

N E W S R E L E A S E

**Equias Alliance/Michael White Report
BOLI Assets Surpass \$150 Billion in 1Q 2015**

FOR IMMEDIATE RELEASE – Radnor, PA, and Memphis, TN, June 24, 2015 – Bank-owned life insurance (BOLI) assets reached \$151.0 billion in first quarter 2015, reflecting a 4.0% increase from \$145.1 billion in first quarter 2014 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 6,419 banks operating on March 31, 2015. It is important to note that in the 12 month period between March 31, 2014 and March 31, 2015, the number of banks submitting data to the FDIC shrank from 6,730 to 6,419 - a decline of 311 banks. Among the study’s most significant findings are these:

By Institutional Charters:

- Of all 6,419 banks and savings associations, 3,782 or 58.9% reported holding BOLI assets in first quarter 2015, increasing their BOLI holdings by 4.0% from \$145.11 billion in first quarter 2014 to \$150.95 billion in first quarter 2015. (See Tables 1 and 4.)

Table 1. Total BOLI Assets (in billions) Held by Banks				
Banks by Asset Size	1Q 2015	1Q 2014	Percent Change In BOLI Assets	Percent Change in Total No. of Banks
Over \$10 billion	\$116.06 billion	\$112.44 billion	3.2%	4.7%
\$1 billion - \$10 billion	\$19.29 billion	\$17.15 billion	12.5%	3.0%
\$500 million - \$1 billion	\$5.81 billion	\$5.84 billion	-0.6%	-1.2%
\$300 million - \$500 million	\$4.09 billion	\$3.92 billion	4.3%	0.7%
\$100 million - \$300 million	\$4.80 billion	\$4.84 billion	-0.8%	-6.1%
Under \$100 million	\$908.0 million	\$915.2 million	-0.8%	-8.7%
Industry Total	\$150.95 billion	\$145.11 billion	4.0%	-4.6%

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. For example, banks with \$1 billion - \$10 billion in assets saw a 12.5% increase in BOLI assets primarily attributable to 24 new banks now being included in this size category due to growth as well as mergers and acquisitions.
- The decline in BOLI assets experienced by banks with under \$300 million in assets is principally due to their merger with or acquisition by larger banks. As the table shows, there has been a significant decline in the number of banks in both the \$100 million - \$300 million and under \$100 million size categories between March 31, 2014 and March 31, 2015. (See Table 1).
- Of 1,050 national banks, 603 or 57.4% recorded \$94.58 billion in BOLI holdings, up 3.2% from \$91.61 billion in first quarter 2014. (See Tables 2 and 3.) This growth occurred despite a 7.2% decrease in the number of national banks between March 31, 2014 and March 31, 2015. Of the national banks' total BOLI holdings, \$227.8 million was attributable to 21 national banks that purchased BOLI for the first time and to 124 national banks whose increases in BOLI holdings constituted \$1.98 billion due to internal growth, additional purchases and/or mergers and acquisitions. Their growth in BOLI assets ranged from 5.00% to 5969.21%.
- Of 362 savings banks, 277 or 76.5% recorded \$5.37 billion in BOLI holdings, up 3.9% from \$5.16 billion in first quarter 2014. This increase of \$210.0 million was primarily attributable to 7 savings banks that purchased \$43.0 million in BOLI for the first time and to 50 savings banks whose increases in BOLI holdings constituted \$327.0 million due to internal growth, additional purchases and/or mergers and acquisitions. Their growth in BOLI assets ranged from 5.05% to 1,113.23%. (See Tables 2 and 3.)
- Of 487 savings associations, 252 or 51.7% recorded \$3.74 billion in BOLI holdings, down 11.6% from \$4.23 billion in first quarter 2014. Although BOLI holdings decreased for savings associations, the decline was close to the 10.5% decrease in the number of banks in this institutional category. Of the charter class' total BOLI holdings, \$85.2 million was attributable to 10 savings associations that purchased BOLI for the first time and to 56 savings associations whose increases in BOLI holdings constituted \$167.5 million due to internal growth, additional purchases and/or mergers and acquisitions. Their growth in BOLI assets ranged from 5.04% to 400.61%. (See Tables 2 and 3.)

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

Banks by Charter	1Q 2015	1Q 2014	Percent Change in BOLI Assets	Percent Change in Total Number of Banks
National Banks	\$94.58 billion	\$91.61 billion	3.2%	-7.2%
Savings Banks	\$5.37 billion	\$5.16 billion	3.9%	-4.0%
Savings Associations	\$3.74 billion	\$4.23 billion	-11.6%	-10.5%
State-Chartered Member Banks	\$22.71 billion	\$21.75 billion	4.4%	-1.4%
State-Chartered Non-Member Banks	\$24.57 billion	\$22.36 billion	9.9%	-3.8%
Industry Total	\$150.95 billion	\$145.11 billion	4.0%	-4.6%

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

- Savings associations saw an 11.6% decrease in BOLI assets between March 31, 2014 and March 31, 2015. This seems to be primarily due to the overall decline in the number of savings associations. Once again, merger and acquisition seem to be the key reason for the change.
- In recent years, a number of institutions have changed charters due to the OTS/OCC merger. Several former OTS banks have changed to state charters. Additionally, there have been a number of mutual conversions to raise capital over the last few years. This also contributes to the decline in the number of thrift associations.

Table 3. Number of Banks by Charter Reporting BOLI Assets				
Banks by Charter	1Q 2015	1Q 2014	Percent Change in Banks Reporting BOLI Assets	Percent Change in Total Number of Banks
National Banks	603	629	-4.1%	-7.2%
Savings Banks	277	279	-0.7%	-4.0%
Savings Associations	252	274	-8.0%	-10.5%
State-Chartered Member Banks	575	570	0.9%	-1.4%
State-Chartered Non-Member Banks	2,075	2,077	-0.1%	-3.8%
Industry Total	3,782	3,829	-1.2%	-4.6%

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

- Of 849 state-chartered member commercial banks, 575 or 67.7% of them reported holding \$22.71 billion in BOLI assets in first quarter 2015, up 4.4% from \$21.75 billion in first quarter 2014. This increase was largely attributable to 19 state-chartered member banks that purchased \$106.8 million of BOLI for the first time and to 108 banks whose increase of \$659.9 million was due to internal growth, additional purchases and/or mergers and acquisitions. Their growth in BOLI assets ranged from 5.00% to 5769.70%. (See Tables 2 and 3.)

Table 4. Number of Banks Reporting BOLI Assets				
Asset Size	1Q 2015	1Q 2014	Percent Change in Banks Reporting BOLI Assets	Percent Change in Total Number of Banks
Over \$10 billion	79	74	6.8%	4.7%
\$1 billion - \$10 billion	474	450	5.3%	3.0%
\$500 million - \$1 billion	483	493	-2.0%	-1.2%
\$300 million - \$500 million	610	588	3.7%	0.7%
\$100 million - \$300 million	1,435	1,484	-3.3%	-6.1%
Under \$100 million	701	740	-5.3%	-8.7%
Industry Total	3,782	3,829	-1.2%	-4.6%
Percentage of banks holding BOLI assets	58.9%	56.9%	N/A	N/A

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

- Of the 3,671 state-chartered non-member banks, 2,075 or 56.5% of them reported holding \$24.57 billion in BOLI assets in first quarter 2015, up 9.9% from \$22.36 billion in first quarter 2014. This large increase was primarily due to 92 state-chartered non-member banks that purchased \$340.3 million in

BOLI assets for the first time and to 405 non-member banks whose increase of \$2.15 billion was due to internal growth, additional purchases and/or mergers and acquisitions. Their growth in BOLI assets ranged from 5.04% to 2003.20%. (See Tables 2 and 3.)

By Type of BOLI Assets:

- The largest portion of BOLI assets was found to be held in separate accounts. Separate account CSV assets totaled \$71.44 billion among banks, representing 47.3% of all BOLI assets in first quarter 2015, down from 48.7% in first quarter 2014. (See Table 5.) At the same time, only 515 or 13.6% 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 first quarter 2015 was GALI policies. (See Table 6.) Nearly ninety-five percent (94.9%) or 3,589 of the 3,782 banks reporting BOLI assets had \$63.40 billion in general account life insurance assets, representing 42.0% of total BOLI assets in first quarter 2015. (See Tables 5 and 6.) In GALI policies, the general assets of the insurance company issuing the policies support their CSV.

Table 5. Total BOLI Assets (in billions) Held by Banks in First Quarter 2015				
Banks by Asset Size	GALI	SALI	HALI	TOTAL
Over \$10 billion	\$ 38.52	\$ 67.07	\$ 10.47	\$ 116.06
\$1 billion - \$10 billion	\$ 12.56	\$ 3.63	\$ 3.09	\$ 19.29
\$500 million - \$1 billion	\$ 4.43	\$ 0.39	\$ 0.98	\$ 5.81
\$300 million - \$500 million	\$ 3.25	\$ 0.14	\$ 0.70	\$ 4.09
\$100 million - \$300 million	\$ 3.87	\$ 0.15	\$ 0.78	\$ 4.80
Under \$100 million	\$ 0.77	\$ 0.05	\$ 0.09	\$ 0.91
Total BOLI assets	\$ 63.40	\$ 71.44	\$ 16.11	\$ 150.95
Percentage growth since 2014	6.8%	1.1%	7.0%	4.0%

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

- Nearly thirteen hundred (1,297) or 34.3% of the 3,782 institutions with BOLI assets reported holding hybrid account assets in first quarter 2015. This was up from 1,273 (33.5%) of 3,803 banks in first quarter 2014, 1,188 banks (30.9%) of 3,840 in first quarter 2013, 1,077 banks (28.5%) of 3,782 in first quarter 2012, and 868 banks (23.3%) of 3,725 in first quarter 2011. They held \$16.11 billion in hybrid account life insurance assets, representing 10.7% 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.

- Separate account life insurance (SALI) assets were most heavily concentrated (93.9%) 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 39.2% (up slightly from 39.1% in first quarter 2014 and 38.2% in first quarter 2013) of general account life insurance assets and 35.0% (up from 34.7% in first quarter 2014, 34.5% in first 2013 and 30.0% in first quarter 2012) of hybrid account life insurance assets in first quarter 2015, with just 6.1% of SALI assets. Furthermore, banks under \$1 billion in assets held 19.43% of GALI assets, 15.82% of HALI assets, but only 1.03% of SALI assets. (See Table 5.)
- As mentioned above, the fastest growing type of BOLI assets in first quarter 2015, 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 37.3% from 713 banks in first quarter 2011 to 979 banks in first quarter 2012, to an increase of 13.8% from 979 to 1,114 banks at the end of first quarter 2013, up 9.6% from that to 1,221 banks in first quarter 2014, and up 6.2% to 1,297 banks in first quarter 2015. Though it has declined, the rate of HALI growth has outstripped that of other types of asset accounts. During the same period (2011-2015), banks owning SALI assets increased by 3.8% from 582 in first quarter 2011 to 604 banks in first quarter 2012, decreased 2.0% in first quarter 2013 to 592 banks, declined 0.3% to 590 banks in first quarter 2014, and dropped 12.7% to 515 banks in first quarter 2015.

By Size of Institution:

- The highest rate of BOLI ownership occurred among banks and thrifts with assets between \$1 billion and \$10 billion, as 474 of 582 banks and thrifts or 81.4% reported having them in first quarter 2015. The lowest rate of BOLI ownership occurred among depository institutions with assets under \$100 million, as 701 of 1,830 or 38.3%, declared they had BOLI assets.
- The largest banks and thrifts, those over \$10 billion in assets, accounted for the largest dollar increase (\$3.6 billion) in BOLI in first quarter 2015. Institutions with assets between \$1 billion and \$10 billion attained the largest percentage increase (12.5%), followed by institutions between \$300 million and \$500 million with the second largest percentage increase (4.3%) in BOLI assets. (See Table 1.)
- Three of six bank asset-size classes experienced increases in first quarter 2015 in the number of banks and thrifts reporting BOLI assets. The largest percentage increase was 6.8% among depository institutions with assets over \$10 billion. The largest numerical increases of 24 banks and thrifts also occurred among those between \$1 billion and \$10 billion in assets. (See Table 4.)

Table 6. Number of Banks Reporting BOLI Assets in First Quarter 2015				
Banks by Asset Size	GALI	SALI	HALI	TOTAL
Over \$10 billion	75	67	47	79 of 112 (71%)
\$1 billion - \$10 billion	452	152	243	474 of 582 (81%)
\$500 million - \$1 billion	469	79	219	483 of 669 (72%)
\$300 million - \$500 million	581	61	235	610 of 838 (73%)
\$100 million - \$300 million	1,352	106	446	1,435 of 2,388 (60%)
Under \$100 million	660	50	107	701 of 1,830 (38%)
All banks	3,589	515	1,297	3,782 of 6,419 (59%)
Percentage change since 2014	0.3%	-12.7%	6.2%	-1.2%

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

- 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 14.72% in first quarter 2014 to 15.98% in first quarter 2015. Nationally, median BOLI assets as a percent of total capital increased (1.6%) from 15.88% in first quarter 2014 to 16.14% in first quarter 2015.

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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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