provided by CB Insights) August 17th, 2016.

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“In North America, many venture capital investors remain cautious both in terms of fintech and the broader tech market. Many investors — ranging from VCs to mutual funds and institutional investors — are waiting on the sidelines to see what will happen. This is particularly the case in marketplace lending, which has been rocked by a number of potentially damaging setbacks.”

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

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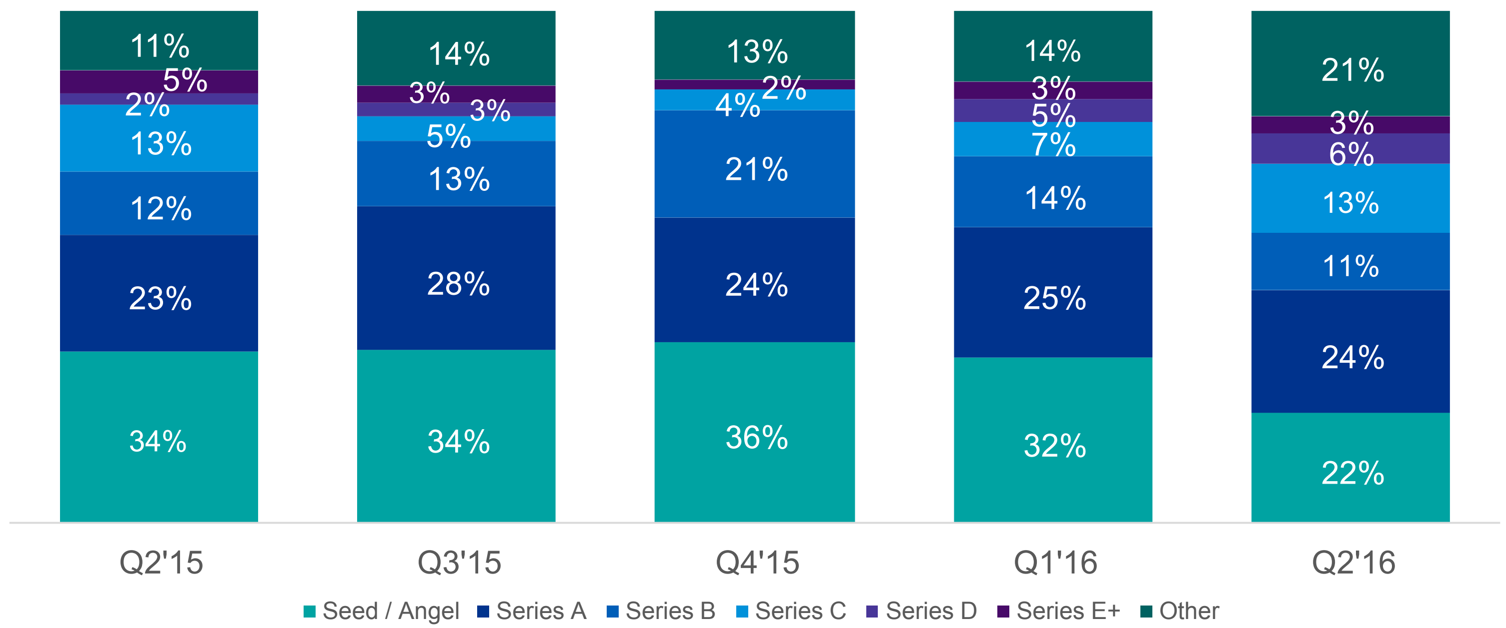
NORTH AMERICA SEED DEAL SHARE FALLS TO 5-QUARTER LOW

In Q2'16, seed activity took 22% of all fintech deals in North America, a 5-quarter low. VC-backed Series B fintech deal share fell from 14% in Q1'16 to 11% in Q2'16.

North American Quarterly Deal Share by Stage

Q2'15 – Q2'16



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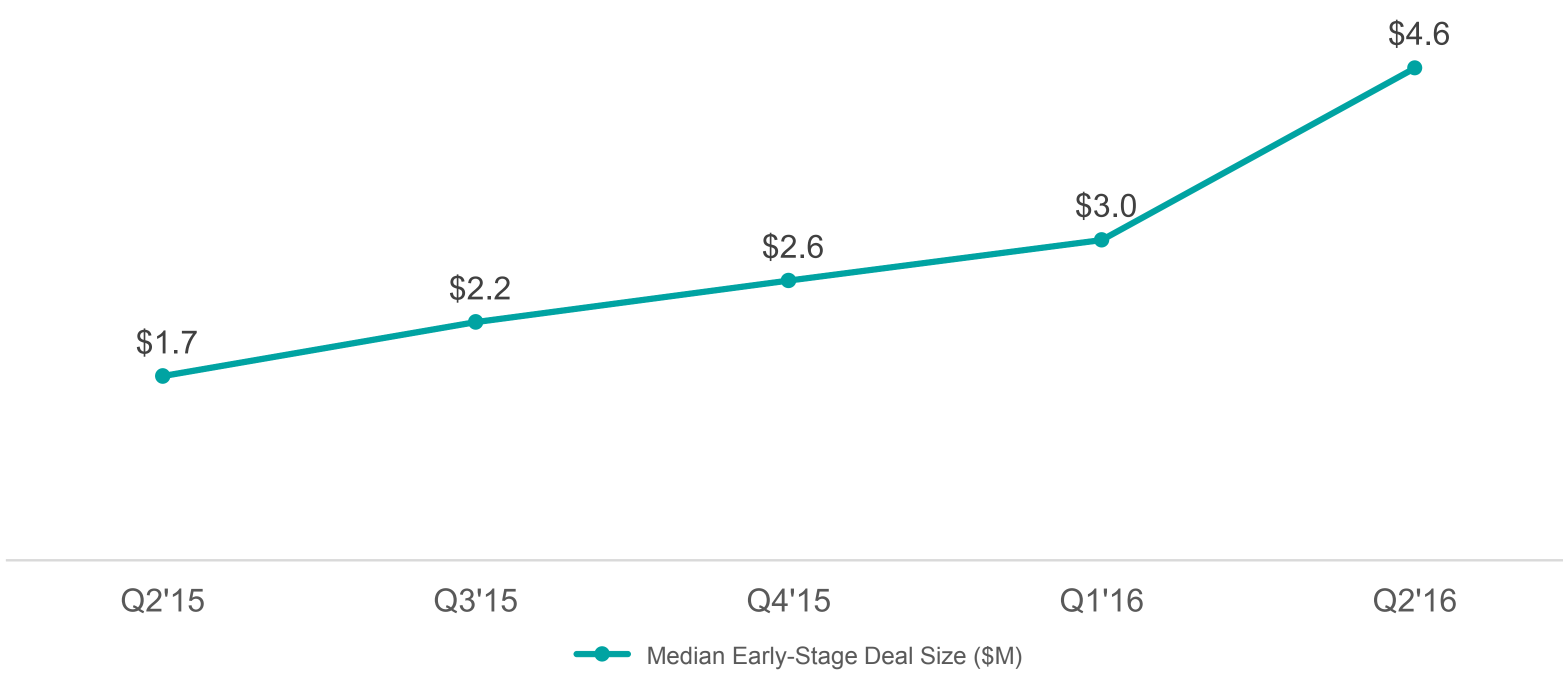
EARLY-STAGE FINTECH DEAL SIZES HIT 5-QUARTER HIGH

Median early-stage fintech deals were $4.6M in Q2’16, hitting a 5-quarter high and 53% increase over Q1’16.

North American Early-Stage Fintech Deal Size

Q2’15 – Q2’16



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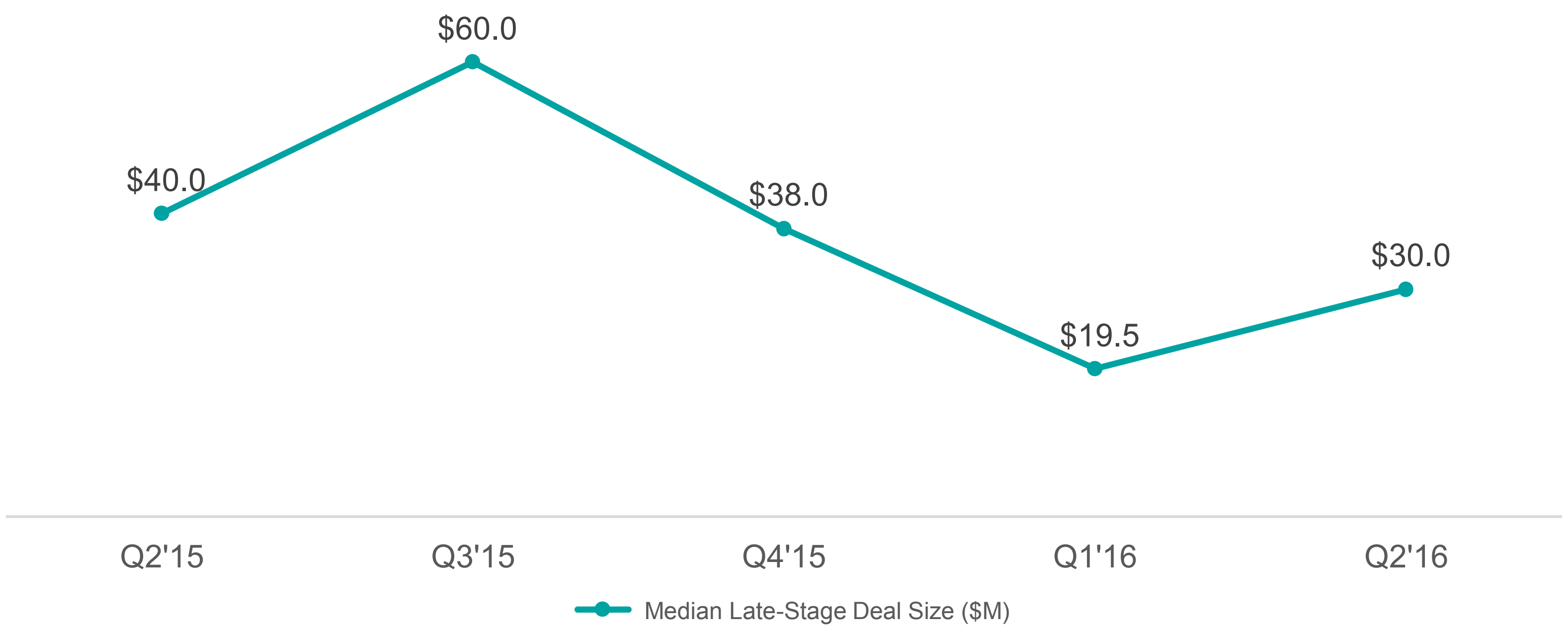
LATE-STAGE FINTECH DEAL SIZES RECOVER IN Q2'16

Median late-stage fintech deal size in North America reached $30M in Q2'16, a 54% increase over the previous quarter.

North American Late-Stage Fintech Deal Size

Q2'15 – Q2'16



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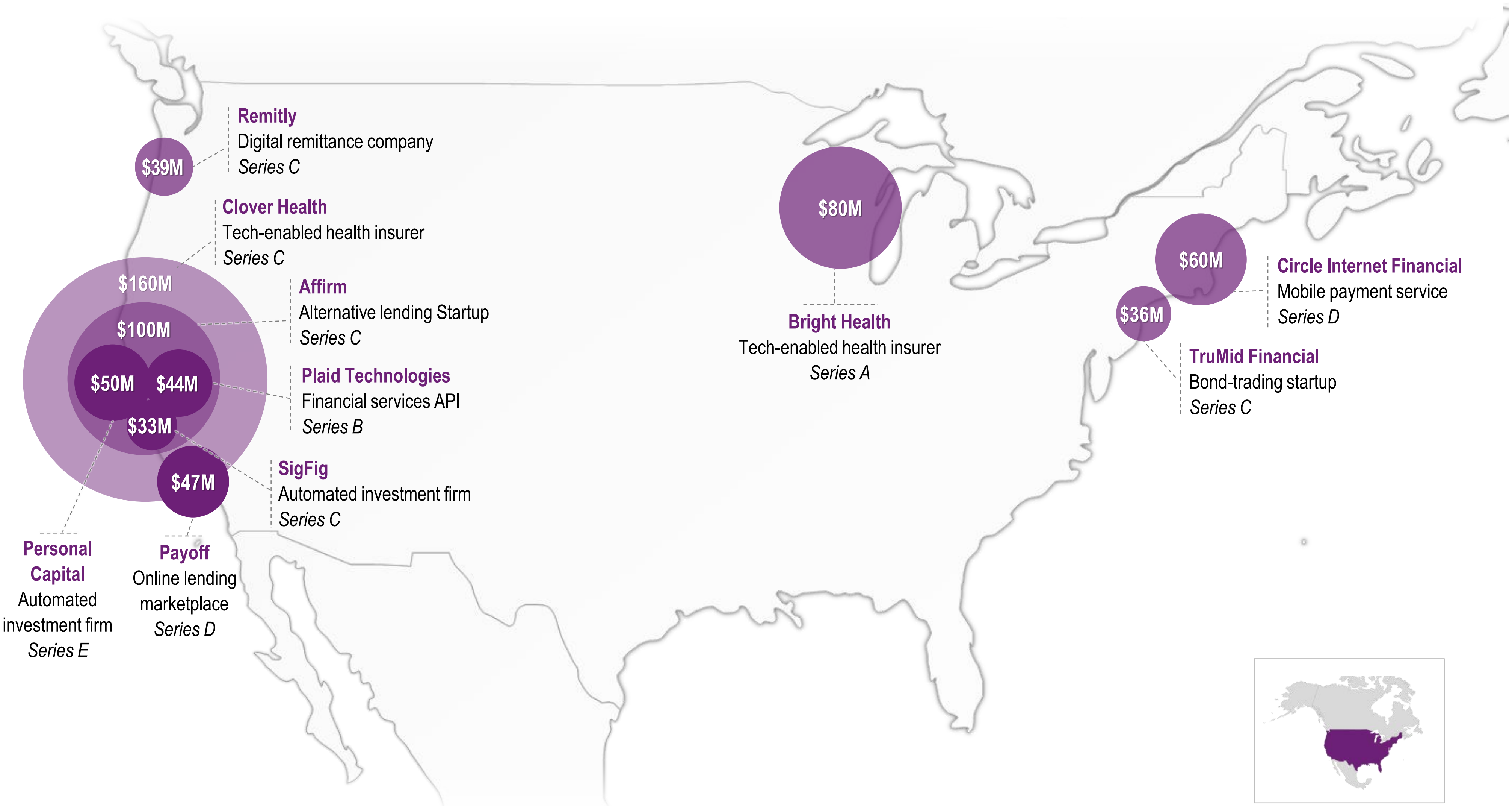
THE 10 LARGEST FINTECH ROUNDS OF Q2'16 TOTALED OVER $645M — 48% OF FUNDING IN NORTH AMERICA



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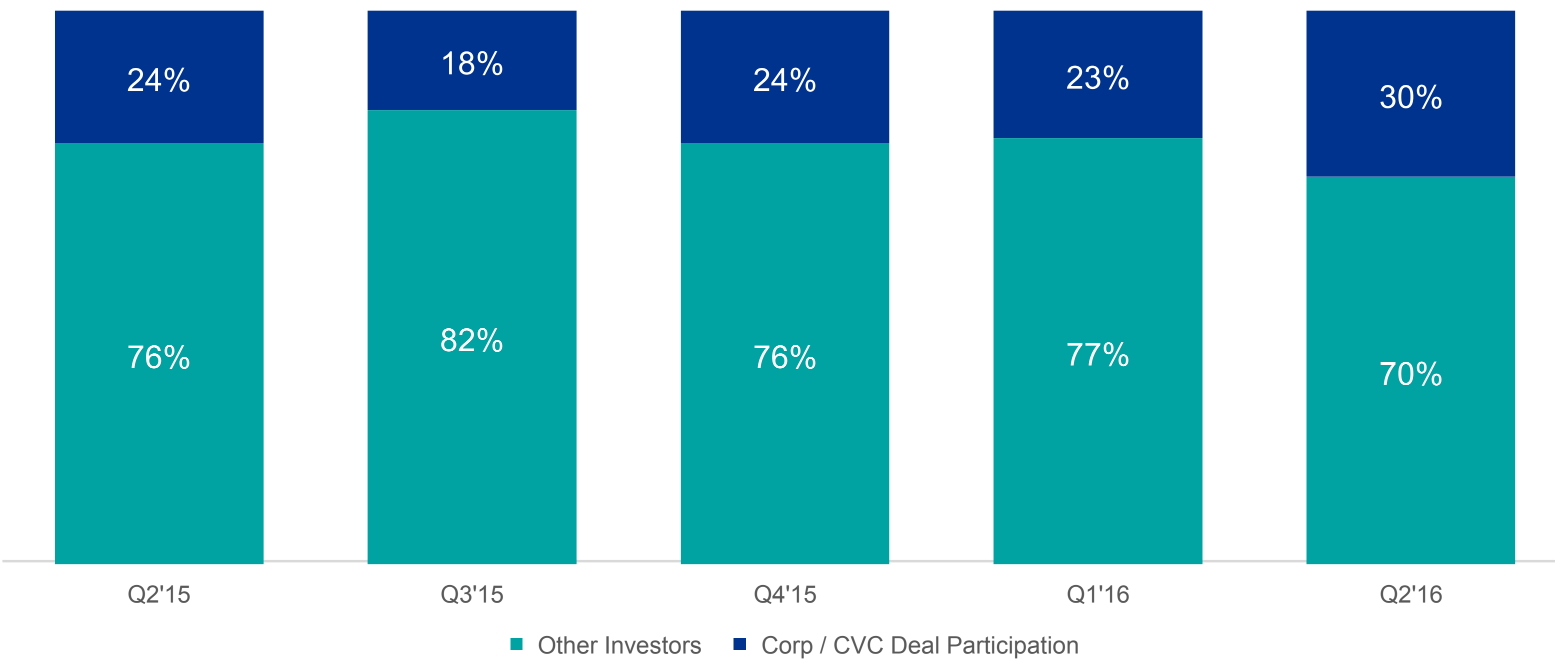
CORPORATE DEAL SHARE OF VC-BACKED NORTH AMERICAN FINTECH RISES TO 5-QUARTER HIGH

Corporates played a larger role in deals to North American VC-backed fintech companies in Q2'16, participating in 30% of all fintech deal activity, up from 23% in Q1'16.

CVC Participation in North American Deals to VC-Backed Fintech Companies

Q2'15 – Q2'16



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"Over the past year we've seen large financial institutions shift their thinking and engagement model around fintech — from initial skepticism to interest and, most recently, to a stage of active engagement. A number of financial institutions now have a fintech strategy and are active participants in this ecosystem, whether through direct investment and acquisitions, building strategic alliances or setting up accelerators and incubators."

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

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THE MOST ACTIVE VC INVESTORS IN NORTH AMERICAN FINTECH

Nyca Partners, General Catalyst Partners and Khosla Ventures were the top three most active fintech investors in North America over the last 5 quarters by unique company investments.

Most Active VC Investors in North American Fintech Companies

Q2'15 – Q2'16

Rank	Investor	Rank	Investor
1	Nyca Partners	8	SV Angel
2	General Catalyst Partners	10	Spark Capital
2	Khosla Ventures	10	First Round Capital
4	New Enterprise Associates	10	Blockchain Capital
4	RRE Ventures	10	American Express Ventures
4	Bain Capital Ventures	14	BDC Venture Capital
4	QED Investors	14	Crosslink Capital
8	Slow Ventures	14	Blumberg Capital

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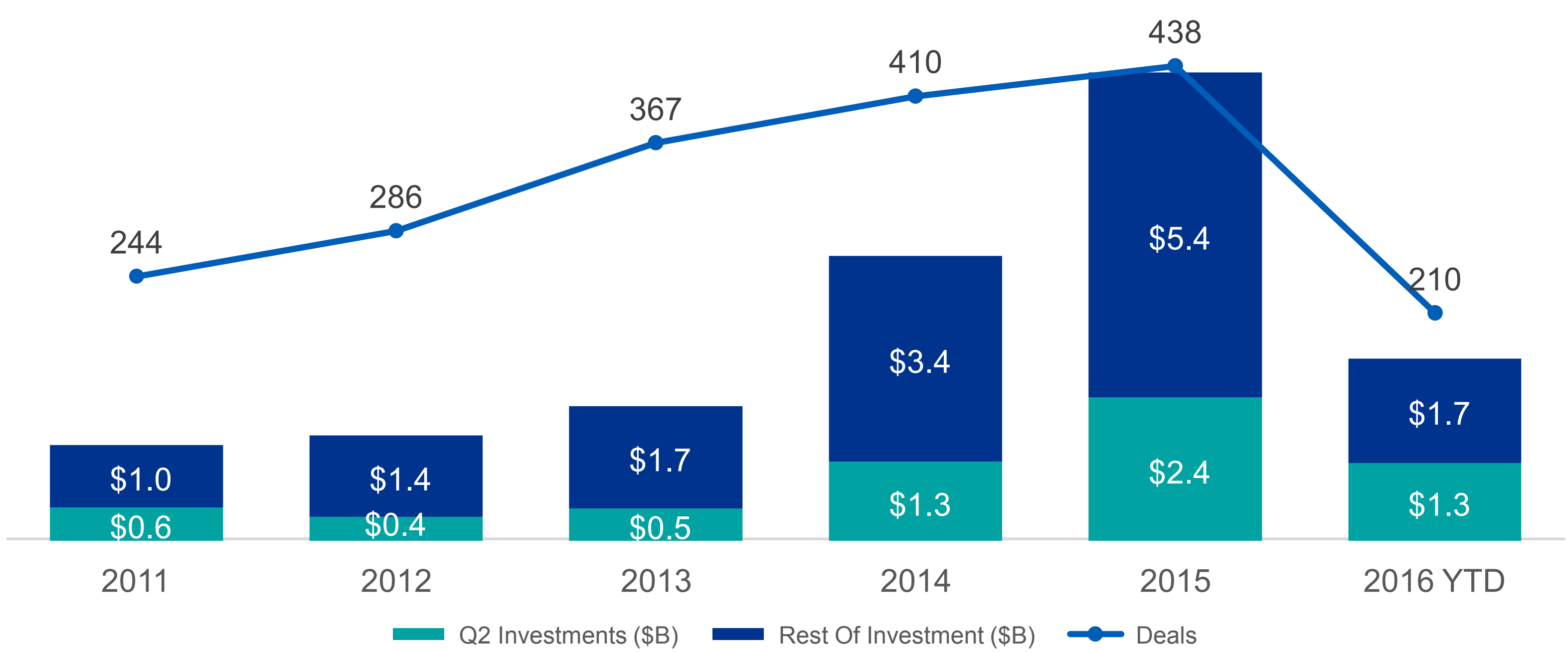
$3B DEPLOYED ACROSS 210 DEALS TO US FINTECH COMPANIES IN FIRST 2 QUARTERS OF 2016

In the US, VC-backed fintech companies raised $1.3B in Q2'16, which represents a 46% funding drop when compared to Q2'15. At the current run rate, deals are expected to reach 420 deals in 2016.

US Annual Financing Trends to VC-Backed Fintech Companies

2011 – 2016 YTD (Q2'16)



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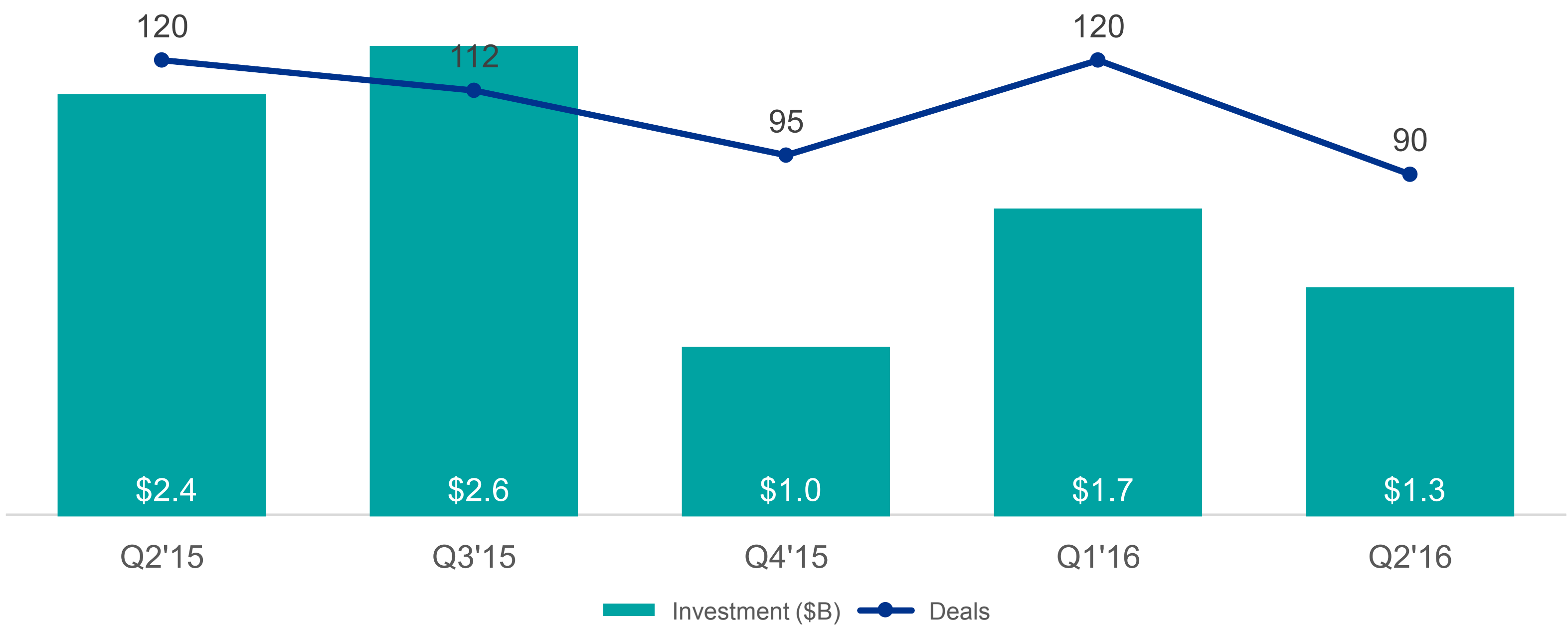
Q2’16 US FINTECH DEAL AND FUNDING ACTIVITY DECLINES AFTER STRONG RECOVERY IN Q1’16

US fintech startups saw funding total $1.3B in Q2’16, a decrease of 24% from Q1’16. Deal activity to VC-backed fintech companies experienced a 5-quarter low in Q2’16 with 90 deals recorded.

US Quarterly Financing Trends to VC-Backed Fintech Companies

Q2’15 – Q2’16



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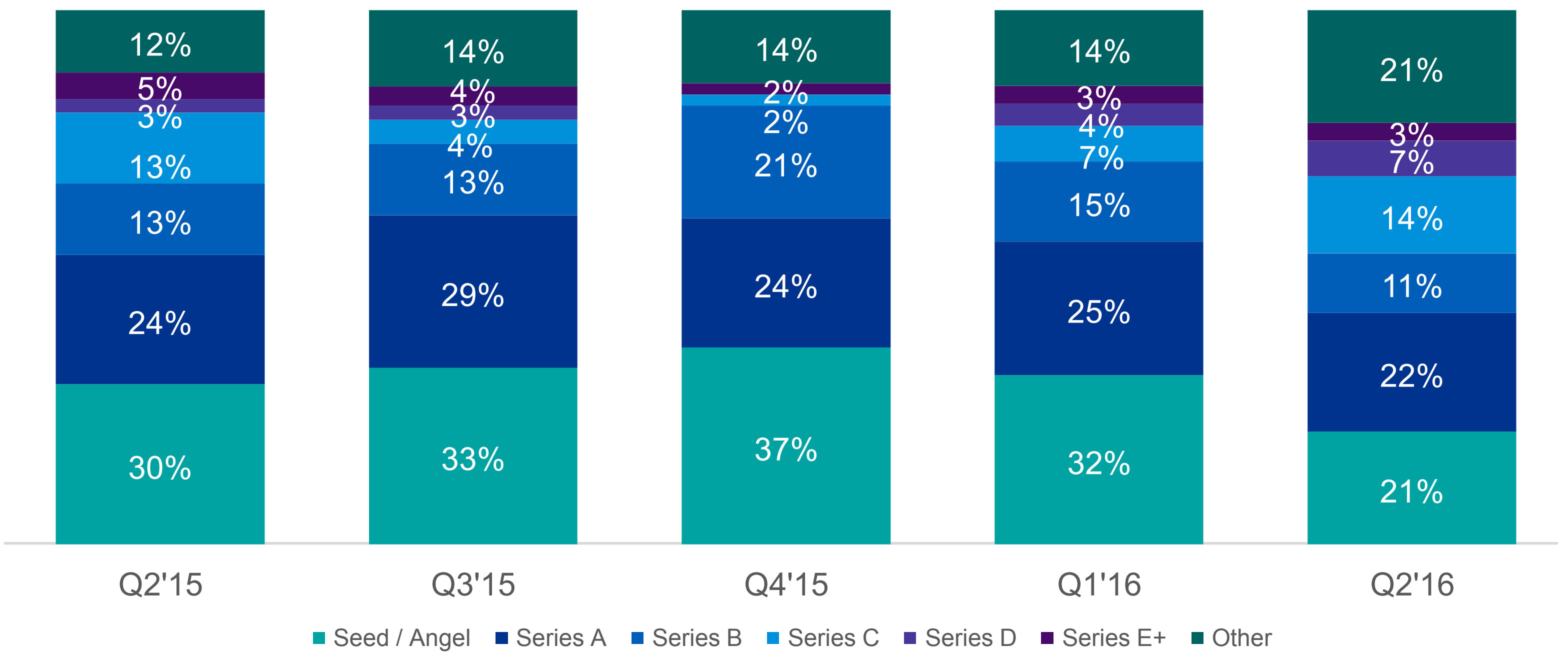
FINTECH EARLY-STAGE DEAL SHARE IN US FALLS TO 5-QUARTER LOW

Seed deal share fell to 21% in Q2’16 after taking almost one-third of all US VC-backed fintech deals in Q1’16. Series A deal share fell to 22%, a 5-quarter low for US VC-backed fintech deals.

Quarterly US Fintech Deal Share by Stage

Q2’15 – Q2’16



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"In the US, there's a misconception that fintech is not regulated. Fintech companies are, in fact, regulated by organizations like the Consumer Financial Protection Bureau and the Federal Deposit Insurance Corporation through their bank partnerships. The fact that the fintechs are not chartered financial institutions or do not have a bank license does not preclude them from regulatory scrutiny."

Ann Armstrong
US National Fintech Co-Leader, KPMG in the US

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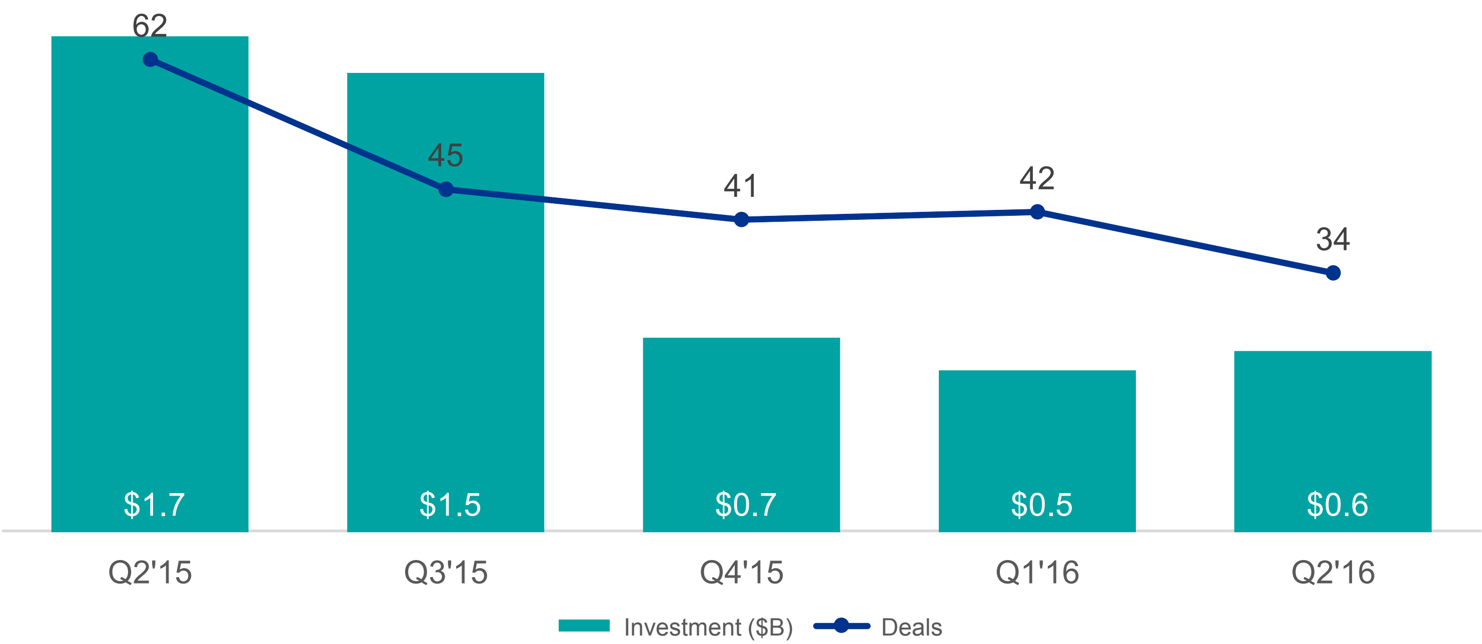
CALIFORNIA VC-BACKED FINTECH INVESTMENT ACTIVITY

Top Deals & Cities, Q2'16

California Fintech Investment Activity

VC-Backed Companies, Q2'15 – Q2'16



Top Deals

Clover Health

$160M // Series C

Affirm

$100M // Series C

Personal Capital

$50M // Series E

Top Cities

San Francisco

20 Deals // $510.8M

Los Angeles

2 Deals // $13.5M

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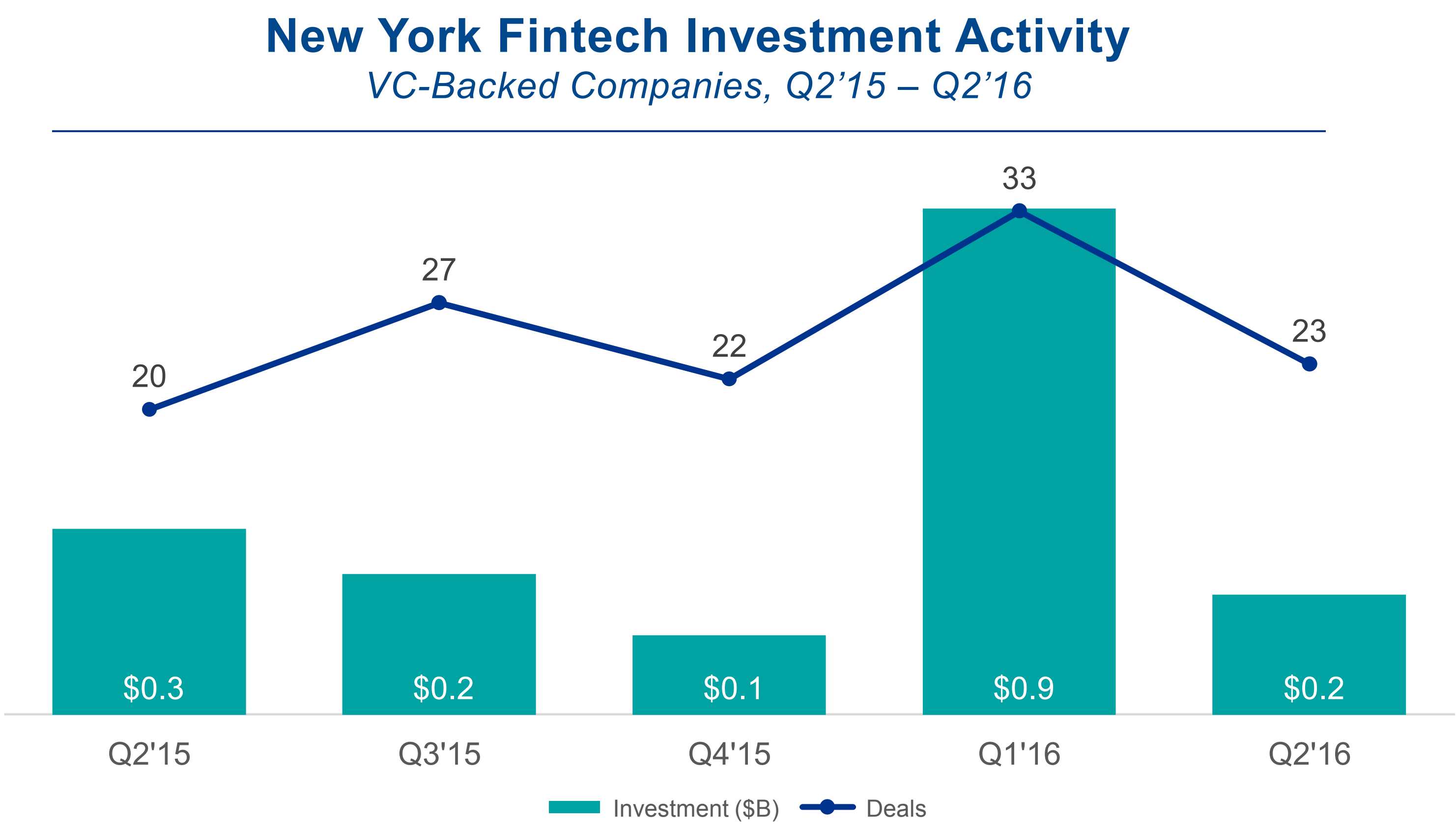
NEW YORK VC-BACKED FINTECH INVESTMENT ACTIVITY

Top Deals & City, Q2'16



Top Deals

TruMid Financial

$36M // Series C

Transactis

$30M // Series E

Top City

New York

22 Deals // $201.4B

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In Q2'16

EUROPEAN

VC-backed fintech companies raised

$369 million

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Fintech investment in Europe grows amid Brexit uncertainties

European VC investment in fintech rose during the second quarter despite market uncertainties related to the Brexit vote in the UK. While the number of deals dropped slightly, investment rose from $303 million to $369 million quarter-over-quarter. Germany played a strong role in Europe's positive results with investment rising from $107 million to $186 million between Q1 and Q2'16 in the country.

Interest in fintech growing, but dollars focused on established companies

VC investment in fintech in Europe may lag behind North America and Asia, but more VC investors in the region are paying attention to this growing sector. Over the past quarter, European VC investors showed interest in a much broader range of fintech activities than ever before, seeing fintech opportunities across the value chain — as clients, products, processes and IT solutions. There is also a growing interest in Europe for companies that can do deep-dive data analytics in order to truly understand and improve the customer experience.

Despite growing interest, investors focused on fintech companies with proven business models and experience during Q2'16. For example, UK-based TransferWise and Ireland-based Future Finance both had significant follow-up funding rounds — $26 million and $27 million, respectively. Given current market uncertainties, this focus on proven companies is not unexpected, although it has made it more difficult for some startups to break into the fintech space.

Consolidation in lending sector expected

Q2'16 saw one lending company — FundingKnight — go into administration. While it was rescued by GLI Finance, other small lending companies are also expected to experience distress over the next few quarters. This will most likely drive some consolidation in the lending sector in Europe over the next few quarters. The reality is that funding is getting more difficult to attract, at least by lending companies that are not well established already.

Fintech investment the UK cautious amid Brexit vote

While total VC investment in the UK dropped significantly during Q2'16, fintech investment was less affected. The number of deals in the UK held steady quarter-over-quarter while total deal value only dropped from $117 million to $103 million. While not well reflected in the numbers, many investors were anxious regarding Brexit's implications. A number of deals were delayed during this quarter, even in the fintech space.

Regardless of Brexit, the UK will not give up its role as Europe's fintech leader easily, demonstrated by the country's regulatory sandbox and its recent announcement of a fintech bridge with Singapore aimed at making it easier for UK-based fintech companies to operate in that country and vice versa. This highlights that the UK intends to continue to foster its strong fintech ecosystem. Leaving the EU may even give it more flexibility to offer fintech incentives.

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Fintech investment in Europe grows amid Brexit uncertainties (cont.)

Germany fintech ecosystem on the rise

While Berlin may be seen as a key technology hub in Europe, Frankfurt is also growing a fintech hub in order to promote the bank ecosystem in the country. The government is working with universities, consulting companies and other partners to establish a new incubator model.

Other German cities are also attracting attention from VC investors. Hamburg in particular saw the quarter's largest European VC-backed funding round: $46 million in Series C funding to Finanzcheck. This broadening of investment across the country suggests Germany as a whole is well positioned to attract fintech investors that may be hesitant to invest in the UK post-Brexit.

Funding rounds for fintech in Germany stretched beyond the traditional VC space in Q2'16. In April, Berlin's FinLeap incubator, focused on bringing together entrepreneurial talent, technology and industry experience to reshape finance, raised $27 million from Hannover Re and a number of other investors.

Looking forward — corporate participation evolving

Over the next quarter, corporate participation in fintech will continue to evolve. Existing banks and financial institutions will likely continue to explore the diverse value offered by fintech — especially blockchain technology, artificial intelligence, predictive analytics and risk modeling — within their own organizations. Insurance companies may also be looking to play catch-up with other financial services organizations, driven primarily from a desire to improve their client experience by offering new value and enhanced products and services.

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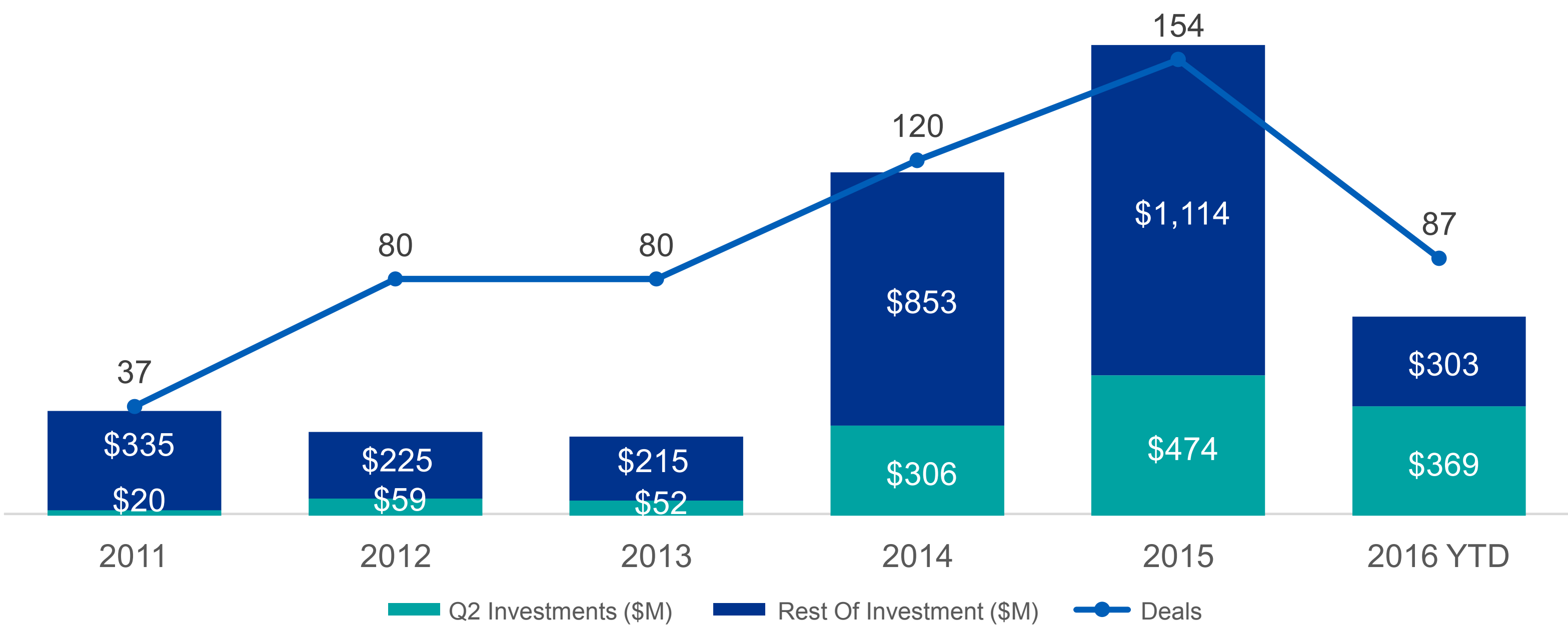
VC-BACKED EUROPEAN FINTECH DEALS ON PACE FOR NEW HIGH IN 2016

VC-backed fintech companies in Europe raised $369M in funding across 43 deals in Q2'16. At the current run rate, European fintech funding is on pace to fall from 2015's 5-year high, but deals are on pace to top 2015's total by 13%.

European Annual Financing Trends to VC-Backed Fintech Companies

2011 – 2016 YTD (Q2'16)



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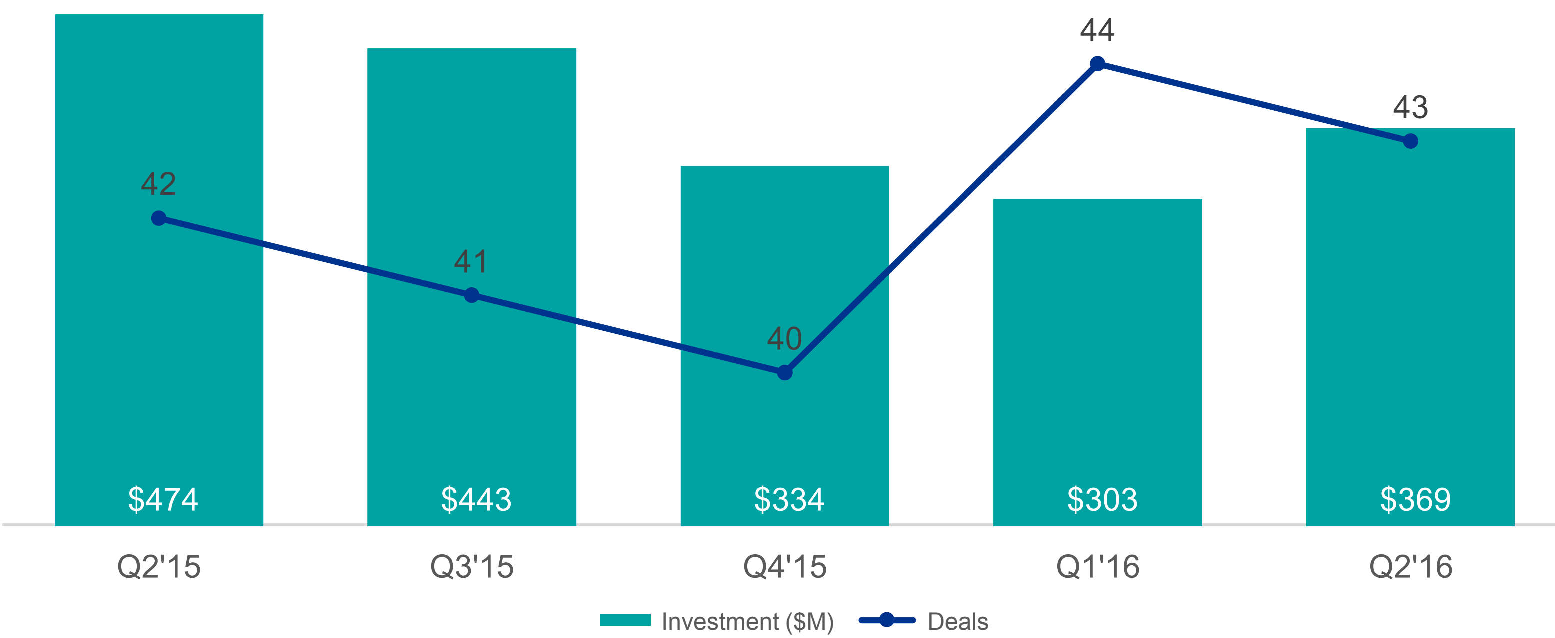
FINTECH FUNDING IN EUROPE HITS 3-QUARTER HIGH

Q2’16 saw fintech deal activity remain nearly level with Q1’16. Fintech funding in Europe rose 22% on a quarterly basis with $369M invested in Q2’16.

European Quarterly Financing Trends to VC-Backed Fintech Companies

Q2’15 – Q2’16



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"Fintech has a younger sibling — regTech. RegTech startups are automating and simplifying regulatory reporting and processes. As banks are struggling with the regulations they have to fulfill, a number of startups are creating services to help them solve the complexities faced with reporting and documentation."

Sven Korschinoski
Partner, Financial Services, KPMG in Germany

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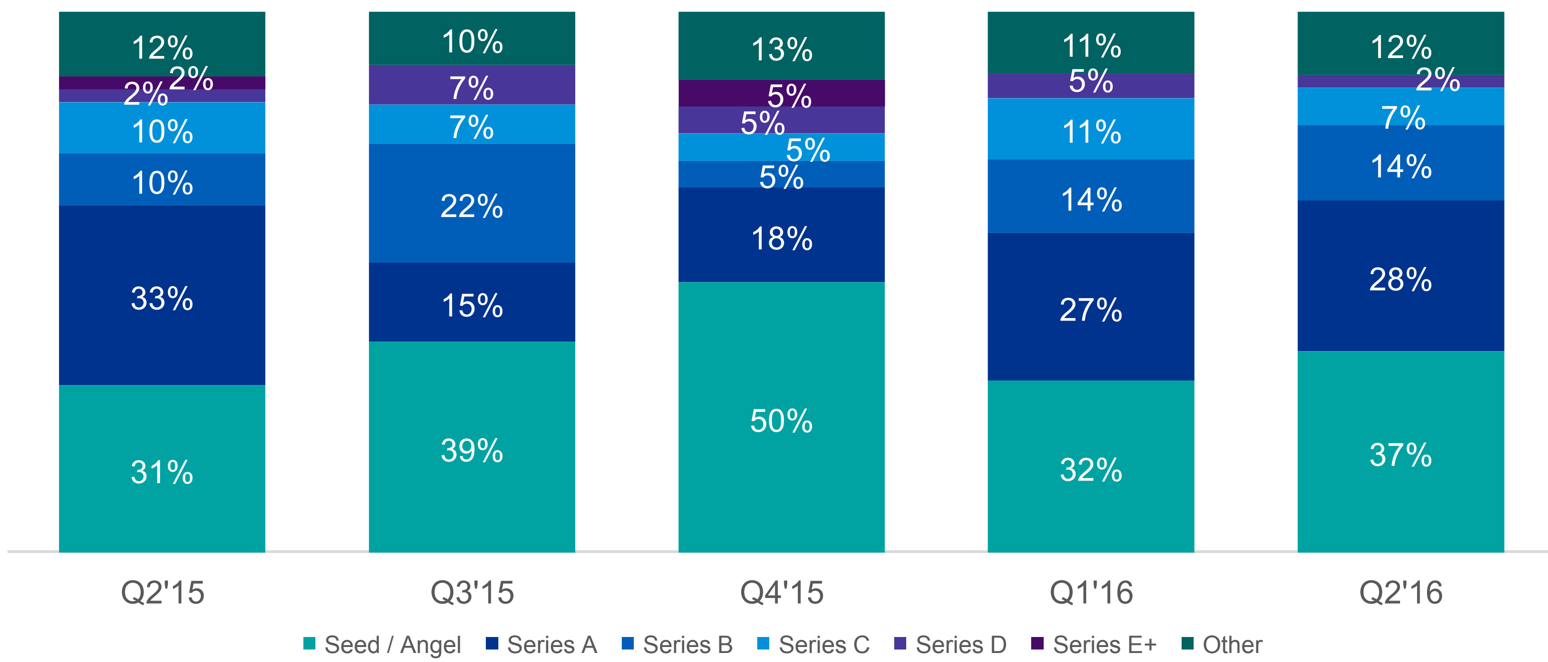
EARLY-STAGE ACCOUNTS FOR 65% OF EUROPEAN FINTECH DEAL SHARE IN Q2'16

Seed deal share in European fintech companies rose to 37% in Q2'16 after dropping to 32% in Q1'16. Series A deal share rose for the fourth consecutive quarter to more than one-fifth of all European fintech deals in Q2'16.

European Quarterly Deal Share by Stage

Q2'15 – Q2'16



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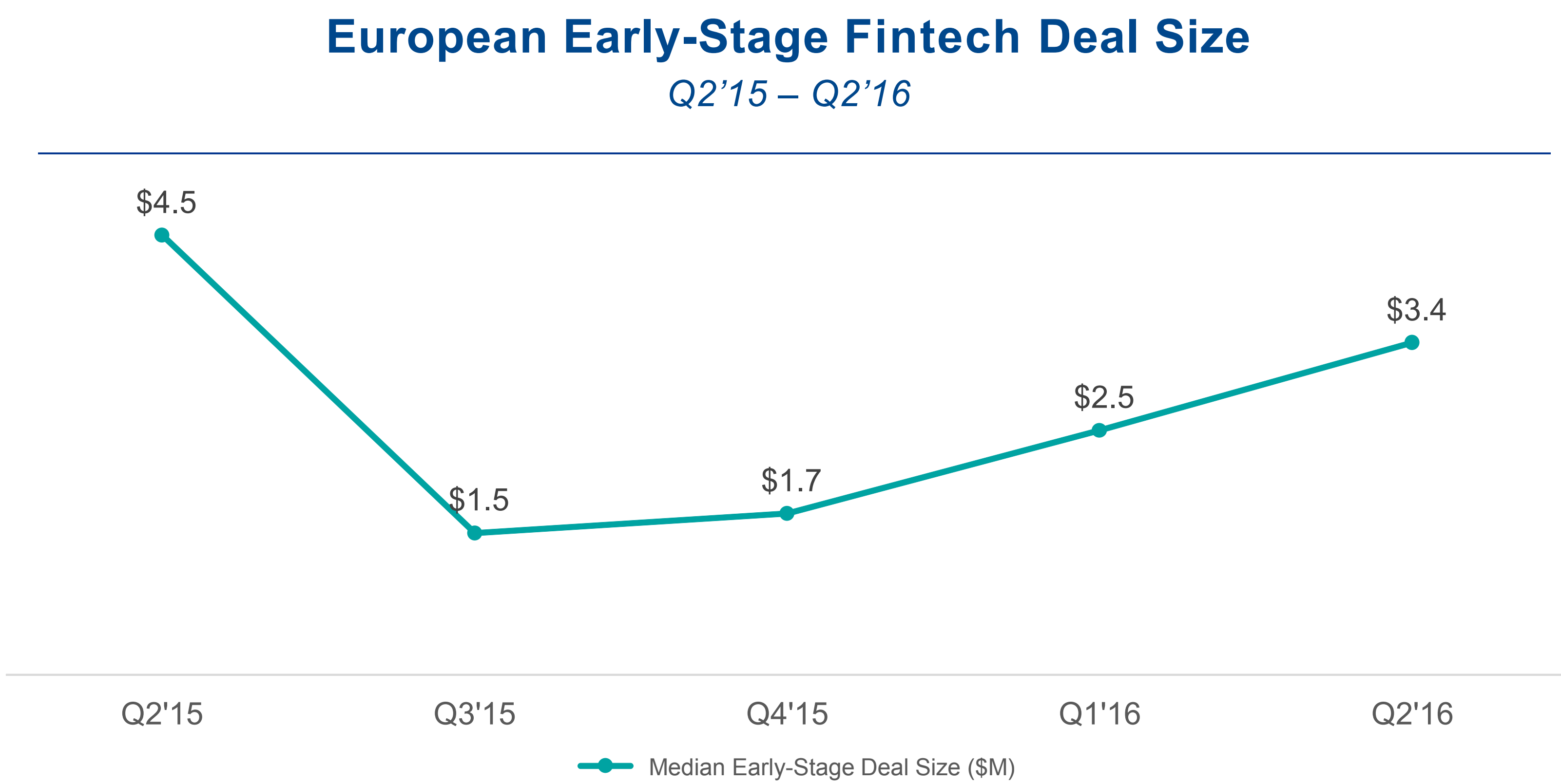
MEDIAN EUROPEAN EARLY-STAGE FINTECH DEAL SIZE RISES FOR FOURTH STRAIGHT QUARTER IN Q2'16

Early-stage median deal size in Europe rose above $3M for the first time in 4 quarters since a spate of Series As pushed Q2'15's median past $4M.



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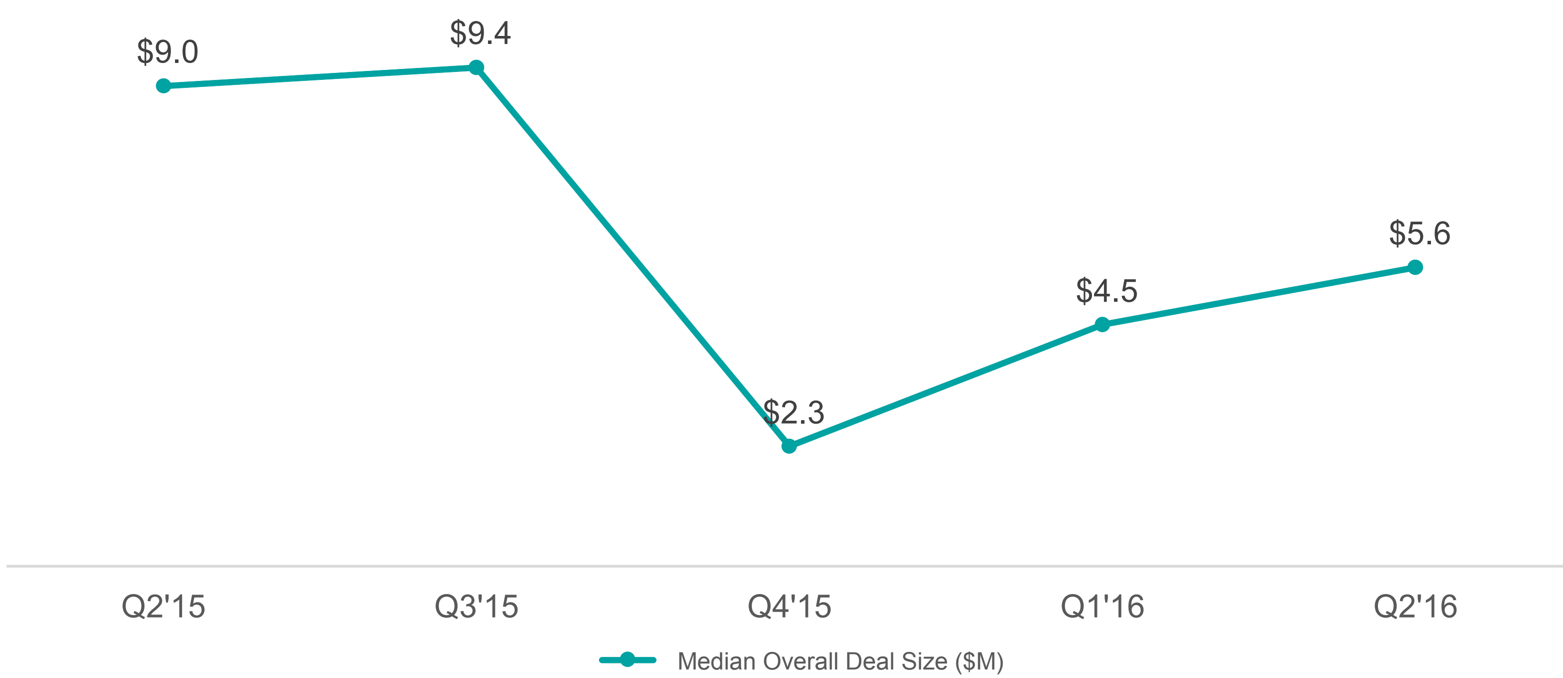
EUROPE OVERALL DEAL SIZES HIT 3-QUARTER HIGH IN Q2'16

Median overall fintech deal sizes in Europe fell to just $2.3M in Q4'15 after topping $9M for 2 straight quarters. Since then, median overall fintech deal size rose to $5.6M in Q2'16.

European Overall Fintech Deal Size

Q2'15 – Q2'16



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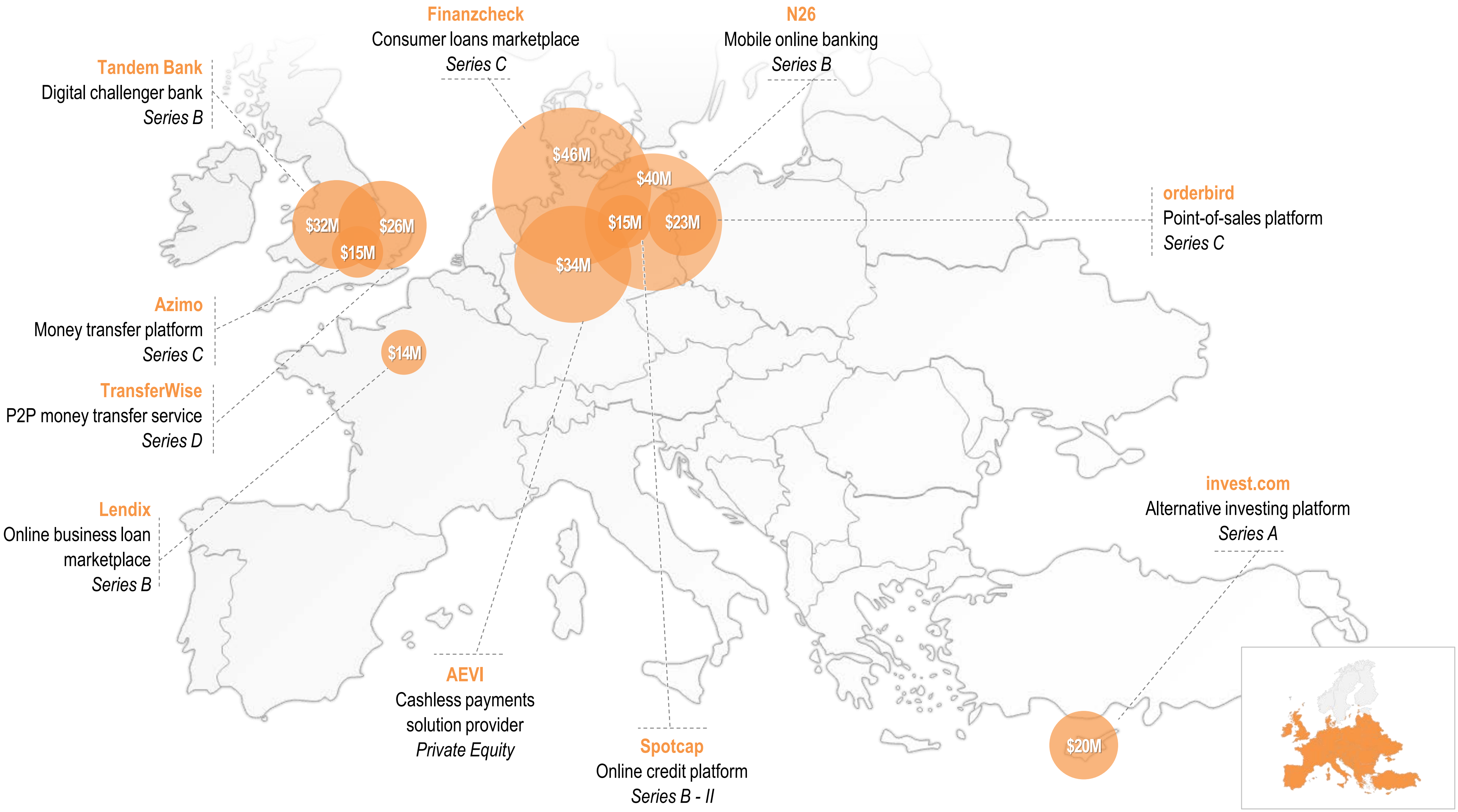
THE 10 LARGEST EUROPEAN ROUNDS OF Q2'16 IN VC-BACKED FINTECH REPRESENTED $265M IN FUNDING



Source: The Pulse of Fintech, Q2 2016, Global Analysis of Fintech Venture Funding, KPMG International and CB Insights (data provided by CB Insights) August 17th, 2016.

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"Market access and the ability to passport services across the EU are hugely important for fintechs, regardless of their origin or stage of development. Post-Brexit, maintaining a pro-business approach in Europe is critical and these issues will likely feature strongly in discussions between the EU and UK."

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

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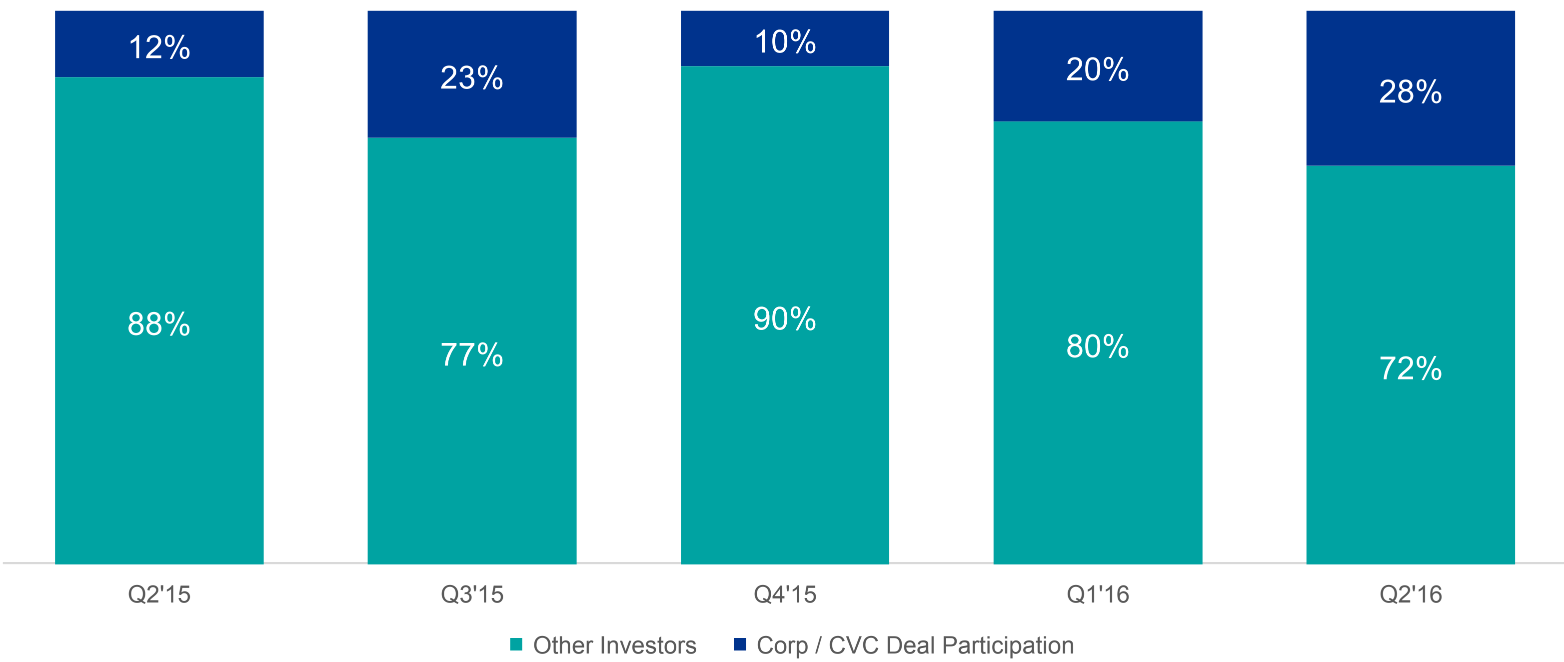
CORPORATE PARTICIPATION IN EUROPEAN FINTECH DEALS RISES TO 5-QUARTER HIGH

Corporate participation in the number of European fintech deals rose for the second straight quarter to 28% in Q2'16, compared to 12% in the same quarter last year.

CVC Participation in European Deals to VC-Backed Fintech Companies

Q2'15 – Q2'16



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THE MOST ACTIVE EUROPEAN FINTECH INVESTORS

Index Ventures, Seedcamp and High-Tech Gruenderfonds were the most active VCs in European fintech over the last 5 quarters.

Most Active VC Investors in European Fintech Companies

Q2'15 – Q2'16

Rank	Investor	Rank	Investor
1	Index Ventures	7	London Co-Investment Fund
2	Seedcamp	10	Northzone Ventures
2	High-Tech Gruenderfonds	10	Earlybird Venture Capital
2	SpeedInvest	10	Octopus Ventures
2	Balderton Capital	10	QED Investors
2	Holtzbrinck Ventures	10	Global Founders Capital
7	German Startups Group	10	NFT Ventures
7	Point Nine Capital	10	Route 66 Ventures

Source: The Pulse of Fintech, Q2 2016, Global Analysis of Fintech Venture Funding, KPMG International and CB Insights (data provided by CB Insights) August 17th, 2016.

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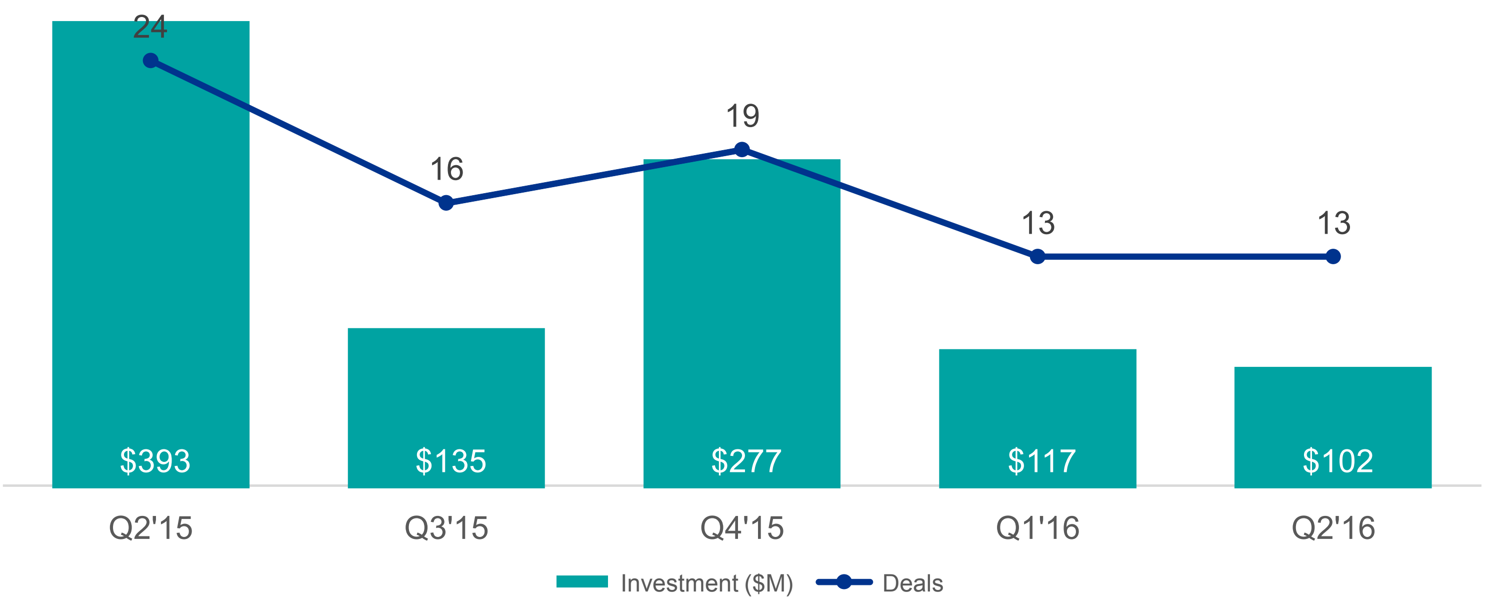
UK VC-BACKED FINTECH INVESTMENT ACTIVITY

Top Deals & City, Q2'16

UK Fintech Investment Activity

VC-Backed Companies, Q2'15 – Q2'16



Top Deals

Tandem Bank

$31.7M // Series B

Transferwise

$26M // Series D

Azimo

$15M // Series C

Top City

London

11 Deals // $93M

Source: The Pulse of Fintech, Q2 2016, Global Analysis of Fintech Venture Funding, KPMG International and CB Insights (data provided by CB Insights) August 17th, 2016.

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“ Without any doubt, there are uncertainties around Brexit, but with uncertainty comes opportunity. Free from EU rules, it is in the UK’s power to establish its own regulatory framework designed to support and encourage the growth of fintech companies and further cement London’s role as a global fintech hub.”

Patrick Imbach
Head of KPMG Tech Growth, KPMG in the UK

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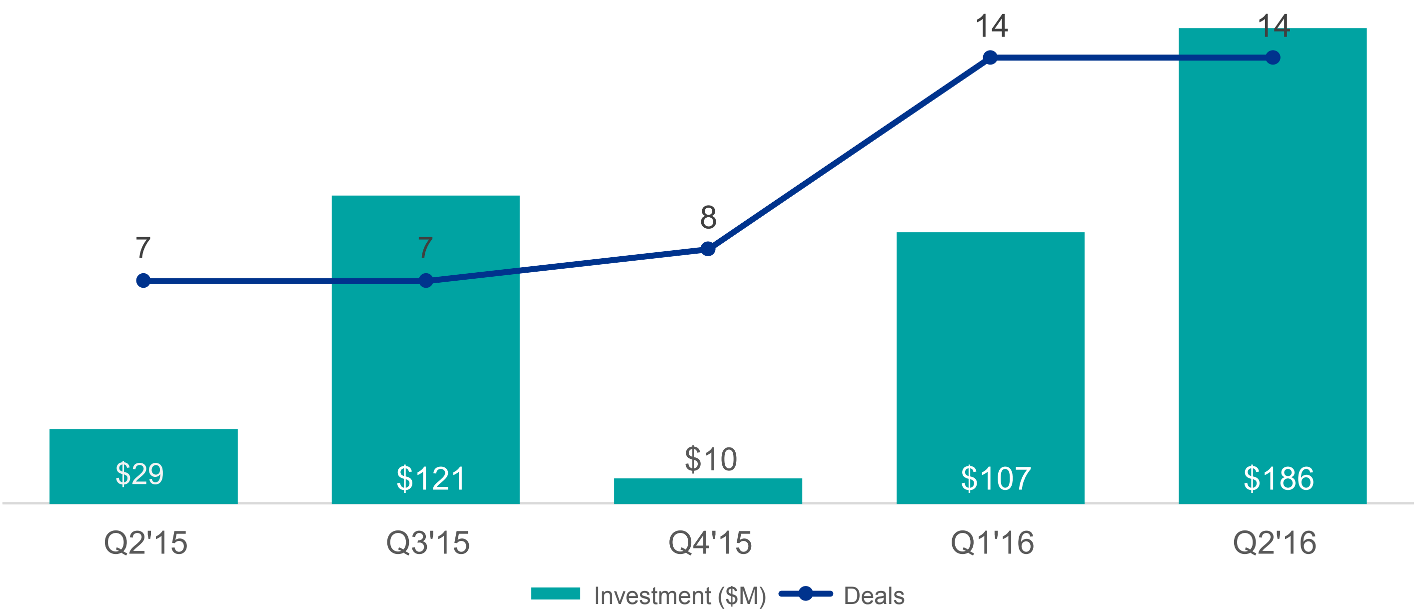
GERMANY VC-BACKED FINTECH INVESTMENT ACTIVITY

Top Deals & Cities, Q2'16

Germany Fintech Investment Activity

VC-Backed Companies, Q2'15 – Q2'16



Top Deals

Finanzcheck

$46M // Series C

N26

$40M // Series B

AEVI

$34.1M // Private Equity

Top Cities

Berlin

8 Deals // $93.8M

Munich

2 Deals // $7.8M

Source: The Pulse of Fintech, Q2 2016, Global Analysis of Fintech Venture Funding, KPMG International and CB Insights (data provided by CB Insights) August 17th, 2016.

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Fintech focus expanding in Asia despite funding decline

Following $1 billion+ fintech mega-rounds in Asia during Q1'16, it is not surprising that funding in Q2 dropped dramatically — from $2.6 billion to $800 million. Mega-rounds often cause large peaks and valleys when it comes to looking at quarter-over-quarter VC investment trends. Year-to-date figures, however, show that $3.4 billion has been raised by fintech companies in the first 2 quarters of 2016, suggesting that funding is on track to exceed the $4.7 billion raised during all of 2015.

Despite the funding dip, the total number of fintech deals in Asia reached a new high during Q2'16. This is another strong sign for the growth of fintech in the region.

China continues to lead fintech in Asia

In China, while marketplace lending and micro-lending continue to gain significant funding dollars, investors are proving more cautious, in part as a result of changes in the global economy. This has triggered a flight to quality as illustrated by the recent funding for Alibaba's financial services arm, Ant Financial.

Following the resumption of IPO activity in November 2015, the A-share IPO activity began to pick up in the second quarter of 2016 albeit still falling short of the level achieved in the second quarter of last year. Total funds raised on the Shanghai Stock Exchange and Shenzhen Stock Exchange saw a decline of 82% to approximately 2.6 billion compared with the first quarter of 2015. There are approximately 800 companies still waiting for IPO listing approvals in China. This has affected the overall deal flow, particularly for Series B and C investors considering their exit strategies.

Chinese regulators proposed a set of reform measures for IPOs in November 2015 to foster transparent and healthy capital markets but it is unlikely that these reforms will be officially launched in the coming 6 months. We foresee that the number of IPOs and funds raised for the remainder of 2016 will continue to be significantly lower compared to 2015.

Diverse fintech hubs sprouting across the region

While China may be the dominant jurisdiction for fintech investment in Asia, fintech ecosystems are sprouting and growing across the region. While Singapore, Hong Kong and Australia are setting themselves apart as fintech hubs, countries like Japan are also starting to focus on enhancing support for the sector. *Recent research showed Japan now has sixty-two established fintech ventures in ten areas and is also making a major focus on areas like blockchain, where recent experiments and advancements are expected to substantially transform core business processes like cash and securities settlements in financial institutions.

In India, deal value increased for the second straight quarter, although it remains well below its Q3'15 peak due to a lack of mega-rounds. Meanwhile, deal volume has remained consistent while activities supporting fintech have increased. Recently, the government announced a regulatory joint committee to look at the applicability of fintech across industries.

The National Payment Corporation of India has also set up a digital payment system for mobile-to-mobile transfer. This platform can be used for any kind of peer-to-peer transfer with a unique identifier. The new system is now driving a lot of the discussion and policy around fintech for banking and the ability to deliver 'last mile' services to those without access to financial services.

* Reference: 日本版Fintech（フィンテック）業界マップ公開, VC Note, January 12, 2016.

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Fintech focus expanding in Asia despite funding decline (cont.)

Regulatory regimes pose significant challenges…

In Asia, conservative regulatory regimes are making it difficult for some cities and countries to foster growth in the fintech sector. In Hong Kong, for example, while the Innovation Technology Bureau is keen to attract fintech companies and investors, the need for new regulations related to specific areas of fintech is hampering their efforts. With activities like equity crowd-funding prohibited if not carried out under traditional SFC licences and peer-to-peer lending potentially falling into the regulatory regime of collective investment schemes under SFC, fintech companies in this space are more likely to focus on locations that provide both incentives and clear rules to test drive service offerings. In contrast, where the Hong Kong Monetary Authority has issued regulations around Stored Value Facilities (SVF), we do see payments innovation continue to grow, with Apple Pay now live and Octopus Ventures, which are likely realizing the challenge from other players generating innovations of their own. The payments space is also expanding in Japan, where MUFG also has announced investment to virtual currency exchange Coinbase and a plan to introduce real-time cross border remittance with virtual currency.*

Similar challenges are affecting the growth of fintech companies in Taiwan. Despite regulatory barriers, fintech activity in Taiwan is growing, primarily as a result of demand from banks and financial institutions — companies that recognize that leveraging fintech can help them become more efficient and grow their business.

…and opportunities

While some jurisdictions are fighting to advance regulatory changes related to fintech, others are embracing change — including Australia and Singapore. Australia is following the UK's lead with respect to the establishment of a regulatory sandbox in which companies can pilot test fintech offerings. The Australian regulator is conducting consultations regarding the development of a sandbox and is expected to finalize the structure in the near future.

Singapore, meanwhile, announced the development of a Fintech Bridge with the UK during Q2'16 — an initiative aimed at helping fintech companies in Singapore expand into the UK and Europe while giving UK fintech companies an expansion platform for Asia. The success of this bridging initiative is based on the development of a regulatory cooperation agreement signed by the Financial Conduct Authority in the UK and the Monetary Authority of Singapore.

VC funding only part of the fintech investment story in Asia

While VC investment in fintech companies declined, overall fintech investment in Asia received a significant boost during the quarter with the announcement of Ant Financial's $4.5 billion funding round in April — the largest ever private funding round to an internet company. Ant Financial manages the Alipay online payments platform in China. This deal, while outside of the scope of this report, provides a more holistic view of fintech investment in China — and the keen interest that the fintech industry is receiving from all investor types.

*Reference: Bank of Tokyo-Mitsubishi says testing its own digital currency, Reuters, June 14, 2016.

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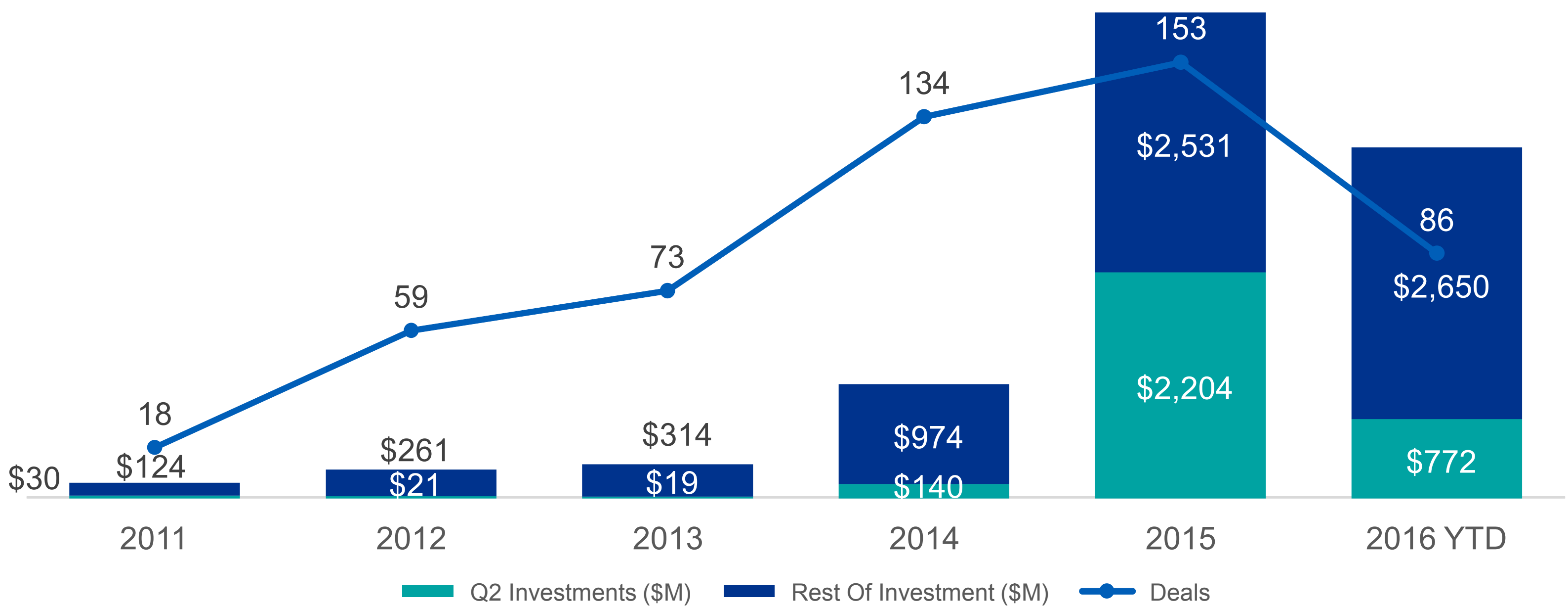
FINTECH FUNDING HITS $3.4B ACROSS 86 DEALS IN ASIA THROUGH Q2'16

VC-backed fintech companies in Asia raised $772M in funding across 46 deals in Q2'16. Despite funding slowing down in Q2'16, Asia fintech deal and funding activity is on pace to surpass 2015's high at the current run rate.

Asian Annual Financing Trends to VC-Backed Companies

2011 – 2016 YTD (Q2'16)



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"A lot of companies in Asia are trying to leverage fintech, not from a perspective of disrupting the market, but more from an efficiency and innovation perspective to improve the current processes and digital capabilities that they have."

James McKeogh
Partner, Management Consulting, KPMG in Hong Kong

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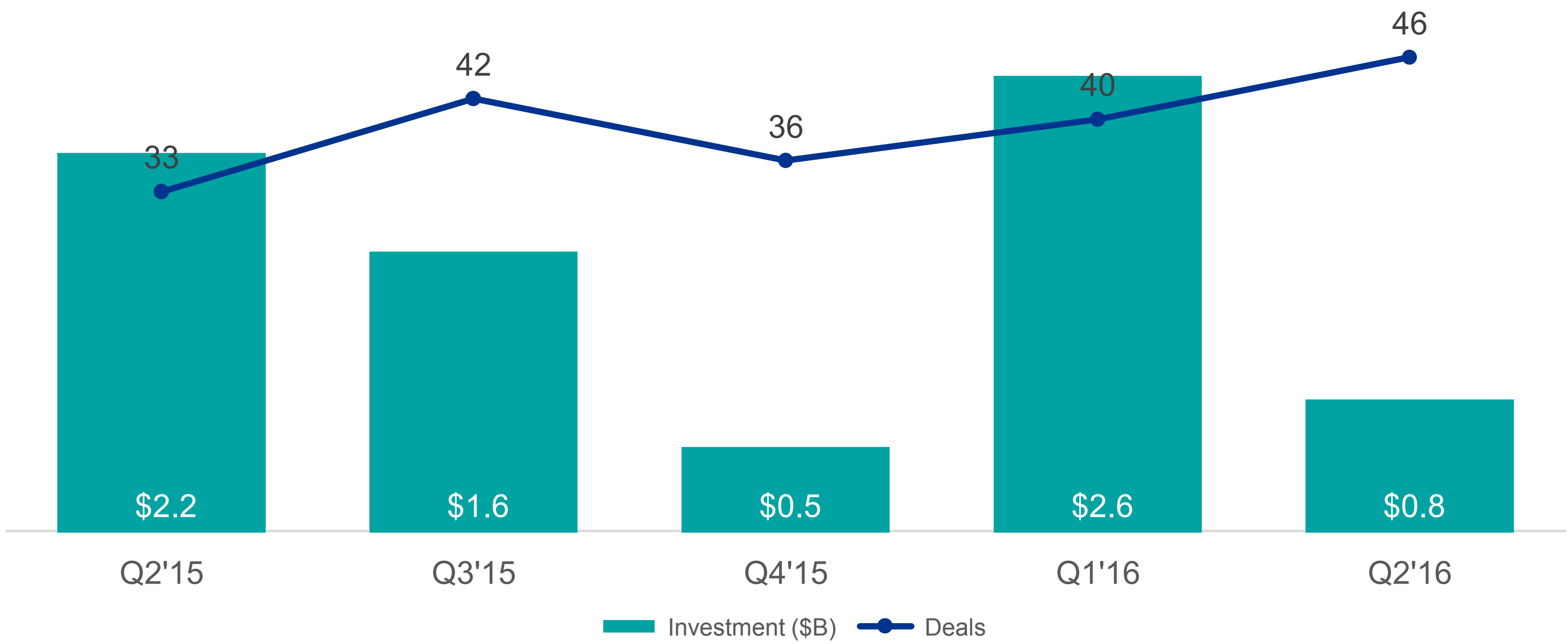
ASIAN DEAL ACTIVITY TO VC-BACKED FINTECH COMPANIES HITS 5-QUARTER HIGH

Asian fintech startups saw funding total $772M in Q2’16, a decrease of 69% from Q1’16, primarily due to two Q1’16 mega-rounds in China. Deal activity to VC-backed fintech companies reached a 5-quarter high in Q2’16, with 46 deals recorded.

Asian Quarterly Financing Trends to VC-Backed Companies

Q2’15 – Q2’16



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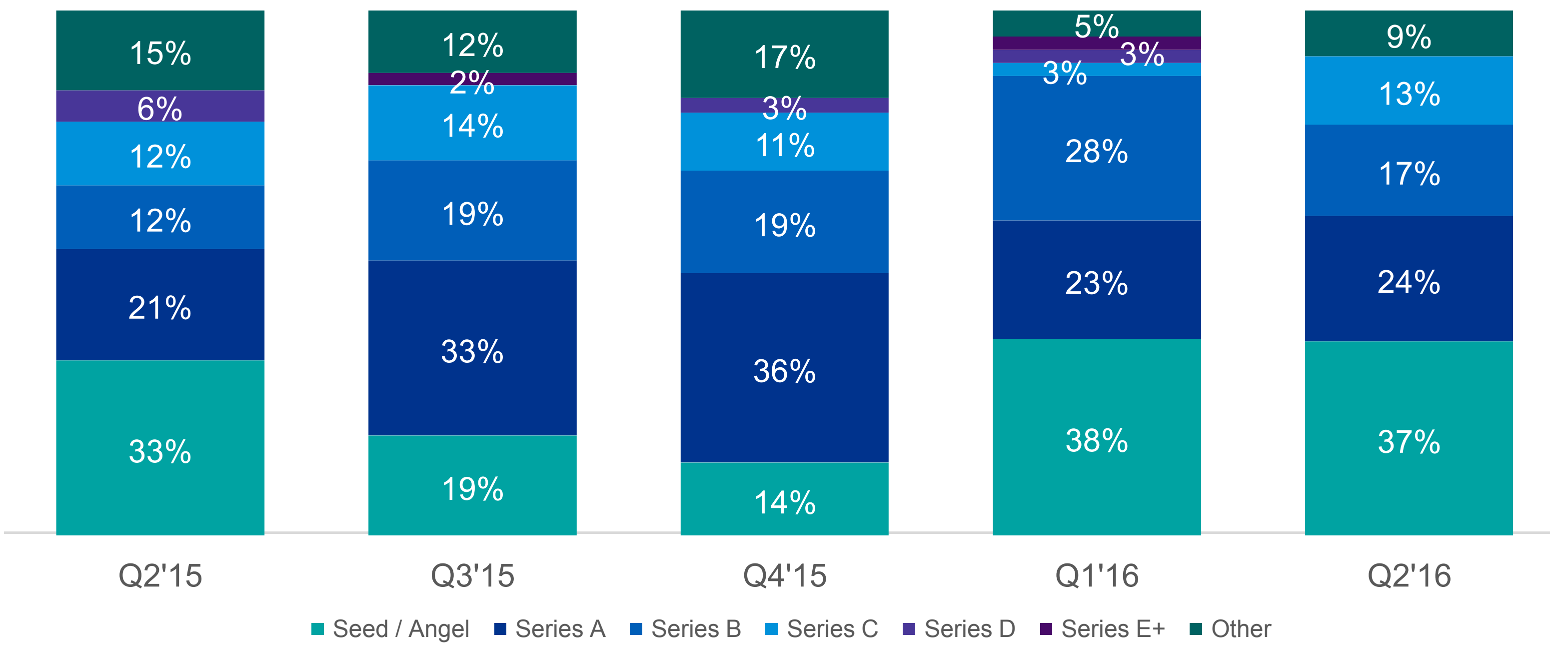
ASIAN FINTECH EARLY-STAGE DEAL SHARE REMAINS DOMINANT IN Q2'16

In Q2'16, early-stage VC-backed fintech companies in Asia accounted for 61% of deal share. Mid-stage deal share at the Series B and Series C stage took 30% of Q2'16 fintech deal share in Asia.

Asian Quarterly Fintech Deal Share by Stage

Q2'15 – Q2'16



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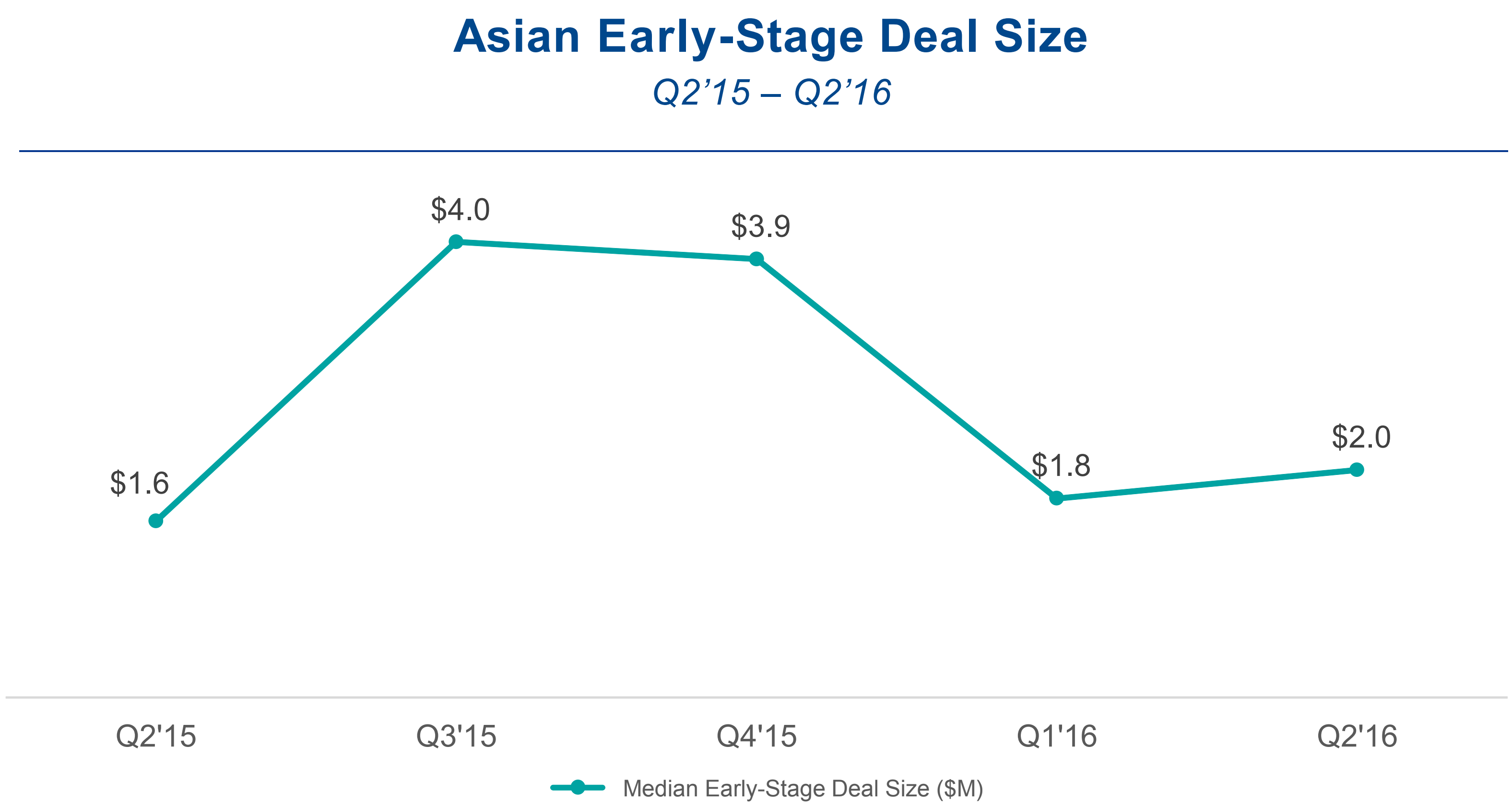
EARLY-STAGE FINTECH DEAL SIZE SLIGHTLY RECOVERS IN Q2’16

The median early-stage fintech deal size in Asia rose to $2M in Q2’16, a slight improvement from the previous quarter.



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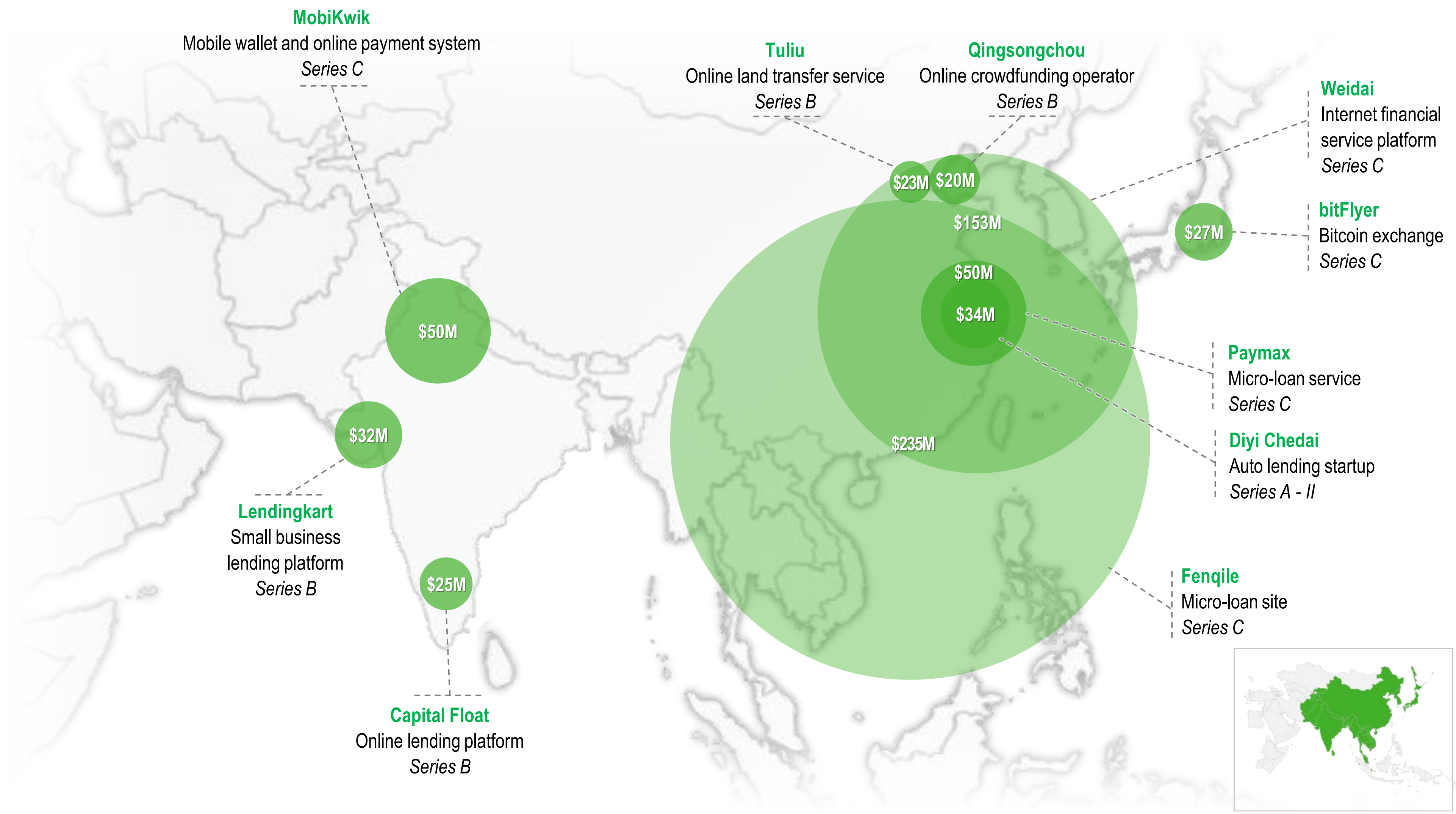
THE LARGEST ASIAN FINTECH ROUNDS OF Q2'16 REPRESENT OVER $640M IN FUNDING



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"VC investment in fintech remains strong in India. While the total dollar value of investment has declined due to absence of mega-rounds this year, the number of deals remains consistent with 2015 levels. We continue to see investment in key areas such as payments and mobile wallet as well as increased momentum in emerging areas like robo advisory."

Neha Punater
Head of Fintech, KPMG in India

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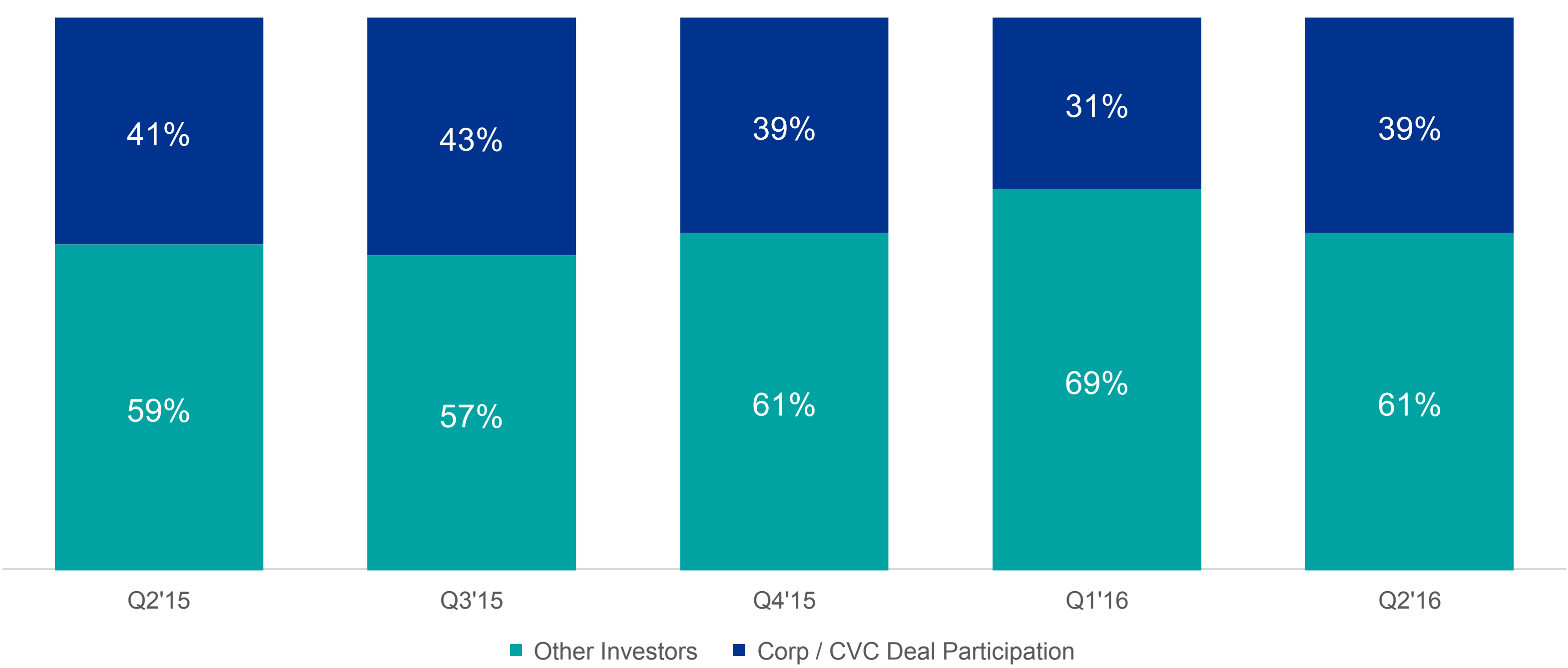
ASIAN CORPORATE ACTIVITY REBOUNDS IN Q2'16

Corporate participation in Asian VC-backed fintech deals rebounded to 39% in Q2'16 from 31% in Q1'16. Corporates saw slightly less deal share in Q2'16 than the same quarter last year when corporates participated in 41% of Asian fintech deals.

CVC Participation in Asian Deals to VC-Backed Fintech Companies

Q2'15 – Q2'16



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THE MOST ACTIVE ASIAN FINTECH VCs

500 Startups, Sequoia Capital China and East Ventures were the top three most active Asian fintech VCs over the last 5 quarters by unique company investments.

Most Active VC Investors in Asian Fintech Companies

Q2'15 – Q2'16

Rank	Investor	Rank	Investor
1	500 Startups	7	Matrix Partners China
2	Sequoia Capital China	7	IDG Capital Partners
3	East Ventures	9	Golden Gate Ventures
3	Sequoia Capital India	9	Life.Sreda
3	Accel Partners	9	SAIF Partners
3	Kalaari Capital		

Source: The Pulse of Fintech, Q2 2016, Global Analysis of Fintech Venture Funding, KPMG International and CB Insights (data provided by CB Insights) August 17th, 2016.

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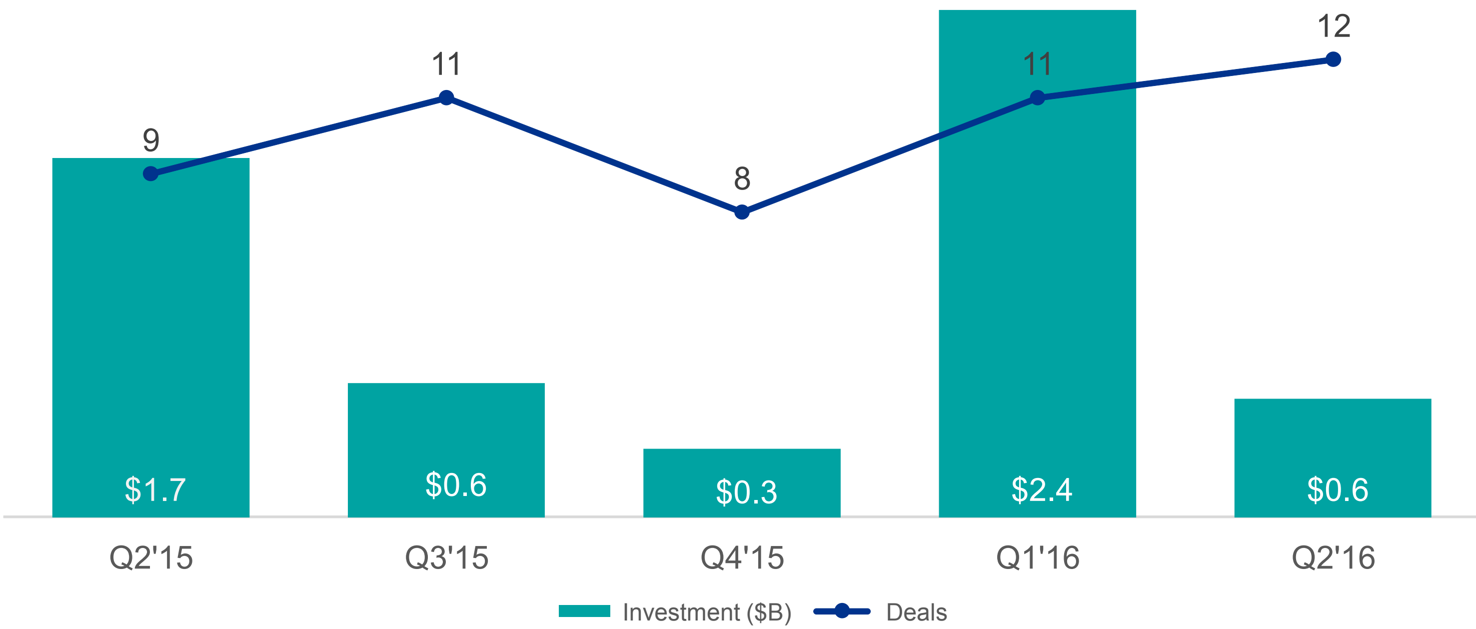
CHINA VC-BACKED FINTECH INVESTMENT ACTIVITY

Top Deals & Cities, Q2’16

China Fintech Investment Activity

VC-Backed Companies, Q2’15 – Q2’16



Top Deals

Fenqile

$235B // Series C

Weidai

$153M // Series C

Paymax

$50M // Series C

Top Cities

Hangzhou

3 Deals // $183.2M

Beijing

3 Deals // $43.1B

Shenzhen

2 Deals // $236.6M

Source: The Pulse of Fintech, Q2 2016, Global Analysis of Fintech Venture Funding, KPMG International and CB Insights (data provided by CB Insights) August 17th, 2016.

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“In China, there is a strong trend underway toward greater international investment. The Chinese government continues to encourage companies to go overseas to acquire new technologies and bring them back to China. A lot of local financial institutions in China have started to collaborate with fintech companies in areas such as artificial intelligence, biometrics and blockchain to rapidly prototype and pilot innovative products and services. We anticipate this trend will continue for quite some time.”

Irene Chu
Partner, Head of High Growth Technology & Innovation Group, KPMG in Hong Kong

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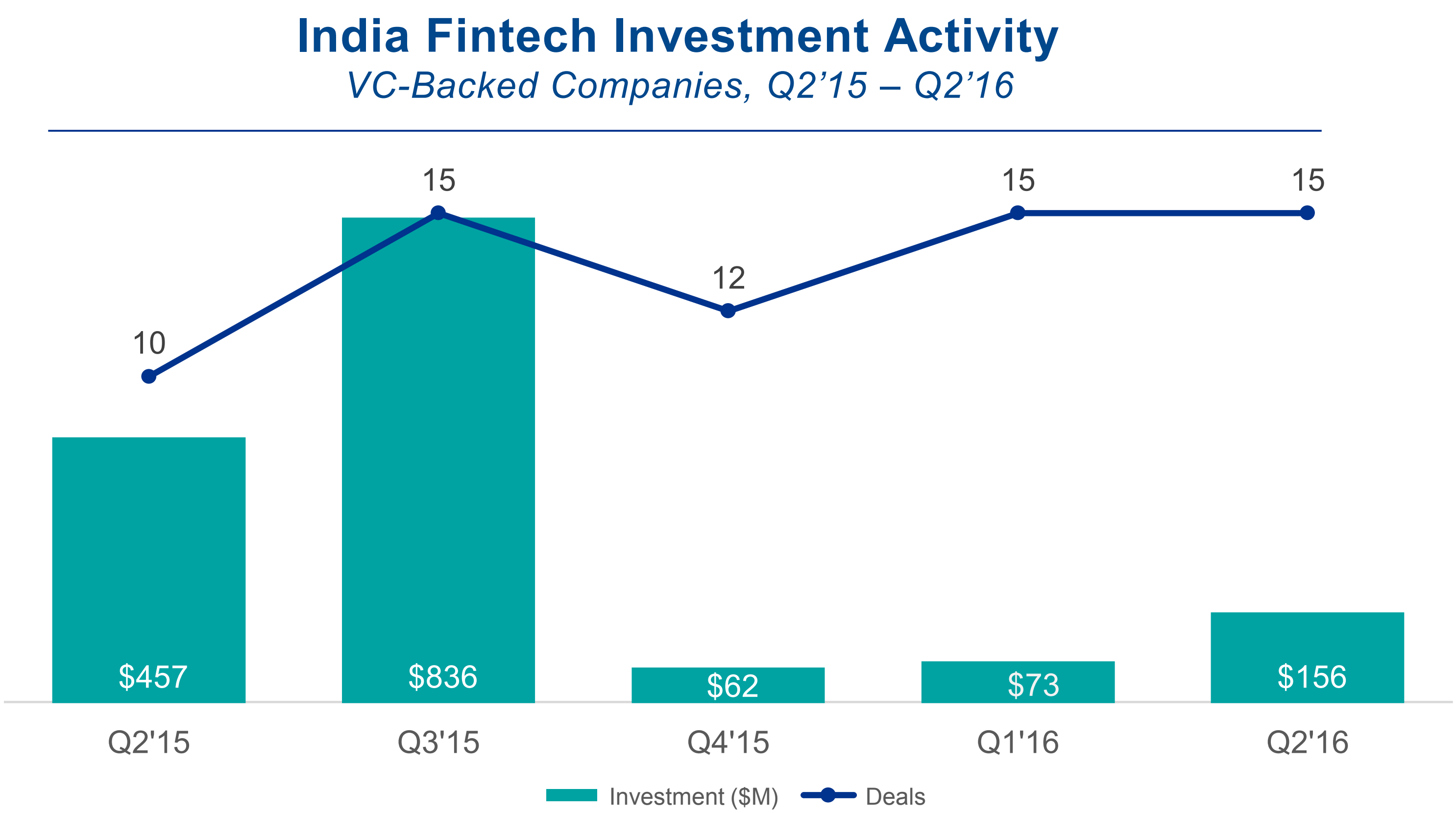
INDIA VC-BACKED FINTECH INVESTMENT ACTIVITY

Top Deals & Cities, Q2'16



Top Deals

MobiKwik

$50M // Series C

Lendingkart

$32M // Series B

Capital Float

$25M // Series B

Top Cities

Bengaluru

4 Deals // $41.4M

Mumbai

4 Deals // $17.7M

New Delhi

3 Deals // $15.3M

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METHODOLOGY — WHAT'S INCLUDED? WHAT'S NOT?

CB Insights and KPMG International encourage you to review the methodology and definitions employed to better understand the numbers presented in this report. If you have any questions about the definitions or methodological principles used, we encourage you to reach out to CB Insights directly. Additionally, if you feel your firm has been under-represented, please send an email to info@cbinsights.com and we can work together to ensure your firm's investment data is up-to-date.

What is included:

— Equity financings into emerging fintech companies. Fundings must be put into VC-backed companies, which are defined as companies who have received funding at any point from either: venture capital firms, corporate venture groups or super angel investors.

— Fundings of only private companies. Funding rounds raised by public companies of any kind on any exchange (including Pink Sheets) are excluded from our numbers even if they received investment by a venture firm(s). *Note:* For the purposes of this analysis, JD.com's finance arm JD Finance and its $1B financing were included in the data per its investment from Sequoia Capital China, in Q1 2016.

— Only includes the investment made in the quarter for tranched investments. If a company does a second closing of its Series B round for $5M and previously had closed $2M in a prior quarter, only the $5M is reflected in our results.

— Round numbers reflect what has closed — not what is intended. If a company indicates the closing of $5M out of a desired raise of $15M, our numbers reflect only the amount which has closed.

— Only verifiable fundings are included. Fundings are verified via (1) various federal and state regulatory filings; (2) direct confirmation with firm or investor; or (3) press release.

— Previous quarterly VC reports issued by CBI have exclusively included VC-backed rounds. In this report, any rounds raised by VC-backed companies are included, with the exceptions listed.

What is excluded:

— No contingent funding. If a company receives a commitment for $20M subject to hitting certain milestones but first gets $8M, only the $8M is included in our data.

— No business development / R&D arrangements, whether transferable into equity now, later or never. If a company signs a $300M R&D partnership with a larger corporation, this is not equity financing nor is it from venture capital firms. As a result, it is not included.

— No buyouts, consolidations and recapitalizations. All three of these transaction types are commonly employed by private equity firms and are tracked by CB Insights. However, they are excluded for the purposes of this report.

— No private placements. These investments, also known as PIPEs (Private Investment in Public Equities), are excluded even if made by a venture capital firm(s).

— No debt / loans of any kind (except convertible notes). Venture debt or any kind of debt / loan issued to emerging, startup companies, even if included as an additional part of an equity financing is not included. If a company receives $3M with $2M from venture investors and $1M in debt, only the $2M is included in these statistics.

— No government funding. Grants, loan or equity financings by the federal government, state agencies or public-private partnerships to emerging, startup companies are not included.

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About

KPMG Enterprise

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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.

KPMG Fintech

In today's fast-paced Financial Services (FS) sector, technology-based businesses and solutions offer Financial Institutions the opportunity to telescope their appetite for innovation and create powerful new business models that can enhance bottom line performance for customers and shareholders alike. KPMG professionals use the combined strength of their renowned FS sector insight, global network of knowledge and experience and their global relationships with the Fintech startup community to help you identify the partnership, equity investment or full acquisition opportunities that are specifically focused on your needs and opportunities. Once you have made the strategic decision to transform your organization, KPMG professionals work with you to implement your transformational agenda at the operational level and help ensure that you realize the full benefits of your fintech strategy.

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