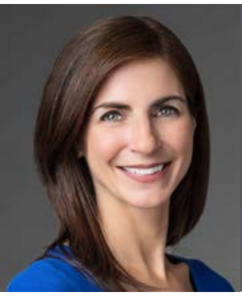
PREDICTIONS 2017

FINANCIAL SERVICES TRENDS AND OUTLOOK REPORT



Amber Roberts

Senior Partner
LANE, a Finn Partners Company

Amber Roberts, a senior partner, leads the financial services practice area in the LANE division of Finn Partners. She provides strategic communications, media relations, digital marketing and investor relations counsel and has advised clients engaged in sales, acquisitions and mergers across numerous industries.

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"COMPETITIVE" SUMS UP FINANCIAL SERVICES INDUSTRY

Across financial services sectors, experts are near unanimous in their appraisal of the industry as a whole: competitive, accelerating and growing. With a new administration settling in to the White House and Republicans claiming majorities in the House and Senate, there's also uncertainty about what a more pro-business attitude in the nation's capital may entail.

Deregulation, as is speculated, has the potential to reverberate throughout the industry, and developments will be watched closely throughout 2017. The largest of banks could be looking forward to relief in terms of the frequency of exams or consolidation or shift in regulatory bodies, while smaller banks may escape some federal oversight if the threshold for assets under management should trend higher than the $50 billion currently in place.

Along with political influences, innovation should continue to disrupt the banking sector, particularly on the consumer side. As fintech companies continue to introduce game-changing innovations at a rapid pace, traditional banks will likely be forced to evolve. New tools are empowering consumers like never before, as more control, customization, speed and access is becoming available on the go. With a taste for mobile banking, consumers seem increasingly sophisticated and demanding, placing traditional banks under pressure to remain relevant.

On the investment banking side, continued deal flow and available capital should be a story in the coming year, particularly in the private equity arena. Activity is expected to accelerate and heighten the level of competition that characterizes the sector. Should debt remain cheap and companies have cash on hand, acquisitions will likely continue.

Private equity is coming off a banner year of fundraising in 2016, during which valuations proved to be a surprise. More of the same is generally anticipated for the coming year, with significant activity and growth expected. Overall, private equity should remain attractive, and strengthen its position as the asset class of choice in select sectors, particularly technology.

Read on for more insights from LANE's panel of experts, and learn how financial services organizations can adapt to maintain a competitive edge in a fast-moving environment.

Amber Roberts
Senior Partner and Financial Services Practice Lead
LANE, A Finn Partners Company
amber@lanepr.com

“IT IS MORE THAN PRODUCTS AND SERVICES, IT IS ABOUT AN INTEGRATED EXPERIENCE FOR CUSTOMERS.”

– Rick Calero, TIAA CREF Trust Company

John Asbury

President & CEO
Union Bankshares Corporation

Next buzzword: *Actionable*
Most overused: *Millennial*

Rick Calero

President & CEO
TIAA-CREF Trust Co. FSB

Next buzzword: *Ecosystem*
Most overused: *Fintech*

Jonathan Smith

Executive Vice President
First National Denver

Next buzzword: *Cross-pollination*
Most overused: *Credit culture*

BANKING OUTLOOK

In the banking industry, experts tapped by LANE are in agreement about the potential for disruption from one key factor: technology. The rapid evolution of fintech firms and their offerings may well change the face of banking. While integrating new platforms and tools may help traditional banks deliver the service and convenience that consumers desire, it may come at a cost. First, institutions are already hard-pressed to differentiate themselves in the industry, and with widespread adoption of similar capabilities, the ability to communicate a unique position will be challenging. Additionally, as Jonathan Smith of First National Denver puts it, “The continued application of technology will be used to improve efficiency ratios while enhancing the customer experience, but the use of the human element will continue to decline.”

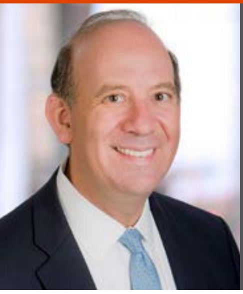
More automation in more types of transactions will naturally reduce person-to-person contact that can be critical to forging real connections and loyalty. As banks adopt new technologies to improve the online and mobile banking experience, it will be imperative for them to consider how they can engage with consumers through other online and offline channels. Rick Calero of TIAA-CREF Trust Company envisions ecosystem as a new buzzword for the industry as it evolves: “It is more than products and services, it is about an integrated experience for customers.”

Aside from technological impacts, the other big story for consumer banking is the transition to a new administration. Banks may be in position to benefit from potential business-friendly measures such as a reduction in the corporate tax rate, an increase in interest rates and fewer liquidity restrictions. According to John Asbury of Union Bankshares Corp., “with the election behind us, I anticipate the industry will see a reversal of the margin compression trend line.” The post-election run-up in bank stock valuations and Treasury yields was surprising in 2016, but may be a harbinger of things to come.

Banks should also benefit from anticipated economic expansion, although Smith is cautious about debt in the areas of auto loans – particularly subprime lending participants – and single family home loans. He notes that despite the economic upswing of recent years, recovery from the 2008 financial crisis is not complete. Although some markets have experienced great success, others have persistently struggled. For banks with a broad footprint and disparate market conditions within, it will be important to tailor messaging to specific audiences, as blanket communications can come off as tone deaf and alienate populations most in need of products or services.

"DEAL FLOW IS GOOD, A LOT OF CAPITAL IS OUT THERE AND PE FUNDS HAVE A LOT OF MONEY."

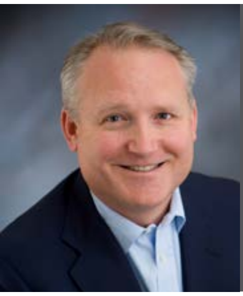
– Brad Gevurtz, D.A. Davidson & Co.



Brad Gevurtz

Managing Director, Investment Banking
D.A. Davidson & Co.

Next buzzword: *Internet of Things*
Most overused: *Synergy*



Terry Schallich

Managing Director, Head of Investment Banking
Pacific Crest Securities

Next buzzword: *Headline risk*
Most overused: *Value-add*

INVESTMENT BANKING OUTLOOK

The climate for investment banking and M&A activity has been described as competitive, robust and accelerating. Experts have expressed surprise at how the strong momentum attained in 2015 continued into 2016 and shows little sign of ebbing for this coming year. According to Brad Gevurtz of D.A. Davidson & Co., the market is well positioned: "Deal flow is good, a lot of capital is out there and PE funds have a lot of money." Terry Schallich of Pacific Crest Securities agrees, foreseeing "growth in trading volumes and commission pools."

Gevurtz further notes that companies have significant cash on hand, and as organic growth should continue being a challenging prospect, expansion will likely come from strategic acquisitions. From a communications perspective, it will be important for companies positioning themselves as acquisition targets to get ahead of any stories and control the narrative to help preserve and promote their value.

As in other areas of the financial industry, all eyes are on the new administration and the potential for deregulation. While the entire banking industry could heave a collective sigh of relief with the roll-back of Dodd-Frank and relaxation of other oversight, the nation's financial institutions should keep in mind that the financial crisis remains relatively fresh in the minds of many Americans. Should regulations ease, investment banks and other entities will need to assure clients and the broader public that they have not been given free license. Communicating a continued commitment to transparency and risk management could help foster greater confidence in individual organizations as well as the industry as a whole. In addition, it may be worthwhile to take a proactive approach to educating clients about the impacts of regulatory relief.

In an environment where Trump may become one of the biggest buzzwords of the year in light of his anticipated effect on business and the economy, some of the biggest disruptors to investment banking may come from outside the political sphere. Gevurtz is keeping an eye on interest rates, forecasted to rise after being maintained at artificially low levels for an extended period of time, while Schallich is watching for the "re-emergence of specialists as alternatives and/or complements to Morgan Stanley and Goldman Sachs."

"WE'LL SEE MORE EMPHASIS ON OPERATIONS AND HUMAN CAPITAL IN 2017."

– Reeve Waud, Waud Capital Partners

Reeve Waud

Founder & Managing Partner
Waud Capital Partners

Next buzzword: *Growth*
Most overused: *Proprietary*

Mark Poff

Managing Director
Swander Pace Capital

Next buzzword: *Price discipline*
Most overused: *Synergy*

PRIVATE EQUITY OUTLOOK

For private equity firms, the environment has grown increasingly competitive. The past year was marked by surprising election results and even more surprising positive market reactions. For Reeve Waud of Waud Capital Partners, valuation levels were most unexpected, while the rise and strength of consumer sector strategic buyers stood out to Mark Poff of Swander Pace Capital. For the latter, large consumer goods companies will continue to seek expansion opportunities, and many are finding that growth and innovation is best achieved through acquisitions.

Looking ahead, Poff expects that 2017 will look similar to 2016, with considerable activity coming from strategic acquirers. Fortune's recent survey of PE and VC professionals showed high confidence overall for 2017, including 83% confidence in their businesses, 64% in their industry and 59% in their competitors. Meanwhile, respondents had very low confidence in the international economy (21%) and the likelihood of favorable carried interest tax treatment (22%).

The challenge for PE professionals will be to remain focused and ensure that a material value-add can be realized. In addition, according to Waud, "We'll see more emphasis on operations and human capital in 2017." But in the long run, Waud is remaining wary of the debt markets, where a contraction could prove to be one of the biggest potential disruptions to the PE sector.

CONTRIBUTOR PROFILES

Amber Roberts, a senior partner, leads the financial services practice area in the LANE division of Finn Partners. She provides strategic communications, media relations, digital marketing and investor relations counsel and has advised clients engaged in sales, acquisitions and mergers across numerous industries.

John C. Asbury is president and CEO of Richmond, Virginia-based Union Bankshares Corporation (NASDAQ:UBSH), the largest independent community bank in Virginia with $8.3 billion in assets. A career banker, Asbury has nearly three decades of experience in commercial and corporate banking.

Rick Calero is president and CEO for TIAA-CREF Trust Company, FSB. He is responsible for overall strategy, operations, and growth of the banking and trust divisions. He oversees product design, customer experience, marketing and risk management—and ensures all teams are aligned effectively to serve customers.

Brad Gevurtz is a managing director in the Investment Banking Group at D.A. Davidson & Co., an 80-year-old, full-service investment bank with $45 billion in assets under management. He has significant experience in M&A, public offerings and private placements.

Mark Poff is a managing director of Swander Pace Capital (SPC), a private equity firm that invests in companies that are integral to consumers' lives. SPC's consumer industry expertise informs the firm's strategic approach and adds value through access to its proven SPC Playbook, senior team, and extensive network. SPC has invested in more than 45 companies and raised cumulative equity commitments of approximately $1.8 billion since 1996.

Terry Schallich is a managing director and head of investment banking at Pacific Crest Securities, where he has also served as co-chief operating officer and head of equity capital markets. Pacific Crest Securities is the technology specialist division of KeyBanc Capital Markets Inc., a FINRA registered broker-dealer.

Jonathan Smith is an executive vice president at First National Denver. He joined the bank in 2009 after spending more than 20 years at Citibank and Citigroup.

Reeve Waud is the founder and managing partner of Waud Capital Partners, a private equity firm based in Chicago, with approximately $2.1 billion of capital under management. Over his 30-year private equity career, Waud has acquired more than 230 companies.