

N E W S R E L E A S E

**Equias Alliance/Michael White Report
BOLI Assets Surpass \$153 Billion in 1H 2015**

FOR IMMEDIATE RELEASE – Radnor, PA, and Memphis, TN, September 21, 2015 – Bank-owned life insurance (BOLI) assets reached over \$153.1 billion in first half 2015, reflecting a 4.4% increase from \$146.6 billion in first half 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”)¹. The data in this report were submitted to regulators by all 6,348 banks operating on June 30, 2015. It is important to note that in the 12-month period between June 30, 2014 and June 30, 2015, the number of banks submitting data to the FDIC shrank from 6,656 to 6,348 - a decline of 308 banks. Among the study’s most significant findings are these:

By Institutional Charters:

- Of all 6,348 banks and savings associations, 3,780 or 59.6% reported holding BOLI assets in first half 2015, increasing their BOLI holdings by 4.4% from \$146.60 billion in first half 2014 to \$153.11 billion in first half 2015. (See Tables 1 and 4.)

Table 1. Total BOLI Assets (in billions) Held by Banks				
Banks by Asset Size	1H 2015	1H 2014	Percent Change In BOLI Assets	Percent Change in Total No. of Banks
Over \$10 billion	\$117.39 billion	\$113.77 billion	3.2%	1.8%
\$1 billion - \$10 billion	\$20.11 billion	\$17.23 billion	16.7%	4.6%
\$500 million - \$1 billion	\$5.87 billion	\$5.85 billion	0.4%	-1.2%
\$300 million - \$500 million	\$3.97 billion	\$3.97 billion	0.1%	-1.8%
\$100 million - \$300 million	\$4.85 billion	\$4.87 billion	-0.4%	-5.5%
Under \$100 million	\$926.3 million	\$915.8 million	1.1%	-8.9%
Industry Total	\$153.11 billion	\$146.60 billion	4.4%	-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 16.7% increase in BOLI assets primarily attributable to 31 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 \$500 million in assets is principally due to their merger with or acquisition by larger banks. As the table shows, there has been an especially significant decline among banks with assets between \$100 million - \$300 million (5.5%) and under \$100 million (8.9%) between June 30, 2014 and June 30, 2015. (See Table 1).
- Of 1,027 national banks, 599 or 58.3% recorded \$94.92 billion in BOLI holdings, up 3.0% from \$92.16 billion in first half 2014. (See Tables 2 and 3.) This growth occurred despite a 7.4% decrease in the number of national banks between June 30, 2014 and June 30, 2015. Of the national banks' total BOLI holdings, \$228.8 million was attributable to a net 23 national banks that purchased BOLI for the first time and to 107 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 5.00% to 4021.68%.
- Of 357 savings banks, 272 or 76.2% recorded \$5.39 billion in BOLI holdings, up 1.4% from \$5.32 billion in first half 2014. (See Tables 2 and 3.)
- Of 480 savings associations, 252 or 52.5% recorded \$3.98 billion in BOLI holdings, down 5.2% from \$4.20 billion in first half 2014. Although BOLI holdings decreased for savings associations, the decline was considerably less than the 8.2% decrease in the number of banks in this institutional category. (See Tables 2 and 3.)

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

Banks by Charter	1H 2015	1H 2014	Percent Change in BOLI Assets	Percent Change in Total No. of Banks by Charter
National Banks	\$94.92 billion	\$92.16 billion	3.0%	-7.4%
Savings Banks	\$5.39 billion	\$5.32 billion	1.4%	-5.1%
Savings Associations	\$3.98 billion	\$4.20 billion	-5.2%	-8.2%
State-Chartered Member Banks	\$23.91 billion	\$21.89 billion	9.2%	-0.6%
State-Chartered Non-Member Banks	\$24.92 billion	\$23.03 billion	8.2%	-4.2%
Industry Total	\$153.11 billion	\$146.60 billion	4.4%	-4.6%

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

- Of 855 state-chartered member commercial banks, 591 or 69.1% of them reported holding \$23.91 billion in BOLI assets in first half 2015, up 9.2% from \$21.89 billion in first half 2014. This large 9.2% increase of \$2.0 billion was largely attributable to 22 state-chartered member banks that purchased BOLI for the first time and to 112 banks whose increase of \$1.32 billion was due to internal growth, additional

purchases and/or mergers and acquisitions. Their growth in BOLI assets ranged from 5% to 712.53%. (See Tables 2 and 3.)

- Of the 3,629 state-chartered non-member banks, 2,066 or 56.9% of them reported holding \$24.92 billion in BOLI assets in first half 2015, up 8.2% from \$23.03 billion in first half 2014. This substantial 8.2% increase of \$1.89 billion was primarily due to 88 state-chartered non-member banks that purchased BOLI for the first time and to 400 banks whose increase of \$1.76 billion was due to internal growth, additional purchases and/or mergers and acquisitions. Their growth in BOLI assets ranged from 5% to 1983.07%. (See Tables 2 and 3.)

Table 3. Number and Percentage of Banks Reporting BOLI Assets by Charter

Banks by Charter	Number of Banks		Percent of Banks	
	1H 2015	1H 2014	1H 2015	1H 2014
National Banks	599	624	58.3%	56.3%
Savings Banks	272	282	76.2%	75.0%
Savings Associations	252	266	52.5%	50.9%
State-Chartered Member Banks	591	573	69.1%	66.6%
State-Chartered Non-Member Banks	2,066	2,079	56.9%	54.9%
Industry Total	3,780	3,824	59.6%	57.5%

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

Table 4. Number and Percent of Banks Reporting BOLI Assets by Bank Asset Size

Banks by Asset Size	Number of Banks		Percent of Banks	
	1H 2015	1H 2014	1H 2015	1H 2014
Over \$10 billion	80	76	72.1%	69.7%
\$1 billion - \$10 billion	484	453	81.9%	80.2%
\$500 million - \$1 billion	489	491	73.2%	72.6%
\$300 million - \$500 million	592	590	72.9%	71.3%
\$100 million - \$300 million	1,436	1,477	60.7%	59.0%
Under \$100 million	699	737	38.9%	37.3%
Industry Total	3,780	3,824	59.6%	57.5%

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 \$71.93 billion among banks, representing 47.0% of all BOLI assets in first half 2015, down from 48.4% in first half 2014. (See Table 5.) At the same time, only 518 or 13.7% of all banks reporting BOLI held separate account assets, down from 14.9% a year ago. (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 half 2015 was GALI policies. (See Table 6.) Ninety-five percent (94.9%) or 3,588 of the 3,780 banks reporting BOLI assets had \$64.81 billion in general account life insurance assets, representing 42.3% of total BOLI assets in first half 2015. (See Tables 5 and 6.) In GALI policies, the general assets of the insurance company issuing the policies support their CSV.
- Over thirteen hundred (1,304) or 34.5% of the 3,780 institutions with BOLI assets reported holding hybrid account assets. This was up from 1,235 (32.3%) of 3,824 banks in first half 2014, 1,133 banks (29.8%) of 3,801 in first half 2013, 1,007 banks (27.6%) of 3,759 in first half 2012, and 766 banks (20.5%) of 3,734 in first half 2011. They held \$16.37 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.

Table 5. Total BOLI Assets (in billions) Held by Banks in First Half 2015				
Banks by Asset Size	GALI	SALI	HALI	TOTAL
Over \$10 billion	\$ 39.27	\$ 67.49	\$ 10.64	\$ 117.39
\$1 billion - \$10 billion	\$ 13.20	\$ 3.73	\$ 3.17	\$ 20.11
\$500 million - \$1 billion	\$ 4.45	\$ 0.39	\$ 1.02	\$ 5.87
\$300 million - \$500 million	\$ 3.19	\$ 0.12	\$ 0.66	\$ 3.97
\$100 million - \$300 million	\$ 3.92	\$ 0.15	\$ 0.78	\$ 4.85
Under \$100 million	\$ 0.79	\$ 0.04	\$ 0.10	\$ 0.93
Total BOLI assets	\$ 64.81	\$ 71.93	\$ 16.37	\$ 153.11
Percentage growth since 2014	7.3%	1.3%	7.5%	4.4%

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

- Separate account life insurance (SALI) assets were most heavily concentrated (93.8%) 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 39.4% (up slightly from 38.2% in first half 2014) of general account life insurance assets and 35.0% (up from 34.6% in first half 2014 and 4.8 points from 30.2% in first half 2012) of hybrid account life insurance assets in 2015, with just 6.2% of SALI assets. Furthermore, banks under \$1 billion in assets held 19.0% of GALI assets, 15.6% of HALI assets, but only 1.0% of SALI assets. (See Table 5.)
- As mentioned above, the fastest growing type of BOLI assets in first half 2015, in terms of the number of banks holding them, was hybrid account assets. Since first half 2011, the number of banks using hybrid

accounts increased 31.5% from 766 banks to 1,007 banks in 2012, another 12.5% to 1,133 banks in first half 2013, another 9.0% to 1,235 banks in first half 2014, and 5.6% to 1,304 banks in first half 2015. 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 9.6% from 554 to 607 banks in first half 2012, then declined 3.0% in first half 2013 to 589 banks, dropped another 3.4% to 569 banks in first half 2014, and decreased 9.0% to 518 banks in first half 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 484 of 591 banks and thrifts or 81.9% reported having them in first half 2015. The lowest rate of BOLI ownership occurred among depository institutions with assets under \$100 million, as 699 of 1,799, or 38.9%, 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 half 2015. Institutions with assets between \$1 billion and \$10 billion attained the largest percentage increase (16.7%), followed by institutions with assets over \$10 billion with the second largest percentage increase (3.2%) in BOLI assets. (See Table 1.)
- Three of six bank asset-size classes experienced increases in first half 2015 in the number of banks and thrifts reporting BOLI assets. The largest percentage increase was 6.8% among depository institutions with assets between \$1 billion and \$10 billion. The largest numerical increases of 31 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 Half 2015				
Banks by Asset Size	GALI	SALI	HALI	TOTAL
Over \$10 billion	77	66	49	80 of 111 (72%)
\$1 billion - \$10 billion	461	155	249	484 of 591 (82%)
\$500 million - \$1 billion	475	82	224	489 of 668 (73%)
\$300 million - \$500 million	565	56	228	592 of 812 (73%)
\$100 million - \$300 million	1,354	108	442	1,436 of 2,367 (61%)
Under \$100 million	656	51	112	699 of 1,799 (39%)
All banks	3,588	518	1,304	3,780 of 6,348 (60%)
Percentage increase since 2014	-0.1%	-9.0%	5.6%	-1.2%

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

New Buyers of BOLI and Growth of BOLI Assets:

- Of 3,780 banks reporting BOLI assets in first half 2015, 3,664 banks owned BOLI assets in first half 2014. The difference of 116 banks represents most of the banks that were new buyers of BOLI in the last 12 months. But, of the 3,664 banks that owned BOLI a year ago, 31 of them had run their BOLI assets to zero by June 30, 2015. That means, in the last year, there were net 147 banks (116 + 31) that were new buyers of BOLI policies since first half 2014.
- Two hundred seventeen (217) of the 3,664 banks that owned BOLI a year ago experienced a decline in their BOLI assets; 22 banks had no change in the value of their BOLI assets. Of the remaining 3,425 banks that experienced growth in their BOLI assets from a year ago, 743 of them witnessed growth of 5% or more in those assets.

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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 its 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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