PAYMENT MARKET OVERVIEW

SEPTEMBER 2023

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DRAKE STAR

OUR KEY TAKEAWAYS ON THE PAYMENT MARKET

Payments M&A has grown to represent over 50% of overall FinTech M&A activity, increasing from 17% in Q3 2021 to 59% in Q3 2023. Key drivers are technological advancements, big tech players entering the market and a highly fragmented payment market

After a continued decline in payment funding activity, investor appetite is starting to pick up again in Q3 2023 with $9.5bn so far vs. $3.8bn in Q2 2023

As investors increasingly focus on profitability, later-stage investments are dominating

Valuations in the payment sector have come down significantly amid rising cost of capital and economic uncertainty, fueling further M&A activity

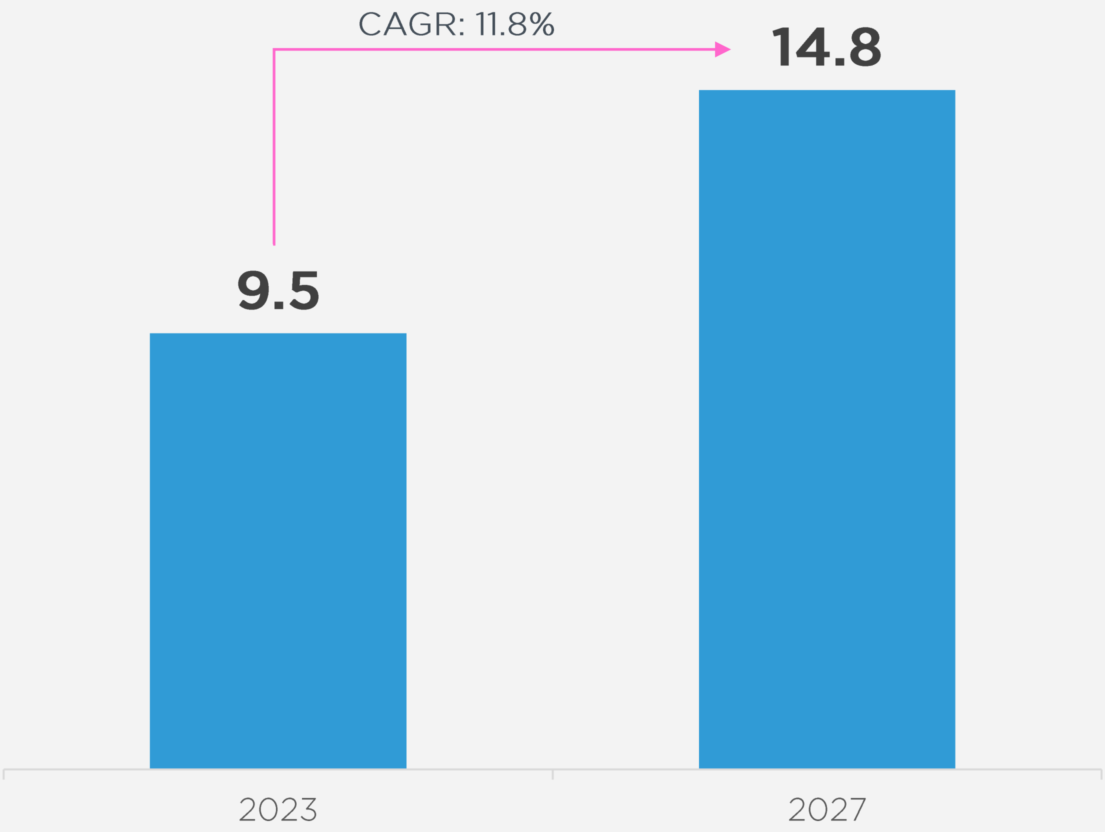
The top 10 strategic and financial consolidators in the payment industry focus their acquisitions on Europe and the US. Key targets are payment processing, money transfer and B2B payment solutions

As the payment market continues to grow, an ever-larger number of payment companies are fueling the next wave of consolidation

Source: Drake Star

STRONG MARKET SHIFTS DRIVING PAYMENT MARKET TO REACH $14.8TN BY 2027

PAYMENT MARKET SIZE (in $TN)



KEY DRIVERS

Tech Innovation: Rapid technological progress is driving payment deal activity, as companies aim to harness innovative solutions for improved payment processes

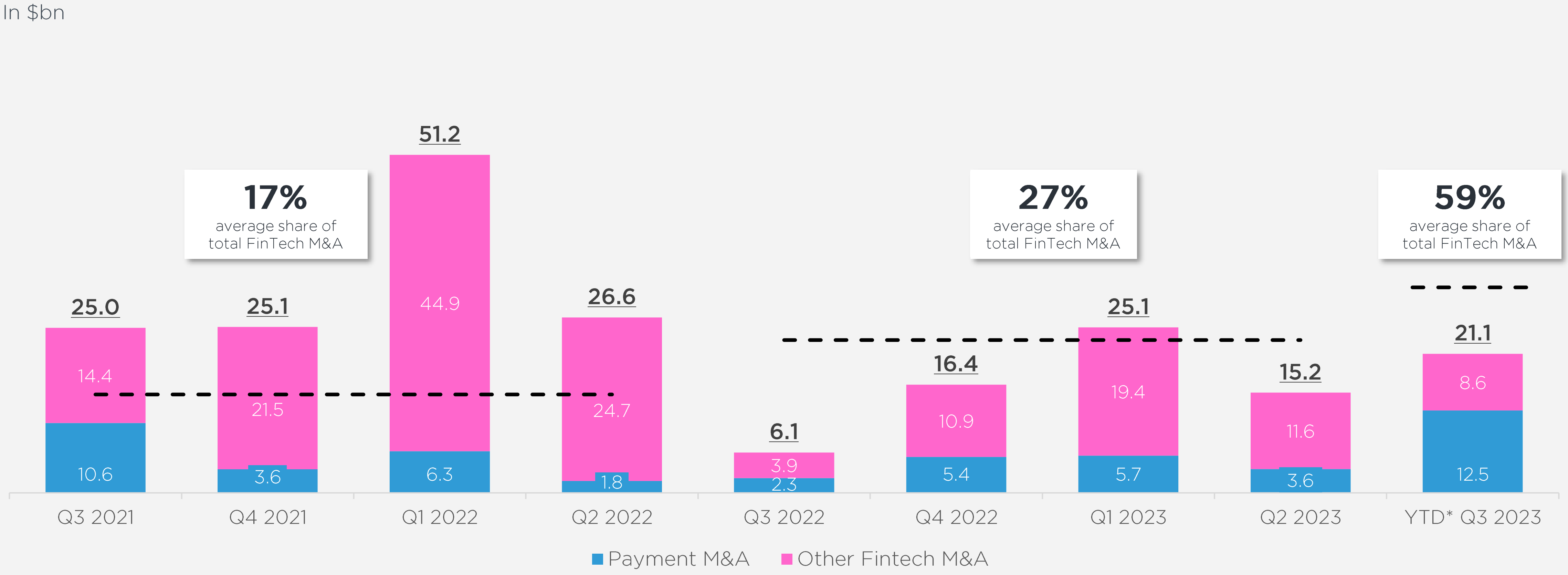
Consolidation: Ongoing economic challenges are spurring strategic consolidation in the payments sector to enhance efficiency and adapt to market shifts

Consumer Evolution: Evolving consumer behaviors are driving payment deals that align with preferences for seamless, secure, and convenient payment experiences

Global Scale: The increasing global importance of payment services gives the sector the scale and momentum to maintain deal activity amidst broader macroeconomic challenges

Source: Drake Star Research, Statista

DESPITE CHALLENGING MARKET CONDITIONS, THE SHARE OF PAYMENT RELATED M&A ACTIVITY IS STRONGLY GROWING



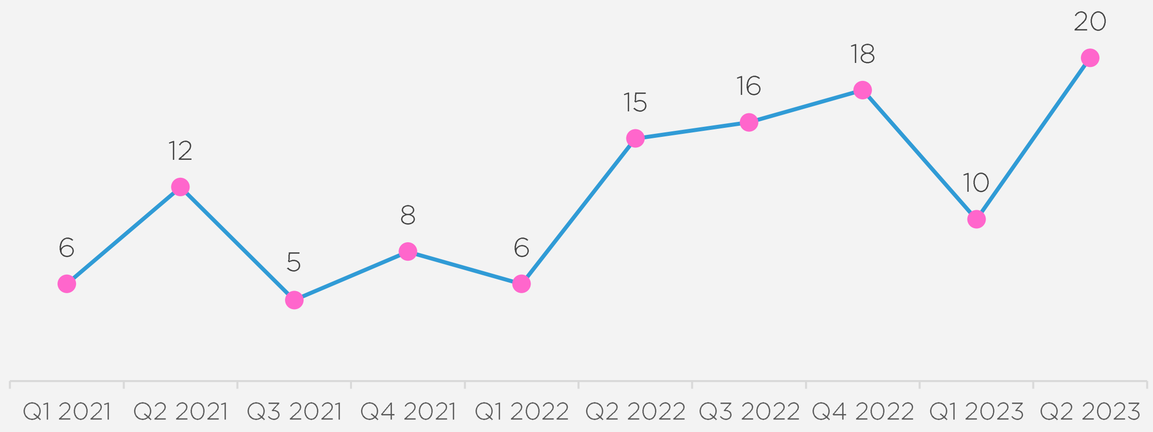
The **share of Payment M&A within FinTech M&A has risen** over the past 15 months with 59% in Q3 2023 up from 17% between Q3-21 and Q2-22

Payment M&A has increased in the last 5 quarters despite tougher market conditions which have impacted investment activity across the FinTech sector

*Source: Drake Star Research, Pitchbook, Capital IQ, * as of 09/05/2023*

PAYTECH IS THE MOST ACTIVE M&A SEGMENTS WITHIN PAYMENT

DEAL COUNT (Q1 2021 – Q2 2023)



Paytechs are **companies at the forefront of payment technology** that are **able to lever their technological advantage** to **capture market share from traditional payment providers**

Banks balance sheets are significantly healthier than a decade ago when the first wave of FinTech disruption was building, putting traditional banks in a much stronger position to participate in market consolidation

Regulation and new entrants will spur BNPL M&A: Market leaders move to consolidate the market and new entrants, including big tech companies like Apple and B2B-focused start-ups such as Mondu, Hokodo and Billie harness M&A to expand market share. Regulation of BNPL in the key US, UK and European markets is also on the horizon, providing further strategic momentum for BNPL consolidation as incumbents seek economies of scale to address the cost of regulation

SELECTED M&A DEALS IN PAYTECH SINCE 2022

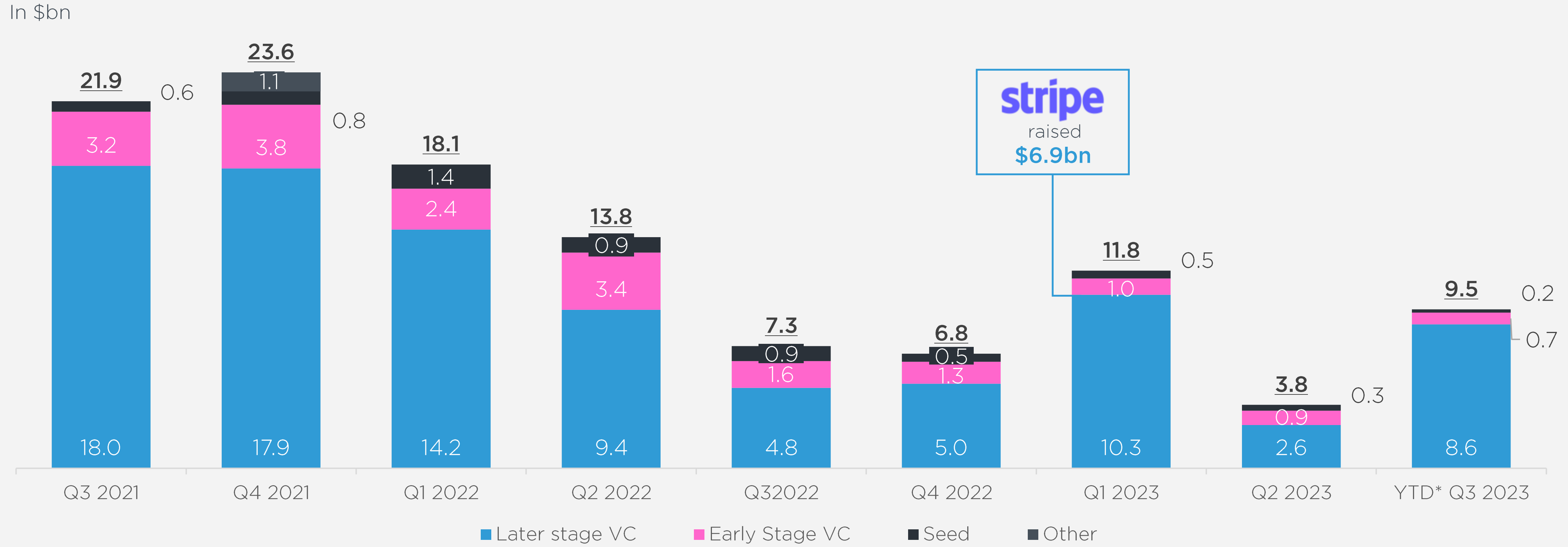
TARGET	ACQUIRER	DEAL VALUE	DATE	DEAL TYPE
EVO	globalpayments	$4,000m	Mar 23	M&A
Genesis A Digital Currency Group Company		$1,500m	Jan 23	Asset Transaction
AirPlus International	SEB	$491m	Jun 23	M&A
coins.ph	CCV 创世伙伴	$200m	Apr 22	M&A
Akulaku	MUFG	$200m	Dec 22	M&A

Banks to divest merchant-acquiring divisions: Merchant acquiring units cannot keep up with tech innovation but remain unsung cash generators. As a result, banks have carved out their merchant-acquiring units. These carve outs create significant opportunities through full or partial sales; for example, Wordline's acquisition of Banco Desio and EuroBank

Cash still matters: Cash-handling and the ATM market are still providing a steady flow of unique deal opportunities. Indeed, driven by the increasing popularity of payment digitalization, banks are looking to reduce the costs associated with ATM maintenance by divesting cash-handling functions to specialist ATM networks and security companies

Source: GlobalData Financial Services Intelligence Center, Private Banker International

AFTER STRONG DECREASE IN FUNDING, INVESTMENT ACTIVITY PICKING UP AGAIN

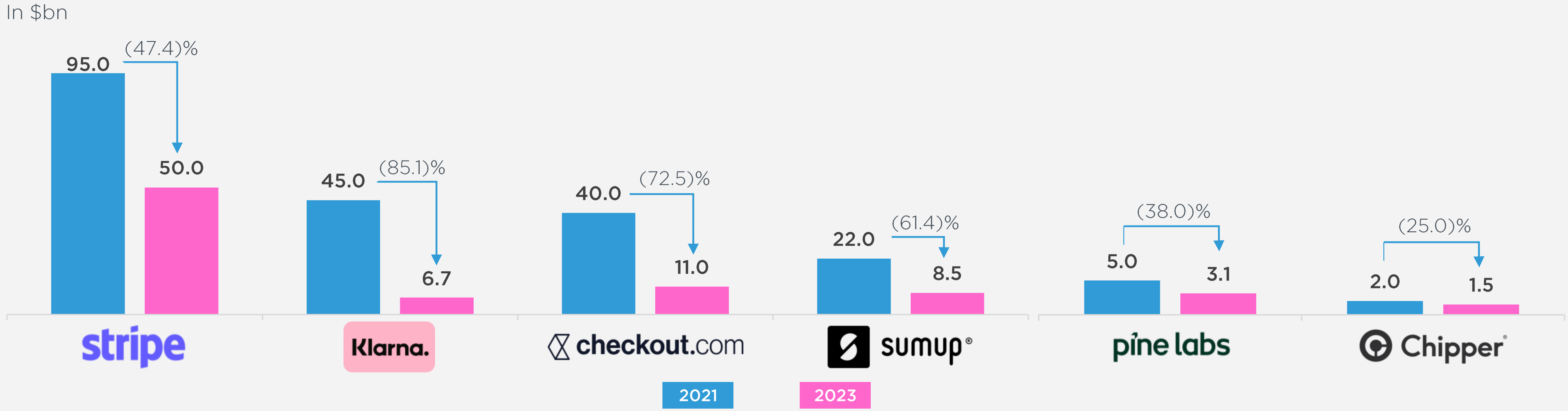


Later stage fundraising has **decreased with a CAGR of 22.4%** from Q2 2021 to Q2 2023. This decrease is driven by the current **economic and geopolitical environment**

The **increasing cost of capital** and a **reduced interest in cash-burning businesses** are causing investors to focus on later stage companies

Source: Drake Star Research, Pitchbook, Capital IQ, * as of 09/05/2023

VALUATIONS OF LEADING PAYTECH COMPANIES DECREASED DRAMATICALLY



- Over the past 18 months, we have seen a dramatic decline in the valuation of FinTech and payment companies
- However, PayTech has become an integral part of the global payments industry demonstrating massive growth momentum

EXAMPLES

Apple, for example, is expected to **generate $4 billion of revenue from its ApplePay business in 2023**

Global Payment provider Elavon, a wholly owned subsidiary of U.S. Bancorp **processes more than six billion transactions** with an aggregate value of close to $450 billion each year

Source: Drake Star Research, Pitchbook, Capital IQ

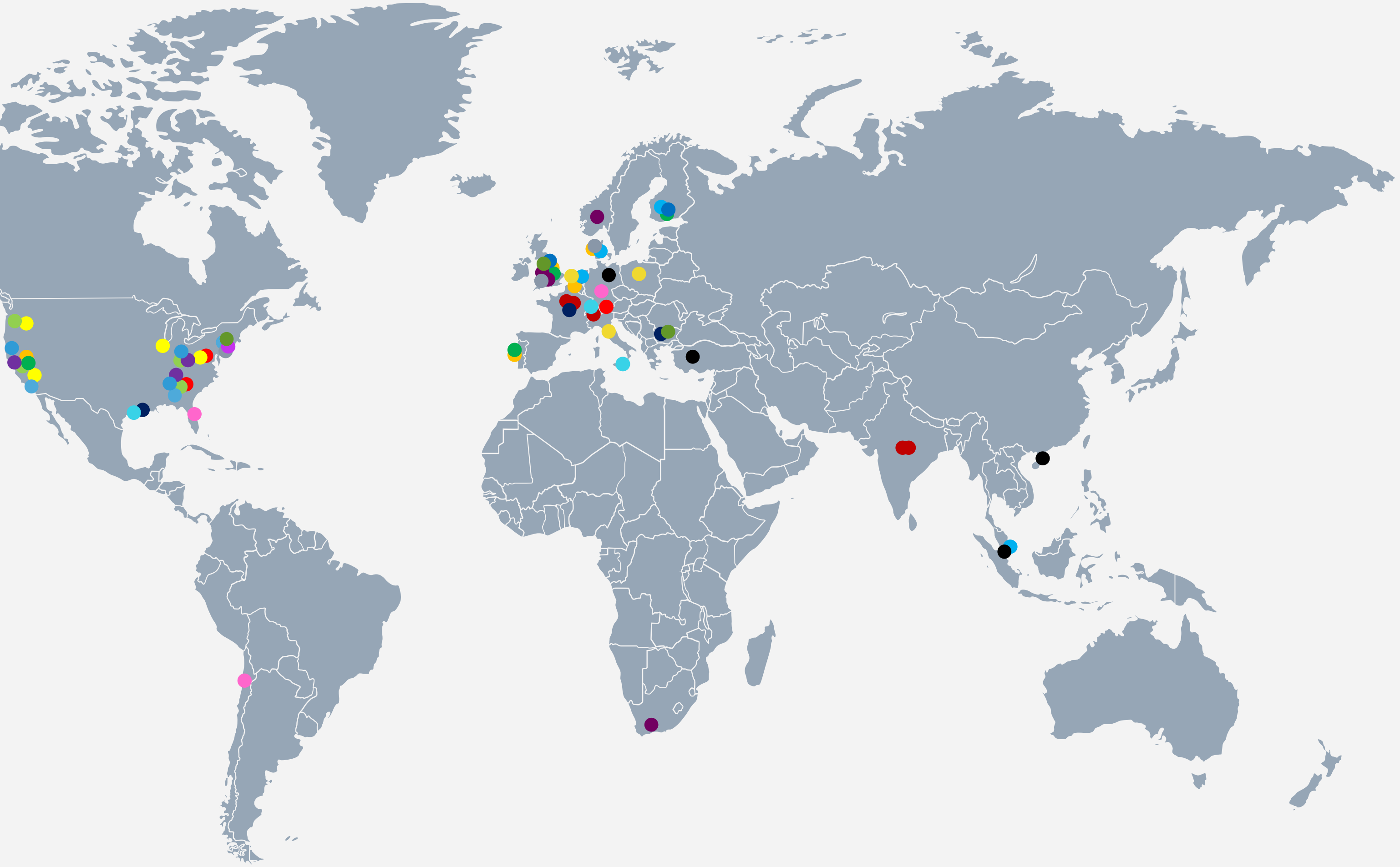
THE TOP 10 STRATEGIC AND FINANCIAL CONSOLIDATORS IN PAYMENT FOCUS THEIR ACQUISITIONS ON THE U.S. AND EUROPE

TOP 10 MOST ACTIVE FINANCIAL CONSOLIDATORS*

- Advent International GLOBAL PRIVATE EQUITY
- EQT
- Hg
- FP FRANCISCO PARTNERS
- AKKR ACCEL-KKR
- eurazeo
- THOMABRAVO
- GENERAL ATLANTIC
- Apax
- WARBURG PINCUS

TOP 10 MOST ACTIVE STRATEGIC CONSOLIDATORS*

- NomuPay
- teya
- globalpayments
- mastercard
- payroc
- Paysafe:
- PRIORITY
- RYVYL
- Shift4 PAYMENTS
- WORLDLINE



Source: Pitchbook, deals since 2021, * ranked by deal count

LARGE CORPORATIONS ARE CONSOLIDATING THE MARKET IN ORDER TO DIGITALIZE THEIR OFFERING AND PROCESSES

TOP 10 MOST ACTIVE STRATEGIC CONSOLIDATORS*

NomuPay	teya	globalpayments	mastercard	payroc	Paysafe:	PRIORITY	GYVYL	Shift4 Payments	WORLDLINE
cardinity	MeaWallet	EVO	arcus	beanstalk	safetypay	finxera	TRANSACT EUROPE	CRS Solutions	AXEPTA BNP PARIBAS
wirecard Asia, HongKong, Malaysia and Turkey	paymentology	ZEGO PayLease	Nets (Corporate Service Business)	SnapCheck	PagoEfectivo	plastiq	NORTHEAST MERCHANT SYSTEMS	SecurionPay	ONLINE PAYMENTPLATFORM
	SaltPay	mineraltree A Global Payments Company	conferma pay	worldnet payments	viacash	C&H Financial Services, Inc	PAYSOS	finaro	SoftPos
	tutuka								

TOP 10 MOST ACTIVE FINANCIAL CONSOLIDATORS*

Advent International GLOBAL PRIVATE EQUITY	EQT	Hg	FRANCISCO PARTNERS	AKKR ACCEL-KKR	eurazeo	THOMABRAVO	GENERAL ATLANTIC	Apax	WARBURG PINCUS
Qfix	SEPA express	STUFENDO	HealthPay24	facture	OmPrompt Powering Sentient Supply Chains	NEXUS	tripleseat	DevAPI	lyanthe
mosambee	HealthPay24	Think beyond payments pensopay	BILL4TIME	basware	datatrans.	TUNGSTEN NETWORK	lyanthe	SENSR.IT	epassi
mangopay	biller	flexsoft	nmi	PAYVERIS	ALPHA FINTECH	Bottomline	Think beyond payments pensopay		
leetchi	billtrust	eazipay	USAePAY An NMI Company						
datatrans.									

Source: Pitchbook, deals since 2021, * ranked by deal count

HIGHLY FRAGMENTED MARKET IS DRIVING THE NEED FOR CONSOLIDATION

PAYMENT LANDSCAPE

The Payment landscape has become very crowded with over 1,500 companies. We have mapped out a select number of players and assigned them to specific areas of the value chain, such as portfolio management. Some companies also offer solutions for more than one component of the value chain.

VIEW ON THE CURRENT PAYMENT MARKET

Karan Mehta

Chief Financial Officer

cross river

Which emerging technologies do you believe will be the most transformative for the fintech payment industry?

The most transformative technologies in fintech payments are going to be those that make it faster and easier for both consumers and global enterprises to send and receive money where and when they need it, 24x7x365. Non-US faster payment infrastructures like PIX and UPI have clearly demonstrated the value of faster payment services, and are leapfrogging their traditional, archaic, US counterparts (card networks, ACH). As a market leader in Real-Time-Payments (RTP©) and same-day ACH, and as an early user of FedNow, Cross River is filling a critical market gap, helping to revolutionize the way faster payments are accessed in the US. RTP© and FedNow©, which are complementary bank-to-bank faster payment rails, expand optionality for consumers and businesses and will continue growing in demand and across verticals for use cases such as insurance payouts, healthcare, payroll, etc. These technologies and their higher-limits for transactions are particularly beneficial for modernizing industries with high-value transactions, such as real estate, which will also be transformative for the sector. Additionally, we believe that payment infrastructures that will create interoperability between international faster payment rails will further expand access and optionality in the cross-border payments space. Moreover, other technologies like Push-to-Card (Visa Direct and MC Send) have already had a significant and transformative impact on disbursements for fintech offerings, and we believe they will continue to grow as the fintech ecosystem evolves. When developing these technologies, we will see increased focus on API-based payments which enable growth in embedded, seamless, solution-oriented products that are easier to integrate.

CRB's payments offering is quite advanced. How do you position yourself in the evolving fintech landscape? Are there areas that you wish you were deeper involved with / solutions that you stay away from?

Cross River's proprietary, API-driven banking infrastructure provides our partners with the ability to easily integrate and embed payments, while maintaining a strong adherence to regulatory compliance, risk management, and consumer protections. We innovate alongside our partners, enabling them to build their ecosystem of offerings and continue to bring new safe and responsible solutions to market.
As new payment rails become commercially viable for fintechs, we'll continue to build on our core capabilities like we've done with our payments business (same-day ACH, RTP, FedNow), in addition to doubling-down on and enhancing our Cross Border and Merchant Acquiring (card acceptance) payments capabilities.

With fintech startups continuously launching, how do you evaluate potential competitors versus potential partners? How do you evaluate build vs. buy at the moment?

As a state-chartered, FDIC-regulated bank and full-stack financial technology infrastructure provider powering some of the largest fintech brands, our offering is unique in the market. Our tech is state of the art and has no dependencies on legacy core systems. We partner with fintechs – from young startups to large, established blue-chip technology companies – looking to embed financial services. As a reliable and forward-thinking partner, with a vision to be the central operating platform on which the future of financial services is built, we continuously build on and improve our core offerings. The last few years saw substantial growth in the fintech space, and we are finding a unique opportunity to create a collaborative, solution-oriented ecosystem where all are beneficiaries. Our business model is built with our partners and the ecosystem's best interests in mind, and given the breadth of our offerings, our technological capabilities, and market share, we can't and won't label partners as competitors.

What do you think drives the M&A activity in the payments sector?

A scarcity of capital means we will see consolidation in businesses with solid unit economics but sub-optimal scale. There is a greater desire for cross-functional capabilities within one-stop-shop models. Payment companies moving into new industries and modernizing antiquated transactions but that need support in scaling are going to be a high target. Additionally, the burden of regulatory compliance is increasing, and those higher standards require more resources, which is difficult on startups and smaller companies and will further contribute to consolidation.

What are the primary risks you see in the fintech payment industry and how is Cross River Bank mitigating those risks?

This past year has shown that ensuring the regulatory compliance and risk management of programs and products—whether offered through a financial institution or fintech partner—is critical to business success and consumer safety. We require strong adherence to laws and regulations, as well as a solid compliance management system for all our partners, which is a high bar to set but ultimately protects end-users and the wider fintech and financial services industries. When dealing with high velocity counterparties at scale, we don't want to compromise on our core capabilities, so we invest in areas where we can build scale and deliver on product adjacencies while maintaining a strong adherence to risk controls on those products.

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QUARTERLY FINTECH MARKET UPDATE

SEPTEMBER

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