

NEWS RELEASE

**Equias Alliance/Michael White Report
BOLI Assets Reached \$138 Billion in 2012**

FOR IMMEDIATE RELEASE – Radnor, PA, and Memphis, TN, March 31, 2013 – Bank-owned life insurance (BOLI) assets reached nearly \$138 billion in 2012, reflecting a 4.5% increase from \$132 billion in 2011 BOLI assets held by commercial banks, savings banks and savings associations, according to the 2013 edition of 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 or SALI assets, general account life insurance (GALI) assets and hybrid account life insurance (HALI) assets. Commercial banks and FDIC-supervised savings banks began reporting their BOLI assets by type in 2011; savings associations began reporting them by type in 2012.

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”)¹. The data in this report were submitted to regulators by all 7,083 banks operating on December 31, 2012. Among the study’s most significant findings are these:

By Institutional Charters:

- Of all 7,083 banks and savings associations, 3,782 or 53.4% reported holding BOLI assets in 2012, increasing their BOLI holdings by 4.5% from \$131.95 billion in 2011 to \$137.95 billion in 2012. (See Tables 1 and 2.)

TABLE 1. TOTAL BOLI ASSETS HELD BY BANKS			
ASSET SIZE	2012	2011	% CHANGE
Over \$10 billion	\$107.93 billion	\$104.01 billion	3.7%
\$1 billion - \$10 billion	\$15.65 billion	\$14.57 billion	7.4%
\$500 million - \$1 billion	\$5.39 billion	\$4.95 billion	8.8%
\$300 million - \$500 million	\$3.53 billion	\$3.16 billion	11.8%
\$100 million - \$300 million	\$4.58 billion	\$4.29 billion	6.9%
Under \$100 million	\$874.4 million	\$891.6 million	-1.9%
All	\$137.95 billion	\$131.95 billion	4.5%

Source: *Equias Alliance/Michael White Bank-Owned Life Insurance (BOLI) Holdings Report*[™] – 2013

- Of 1,233 national banks, 639 or 51.8% recorded \$88.51 billion in BOLI holdings, up 5.0% from \$84.32 billion in 2011.

- Of 381 savings banks, 269 or 70.6% recorded \$4.66 billion in BOLI holdings, up 10.6% from \$4.22 billion in 2011.
- Of 606 savings associations, 293 or 48.3% recorded \$4.38 billion in BOLI holdings, down 36.6% from \$6.92 billion in 2011. The status changes of two thrifts account entirely for this dramatic decline: Sovereign Bank (DE) became a national bank upon its acquisition by Banco Santander. ING Bank, fsb became inactive on November 1, 2012, as it merged into Capital One, National Association. Together, these two institutions accounted for \$2.69 billion in BOLI assets in 2011. Excluding them from 2011 results, savings associations otherwise experienced an increase of 3.7% in their 2012 BOLI assets.
- Of 843 state-chartered member commercial banks, 539 or 63.9% of them reported holding \$20.15 billion in BOLI assets in 2012, up 13.4% from \$17.77 billion in 2011.
- Of the 4,020 state-chartered non-member banks, 2,042 or 50.8% of them reported holding \$20.24 billion in BOLI assets in 2012, up 8.1% from \$18.72 billion in 2011.

TABLE 2. NUMBER OF BANKS REPORTING BOLI ASSETS			
ASSET SIZE	2012	2011	% CHANGE
Over \$10 billion	73	69	5.8%
\$1 billion - \$10 billion	427	415	2.9%
\$500 million - \$1 billion	485	476	1.9%
\$300 million - \$500 million	556	517	7.5%
\$100 million - \$300 million	1,483	1,444	2.7%
Under \$100 million	758	804	-5.7%
All	3,782	3,725	1.5%

Source: Equias Alliance/Michael BOLI Holdings Report™ – 2013

By Type of BOLI Assets:

- The largest portion of BOLI assets was found to be held in separate accounts. Separate account CSV assets totaled \$69.15 billion among banks, representing 50.1% of all BOLI assets. (See Table 3.) At the same time, only 593 or 15.7% of all banks reporting BOLI held separate account assets. (See Table 4.) 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 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 2012 were GALI policies. (See Table 4.) Ninety-three percent (92.9%) or 3,514 of the 3,782 banks reporting BOLI assets had \$55.39 billion in general account life insurance assets, representing 40.2% of total BOLI assets in 2012. (See Tables 3 and 4.) In GALI policies, the general assets of the insurance company issuing the policies support their CSV.
- Nearly eleven hundred (1,077) or 28.5% of the 3,782 institutions reporting BOLI assets held \$13.41 billion in

hybrid account life insurance assets, representing 9.7% of total BOLI assets and making HALI the smallest reporting category of BOLI assets. (See Tables 3 and 4.) 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 3. TOTAL BOLI ASSETS (IN BILLIONS) HELD BY BANKS IN 2012				
ASSET SIZE	GALI	SALI	HALI	TOTAL
Over \$10 billion	\$34.69	\$64.11	\$9.14	\$107.93
\$1 billion - \$10 billion	\$9.52	\$3.99	\$2.14	\$15.65
\$500 million - \$1 billion	\$3.98	\$0.55	\$0.86	\$5.39
\$300 million - \$500 million	\$2.85	\$0.18	\$0.50	\$3.53
\$100 million - \$300 million	\$3.65	\$0.24	\$0.69	\$4.58
Under \$100 million	\$0.72	\$0.08	\$0.08	\$0.87
All	\$55.39	\$69.15	\$13.41	\$137.95

Source: Equias Alliance/Michael BOLI Holdings Report™ – 2013

- Separate account life insurance (SALI) assets were most heavily concentrated (92.7%) among the largest banks with assets greater than \$10 billion. But, while significant amount of BOLI assets are also held by the big banks, GALI and HALI types of BOLI assets are less concentrated among bigger banks. Smaller banks held 37.4% (up 2.7 points from 34.7% in 2011) of general account life insurance assets and 31.0% (up nearly 2 points from 30.0% in 2011) of hybrid account life insurance assets in 2012, compared to their much lower 7.3% of SALI assets. (See Table 3.)
- The fastest growing type of BOLI assets in 2012, in terms of the number of banks holding them, was hybrid assets. From first through fourth quarter, the number of banks using hybrid accounts increased 10.0% from 979 in first quarter to 1,077 banks in fourth quarter. Banks employing separate account or SALI assets decreased by 1.8% from 607 to 593.

By Size of Institution:

- The highest rate of BOLI ownership occurred among banks and thrifts with assets between \$1 billion and \$10 billion, as 427 of 555 banks and thrifts or 76.9% reported having them in 2012. The lowest rate of BOLI ownership occurred among depository institutions with assets under \$100 million, as 758 of 2,205, or 34.4%, declared they had BOLI assets.
- The largest banks and thrifts, those over \$10 billion in assets, accounted for the largest dollar increase (\$3.9 billion) in BOLI. Institutions with assets between \$300 million and \$500 million attained the largest percentage increase (11.8%) in BOLI assets. (See Table 1.)
- Five of six bank asset-size classes experienced increases in 2012 in the number of banks and thrifts reporting BOLI assets. The largest percentage increase was 7.5% among depository institutions with assets between \$300 million and \$500 million. The largest numerical increases of 39 banks and thrifts occurred among two assets classes of depository institutions, those between \$100 million and \$300 million in assets and those with assets between \$300 million and \$500 million. (See Table 2.)

- 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 (1.9%) from 15.31% in 2011 to 15.60% in 2012. Nationally, median BOLI assets as a percent of total capital increased (3.1%) from 15.04% in 2011 to 15.51% in 2012.

TABLE 4. NUMBER OF BANKS REPORTING BOLI ASSETS IN 2012				
ASSET SIZE	GALI	SALI	HALI	TOTAL
Over \$10 billion	67	58	36	73 (of 107)
\$1 billion - \$10 billion	397	164	181	427 (of 555)
\$500 million - \$1 billion	464	93	195	485 (of 684)
\$300 million - \$500 million	532	56	177	556 (of 836)
\$100 million - \$300 million	1,365	145	396	1,483 (of 2,696)
Under \$100 million	689	77	92	758 (of 2,205)
All	3,514	593	1,077	3,782 (of 7,083)

Source: Equias Alliance/Michael BOLI Holdings Report™ – 2013

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).

Michael White Associates 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.

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 (“BOLI”) 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 10 state banking associations for BOLI. Equias (www.equiasalliance.com) is headquartered in Memphis, Tennessee with offices throughout the U.S.

¹ 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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