

N E W S R E L E A S E

**Equias Alliance/Michael White Report  
BOLI Assets Reached \$145 Billion in 1Q 2014**

**FOR IMMEDIATE RELEASE** – Radnor, PA, and Memphis, TN, August 26, 2014 – Bank-owned life insurance (BOLI) assets reached over \$145.1 billion in first quarter 2014, reflecting a 4.3% increase from \$139.1 billion in first quarter 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”)<sup>1</sup>. The data in this report were submitted to regulators by all 6,730 banks operating on March 31, 2014. It is important to note that in the 12 month period between March 31, 2013 and March 31, 2014, the number of banks submitting data to the FDIC shrank from 7,019 to 6,730 - a decline of 289 banks. Among the study’s most significant findings are these:

By Institutional Charters:

- Of all 6,730 banks and savings associations, 3,829 or 56.9% reported holding BOLI assets in first quarter 2014, increasing their BOLI holdings by 4.3% from \$139.14 billion in first quarter 2013 to \$145.11 billion in first quarter 2014. (See Tables 1 and 2.)

<b>Table 1. Total BOLI Assets (in billions) Held by Banks</b>			
<b>Banks by Asset Size</b>	<b>1Q 2014</b>	<b>1Q 2013</b>	<b>Percent Change</b>
Over \$10 billion	\$112.44 billion	\$108.72 billion	3.4%
\$1 billion - \$10 billion	\$17.15 billion	\$15.73 billion	9.0%
\$500 million - \$1 billion	\$5.84 billion	\$5.50 billion	6.2%
\$300 million - \$500 million	\$3.92 billion	\$3.64 billion	7.8%
\$100 million - \$300 million	\$4.84 billion	\$4.66 billion	3.9%
Under \$100 million	\$915.2 million	\$885.0 million	3.4%
<b>Total BOLI assets</b>	<b>\$145.11 billion</b>	<b>\$139.14 billion</b>	<b>4.3%</b>

Source: Equias Alliance / Michael White BOLI Holdings Report™ - 2014 edition

- Of 1,131 national banks, 629 or 55.6% recorded \$91.61 billion in BOLI holdings, up 2.9% from \$89.01 billion in first quarter 2013.
- Of 377 savings banks, 279 or 74.0% recorded \$5.16 billion in BOLI holdings, up 9.5% from \$4.71 billion in first quarter 2013.
- Of 544 savings associations, 274 or 50.4% recorded \$4.23 billion in BOLI holdings, down 2.7% from \$4.35 billion in first quarter 2013.
- Of 861 state-chartered member commercial banks, 570 or 66.2% of them reported holding \$21.75 billion in BOLI assets in first quarter 2014, up 6.7% from \$20.38 billion in first quarter 2013.
- Of the 3,817 state-chartered non-member banks, 2,077 or 54.4% of them reported holding \$22.36 billion in BOLI assets in first quarter 2014, up 8.1% from \$20.69 billion in first quarter 2013.

<b>Table 2. Number of Banks Reporting BOLI Assets</b>			
<b>Asset Size</b>	<b>1Q 2014</b>	<b>1Q 2013</b>	<b>Percent Change</b>
Over \$10 billion	74	75	-1.3%
\$1 billion - \$10 billion	450	428	5.1%
\$500 million - \$1 billion	493	480	2.7%
\$300 million - \$500 million	588	570	3.2%
\$100 million - \$300 million	1,484	1,490	-0.4%
Under \$100 million	740	756	-2.1%
<b>Banks reporting BOLI assets</b>	<b>3,829</b>	<b>3,799</b>	<b>0.8%</b>
<b>Percentage of banks holding BOLI assets</b>	<b>56.9%</b>	<b>54.1%</b>	<b>5.2%</b>

Source: Equias Alliance / Michael White BOLI Holdings Report™ - 2014 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 \$70.70 billion among banks, representing 48.7% of all BOLI assets in first quarter 2014, down from 49.9% in first quarter 2013. (See Table 3.) At the same time, only 590 or 15.4% 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 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 first quarter 2014 was GALI policies. (See Table 4.) Ninety-three percent (93.4%) or 3,578 of the 3,829 banks reporting BOLI assets had \$59.36 billion in general account life insurance assets, representing 40.9% of total BOLI assets in first quarter 2014. (See Tables 3 and 4.) In GALI policies, the general assets of the insurance company issuing the policies support their CSV.

- Over twelve hundred (1,221) or 31.9% of the 3,829 institutions with BOLI assets reported holding hybrid account assets. This was up from 1,114 banks (29.3%) of 3,799 in first quarter 2013 and 979 banks (26.1%) of 3,754 in first quarter 2012. They held \$15.06 billion in hybrid account life insurance assets, representing 10.4% of total BOLI assets and making HALI the smallest reporting category of BOLI assets. (See Tables 3 and 4.) 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.

<b>Table 3. Total BOLI Assets (in billions) Held by Banks in First Quarter 2014</b>				
<b>Banks by Asset Size</b>	<b>GALI</b>	<b>SALI</b>	<b>HALI</b>	<b>TOTAL</b>
Over \$10 billion	\$ 36.69	\$ 65.90	\$ 9.85	\$ 112.44
\$1 billion - \$10 billion	\$ 10.60	\$ 3.79	\$ 2.76	\$ 17.15
\$500 million - \$1 billion	\$ 4.39	\$ 0.52	\$ 0.93	\$ 5.84
\$300 million - \$500 million	\$ 3.07	\$ 0.19	\$ 0.66	\$ 3.92
\$100 million - \$300 million	\$ 3.85	\$ 0.24	\$ 0.76	\$ 4.84
Under \$100 million	\$ 0.76	\$ 0.06	\$ 0.10	\$ 0.92
<b>Total BOLI assets</b>	<b>\$ 59.36</b>	<b>\$ 70.70</b>	<b>\$ 15.06</b>	<b>\$ 145.11</b>
<b>Percentage growth since 2013</b>	<b>6.2%</b>	<b>1.8%</b>	<b>9.3%</b>	<b>4.3%</b>

Source: Equias Alliance / Michael White BOLI Holdings Report™ - 2014 edition

- Separate account life insurance (SALI) assets were most heavily concentrated (93.2%) 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 38.2% (up a half point from 37.7% in first quarter 2013) of general account life insurance assets and 34.6% (up 2.1 points from 32.5% in first quarter 2013 and nearly 5 points from 29.7% in first quarter 2012) of hybrid account life insurance assets in 2014, with just 6.8% of SALI assets. Furthermore, banks under \$1 billion in assets held 20.3% of GALI assets, 16.2% of HALI assets, but only 1.4% of SALI assets. (See Table 3.)
- As mentioned above, the fastest growing type of BOLI assets in first quarter 2014, in terms of the number of banks holding them, was hybrid account assets. Since first quarter 2012, the number of banks using hybrid accounts increased 13.8% from 979 to 1,114 banks in first quarter 2013 and another 9.6% from that to 1,221 banks in first quarter 2014. During the same period, banks owning SALI assets decreased by 2.0% from 604 to 592.

By Size of Institution:

- The highest rate of BOLI ownership occurred among banks and thrifts with assets between \$1 billion and \$10 billion, as 450 of 565 banks and thrifts or 79.7% reported having them in first quarter 2014. The lowest rate of BOLI ownership occurred among depository institutions with assets under \$100 million, as 740 of 2,005, or 36.9%, declared they had BOLI assets.
- The largest banks and thrifts, those over \$10 billion in assets, accounted for the largest dollar increase (\$1.4 billion) in BOLI in first quarter 2014. Institutions with assets between \$1 billion and \$10 billion attained the largest percentage increase (9.0%) in BOLI assets. (See Table 1.)

- Three of six bank asset-size classes experienced increases in first quarter 2014 in the number of banks and thrifts reporting BOLI assets. The largest percentage increase was 5.1% among depository institutions with assets between \$1 billion and \$10 billion. The largest numerical increases of 22 banks and thrifts also occurred among those between \$1 billion and \$10 billion in assets. (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 decreased (-5.7%) from 15.61% in first quarter 2013 to 14.72% in first quarter 2014. Nationally, median BOLI assets as a percent of total capital increased (2.2%) from 15.54% in first quarter 2013 to 15.88% in first quarter 2014.

<b>Table 4. Number of Banks Reporting BOLI Assets in First Quarter 2014</b>				
<b>Banks by Asset Size</b>	<b>GALI</b>	<b>SALI</b>	<b>HALI</b>	<b>TOTAL</b>
Over \$10 billion	69	62	41	74 of 107 (69%)
\$1 billion - \$10 billion	421	162	213	450 of 565 (80%)
\$500 million - \$1 billion	476	93	214	493 of 677 (73%)
\$300 million - \$500 million	558	68	220	588 of 832 (71%)
\$100 million - \$300 million	1,373	148	405	1,484 of 2,544 (58%)
Under \$100 million	678	65	111	740 of 2,005 (37%)
<b>All banks</b>	<b>3,578</b>	<b>590</b>	<b>1,221</b>	<b>3,829 of 6,730 (57%)</b>
<b>Percentage increase since 2013</b>	<b>1.3%</b>	<b>-0.3%</b>	<b>9.6%</b>	<b>0.8%</b>

Source: Equias Alliance / Michael White BOLI Holdings Report™ - 2014 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 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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