INTRODUCTION

I am pleased to present the Bank Executive Business Outlook Survey for the first quarter of 2019. As always, the survey includes Promontory Interfinancial Network’s proprietary Bank Confidence Index™ and Bank Experience Index™; quarterly questions about funding costs, deposit competition, loan demand, access to capital, and economic outlook; and a set of unique, more topical questions known as “banker perspectives.” This survey’s banker perspectives—which included questions ranging from the potential role of banks in the business of marijuana to the impact of the BB&T-SunTrust merger—are timely and the answers thought-provoking.

If you have any thoughts or questions about the results or the survey report, please contact Phil Battey, Senior Vice President, External Affairs, at (866) 776-6426, x3357.

Sincerely,

Mark Jacobsen
President & CEO
Promontory Interfinancial Network, LLC
Arlington, Virginia
EXECUTIVE SUMMARY

Bankers continue to remain glum about the future of the U.S. economy, although the level of concern may be bottoming out and showing early signs of a shift in direction.

According to the Q1 2019 Promontory Interfinancial Network Bank Executive Business Outlook Survey, almost half of respondents (48%) believe economic conditions will be the same 12 months from now, but only 17% expect conditions to improve—a five-point drop from last quarter and a 38-point drop from Q1 of last year.

At the same time, Promontory Interfinancial Network’s proprietary Bank Experience IndexSM showed an uptick to 43.3 (almost a 1 point increase).1 With regard to the forward-looking Bank Confidence IndexSM, survey results showed a 3.3-point increase to 46.3, the first uptick in 5 quarters and the largest positive change to the Confidence Index since the survey began.1 Despite these increases, both indices have stayed below the 50-point watermark for five consecutive quarters.

Fifty percent of bank leaders indicated commercial real estate is the loan category that would represent the biggest credit risk for their bank should the economy slide into a downturn later this year.

Shifting to the issue of new business opportunities, more than 8 in 10 respondents (82%) said that the federal government should allow banks to serve businesses that commercially sell marijuana, which has been legalized to some degree in 33 states and the District of Columbia. Support for this change is strongest in the West (89%) and the Midwest (85%).

With regard to the impact on their bank of the recently announced merger of BB&T and SunTrust, survey respondents indicated the following: nearly 5 in 10 (49%) had a positive view regarding the result of increased consolidation among regional and super-regional institutions, while 29% had a negative view. Half of respondents (50%) held a positive view of the impact that accelerated investments in technology (as a result of the merger) would have on their bank, while only 17% responded negatively.

Of the budgetary resources that banks allocate to technology, a majority of respondents (76%) said the following customer-related services were receiving the lion’s share: data processing, managing, and mining (30%); online and mobile banking (26%); and information security (20%).

Other highlights include:

• Funding Costs. More than 9 in 10 bank leaders (92%) said funding costs had risen in the last 12 months with 33% seeing a significant increase and 59% seeing a moderate increase. While a majority (58%) expect funding costs to rise over the next 12 months, this represents a 30-point drop from the last quarter and a 34-point drop from Q1 2018.

• Deposit Competition. While most banks continued to experience and foresee tougher deposit competition, the number of those with that outlook has dropped. Seventy-two percent of respondents reported that they believe deposit competition will increase over the next 12 months down from 83% the last quarter.

• Loan Demand. Banker enthusiasm about the future of loan demand continued to decline. The number of bankers who stated that they believe loan demand will grow dropped to 36% from 39% last quarter (and from 64% in Q4 2017). This was the fifth decline in a row.

• Access to Capital. One in four respondents projected that access to capital will improve over the next 12 months.

1 The Bank Confidence Index is meant to quantify bankers’ forward-looking expectations for the industry over the next 12 months, while the Bank Experience Index is meant to quantify bankers’ experiences over the last 12 months. These indices are calculated from responses to survey questions relating to four key factors: access to capital, loan demand, funding costs, and deposit competition.
BANKER PERSPECTIVES

Each quarter, we pose a series of questions based on current events and their relevance and impact on the banking sector. In this survey, we asked bankers the following: should banks be allowed to service businesses that commercially sell marijuana, how might the BB&T/SunTrust merger impact the future of your bank, should the largest tech giants be broken up, which loan category would represent the biggest credit-risk exposure for your bank in the face of an economic downturn, which subject is the most important for future bankers to study in college, and which technologies are drawing the most budgetary resources.
Thirty-three states and the District of Columbia have enacted laws fully or partially legalizing marijuana in some form. However, under the Controlled Substance Act, marijuana is a Schedule I controlled substance, and growing, marketing, or distributing marijuana is a criminal violation.² As a result, financial institutions that accept marijuana industry money run the risk of running afoul of U.S. money laundering and other laws.

Given the growing number of states moving to legalize marijuana at some level, we asked respondents the following question:

*Should the federal government allow banks to serve businesses that commercially sell marijuana?*

A whopping 82% of respondents said yes to this question, indicating a strong desire among banks to be allowed to provide financial services to commercial marijuana vendors in states where it is legal. Support is strongest in the West (89%) and the Midwest (85%). Yet, even in the South, where no state has fully legalized marijuana, support reached 76%, or 3 out of 4 respondents.³

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Bank consolidation is nothing new to the industry. In fact, the current wave of industry consolidation began decades ago and has not subsided yet.\(^4\)

Earlier this year, BB&T and SunTrust banks announced plans to merge through a $28.2 billion all-stock deal. If approved by regulators, the merger will be the largest since the financial crisis and will make the combined entity the 6th largest bank in the United States.

Along those lines, we asked bankers:

BB&T and SunTrust recently announced a merger of equals. Analysts have commented on numerous potential outcomes, including altered trends within industry consolidation, increased concentration of assets and deposit market share, heightened focus on efficiency and risk management, and renewed competitive opportunities for banks of all sizes.

Please score the following potential outcomes of this merger, from -5 (being the most negative) to 5 (being the most positive), based on your perception of each outcome’s likely impact on the future of your bank (a score of 0 would be viewed as neutral).

With regard to the impact on their bank of the recently announced merger of BB&T and SunTrust, survey respondents indicated the following: nearly 5 in 10 (49%) had a positive view regarding the result of increased consolidation among regional and super-regional institutions, while 29% had a negative view. Half of respondents (50%) held a positive view of the impact that accelerated investments in technology (as a result of the merger) would have on their bank, while only 17% responded negatively. Views about the impact of the newly combined bank being a more formidable competitor were almost even with 35% answering positively and 37% answering negatively.

### Bank Impact if BB&T and SunTrust Merge

<table>
<thead>
<tr>
<th>Outcome</th>
<th>Positive</th>
<th>Neutral</th>
<th>Negative</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accelerated Investments in Technology</td>
<td>32%</td>
<td>17%</td>
<td>50%</td>
</tr>
<tr>
<td>Increased Consolidation</td>
<td>22%</td>
<td>29%</td>
<td>49%</td>
</tr>
<tr>
<td>Operational Efficiency</td>
<td>26%</td>
<td>29%</td>
<td>45%</td>
</tr>
<tr>
<td>More Formidable Competitor</td>
<td>28%</td>
<td>37%</td>
<td>35%</td>
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\(^4\) FDIC Call Report data.
There continues to be a longstanding debate over the value of a liberal arts education versus a more applied postsecondary program. Given the rising cost of college and the focus of students on employment and career advancement, we asked the following question:

*If you were advising a college student who aspired to one day work in a job like yours, what one subject would you recommend they focus most of their attention on?*

Respondents made it clear that for those who want to enter the banking sector and climb the ranks, majoring in a subject area closely aligned with finance and business should be the priority. Fifty-four percent stated students should focus on finance or accounting courses, followed by business management at 17%.
It’s no secret that, to compete, banks are investing millions of dollars into technology. Given what’s at stake, we asked respondents:

*Please indicate the area of technology in which you are currently allocating the most budgetary resources.*

Of the budgetary resources that banks allocate to technology, a majority of respondents (76%) said the following client-side services were receiving the most resources: data processing, management, and mining (30%); online and mobile banking (26%); and information security (20%).

We should note that we asked the same question a year ago in Q1 2017. The order was exactly the same although data processing, managing, and mining was slightly lower at 28%, while information security came in slightly higher at 24%.
The financial crisis and the Great Recession are still fresh in the minds of those who work and regulate the financial sector. And many remain concerned about the impact of the next recession and whether it will unleash some new crisis for the banking industry.

We asked respondents the following:

*If the next economic downturn happens later this year, which of the following loan categories do you think will represent the biggest credit-risk exposure for your bank?*

According to 50% of survey respondents, if the next economic downturn happens later this year, commercial real estate loans represent the biggest credit risk for their banks. Commercial and industrial (C&I) loans were the next choice at 34%. Given the importance of the home mortgage industry in the 2008 financial crisis, it is interesting to note that only 8% of bankers saw that as the biggest potential risk.
Some elected officials have argued that various tech giants (e.g., Facebook, Apple, Amazon, Netflix, and Google) have too much power over the U.S. economy and our personal information. Some of these same officials have suggested that breaking up these tech giants would fortify the U.S. economy. We decided to ask bankers if they thought the federal government should use antitrust laws to break up some of the major technology firms and if doing so would strengthen the American economy.

Sixty-four percent of bank respondents stated that the U.S. economy would be better off if the tech giants were left intact with only 36% taking the opposite position. Support for breaking up the technology giants was strongest in the Northeast (43%), but in no region of the country did a majority of respondents think this would benefit the U.S. economy.
The Bank Confidence Index is meant to quantify bankers’ forward-looking expectations for the industry over the next 12 months, while the Bank Experience Index is meant to quantify bankers’ experiences over the last 12 months. The expectation for overall economic conditions is a composite of expectations looking beyond the banking industry for the next 12 months. These indices are calculated from responses by C-level bank executives and presidents to survey questions relating to four key factors: access to capital, loan demand, funding costs, and deposit competition. Charted on a scale of 0-100, a score of 50 represents the baseline expectation.

**Bank Confidence Index & Bank Experience Index**

- **46.3 Bank Confidence Index**
  +3.3 over previous quarter
  (composite of expectations for core banking conditions looking forward over the next 12 months)

- **43.3 Bank Experience Index**
  +0.8 over previous quarter
  (composite of reported experience for core banking conditions looking back at the preceding 12 months)

- **45.6 Expectation for Overall Economic Conditions**
  -0.5 over previous quarter
  (composite of expectations looking beyond the banking industry for the next 12 months)

The Bank Confidence Index and Bank Experience Index are proprietary indices of Promontory Interfinancial Network, LLC, calculated using Promontory Interfinancial Network’s proprietary algorithm. Bank Confidence Index and Bank Experience Index are service marks of Promontory Interfinancial Network, LLC.
Summary Highlights

- Both the Bank Confidence Index and Bank Experience Index recovered somewhat from the record lows they hit in the last survey (Q4 2018). Nevertheless, both remain below 50 for the fifth consecutive quarter.
- Is this the beginning of a change in direction or merely a temporary blip? Even if both indices have bottomed out, soft demand for loans, growing funding costs, and high deposit competition could keep the index below 50 for the foreseeable future (charted on a scale of 0-100, a score of 50 represents the baseline expectation).

Bank Confidence Index & Index of Overall Economic Conditions by Asset Size

- For banks with assets less than $1 billion, the Bank Confidence Index is 45.8, and the Index of Overall Economic Conditions is 47.1.
- For banks with assets between $1 billion and $10 billion, the Bank Confidence Index is 46.3, and the Index of Overall Economic Conditions is 41.6.

Bank Confidence Index & Index of Overall Economic Conditions by Region

- For the Midwest, the Bank Confidence Index is 44.9, and the Index of Overall Economic Conditions is 47.5.
- For the Northeast, the Bank Confidence Index is 48.1, and the Index of Overall Economic Conditions is 46.3.
- For the South, the Bank Confidence Index is 46.3, and the Index of Overall Economic Conditions is 48.3.
- For the West, the Bank Confidence Index is 51.4, and the Index of Overall Economic Conditions is 48.3.
Summary Highlights

- Overall, 82% of those surveyed said deposit competition had increased over the past 12 months, representing a small decrease from last quarter (86%) but still higher than this time last year (76%).
- However, 72% predicted competition would increase in the year ahead—an 11-point drop from the previous quarter and a 16-point drop from the same time last year.
- This is second straight decline in the number of those who expect deposit competition to increase, the first time that has happened since the second quarter of 2016.

Responses over Time

Experience Compared to 12 Months Ago

Expectation for the 12 Months Ahead

- 16% Same
- 2% Improved
- 82% Worse
- 26% Same
- 2% Improved
- 72% Worse
DEPOSIT COMPETITION - KEY SEGMENTATIONS

Segmentation by Region

This chart looks at expectations for deposit competition 12 months from now by region.

REGIONS BY FEDERAL RESERVE DISTRICTS

- Midwest: Chicago, Cleveland, Minneapolis, St. Louis
- Northeast: Boston, New York, Philadelphia
- South: Atlanta, Dallas, Richmond
- West: Kansas City, San Francisco

Segmentation by Asset Size

Expectation of Banks with Less Than $1 Billion in Assets

- Improved: 2%
- Same: 25%
- Worse: 73%

Expectation of Banks with between $1 - $10 Billion in Assets

- Improved: 3%
- Same: 32%
- Worse: 65%
FUNDING COSTS

Summary Highlights

- More than 9 in 10 respondents (92%) said funding costs had risen in the last 12 months, with 33% seeing a significant increase and 59% seeing a moderate increase.
- A majority (58%) expect funding costs to rise over the next 12 months—a 30-point drop from the last quarter and a 34-point drop from Q1 2018. The drop is not surprising given the Fed’s decision not to raise rates in 2019, a point reiterated in May’s FOMC meeting when no rate hike occurred. This is echoed in the continued drop in projected deposit competition over the same time frame.

Responses over Time

Experience Compared to 12 Months Ago

- 92% Worse
- 4% Same
- 4% Improved

Expectation for the 12 Months Ahead

- 58% Worse
- 30% Same
- 13% Improved
FUNDING COSTS - KEY SEGMENTATIONS

Segmentation by Region

This chart looks at expectations for funding costs 12 months from now by region.

<table>
<thead>
<tr>
<th>Region</th>
<th>Improved</th>
<th>Same</th>
<th>Worse</th>
</tr>
</thead>
<tbody>
<tr>
<td>Midwest</td>
<td>13%</td>
<td>28%</td>
<td>59%</td>
</tr>
<tr>
<td>Northeast</td>
<td>14%</td>
<td>14%</td>
<td>71%</td>
</tr>
<tr>
<td>South</td>
<td>10%</td>
<td>33%</td>
<td>58%</td>
</tr>
<tr>
<td>West</td>
<td>16%</td>
<td>44%</td>
<td>40%</td>
</tr>
</tbody>
</table>

REGIONS BY FEDERAL RESERVE DISTRICTS

- Midwest: Chicago, Cleveland, Minneapolis, St. Louis
- Northeast: Boston, New York, Philadelphia
- South: Atlanta, Dallas, Richmond
- West: Kansas City, San Francisco

Segmentation by Asset Size

Expectation of Banks with Less Than $1 Billion in Assets

- 59% WORSE
- 28% Same
- 13% Improved

Expectation of Banks with between $1 Billion - $10 Billion in Assets

- 52% WORSE
- 37% Same
- 11% Improved
LOAN DEMAND

Summary Highlights

- Loan demand continues to be relatively soft. Only 4 in 10 bankers surveyed experienced an increase in loan demand (down 3 percentage points from Q4 2018) and 32% saw a decrease.
- Slightly fewer (36%) predicted that loan demand would increase in the next 12 months (also down 3 percentage points from last quarter), while about the same (31%) predicted a decrease in the coming year (up 4 percentage points from Q4 2018).
- Interestingly, this time last year, 53% of respondents predicted improvement in loan demand. Q1 2019 shows 40% of respondents experienced improvement in loan demand. Experience proved softer than bank respondents hoped for, and the trend is expected to continue.

Responses over Time

Experience Compared to 12 Months Ago

<table>
<thead>
<tr>
<th>Year</th>
<th>Worse</th>
<th>Same</th>
<th>Improved</th>
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<tbody>
<tr>
<td>2017</td>
<td></td>
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<td>2018</td>
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<tr>
<td>2019</td>
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Expectation for the 12 Months Ahead

<table>
<thead>
<tr>
<th>Year</th>
<th>Worse</th>
<th>Same</th>
<th>Improved</th>
</tr>
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<tbody>
<tr>
<td>2017</td>
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<tr>
<td>2018</td>
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<tr>
<td>2019</td>
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</tbody>
</table>
Segmentation by Region

This chart looks at expectations for loan demand 12 months from now by region.

<table>
<thead>
<tr>
<th>Region</th>
<th>Worse</th>
<th>Same</th>
<th>Improved</th>
</tr>
</thead>
<tbody>
<tr>
<td>Midwest</td>
<td>33%</td>
<td>37%</td>
<td>31%</td>
</tr>
<tr>
<td>Northeast</td>
<td>23%</td>
<td>32%</td>
<td>45%</td>
</tr>
<tr>
<td>South</td>
<td>28%</td>
<td>31%</td>
<td>41%</td>
</tr>
<tr>
<td>West</td>
<td>42%</td>
<td>26%</td>
<td>33%</td>
</tr>
</tbody>
</table>

Segmentation by Asset Size

Expectation of Banks with Less Than $1 Billion in Assets

- 38% Improved
- 30% Worse
- 33% Same

Expectation of Banks with between $1 Billion - $10 Billion in Assets

- 27% Improved
- 35% Worse
- 38% Same
**ACCESS TO CAPITAL**

**Summary Highlights**

- More than 7 in 10 respondents (72%) said their bank’s access to capital was the same compared to 12 months ago.
- Twenty-seven percent of respondents said their access to capital had improved compared to 12 months ago up 7 points from the previous quarter. Regionally, the South experienced a 19-point jump and the Northeast a 10-point jump.
- Similarly, 70% predicted access to capital would be the same 12 months from now and 25% said it would improve with banks in the South (33%) and Northeast (32%) being the most optimistic.

**Responses over Time**

**Experience Compared to 12 Months Ago**

- 27% Improved
- 1% Worse
- 72% Same

**Expectation for the 12 Months Ahead**

- 25% Improved
- 5% Worse
- 70% Same
ACCESS TO CAPITAL - KEY SEGMENTATIONS

Segmentation by Region

This chart looks at expectations for access to capital 12 months from now by region.

<table>
<thead>
<tr>
<th>Region</th>
<th>Worse</th>
<th>Same</th>
<th>Improved</th>
</tr>
</thead>
<tbody>
<tr>
<td>Midwest</td>
<td>5%</td>
<td>79%</td>
<td>17%</td>
</tr>
<tr>
<td>Northeast</td>
<td>5%</td>
<td>63%</td>
<td>32%</td>
</tr>
<tr>
<td>South</td>
<td>6%</td>
<td>62%</td>
<td>33%</td>
</tr>
<tr>
<td>West</td>
<td>7%</td>
<td>66%</td>
<td>27%</td>
</tr>
</tbody>
</table>

Segmentation by Asset Size

Expectation of Banks with Less Than $1 Billion in Assets

- 26% Improved
- 6% Worse
- 69% Same

Expectation of Banks with between $1 Billion - $10 Billion in Assets

- 21% Improved
- 78% Same
- 2% Worse
Summary Highlights

- When it comes to the economy, respondents continued to experience (51%) and expect (48%) more of the same, meaning no change from current economic conditions. This result could be seen as generally a positive view given that first-quarter gross domestic product expanded by 3.2%, according to the initial report of the Bureau of Economic Analysis.5

- Going forward, bankers are increasingly pessimistic compared to Q4 2018 responses. Only 17% of bankers believe economic conditions for their banks will improve compared to 22% last quarter. This is a 38-point drop from this time last year (Q1 2018).

- The outlook among larger community banks (those with between $1 billion and $10 billion in assets) did improve somewhat in this survey compared to Q4 2018. Last quarter, 60% forecasted a worsening economy. That number dropped to 44% in this quarter.

Responses over Time

Experience Compared to 12 Months Ago

OVERALL ECONOMIC CONDITIONS - KEY SEGMENTATIONS

Segmentation by Region

This chart looks at expectations for overall economic conditions 12 months from now by region.

REGIONS BY FEDERAL RESERVE DISTRICTS

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- South: Atlanta, Dallas, Richmond
- West: Kansas City, San Francisco

Segmentation by Asset Size

- Expectation of Banks with Less Than $1 Billion in Assets
  - 18% Improved
  - 33% Worse
  - 49% Same

- Expectation of Banks with between $1 - $10 Billion in Assets
  - 11% Improved
  - 44% Worse
  - 44% Same
METHODOLOGY AND RESPONSE

Promontory Interfinancial Network’s Bank Executive Business Outlook Survey was conducted online over the course of two weeks from April 2 to April 12, 2019.

The survey was delivered via email to bank CEOs, presidents, and CFOs. Leaders from 453 unique banks throughout the United States completed the survey. Of these 453 respondents, 198 were CEOs (44%), 51 were presidents (11%), and 204 were CFOs (45%).

Compared to the asset-size breakdown of the overall banking industry, the sample of respondents skewed slightly towards smaller community banks, defined here as banks with assets of less than $1 billion.

All percentages have been rounded to the nearest whole number unless reported otherwise.

ABOUT THE COMPANY

Promontory Interfinancial Network—the inventor of reciprocal deposits and the nation’s largest deposit allocation service provider—provides balance sheet and liquidity management solutions to help financial institutions grow franchise value. The company has been chosen by thousands of banks and since its founding nearly two decades ago, has assembled the largest bank network of its kind. Its service offerings help institutions to acquire high-value, local relationships; purchase funding; reduce collateralization costs; and buy and sell bank assets.

Promontory Interfinancial Network’s services include CDARS®, IND®, Insured Cash Sweep®, Yankee Sweep®, Bank Assetpoint®, Promnet Repo®, and Insured Overnight FundingSM.

For more information about this survey, Promontory Interfinancial Network, or its services, please call (866) 776-6426 or visit Promnetwork.com.