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Module: SG7046 Business Insight Project

**Compliance Risk and Fintech Valuation:
A Critical Case Study of Revolut
Through Investment Banking Due Diligence Frameworks**

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ABSTRACT

The rapid growth of the fintech sector has attracted significant investment, with Revolut emerging as one of the world's highest valued private fintech companies. Despite its valuation increasing from approximately \$45 billion in 2024 to a reported \$115 billion in 2026, the company has also faced significant anti money laundering (AML) compliance scrutiny.

This dissertation critically evaluates how Revolut's disclosed AML compliance history would be assessed under established investment banking due diligence and valuation frameworks, while addressing the gap between practitioner assumptions that compliance failures reduce valuation and the limited rigorous evidence testing this relationship. A qualitative single-case documentary analysis, supported by limited descriptive quantitative analysis of valuation and financial performance data, was undertaken using Revolut as the case study. The research analysed publicly available regulatory decisions, company disclosures, financial results, industry reports, and academic literature through established investment banking due diligence and valuation frameworks.

The findings confirm a genuine gap between practitioner assumptions and the available empirical evidence regarding the valuation consequences of AML compliance failures in high growth fintech firms. Although established frameworks provide theoretical mechanisms through which regulatory risk could influence valuation, no clear evidence of a sustained valuation discount was identified in Revolut's case. Instead, the findings suggest that investors placed greater emphasis on financial performance, future growth prospects, and evidence of regulatory remediation, indicating that compliance risk was assessed within a broader commercial context rather than as an isolated determinant of value. The study contributes to the emerging literature on fintech regulation and corporate valuation while providing practical recommendations for strengthening due diligence and the assessment of compliance risk in investment banking practice.

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List of Abbreviations

Abbreviation	Meaning
AML	Anti Money Laundering
CCA	Comparable Company Analysis
DCF	Discounted Cash Flow
EBA	European Banking Authority
FCA	Financial Conduct Authority
IPO	Initial Public Offering
NCA	National Crime Agency
PEP	Politically Exposed Person
PRA	Prudential Regulation Authority
RQ	Research Question
VC	Venture Capital

CHAPTER 1: INTRODUCTION

1.1. Background of the Study

Revolut represents a compelling paradox within the fintech sector: while its valuation has risen from \$45 billion in August 2024 (Reuters, reported via AOL News, 2025) to a reported \$75 billion in November 2025 (Revolut, 2025), and is reportedly approaching approximately \$115 billion through a secondary share sale in July 2026 (Global Banking and Finance, 2026), the company has simultaneously remained subject to anti money laundering (AML) and regulatory compliance scrutiny. In April 2025, the Bank of Lithuania imposed a €3.5 million fine on Revolut Bank UAB, the largest AML related penalty in the country's history, after a scheduled inspection identified deficiencies in the monitoring of business relationships and transactions, concluding that the bank did not consistently identify suspicious activity in practice, although no confirmed instances of money laundering were found (Bank of Lithuania, 2025). The company's valuation increase to \$75 billion in November 2025 was supported by exceptional financial performance, including \$6bn revenue and a record profit of \$2.3bn in 2025 (Revolut, 2026). These financial results coincided with continued valuation growth despite the company's documented compliance history. This apparent disconnect raises important questions for investment banking practice, where regulatory compliance is ordinarily treated as a material component of due diligence, risk assessment, and valuation. Yet existing literature provides limited rigorous evidence explaining how AML compliance risk is incorporated into fintech valuation models, how such risks would be assessed under established due diligence frameworks, or why firms such as Revolut continue to achieve strong valuation and regulatory outcomes despite compliance findings. This dissertation therefore investigates these issues by examining the gap between practitioner assumptions and academic evidence, applying investment banking due

diligence and valuation frameworks to Revolut's documented compliance history, and evaluating what the case reveals about the pricing of compliance risk in high growth fintech firms.

Figure 1.1 — Pre-Tax Profit Growth, 2023–2025

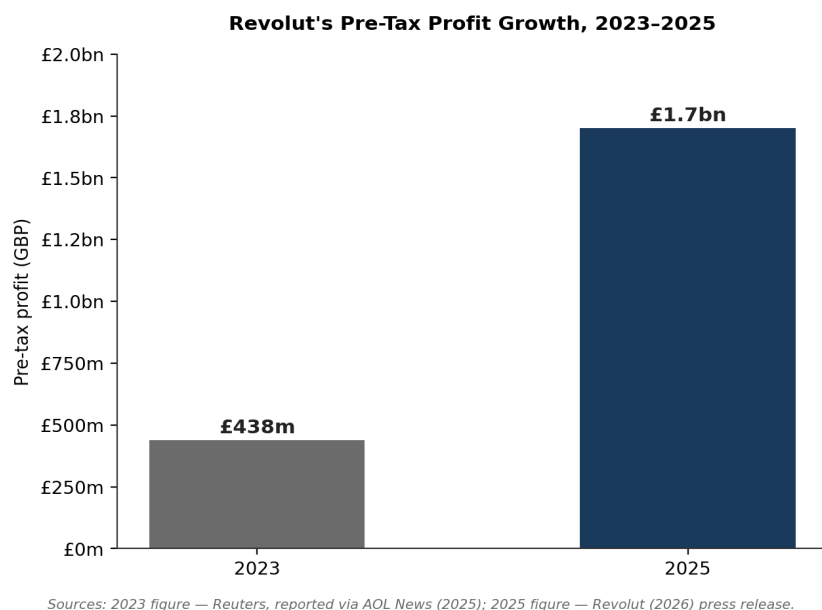


Figure 1.1: Revolut's Pre-Tax Profit Growth, 2023-2025

1.2. Problem Statement

The coexistence of AML compliance findings and sustained valuation growth presents a significant challenge for both investment banking practice and fintech valuation. If material compliance risks are not adequately reflected in company valuations, investors may underestimate regulatory exposure, resulting in the mispricing of risk and potentially inefficient investment decisions. Furthermore, investment banks advising on fundraising, mergers and acquisitions, or potential IPOs may face reputational and legal consequences if due diligence processes, which conventionally assess legal and regulatory standing alongside financial performance (Rosenbaum and Pearl, 2022), fail to identify or appropriately assess regulatory weaknesses. Beyond the implications for individual firms, Revolut's trajectory may also influence broader market expectations by signalling the extent to which regulatory deficiencies are tolerated in high growth fintech companies

1.1. Aim, Research Questions and Objectives

Aims:

To critically evaluate the gap between the widely held practitioner assumption that AML compliance failures depress fintech valuation, and the extent to which this assumption is supported when tested against established investment banking due diligence and valuation frameworks, using Revolut as a case study.

Research questions:

(RQ1) What is the nature and extent of the gap between the practitioner assumption that AML compliance failures damage fintech valuation and investor confidence, and the depth of existing academic or professional analysis that has actually tested this assumption?

(RQ2) What does the application of established investment banking due diligence and valuation frameworks to Revolut's disclosed AML compliance history reveal about the treatment and pricing of compliance risk in high growth fintech valuation?

(RQ3) What does the persistence of this gap reveal about how compliance risk is currently priced within fintech valuation practice, and what framework or recommendations could help close it?

Objectives:

To critically review literature on investment banking due diligence standards, valuation theory, and AML in fintech, in order to establish precisely where the gap lies between practitioner assumption and rigorous academic or professional scrutiny (addresses RQ1);

To document and analyse Revolut's disclosed AML compliance history by applying established investment banking due diligence and valuation frameworks, in order to produce an evidence based assessment of how the case would be evaluated under these frameworks (addresses RQ2); and

To evaluate what the resulting gap between assumption and evidence reveals about current compliance risk pricing practice, and to develop evidence based recommendations that address this gap for analysts and investors (addresses RQ3).

1.3. Structure of the Study

Chapter 1: Introduction outlines background, aims, Research questions and objectives and structure around the study.

Chapter 2: Reviews the literature on investment banking due diligence, fintech valuation, AML compliance, and the identified research gap.

Chapter 3: outlines the research methodology, including the qualitative single-case documentary approach and the integration of descriptive quantitative analysis to support the interpretation of documentary evidence

Chapter 4: Presents the analysis and findings by applying established due diligence and valuation frameworks to Revolut's documented compliance history.

Chapter 5: Discussion.

Chapter 6: Conclusion and Recommendation.

CHAPTER 2: CRITICAL LITERATURE REVIEW

2.1. Investment Banking Due Diligence and Signalling Theory

Investment banking due diligence is the systematic process of investigating a target company's financial, legal, operational, commercial, and regulatory position before transactions such as initial public offerings (IPOs), mergers and acquisitions (M&A), or fundraising rounds. Its primary purpose is to identify material risks that may influence a company's value, affect transaction terms, or alter an investor's willingness to proceed with a transaction. Accordingly, due diligence extends beyond financial performance to encompass legal, operational, and regulatory considerations that may affect a firm's longterm value and transaction risk (Rosenbaum and Pearl, 2022). Applying this broader due diligence framework to regulatory risk specifically, AML compliance can be understood as an important component of regulatory due diligence because weaknesses in AML controls may expose a firm to financial penalties, increased regulatory scrutiny, reputational damage, and operational restrictions.

Investment decisions, particularly in private markets, are frequently made under conditions of imperfect information, where investors possess less information about a firm's true quality than its managers. This information asymmetry creates uncertainty and increases the risk of adverse selection, making it difficult for investors to distinguish between high and low quality firms based solely on available information (Akerlof, 1970). Within capital markets, Rock (1986) extends the information asymmetry argument by explaining that uncertainty surrounding firm quality contributes to IPO underpricing because uninformed investors face a

"winner's curse" when competing with better informed participants. This reinforces the importance of credible signals that reduce information asymmetry before investment decisions are made. Signalling theory provides a complementary explanation for how this uncertainty can be reduced, proposing that firms communicate their underlying quality through observable and credible signals that enable external stakeholders to make more informed investment decisions (Spence, 1973). Applying this framework to regulatory disclosures, publicly reported AML compliance failures may be interpreted as negative signals because they indicate potential weaknesses in governance, internal controls, and risk management. Subsequent research has extended signalling theory across management and finance, demonstrating that investors routinely rely on organisational signals when evaluating firm quality under conditions of uncertainty (Connelly et al., 2011). Evidence from IPO research further demonstrates that governance quality, organisational legitimacy, underwriter reputation, and the credibility of external intermediaries influence investor evaluations and market outcomes during public offerings (Beatty and Ritter, 1986; Certo, 2003; Cohen and Dean, 2005; Deb, 2013). Beatty and Ritter (1986) contend that reputable investment banks play a certification role by reducing information asymmetry and ex ante uncertainty. This reinforces the importance of robust due diligence, as the credibility of the information presented to investors directly influences market confidence and valuation outcomes.

2.2. Fintech Valuation Frameworks

Valuation is a fundamental component of investment banking, providing the basis for pricing companies in transactions such as mergers and acquisitions, fundraising rounds, and initial public offerings (IPOs). Among the various approaches available, Discounted Cash Flow (DCF) analysis, Comparable Company Analysis (CCA), and the Venture Capital (VC) method are widely recognised as the principal techniques for valuing high growth private companies (Rosenbaum and Pearl, 2022). DCF analysis estimates a company's intrinsic value by discounting expected future cash flows to their present value, thereby reflecting the firm's anticipated ability to generate long term economic returns. In contrast, Comparable Company Analysis derives value by benchmarking a firm's financial performance against similar publicly traded companies using market based valuation multiples. The Venture Capital method adopts a different perspective by estimating a firm's expected exit value and working backwards to determine its current value based on the investor's required rate of return (Rosenbaum and Pearl, 2022). Although each approach differs in its underlying assumptions and application, they all seek to estimate the economic value of a business to support informed investment decisions.

Although each valuation method incorporates risk, they do so through different analytical mechanisms. Within Discounted Cash Flow (DCF) analysis, risk is reflected through the selection of an appropriate discount rate, assumptions regarding future cash flows, and estimates of terminal value, all of which influence the present value of expected future returns (Fernández, 2004; Fernández, 2005). Consequently, higher levels of perceived uncertainty or business risk generally result in higher discount rates or more conservative cash flow projections, reducing the estimated valuation. The Venture Capital method addresses uncertainty differently, compensating investors through high required rates of return that reflect the substantial risks associated with earlystage and privately held companies, rather than incorporating separate risk adjustments throughout the valuation process (Sahlman and Scherlis, 1987). In contrast, Comparable Company Analysis reflects risk more indirectly, as valuation is influenced by the selection of appropriate peer companies and the market multiples applied, both of which embody prevailing market perceptions of risk (Rosenbaum and Pearl, 2022).

2.3. AML Compliance Risk in Fintech

Anti-money laundering (AML) compliance has become an increasingly important area of research as fintech firms expand rapidly and face heightened exposure to financial crime risk. Existing academic literature primarily examines the operational and technological challenges associated with AML compliance rather than its implications for investment banking or corporate valuation. Pavlidis (2023) highlights the growing application of artificial intelligence in AML detection and asset recovery, emphasising the role of advanced technologies in improving the identification of suspicious financial activity. Similarly, Oztas et al. (2024) examine weaknesses in transaction monitoring systems, identifying operational challenges in detecting and reporting potentially illicit transactions. Lo and Ku (2026) further demonstrate the importance of regulatory compliance frameworks, technological innovation, and governance mechanisms in strengthening AML controls within fintech firms. Collectively, these studies establish AML compliance as a significant area of fintech research while primarily addressing operational effectiveness, regulatory implementation, and financial crime prevention.

This operational emphasis is also reflected within the regulatory literature. The European Banking Authority (2025) identifies money laundering and terrorist financing as significant and increasing risks across the European financial sector, highlighting weaknesses in governance, customer due diligence, transaction monitoring, and risk management within financial institutions, including fintech firms. The Opinion and accompanying Report emphasise the importance of strengthening supervisory practices and improving AML control frameworks but are principally concerned with regulatory effectiveness and financial stability rather than investment decision-making.

Taken together, the evidence reviewed in this section demonstrates that, although AML compliance is now well established as an important academic and regulatory research area, there remains limited empirical evidence explaining how AML compliance risk is identified, assessed, and incorporated into the valuation of high-growth fintech firms. This unresolved issue forms the central research gap addressed in the following section.

2.4. The Identified Research Gap

Sections 2.1 and 2.2 demonstrate that investment banking due diligence and established valuation frameworks are designed to identify and assess risks capable of affecting firm value, while signalling theory suggests that publicly disclosed compliance failures should function as adverse signals under conditions of information asymmetry. Section 2.3 further shows that AML has become an important area of regulatory and academic attention within the fintech sector, although the literature reviewed primarily concentrates on operational compliance, supervisory oversight, and technological solutions. At the same time, practitioner and industry commentary commonly assumes that material AML compliance failures should adversely affect investor confidence and fintech valuation. However, the evidence reviewed in this study provides limited empirical analysis testing this assumption or explaining how AML compliance risk is assessed, interpreted, and incorporated within investment banking due diligence and valuation frameworks.

2.5 Theoretical Framework

This study adopts an integrated theoretical framework drawing upon the three complementary strands of literature reviewed in Sections 2.1–2.3: investment banking due diligence theory, signalling theory, and corporate valuation theory. Rather than considering these perspectives independently, they are combined to provide a coherent analytical framework for examining how AML compliance risk is identified, interpreted, and reflected in the valuation of a high-growth private fintech firm. Together, these theories establish the conceptual lens through which Revolut's disclosed AML compliance history is examined in Chapter 4.

Read collectively, the three theoretical perspectives describe the sequence through which regulatory compliance risk would be expected to influence investment decisions. Considered together, these perspectives suggest that material compliance deficiencies would be expected to progress from identification during due diligence, to interpretation as negative market signals, and ultimately to observable effects on corporate valuation. This theoretical expectation provides the basis for the empirical analysis undertaken in Chapters 4 and 5, where it is evaluated against the evidence from the Revolut case.

Each major regulatory event within Revolut's AML compliance history is first assessed to determine whether it would constitute a material issue within an investment banking due diligence process. The same events are then interpreted through signalling theory to evaluate whether they represent credible indicators of governance or regulatory risk. Finally, Revolut's observed valuation trajectory and financial performance are examined using established valuation frameworks to determine whether the predicted impact of these compliance signals is evident in practice. This structured application enables the study to compare theoretical expectations with observed outcomes and directly address the three research questions.

The integrated framework therefore informs both the qualitative documentary analysis and the supporting descriptive quantitative analysis presented in Chapter 3, providing a consistent conceptual foundation for the interpretation of the study's findings.

Figure 2.1 — Convergence of the Literature Strands

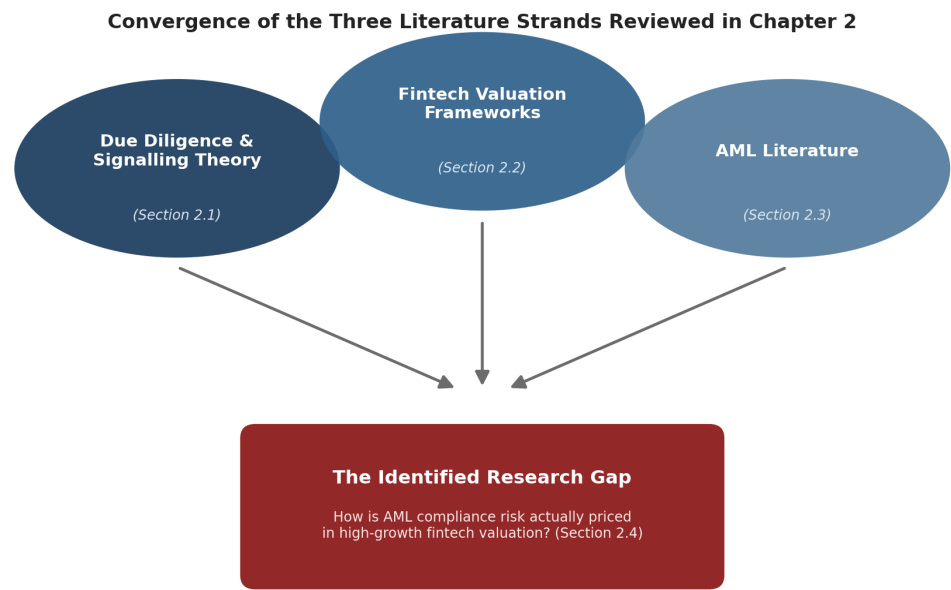


Figure 2.1: Visual summary of how the three literature strands reviewed in Chapter 2 converge on the research gap addressed by this dissertation.

CHAPTER 3: METHODOLOGY

3.1. Research Approach and Design

This study adopts a qualitative, single case documentary analysis to examine how Revolut's disclosed anti money laundering (AML) compliance history would be assessed through established investment banking due diligence and valuation frameworks. A qualitative approach is appropriate because the research seeks to interpret and critically evaluate regulatory events, corporate disclosures, and valuation practices rather than measure statistical relationships.

3.1.1 Integration of Descriptive Quantitative Analysis

Although this study adopts a qualitative single-case documentary research design, a limited descriptive quantitative component was incorporated to strengthen the analysis through methodological triangulation. The primary method remained the qualitative interpretation of publicly available regulatory decisions, corporate disclosures, academic literature, and financial media relating to Revolut's AML compliance history and valuation. To complement this analysis, numerical data extracted from documentary sources were used to calculate valuation growth, pre-tax profit growth, and the proportional relationship between the 2025 AML regulatory fine and Revolut's reported valuation. These calculations were presented through percentage growth rates, ratio analysis, tables, and graphical illustrations to examine whether observable financial evidence supported or contradicted the patterns identified through the qualitative analysis. This approach remains consistent with qualitative documentary case study research, in which numerical evidence is used to support the interpretation of documentary data and enhance analytical rigour (Denzin, 2017; Yin, 2018).

Figure 3.1 — Research Design Flow

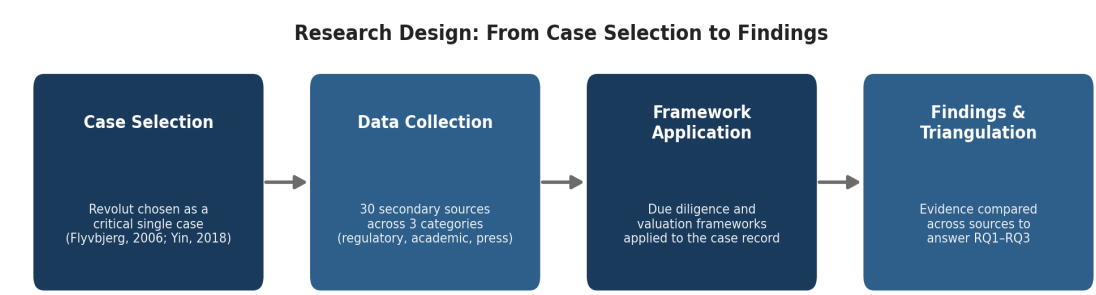


Figure 3.1: The dissertation's research design, from case selection through to answering RQ1–RQ3

3.2. Case Selection Rationale

Revolut was selected as a critical single case because it combines exceptional valuation growth with multiple publicly documented regulatory events, including the 2023 FCA investigation into suspicious transactions, the 2025 €3.5 million AML fine imposed by the Bank of Lithuania, and the subsequent award of a full UK banking licence in 2026. Such cases are particularly valuable for examining theoretical expectations against observed outcomes (Flyvbjerg, 2006), while the overall research design follows the principles of qualitative single case study research outlined by Yin (2018).

3.3. Data Sources

The analysis draws exclusively on 30 secondary documentary sources, organised into three principal categories to enable the triangulation of evidence across regulatory, corporate, academic, and journalistic materials (Denzin, 2017; Yin, 2018). Primary regulatory sources form the foundation of the case study and include publications from the Bank of Lithuania, the Financial Conduct Authority (FCA), the Prudential Regulation Authority (PRA), the European Banking Authority (EBA), and Companies House, providing evidence on AML compliance, regulatory supervision, licensing decisions, and corporate disclosures. Academic and theoretical sources establish the analytical framework for the study, including literature on investment banking due diligence, valuation methodologies, information asymmetry, signalling theory, and fintech AML. These are complemented by high quality financial and specialist press sources, including Reuters, the Financial Times, Bloomberg, FinTech Futures, and AML Intelligence, which independently report Revolut's regulatory developments, financial performance, and valuation trajectory. To ensure transparency and consistency, all sources were catalogued and cross referenced using a structured source tracking table, documenting their provenance, credibility, and contribution to each research question.

3.4. Alternative Designs Considered

Alternative research designs were considered but were not adopted because they were less appropriate for addressing the study's research questions. A multi-case comparison (e.g. Monzo, Starling) was rejected in favour of an in-depth single-case application, consistent with Flyvbjerg's (2006) view that a well-selected case can generate rich analytical insight. Primary interviews with compliance professionals or bankers were also not pursued, as internal due diligence records are typically confidential and inaccessible, and primary data collection would have required ethical approval and a longer timeframe than this dissertation allows.

3.5. Limitations of the Methodology

This study has several limitations that should be acknowledged. First, the analysis applies established investment banking due diligence and valuation frameworks retrospectively to Revolut's publicly available record. It does not seek to reconstruct or verify the conclusions reached by any specific investment bank, investor, or regulator during actual decision making processes, as internal due diligence assessments, compliance reviews, and investment committee deliberations are not publicly accessible. Furthermore, the quantitative component was descriptive rather than inferential and was intended to support interpretation rather than establish statistically significant relationships between AML compliance events and valuation outcomes. While documentary analysis can identify patterns, tensions, and plausible relationships between compliance events and valuation outcomes, it cannot establish causality or statistically demonstrate that AML related deficiencies directly influenced Revolut's valuation trajectory. Finally, valuation outcomes are shaped by a range of factors beyond compliance risk, including broader market conditions, investor sentiment towards fintech, revenue growth, profitability, customer acquisition, and strategic expansion. Consequently, any relationships identified in the findings should be interpreted as indicative rather than definitive and considered alongside these alternative influences on firm valuation.

3.6. Ethical Considerations

This research is based entirely on secondary data obtained from publicly available sources, including regulatory publications, corporate disclosures, academic literature, and reputable financial media reports. No primary data were collected, no human participants were involved, and no personal data were processed. Consequently, the study does not raise the ethical concerns typically associated with participant based research. Consistent with

standard secondary data governance, formal ethical approval beyond normal university requirements was not considered necessary, although the research design was discussed with and reviewed by the project supervisor. All sources are referenced using the Harvard system in accordance with the Cite Them Right guidance, ensuring transparency and appropriate attribution. In line with UEL's Generative Artificial Intelligence Usage Policy, generative AI tools were used for idea structuring, draft organisation, and formative feedback. All sources were verified against the original materials, and responsibility for the analysis, interpretation, and conclusions remains solely with the author.

CHAPTER 4: DATA ANALYTICS AND FINDINGS

4.1. RQ1: Confirming the Gap Empirically

The documentary analysis undertaken for this study confirmed the gap identified in the literature review by demonstrating that the evidence reviewed consistently addressed AML compliance and fintech valuation as separate areas of research rather than examining their interaction. As discussed in Section 2.1, the investment banking literature explains how due diligence, signalling theory, and governance signals influence investment decisions and firm valuation (Rosenbaum and Pearl, 2022; Akerlof, 1970; Spence, 1973; Connelly et al., 2011). Section 2.2 further establishes that recognised valuation frameworks provide theoretical mechanisms through which risk may influence firm value (Fernández, 2004; Fernández, 2005; Sahlman and Scherlis, 1987). However, the AML focused literature reviewed, including Pavlidis (2023), Oztas et al. (2024), and Lo and Ku (2026), concentrates primarily on artificial intelligence, transaction monitoring, compliance systems, and regulatory controls rather than the valuation implications of compliance failures. Similarly, the European Banking Authority (2025) identifies AML as a significant supervisory concern but does not address how regulatory findings are incorporated into investment banking due diligence or valuation. Collectively, these findings confirm that the literature reviewed provides no direct empirical examination of how disclosed AML compliance failures influence the valuation of high growth fintech firms.

In contrast to the limited empirical evidence identified, practitioner and industry commentary consistently treats AML compliance as a material determinant of investor confidence and corporate value. Industry analysis and specialist fintech reporting frequently argue that significant AML failures undermine governance credibility, increase regulatory and reputational risk, and consequently weaken investor confidence and valuation expectations (The Banks EU, 2025; AML Intelligence, 2025). Similar assumptions are reflected in wider fintech commentary, where compliance failures are commonly interpreted as indicators of broader weaknesses in governance, internal controls, and risk management (FinTech Futures, 2025). However, while these sources consistently assert a relationship between AML deficiencies and valuation outcomes, they rarely demonstrate how such risks are incorporated into investment banking due diligence or formal valuation methodologies. The analysis undertaken in this study therefore identifies a clear disconnect between prevailing practitioner assumptions and the evidence reviewed. Accordingly, RQ1 is answered: a genuine and evidenced gap exists between the widespread practitioner assumption that AML compliance failures damage fintech valuation and investor confidence, and the depth of rigorous evidence currently available to substantiate that assumption.

4.2. RQ2: Applying Due Diligence and Valuation Frameworks to Revolut

Revolut's disclosed regulatory history between 2022 and 2026 provides the factual basis for evaluating how AML compliance risk would be assessed within established investment banking due diligence and valuation frameworks. In 2022, the Bank of Lithuania imposed administrative penalties totalling €200,000 across Revolut Bank UAB (€150,000) and Revolut Payments UAB (€50,000) following supervisory findings relating to anti money laundering controls and failures in obtaining the required approval for changes to politically exposed person (PEP) identification procedures (Bank of Lithuania, 2022). In 2023, media reports revealed that the UK's Financial Conduct Authority (FCA) and National Crime Agency (NCA) were examining Revolut's anti money laundering systems, with reports alleging that approximately £1.7 million had been released from customer accounts previously flagged as suspicious. Revolut disputed both the interpretation and scale of these claims, maintaining that its controls complied with regulatory expectations (City AM, 2023; AML Intelligence, 2023). In April 2025, the Bank of Lithuania imposed a €3.5 million fine on Revolut following the identification of deficiencies in transaction monitoring and the management of business relationships. The regulator described this as the largest AML related financial penalty it had issued, while confirming that the investigation had not identified confirmed instances of money laundering (Bank of Lithuania, 2025). Despite these regulatory events, Revolut was granted a full UK banking licence by the Prudential Regulation Authority (PRA) in 2026, concluding a regulatory authorisation process that had lasted approximately five years (PRA, 2026; Revolut, 2026).

Applying established investment banking due diligence principles to Revolut's regulatory history suggests that each stage of the timeline would have warranted progressively greater scrutiny during a fundraising, acquisition, or public listing process. Under the due diligence framework described by Rosenbaum and Pearl (2022), regulatory findings relating to legal compliance, governance, and operational controls constitute material risks because they may expose a company to financial penalties, regulatory intervention, reputational damage, and future operational constraints. The 2022 supervisory findings by the Bank of Lithuania would therefore have been identified as an early regulatory concern requiring further investigation into the effectiveness of Revolut's AML governance and compliance controls. The subsequent 2023 investigation involving the FCA and National Crime Agency would likely have increased the significance of these concerns by extending regulatory scrutiny beyond a single jurisdiction, even though Revolut disputed the reported allegations. The €3.5 million penalty imposed by the Bank of Lithuania in 2025, following identified deficiencies in transaction monitoring and business relationship management, would have represented a further material due diligence consideration because it indicated continuing weaknesses within a core regulatory control framework. From the perspective of signalling theory, this sequence of regulatory events constitutes a series of credible negative signals that may reasonably influence external assessments of governance quality and regulatory risk under conditions of information asymmetry (Akerlof, 1970; Spence, 1973; Connelly et al., 2011). However, despite these theoretically significant signals, the available public evidence provides limited indication that investor confidence, regulatory approval, or corporate growth was materially undermined. Although the extended five year process preceding the granting of Revolut's UK banking licence may suggest sustained regulatory scrutiny, the public record does not demonstrate that the identified compliance issues prevented regulatory approval or significantly constrained the company's commercial development. The valuation analysis presented in the following section examines this divergence further by assessing whether the company's financial performance and market valuation reflect evidence that compliance risk was materially priced into investment banking valuation frameworks.

Applying established valuation frameworks to Revolut's financial and regulatory trajectory reveals a notable divergence between theoretical expectations and observable market outcomes. Under the Discounted Cash Flow (DCF) framework discussed in Section 2.2, regulatory compliance risk could theoretically be reflected through higher discount rates, more conservative cash flow forecasts, or lower terminal value assumptions (Fernández, 2004; Fernández, 2005). To the extent that firm-specific regulatory risk is incorporated into these valuation assumptions, rather than treated as diversifiable, some moderation in Revolut's valuation trajectory might reasonably have been expected. However, the available evidence indicates the opposite pattern. Revolut's valuation increased from approximately \$45 billion in August 2024 to \$75 billion in November 2025, before reportedly approaching \$115 billion in July 2026. This growth occurred alongside record financial performance, including \$2.3bn profit and \$6bn revenue in 2025, suggesting that expectations of future growth remained the dominant driver of value despite the company's documented AML compliance history.

Comparable Company Analysis similarly provides limited evidence that compliance risk was independently reflected in Revolut's valuation. Rather than exhibiting a sustained valuation discount following regulatory findings, the company's valuation trajectory appears more closely aligned with improving operating performance and investor confidence than with any observable market penalty arising from AML-related events. Likewise, the Venture Capital Method emphasises anticipated exit value and investor return expectations, with uncertainty reflected primarily through required rates of return (Sahlman and Scherlis, 1987). Based on the publicly available evidence, commercial growth, profitability, and future expansion opportunities appear to have been afforded greater weight than historical compliance deficiencies when assessing Revolut's value.

Table 1 — Timeline of Revolut's Disclosed Regulatory and Compliance Events

Date	Event	Source
2022	Bank of Lithuania imposes administrative penalties totalling €200,000 (€150,000 on Revolut Bank UAB; €50,000 on Revolut Payments UAB) for AML control weaknesses and failure to obtain approval for changes to PEP identification procedures.	Bank of Lithuania (2022)
Oct 2023	FCA and NCA reported to be investigating Revolut over ~£1.7m released from accounts flagged as suspicious. Revolut disputes the scale/interpretation.	City AM (2023); AML Intelligence (2023)
Apr 2025	Bank of Lithuania fines Revolut Bank UAB €3.5 million — the largest AML related penalty in Lithuania's history — for deficiencies in transaction and business relationship monitoring. No confirmed money laundering identified.	Bank of Lithuania (2025)
Mar 2026	Prudential Regulation Authority grants Revolut Bank UK Ltd a full UK banking licence, concluding a ~5 year authorisation process.	PRA (2026); Revolut (2026)

Table 1: Timeline of Revolut's disclosed regulatory and compliance events, 2022–2026.

Figure 4.1: Revolut's Valuation Trajectory Against Disclosed Regulatory Events (2022-2026)

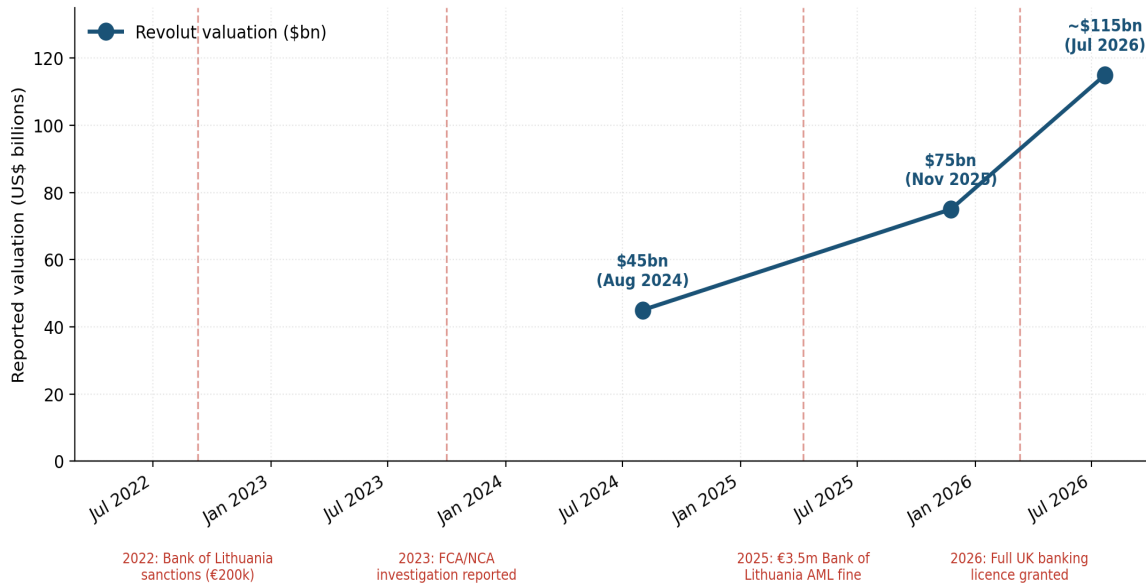
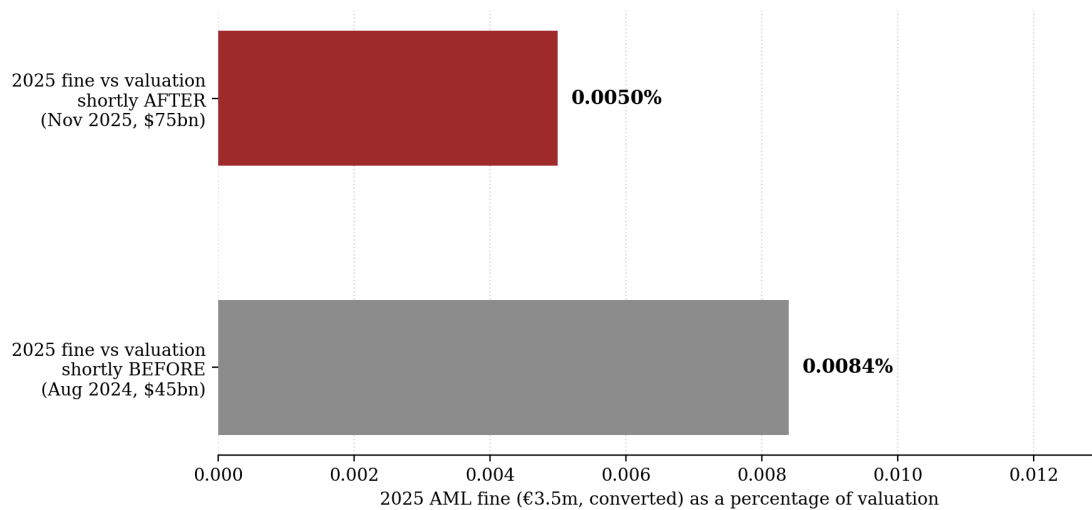


Figure 4.1: Revolut's valuation trajectory plotted against disclosed regulatory events, illustrating the divergence discussed under RQ3.

Figure 5: The 2025 AML Fine Against Valuation Immediately Before and After the Penalty



Note: €3.5m converted to US\$3.78m at an illustrative rate of €1 = US\$1.08 for like-for-like comparison. Valuation figures are the nearest confirmed (non-provisional) reported valuations before and after the April 2025 fine; the provisional ~\$115bn (2026) figure is excluded as it is not yet confirmed. Source: author's own calculation from Bank of Lithuania (2025); Reuters, reported via AOL News (2025); Revolut (2025).

Figure 5: The 2025 AML fine expressed as a percentage of Revolut's valuation immediately before and after the penalty (author's own calculation).

Table 4.2— Due Diligence Risk Assessment of Disclosed Events

Date	Nature of Finding	Risk Category	Due Diligence Severity
2022	AML control weaknesses; unapproved changes to PEP identification procedures	Governance / Compliance	Early stage concern — flags need for deeper AML governance review
2023	FCA/NCA examination of AML systems; ~£1.7m released from flagged accounts (disputed)	Governance / Regulatory / Reputational	Elevated — scrutiny extends beyond a single jurisdiction
2025	€3.5m fine for transaction monitoring and business relationship deficiencies	Financial / Governance	Material — largest AML penalty in the regulator's history
2026	Full UK banking licence granted after ~5 year process	N/A (positive outcome)	Resolution — signals satisfaction of regulatory standards

Table 2: Due diligence risk categorisation of Revolut's disclosed regulatory events, applying the framework of Rosenbaum and Pearl (2022)

4.3. RQ3: Interpreting the Gap Between Prediction and Reality

The analysis reveals a clear divergence between theoretical expectations and Revolut's observed valuation trajectory. While investment banking due diligence, signalling theory, and established valuation frameworks suggest that repeated regulatory findings should increase perceived risk and potentially moderate valuation, Revolut continued to achieve substantial valuation growth, record financial performance, and ultimately full UK banking authorisation. One explanation for this divergence is that investors appear to have attached greater weight to the company's exceptional commercial performance than to its historical compliance issues. Between 2024 and 2026, Revolut's valuation increased from approximately \$45 billion to a reported \$115 billion, supported by record revenue and profitability, indicating that future growth expectations remained the dominant driver of investor confidence. Within high growth private markets, investors may therefore prioritise long term earnings potential and market expansion over historical regulatory deficiencies, particularly where these are viewed as manageable rather than existential risks. A second explanation is that the informational value of regulatory findings may depend not only on the existence of compliance failures but also on investors' assessment of a firm's capacity to address them. Signalling theory assumes that credible negative signals reduce confidence under conditions of information asymmetry (Spence, 1973; Connelly et al., 2011). However, signalling theory also recognises that signals derive their value from how they are interpreted by receivers in light of the information available to them (Connelly et al., 2011). The evidence reviewed suggests that subsequent events, including continued commercial growth and eventual regulatory approval, may therefore have altered the significance attached to Revolut's earlier compliance findings. Revolut's eventual receipt of a full UK banking licence following a five year regulatory process may reasonably be viewed as evidence that the company had satisfied the regulatory standards required for authorisation, thereby reducing concerns arising from earlier supervisory findings. Rather than treating historical compliance issues as permanent indicators of firm quality, investors may have interpreted successful remediation, continued commercial growth, and

regulatory approval as stronger signals of the firm's long term prospects. These findings suggest that, in the context of high growth fintech firms, compliance risk may not be assessed in isolation but instead weighed alongside evidence of financial performance, organisational development, and regulatory progress when investment decisions are made.

The findings of this case study suggest that the relationship between AML compliance risk and fintech valuation may be more complex than existing investment banking theory alone would predict. While established due diligence and valuation frameworks provide mechanisms through which regulatory risk can influence investment decisions, the Revolut case indicates that these mechanisms do not necessarily translate into observable valuation outcomes in a straightforward or immediate manner. Rather than demonstrating that compliance risk is systematically underpriced, the evidence suggests that investors may assess such risks alongside a broader range of commercial considerations, including financial performance, market position, growth potential, and evidence of regulatory remediation. Consequently, compliance deficiencies may not operate as independent determinants of valuation but instead form one component of a wider judgement regarding a firm's long term investment prospects. This finding also highlights an important distinction between the theoretical treatment of compliance risk and its practical application within investment banking. Existing frameworks explain where regulatory risk can be considered during due diligence and valuation, yet they provide limited guidance regarding the relative weighting of compliance issues when they coexist with exceptionally strong commercial performance. The Revolut case therefore suggests that current investment banking practice may involve a more contextual and judgement based assessment of compliance risk than is explicitly reflected in established theoretical models. These findings do not demonstrate that existing frameworks are inadequate; rather, they indicate that further guidance and empirical research are required to better understand how compliance risk is evaluated and weighted within high growth fintech transactions. This conclusion provides the foundation for the recommendations presented in the following chapter, which considers how investment banking due diligence and valuation practice might better reflect the complexity of compliance risk in rapidly growing fintech firms.

Figure 6 — Valuation Growth vs. Profit Growth

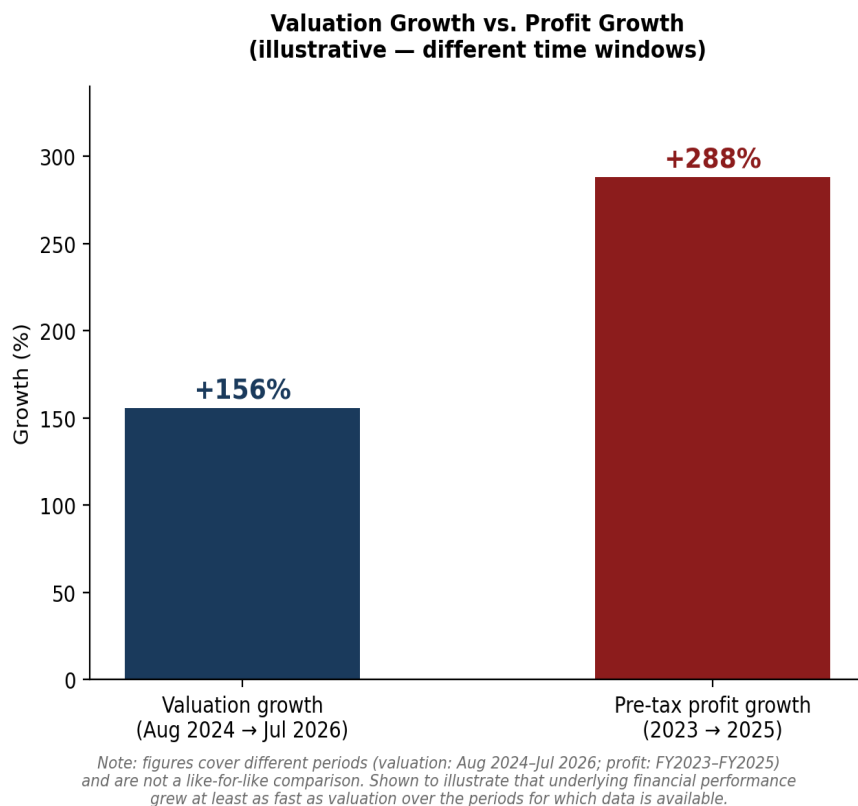


Figure 6: Percentage growth in valuation (Aug 2024–Jul 2026) compared with percentage growth in pre-tax profit (2023–2025).

CHAPTER 5: DISCUSSION

5.1 Interpretation of Findings Against the Literature

The findings indicate that the relationship between AML compliance risk and fintech valuation is more complex than established investment banking theory alone would predict. Instead, investors appeared to evaluate compliance issues alongside financial performance, growth prospects, market position, and evidence of regulatory remediation, suggesting that compliance risk formed one component of a broader commercial assessment rather than an independent determinant of valuation.

These findings both support and extend the theoretical expectations of investment banking due diligence and signalling theory. Consistent with Rosenbaum and Pearl (2022), Revolut's compliance history represented material information that should be identified during due diligence. Likewise, signalling theory suggests that publicly disclosed regulatory deficiencies should reduce investor confidence by signalling governance weaknesses (Akerlof, 1970; Spence, 1973; Connelly et al., 2011). However, the findings indicate that the anticipated negative effect was not sustained, implying that strong commercial performance and subsequent regulatory progress moderated the impact of earlier compliance signals.

The findings also refine valuation theory and the existing AML literature. Although Discounted Cash Flow, Comparable Company Analysis and the Venture Capital Method provide mechanisms for incorporating risk into valuation (Fernández, 2004; Fernández, 2005; Sahlman and Scherlis, 1987), the evidence suggests that AML compliance risk is assessed alongside broader commercial considerations rather than independently determining valuation outcomes. Similarly, previous AML research has focused primarily on compliance systems, transaction monitoring and regulatory supervision (Pavlidis, 2023; Oztas et al., 2024; Lo and Ku, 2026), whereas this study extends the literature by examining the investment banking implications of compliance risk within a high growth fintech firm.

Table 3 — Theoretical Predictions vs. Observed Evidence

Framework	Theoretical Prediction	Observed in the Revolut Case
Due diligence (Rosenbaum and Pearl, 2022)	Regulatory/governance findings are material risks requiring escalating scrutiny before a transaction.	Events were progressively more serious, but did not prevent licensing, fundraising, or growth.
Signalling theory (Akerlof, 1970; Spence, 1973; Connelly et al., 2011)	Credible negative signals should reduce investor confidence under information asymmetry.	No sustained loss of confidence observed; later positive signals (licence, growth) appear to have offset earlier negative ones.
Discounted Cash Flow (Fernández, 2004; 2005)	Regulatory risk should raise discount rates or lower cashflow/terminal value assumptions, reducing valuation.	Valuation rose consistently (\$45bn→\$115bn) despite disclosed compliance deficiencies.
Comparable Company Analysis (Rosenbaum and Pearl, 2022)	Risk should be reflected in peer multiple selection and market perception.	No evidence of a valuation discount relative to peers; growth aligned with commercial performance.
Venture Capital Method (Sahlman and Scherlis, 1987)	Risk is compensated via higher required rates of return.	No indication that investor return expectations or willingness to invest was constrained.
AML literature (Pavlidis, 2023; Oztas et al., 2024; Lo and Ku, 2026)	Expected to explain how compliance risk feeds into investment decisions.	Focuses on operational/technological compliance; provides no direct evidence on valuation implications (confirms RQ1 gap).

Table 3: Research questions mapped to objectives and headline findings — suitable as a quick reference summary in the Introduction or Conclusion

5.2 Answering the Research Questions

RQ1's answer (Section 4.1) — a genuine gap between practitioner assumption and rigorous evidence — is reinforced by the literature discussed above: theory predicts compliance risk should affect valuation, but this is rarely tested empirically.

RQ2 (Section 4.2) showed that despite clear theoretical mechanisms, no sustained valuation discount was observed in Revolut's case; growth, profitability, and regulatory authorisation continued unaffected.

RQ3 (Section 4.3) suggests this divergence reflects the dominance of growth expectations and the evolving interpretation of regulatory signals over time, rather than a flaw in the frameworks themselves

CHAPTER 6: CONCLUSION AND RECOMMENDATIONS

6.1 Summary of Key Findings

This dissertation examined how AML compliance risk is reflected in investment banking due diligence and fintech valuation, through a qualitative documentary case study of Revolut. Table 6.1 summarises the key findings against each research question. Overall, no sustained valuation discount was observed despite disclosed compliance deficiencies — investors appear to weigh regulatory concerns alongside financial performance, growth prospects, and evidence of remediation, suggesting the relationship between AML risk and fintech valuation is more nuanced than commonly assumed.

Table 4 — Research Questions, Objectives and Key Findings at a Glance

RQ	Objective Addressed	Key Finding
RQ1	Critically review literature to establish where the gap lies between practitioner assumption and academic/professional scrutiny.	A genuine, evidenced gap exists between the practitioner assumption that AML failures damage valuation and the limited rigorous evidence testing this.
RQ2	Apply due diligence and valuation frameworks to Revolut's disclosed AML history.	Despite clear theoretical mechanisms, the public evidence shows no sustained valuation discount; Revolut's valuation, profitability and regulatory standing all improved.
RQ3	Evaluate what the gap reveals about current compliance risk pricing practice and develop recommendations.	The divergence is better explained by the dominance of growth expectations and the evolving interpretation of regulatory signals than by flaws in valuation theory itself.

6.2 Limitations of the Study

This study has several limitations that should be considered when interpreting its findings. First, the research adopts a qualitative single case design centered on Revolut, meaning the findings provide analytical rather than statistical generalisation and should not be assumed to represent the wider fintech sector. Second, the application of investment banking due diligence and valuation frameworks is retrospective and based solely on publicly available documentary evidence, rather than internal valuation models or proprietary due diligence records. Consequently, the analysis offers an interpretive assessment rather than establishing causal relationships. Finally, Revolut's valuation trajectory was likely influenced by multiple factors, including financial performance, market conditions, and investor sentiment, making it difficult to isolate the independent effect of AML compliance risk.

6.3 Recommendations for Practice

The findings of this study suggest several practical recommendations for investment banking due diligence and valuation practice. First, due diligence teams should adopt a more structured framework for evaluating AML compliance risk alongside commercial performance, rather than treating regulatory findings as either automatic red flags or secondary considerations. Such a framework should require analysts to assess the nature and severity of compliance deficiencies, evidence of remediation, ongoing regulatory engagement, and the company's financial performance before reaching a balanced valuation judgement. Second, investment banks and financial advisers should explicitly document how compliance risk has been considered within the valuation process, including whether identified regulatory issues have influenced key assumptions such as projected cash flows, comparable company selection, or investment recommendations. This would improve transparency, strengthen internal governance, and provide a clear audit trail supporting valuation decisions. Finally, where regulatory investigations or enforcement actions have occurred, greater transparency regarding the resolution of these issues and their implications for future business operations would assist investors in distinguishing between isolated historical compliance failures and continuing governance concerns. Collectively, these recommendations encourage a more consistent, evidence based approach to integrating compliance risk into investment banking decision making while recognising that regulatory findings should be assessed within the broader commercial context of each transaction.

6.4 Recommendations for Future Research

Future research should extend this study by examining multiple high growth fintech firms with differing regulatory histories to determine whether the patterns identified in the Revolut case are observable across the wider sector. Comparative case studies involving firms such as Monzo, Starling Bank, or Wise could provide a broader understanding of how AML compliance risk is assessed within different organisational and regulatory contexts. In addition, primary research involving investment bankers, valuation specialists, institutional investors, and compliance professionals would provide valuable insight into how compliance risk is actually considered during due diligence and valuation decisions. Such research would help address the evidentiary gap identified in this dissertation by comparing documented practice with the theoretical frameworks and publicly available evidence analysed in this study.

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APPENDIX

Compliance Risk and Fintech Valuation: A Critical Case Study of Revolut Through Investment Banking Due Diligence Frameworks

Module: SG7046 Business Insight Project

Student ID: 2902845

1. Background and Rationale

UK-based digital-only banks ('neobanks') have achieved extraordinary private valuations over the past decade. Revolut, the most prominent example, was valued at approximately \$45 billion following a secondary share sale in 2024, and reported pre-tax profit of £438 million in 2023, placing it among the most valuable privately held technology companies in Europe. This growth has continued alongside a recurring pattern of anti-money laundering (AML) and wider financial crime compliance concerns.

In April 2025, the Bank of Lithuania fined Revolut Bank UAB €3.5 million — the largest AML penalty in the country's history — after a scheduled inspection found violations and deficiencies in the monitoring of business relationships and transactions, meaning the bank did not always properly identify suspicious activity in practice, although no confirmed instances of money laundering were found. Separately, the Financial Times reported in 2023 that the FCA was investigating whether Revolut had allowed up to £1.7 million to be released from UK accounts previously flagged as suspicious by the National Crime Agency, with Revolut disputing the scale of the figure. Despite this history, the Prudential Regulation Authority lifted restrictions on Revolut's UK banking application on 11 March 2026, granting Revolut Bank UK Ltd full authorisation after a five-year process, with the bank now serving over 13 million UK customers.

This sequence — recurring AML findings, continued valuation growth, and the eventual award of full UK banking authorisation — is precisely the kind of case investment banking due diligence and valuation theory should be able to explain, since due diligence is intended to surface exactly this kind of regulatory risk before a listing, major funding round, or licensing decision (Rosenbaum and Pearl, 2022). Yet compliance risk of this kind is rarely discussed in valuation literature with the rigour applied to financial or market risk, and industry commentary asserting that AML failures damage investor confidence and valuation remains, on inspection, largely unevidenced rather than rigorously tested. This project addresses that gap by applying established due diligence and valuation frameworks to Revolut's documented compliance and licensing history as a single, information-rich case.

2. Problem Statement

There is a visible disconnect between the scale and persistence of Revolut's AML compliance findings and both its continued valuation growth and its recent success in securing full UK banking authorisation. It is not currently clear whether this disconnect reflects a genuine mispricing or under-weighting of regulatory risk by investors, regulators

and the market more broadly, or whether standard investment banking due diligence and valuation frameworks, applied rigorously and retrospectively, would in fact treat this risk very differently from how it currently appears to be priced and licensed in practice. This matters professionally because, as neobanks including Revolut move toward full regulatory maturity and potential public listing, the adequacy of compliance risk assessment carries direct implications for investor protection, underwriting decisions, and confidence in fintech valuation more broadly.

3. Aim, Research Questions and Objectives

Aim

To critically evaluate how Revolut's disclosed AML compliance history would be assessed under established investment banking due diligence and valuation frameworks, in order to identify and address the gap between practitioner assumptions about compliance risk and the limited rigorous evidence currently available on how this risk is actually priced in fintech valuation.

Research Questions

RQ1. *The literature gap*: What does the current literature on investment banking due diligence and fintech valuation actually establish about how compliance/AML risk is assessed, and where does a genuine gap exist between practitioner assumption and rigorous academic or empirical evidence?

RQ2. *The applied-case gap*: How would Revolut's disclosed AML findings (the 2025 Bank of Lithuania fine and the 2023 FCA investigation) be treated under standard investment banking due diligence and valuation frameworks (DCF, comparables, venture method)?

RQ3. *The evidence-vs-assumption gap*: Why does Revolut's valuation and regulatory trajectory — continued valuation growth and the award of a full UK banking licence in March 2026 — appear to sit at odds with the practitioner assumption that AML failures damage fintech valuation and licensing prospects, and what does this reveal about how compliance risk should be more rigorously priced in practice?

Objectives

1. To critically review literature on investment banking due diligence, IPO/licensing readiness, and valuation theory for high-growth private firms, explicitly identifying where practitioner assumption about AML/compliance risk outpaces rigorous academic or empirical scrutiny : **addresses RQ1.**
2. To document Revolut's AML compliance and licensing history as a structured case study using verified regulatory, corporate and journalistic sources, and to apply due diligence and valuation frameworks to assess how this record would typically be treated : **addresses RQ2.**

Bank of Lithuania (2025) Statement on the fine imposed on Revolut Bank UAB, 8 April. Vilnius: Lietuvos bankas. Reported in: FinTech Futures (2025) 'Revolut fined €3.5m by Lithuania's central bank', 9 April; Reuters, reported via AOL News (2025) 'Lithuania fines Revolut 3.5 million euros for money-laundering prevention failures'.

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Note: this reference list will be expanded as the systematic literature search progresses; entries marked 'to be confirmed' must be verified directly against the original source before being cited in the final report, in line with the requirement to verify everything AI-assisted research produces.

9	Peer-reviewed empirical study, International Journal of Financial Studies (2018), on underwriter valuation-method choice in IPO pricing	Peer-reviewed empirical research	Evidence that due diligence findings shift underwriters' valuation method choice
10	Companies House (ongoing) — Revolut Ltd / Revolut Group Holdings annual accounts and auditor notes	Primary corporate filing	Financial and governance disclosure evidence
11	Industry/vendor AML commentary (e.g. compliance technology providers), used only as evidence of practitioner assumption, not as academic evidence	Industry/practitioner commentary	Establishes the practitioner-assumption side of the literature gap

8. Indicative Timeline

Week	Milestone
5-6	Finalise RQs, aim and objectives; begin literature search on IB due diligence and valuation theory
6-7	Complete critical literature review draft; identify conceptual framework
8	Compile Revolut compliance/valuation timeline from regulatory notices, filings and press coverage
9	Draft methodology and apply due diligence/valuation frameworks to case evidence
9	Draft findings section; bring to group supervision for feedback
9	Draft conclusions and recommendations
10	Full draft review, referencing check (Cite Them Right), word count trim
11	Final proofread and submission via Turnitin

9. Expected Contribution

This project is expected to contribute a structured, evidence-based bridge between practitioner assumption and rigorous scrutiny regarding how AML compliance risk relates to fintech valuation and licensing outcomes. Its output will be evidence-based recommendations — potentially a compliance-risk assessment framework — to help analysts and investors price this risk more consistently, addressing a gap of relevance to both scholarship and professional investment practice.

References

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This project relies entirely on data already in the public domain and involves no primary data collection or personal data, so no ethical approval beyond standard secondary-data governance is anticipated. All sources will be Harvard-referenced (Cite Them Right). Any use of generative AI for idea structuring or sentence-level support will be disclosed in the methodology, in line with UEL's Generative Artificial Intelligence Usage Policy; all analysis and conclusions will remain the author's own, independently verified against the original sources listed below.

7. Sources and Data: Full List with Origin

The table below lists every source class used to build this PID, stating clearly what each is and where it comes from, so provenance is fully transparent for supervision review.

#	Source	Type	What it's used for
1	Bank of Lithuania (2025) public statement, 8 April 2025 — €3.5m fine against Revolut Bank UAB for AML monitoring failures	Primary regulatory source	Core case evidence — compliance failure event
2	Financial Conduct Authority / Financial Times (reported by Finextra, City AM, FStech, Oct 2023) — FCA investigation into £1.7m released from NCA-flagged Revolut accounts	Press reporting of regulatory action	Core case evidence — second compliance event
3	Reuters (2025), reported via AOL News — confirms Lithuania fine details and Revolut's \$45bn valuation and 2023 pre-tax profit	Financial press (primary agency source)	Valuation trajectory data point
4	PRA/FCA licensing announcement (reported by Opusdatum analysis, March 2026) — Revolut Bank UK Ltd granted full UK banking licence, 11 March 2026	Regulatory outcome, press-reported	Tests the RQ3 gap: full licence granted despite prior AML history
5	European Banking Authority (2025) Opinion EBA/Op/2025/10 and Report EBA/REP/2025/22 on ML/TF risks affecting the EU's financial sector, 28 July 2025	Primary regulatory/supervisory publication	Sector-wide evidence that FinTech growth is widely judged to outpace AML controls
6	Rosenbaum, J. and Pearl, J. (2022) Investment Banking: Valuation, LBOs, M&A, and IPOs, 3rd edn, Wiley	Academic/practitioner textbook	Due diligence and valuation methodology framework
7	Akerlof, G.A. (1970) 'The market for "lemons"', Quarterly Journal of Economics, 84(3)	Peer-reviewed theory	Information asymmetry framework
8	Spence, M. (1973) 'Job market signaling', Quarterly Journal of Economics, 87(3)	Peer-reviewed theory	Signalling theory framework

3. To evaluate why Revolut's actual valuation and licensing outcomes diverge from what a rigorous risk-pricing framework might predict, and to develop evidence-based recommendations that close this gap for analysts and investors : *addresses RQ3*.

4. Indicative Literature and the Identified Gap

The literature review will be structured around three themes. First, investment banking due diligence and licensing/IPO readiness, drawing on established frameworks for legal, financial and regulatory due diligence (Rosenbaum and Pearl, 2022), a peer-reviewed empirical study showing that underwriters change their valuation method depending on due diligence findings (International Journal of Financial Studies, 2018), and information asymmetry and signalling theory (Akerlof, 1970; Spence, 1973) to explain why disclosed compliance failures should function as adverse signals. Second, valuation theory for high-growth private firms (DCF, comparable company analysis, venture method), used to test whether compliance risk is capable of being reflected in these models at all, or is structurally excluded from them. Third, the existing literature on AML in fintech, which the European Banking Authority's 2025 Opinion (EBA/Op/2025/10) confirms is dominated by regulatory and practitioner commentary — 70% of EU competent authorities report high or rising ML/TF risk in FinTech specifically — rather than peer-reviewed analysis of the investment or valuation consequences of that risk.

The gap this project addresses is therefore precise, not general: it is not that no one has discussed AML risk in fintech, but that the widely repeated practitioner claim linking AML failure to valuation damage has not been rigorously tested against a real, well-documented case where the opposite outcome (continued valuation growth, eventual full licensing) appears to have occurred.

5. Research Methodology

This project adopts a qualitative, single-case documentary analysis, using Revolut as an information-rich case through which to apply due diligence and valuation frameworks. Data is drawn exclusively from the verified secondary sources listed in Section 7: regulatory publications, corporate filings, and quality financial press reporting. This design was chosen over a multi-case or primary-data approach because it allows depth of analysis within the word limit and avoids reliance on data that is not realistically accessible (internal compliance and investment bank records are confidential).

A limitation, stated openly, is that the project applies published frameworks retrospectively to Revolut's public record rather than confirming any specific bank's actual internal conclusions. The analysis is therefore interpretive and framework-based rather than causal, and confounding factors — market conditions, growth metrics, and the regulatory approval process itself — will be acknowledged as alternative explanations alongside the compliance-risk-pricing argument.

6. Ethical Considerations