

N E W S R E L E A S E

**Equias Alliance/Michael White Report
BOLI Assets Hit Nearly \$150 Billion at End of 2014**

FOR IMMEDIATE RELEASE – Radnor, PA, and Memphis, TN, March 17, 2015 – Bank-owned life insurance (BOLI) assets reached \$149.6 billion in 2014, reflecting a 4.0% increase from \$143.8 billion in 2013 BOLI assets held by commercial banks, savings banks and savings associations, according to the *Equias Alliance/Michael White Bank-Owned Life Insurance (BOLI) Holdings Report™*.

BOLI is used to recover costs of employee benefits and offset liabilities for retirement benefits, helping banks to keep up with ever-rising benefit costs. BOLI may be differentiated by three types of assets: separate account life insurance (SALI) assets, also referred to as variable separate account life insurance assets; general account life insurance (GALI) assets; and hybrid account life insurance (HALI) assets, also referred to as hybrid separate account life insurance assets.

Co-produced by Equias Alliance and Michael White Associates, LLC (MWA), the *Equias Alliance/Michael White BOLI Holdings Report™* measures and benchmarks the cash surrender values (CSV) of life insurance and ratios of CSV to capital attained by commercial banks, savings banks, and savings associations (the “banks”). The data in this report were submitted to regulators by all 6,509 banks operating on December 31, 2014. It is important to note that in the 12 month period between December 31, 2013 and December 31, 2014, the number of banks submitting data to the FDIC shrank from 6,812 to 6,509 - a decline of 303 banks. Among the study’s most significant findings are these:

By Institutional Charters:

- Of all 6,509 banks and savings associations, 3,803 or 58.4% reported holding BOLI assets in 2014, increasing their BOLI holdings by 4.0% from \$143.84 billion in 2013 to \$149.57 billion in 2014. (See Tables 1 and 4.)

Table 1. Total BOLI Assets (in billions) Held by Banks				
Banks by Asset Size	2014	2013	Percent Change In BOLI Assets	Percent Change in Total No. of Banks
Over \$10 billion	\$114.92 billion	\$111.50 billion	3.1%	0.0%
\$1 billion - \$10 billion	\$18.78 billion	\$16.95 billion	10.8%	2.7%
\$500 million - \$1 billion	\$6.02 billion	\$5.82 billion	3.3%	-0.7%
\$300 million - \$500 million	\$4.14 billion	\$3.81 billion	8.8%	2.2%
\$100 million - \$300 million	\$4.81 billion	\$4.84 billion	-0.7%	-5.7%
Under \$100 million	\$898.1 million	\$914.3 million	-1.8%	-8.9%
Industry Total	\$149.57 billion	\$143.84 billion	4.0%	-4.4%

Source: Equias Alliance / Michael White BOLI Holdings Report™ - 2015 edition

- The growth in BOLI holdings in a particular bank charter class is attributable to an increase in the value of those holdings, first-time purchases of BOLI by banks, and additional purchases by banks already having BOLI on the books. The growth rate within an individual charter may also be affected by mergers and acquisitions that take place with other financial institutions that have a different type of institutional charter.
- Of 1,065 national banks, 607 or 57.0% recorded \$93.67 billion in BOLI holdings, up 2.9% from \$91.01 billion in 2013. (See Tables 2 and 3.) This growth occurred despite a 7.6% decrease in the number of national banks between December 31, 2013 and December 31, 2014. Of the national banks' total BOLI holdings, \$295.5 million was attributable to 26 national banks that purchased BOLI for the first time and to 129 national banks whose increases in BOLI holdings constituted \$1.92 billion due to internal growth, additional purchases and/or mergers and acquisitions. Their growth in BOLI assets ranged from 5.07% to 4866.88%.
- Of 367 savings banks, 279 or 76.0% recorded \$5.40 billion in BOLI holdings, up 5.5% from \$5.12 billion in 2013. This somewhat significant 5.5% increase of \$280.0 million was primarily attributable to 8 savings banks that purchased \$31.1 million in BOLI for the first time and to 53 savings banks whose increases in BOLI holdings constituted \$349.0 million due to internal growth, additional purchases and/or mergers and acquisitions. Their growth in BOLI assets ranged from 5.12% to 1,054.75%. (See Tables 2 and 3.)
- Of 500 savings associations, 258 or 51.6% recorded \$4.17 billion in BOLI holdings, down 2.3% from \$4.27 billion in 2013. Although BOLI holdings decreased for savings associations, the decline was considerably less than the 9.7% decrease in the number of banks in this institutional category. Of the charter class' total BOLI holdings, \$61.6 million was attributable to 7 savings associations that purchased BOLI for the first time and to 54 savings associations whose increases in BOLI holdings constituted \$168.6 million due to internal growth, additional purchases and/or mergers and acquisitions. Their growth in BOLI assets ranged from 5.04% to 407.4%. (See Tables 2 and 3.)

**Table 2. Total BOLI Assets (in billions)
 Held by Bank Charter**

Banks by Charter	2014	2013	Percent Change in BOLI Assets	Percent Change in Total Number of Banks
National Banks	\$93.67 billion	\$91.01 billion	2.9%	-7.6%
Savings Banks	\$5.40 billion	\$5.12 billion	5.5%	-3.9%
Savings Associations	\$4.17 billion	\$4.27 billion	-2.3%	-9.7%
State-Chartered Member Banks	\$22.24 billion	\$21.40 billion	3.9%	0.9%
State-Chartered Non-Member Banks	\$24.09 billion	\$22.04 billion	9.3%	-4.0%
Industry Total	\$149.57 billion	\$143.84 billion	4.0%	-4.4%

Source: Equias Alliance / Michael White BOLI Holdings Report™ - 2015 edition

- Of 858 state-chartered member commercial banks, 578 or 67.4% of them reported holding \$22.24 billion in BOLI assets in 2014, up 3.9% from \$21.40 billion in 2013. This increase of \$836.3 million was largely attributable to 16 state-chartered member banks that purchased \$86.5 million of BOLI for the first time and to 20 large banks whose increase of \$735.3 Million was due to internal growth, additional purchases

and/or mergers and acquisitions. Their growth in BOLI assets ranged from 5.02% to 6,134.74%. (See Tables 2 and 3.)

- Of the 3,719 state-chartered non-member banks, 2,081 or 56.0% of them reported holding \$24.09 billion in BOLI assets in 2014, up 9.3% from \$22.04 billion in 2013. This substantial 9.3% increase of \$2.05 billion was primarily due to 88 state-chartered non-member banks that purchased \$363.4 million in BOLI assets for the first time and to 412 non-member banks whose increase of \$2.11 billion was due to internal growth, additional purchases and/or mergers and acquisitions. Their growth in BOLI assets ranged from 5.05% to 5,697.15%. (See Tables 2 and 3.)

Table 3. Number of Banks by Charter Reporting BOLI Assets

Banks by Charter	2014	2013	Percent Change in Banks Reporting BOLI Assets	Percent Change in Total Number of Banks
National Banks	607	632	-4.0%	-7.6%
Savings Banks	279	282	-1.1%	-3.9%
Savings Associations	258	279	-7.5%	-9.7%
State-Chartered Member Banks	578	569	1.6%	0.9%
State-Chartered Non-Member Banks	2,081	2,078	0.7%	-4.0%
Industry Total	3,803	3,840	-1.0%	-4.4%

Source: Equias Alliance / Michael White BOLI Holdings Report™ - 2015 edition

Table 4. Number of Banks Reporting BOLI Assets

Asset Size	2014	2013	Percent Change in Banks Reporting BOLI Assets	Percent Change in Total Number of Banks
Over \$10 billion	76	74	2.7%	0.0%
\$1 billion - \$10 billion	460	446	3.1%	2.7%
\$500 million - \$1 billion	493	492	0.2%	-0.7%
\$300 million - \$500 million	615	581	5.9%	2.2%
\$100 million - \$300 million	1,451	1,494	-2.9%	-5.7%
Under \$100 million	708	753	-6.0%	-8.9%
Industry Total	3,803	3,840	-1.0%	-4.4%
Percentage of banks holding BOLI assets	58.4%	56.4%	2.5%	N/A

Source: Equias Alliance / Michael White BOLI Holdings Report™ - 2015 edition

By Type of BOLI Assets:

- The largest portion of BOLI assets was found to be held in separate accounts. Separate account CSV assets totaled \$71.23 billion among banks, representing 47.6% of all BOLI assets in 2014, down from 49.0% in 2013. (See Table 5.) At the same time, only 540 or 14.2% of all banks reporting BOLI held separate account assets. (See Table 6.) Thus, although SALI assets account for the largest portion of

total BOLI assets, SALI assets were actually held by the fewest number of banks. Separate account life insurance assets are the cash surrender values (CSVs) associated with separate account insurance policies whose CSVs are supported by assets legally segregated from the general assets of the insurance carrier. While under such arrangements, the policyholders neither own the underlying separate account created by the insurance carrier on its behalf, nor control investment decisions in the underlying account, however, they do assume all investment and price risk. Accordingly, the investment income and investment gains and losses generally accrue directly to the policyholders and are not accounted for in the general account of the insurer, nor are values guaranteed by the general account of the insurer.

- The type of BOLI assets most widely held by banks in 2014 was GALI policies. (See Table 6.) Ninety-four percent (94.3%) or 3,587 of the 3,803 banks reporting BOLI assets had \$62.47 billion in general account life insurance assets, representing 41.8% of total BOLI assets in 2014. (See Tables 5 and 6.) In GALI policies, the general assets of the insurance company issuing the policies support their CSV.
- Over twelve hundred (1,273) or 33.5% of the 3,803 institutions with BOLI assets reported holding hybrid account assets. This was up from 1,188 banks (30.9%) of 3,840 in 2013, 1,077 banks (28.5%) of 3,782 in 2012, and 868 banks (23.3%) of 3,725 in 2011. They held \$15.87 billion in hybrid account life insurance assets, representing 10.6% of total BOLI assets and making HALI the smallest reporting category of BOLI assets. (See Tables 5 and 6.) However, in the past few years, HALI has been the fastest growing type of BOLI asset. Hybrid account insurance policies combine features of both general and separate account insurance products. Similar to general account life insurance policies, the general assets of the insurance company issuing hybrid account policies support the policies' cash surrender values. However, like separate account policies, the assets of hybrid accounts are protected from claims on the insurer. Additionally, the banks holding hybrid account life insurance policies are able to select from among certain investment strategies in which the insurance premiums are invested.

Table 5. Total BOLI Assets (in billions) Held by Banks in 2014				
Banks by Asset Size	GALI	SALI	HALI	TOTAL
Over \$10 billion	\$ 38.06	\$ 66.51	\$ 10.36	\$ 114.92
\$1 billion - \$10 billion	\$ 11.95	\$ 3.91	\$ 2.93	\$ 18.78
\$500 million - \$1 billion	\$ 4.59	\$ 0.42	\$ 1.01	\$ 6.02
\$300 million - \$500 million	\$ 3.27	\$ 0.17	\$ 0.71	\$ 4.14
\$100 million - \$300 million	\$ 3.85	\$ 0.18	\$ 0.78	\$ 4.81
Under \$100 million	\$ 0.75	\$ 0.05	\$ 0.09	\$ 0.90
Total BOLI assets	\$ 62.47	\$ 71.23	\$ 15.87	\$ 149.57
Percentage growth since 2013	6.3%	1.1%	8.5%	4.0%

Source: Equias Alliance / Michael White BOLI Holdings Report™ - 2015 edition

- Separate account life insurance (SALI) assets were most heavily concentrated (93.4%) among the largest banks with assets greater than \$10 billion. These banks also held significant amounts of GALI and HALI BOLI assets. The predominant types of BOLI assets held by banks under \$10 billion in assets were GALI and HALI. Banks under \$10 billion in assets held 39.1% (up slightly from 38.2% in 2013) of general account life insurance assets and 34.7% (up from 34.5% in 2013 and 30.0% in 2012) of hybrid account life insurance assets in 2014, with just 6.6% of SALI assets. Furthermore, banks under \$1 billion in assets held 20.0% of GALI assets, 16.3% of HALI assets, but only 1.15% of SALI assets. (See Table 5.)
- As mentioned above, the fastest growing type of BOLI assets in 2014, in terms of the number of banks holding them, was hybrid account assets. Since 2011, the number of banks using hybrid accounts increased 24.1% from 868 banks to 1,077 banks at the end of 2012, another 10.3% to 1,188 banks at the

end of 2013, and another 7.2% from that to 1,273 banks in 2014. Though it has declined, the rate of HALI growth has outstripped that of other types of asset accounts. During the same period (2011-2014), banks owning SALI assets increased by 9.2% from 543 to 593 banks in 2012 to a slight rise of 0.7% in 2013 to 597 banks and a decline of 9.5% to 540 in 2014.

By Size of Institution:

- The highest rate of BOLI ownership occurred among banks and thrifts with assets between \$1 billion and \$10 billion, as 460 of 574 banks and thrifts or 80.1% reported having them in 2014. The lowest rate of BOLI ownership occurred among depository institutions with assets under \$100 million, as 708 of 1,872 or 37.8%, declared they had BOLI assets.
- The largest banks and thrifts, those over \$10 billion in assets, accounted for the largest dollar increase (\$3.4 billion) in BOLI in 2014. Institutions with assets between \$1 billion and \$10 billion attained the largest percentage increase (10.8%), followed by institutions between \$300 million and \$500 million with the second largest percentage increase (8.8%) in BOLI assets. (See Table 1.)
- Four of six bank asset-size classes experienced increases in 2014 in the number of banks and thrifts reporting BOLI assets. The largest percentage increase was 5.9% among depository institutions with assets between \$300 million and \$500 million. The largest numerical increases of 34 banks and thrifts also occurred among those between \$300 million and \$500 million in assets. (See Table 4.)
- According to federal banking regulators, it is generally not prudent for a banking company to hold BOLI assets with an aggregate cash surrender value (CSV) that exceeds 25 percent of the sum of the institution's total capital. (Depending on an institution's charter, total capital is defined either as Tier 1 capital or the sum of Tier 1 capital and the allowance for loan and lease losses). Nationally, mean bank BOLI assets as a percent of the sum of Tier 1 capital and the loss allowances increased (0.4%) from 15.92% in 2013 to an adjusted 15.98% in 2014. Nationally, median BOLI assets as a percent of total capital increased (2.6%) from 15.81% in 2013 to 16.22% in 2014.

Table 6. Number of Banks Reporting BOLI Assets in 2014				
Banks by Asset Size	GALI	SALI	HALI	TOTAL
Over \$10 billion	73	63	46	76 of 107 (71%)
\$1 billion - \$10 billion	436	157	225	460 of 574 (80%)
\$500 million - \$1 billion	479	79	220	493 of 673 (73%)
\$300 million - \$500 million	585	63	234	615 of 851 (72%)
\$100 million - \$300 million	1,356	118	441	1,451 of 2,432 (60%)
Under \$100 million	658	60	107	708 of 1,872 (38%)
All banks	3,587	540	1,273	3,803 of 6,509 (58%)
Percentage change since 2013	0.06%	-9.5%	7.2%	-1.0%

Source: Equias Alliance / Michael White BOLI Holdings Report™ - 2015 edition

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About the Equias Alliance / Michael White BOLI Holdings Report™

The Equias Alliance / Michael White BOLI Holdings Report™ measures and benchmarks the cash surrender values (CSV) of life insurance held by commercial banks, savings banks, and savings associations and their ratios of CSV to capital. It is one of several reports dealing with bank fee and other noninterest income activities published by Equias Alliance / Michael White Associates, LLC (MWA).

Equias Alliance, LLC (“Equias”), through its group of nationwide consultants, has assisted over 800 community banks in the design and implementation of bank-owned life insurance as well as nonqualified benefit plans for selected executives. These plans help institutions increase earnings and shareholder value as well as recruit, retain and reward key officers and directors. If a bank should decide to implement a BOLI or nonqualified benefit plan, Equias has the experienced and professional staff (including attorneys and CPAs) needed to properly administer and oversee these plans. As evidence of its leadership position in the market, Equias has the exclusive endorsement of the ABA (through its subsidiary, the Corporation for American Banking) and 11 state banking associations for BOLI. Equias (www.equiasalliance.com) is headquartered in Memphis, Tennessee with 18 consultants located in 14 offices throughout the U.S.

Michael White Associates (MWA) is a bank insurance consulting firm headquartered in Radnor, PA and published reports can be obtained at www.BankInsurance.com. Other reports include the *MWA BOLI Capital Concentration Report™*. This report assists with the regulatory requirement that each banking company must conduct a peer analysis of their BOLI holdings relative to capital and statistically assess whether its BOLI program is an outlier. Additionally, *MWA Fee Income Ratings Reports™* compare, rank and rate a particular financial institution’s insurance or other noninterest fee income program nationally, regionally, statewide and by asset-peer group.

This analysis excludes BOLI held at the holding company level. It was excluded because it represents a relatively small portion of total BOLI assets and because the holding company data is not available at the same time as the bank data and would delay the release of this report.

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