



The _____ monitors developments in the capital markets globally and analyzes their potential impact on the investment portfo

	Life	P/C	Health	Fraternal	Title	Total
Banks	136,769	53,603	8,826	3,854	381	199,433
Diversified Financial Services	38,071	10,390	1,654	1,830	102	52,047
Insurance	61,269	10,360	1,755	2,556	132	76,073
Total	327,463	232,019	74,353	12,235	8,240	616

% of Total Insurance Industry Corporate Bond Exposure

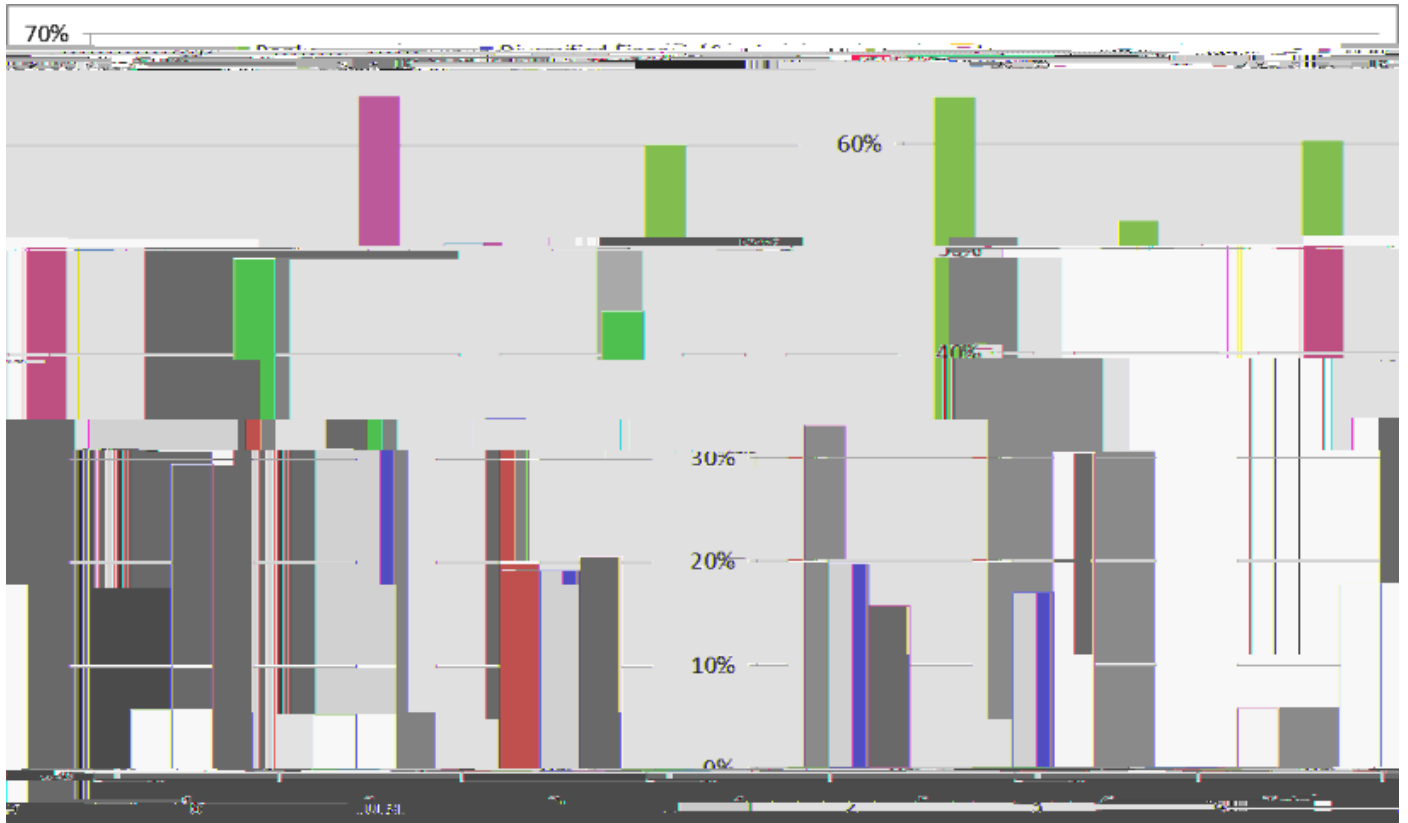
	Life	P/C	Health	Fraternal	Title	Total
Banks	132,679	53,603	8,826	3,854	381	199,343
Diversified Financial Services	38,071	10,390	1,654	1,830	102	52,047
Insurance	61,269	10,360	1,755	2,556	132	76,073
Total	327,463	232,019	74,353	12,235	8,240	616

% of Total Insurance Industry Corporate Bond Exposure

Also as shown in Table 1, as of year-end 2016, bonds issued by banks remain the largest component of financial sector exposure at 60% of the industry's total financial sector bonds, or \$198.8 billion. In comparison, bonds issued by banks were 60.9% and 61.5% of U.S. insurers' total exposure to financial sector bonds, in 2015 and 2014, respectively—relatively unchanged. As of year-end 2016, exposure to the insurance sector was the second largest component of U.S. insurers' financial institutions' bond exposure at \$68.3 billion, representing a decrease of 10.2%, from \$76.1 billion at year-end 2015. U.S. insurer exposure to diversified financial services increased 23% YOY to \$64.1 billion at year-end 2016 from \$52 billion in 2015.

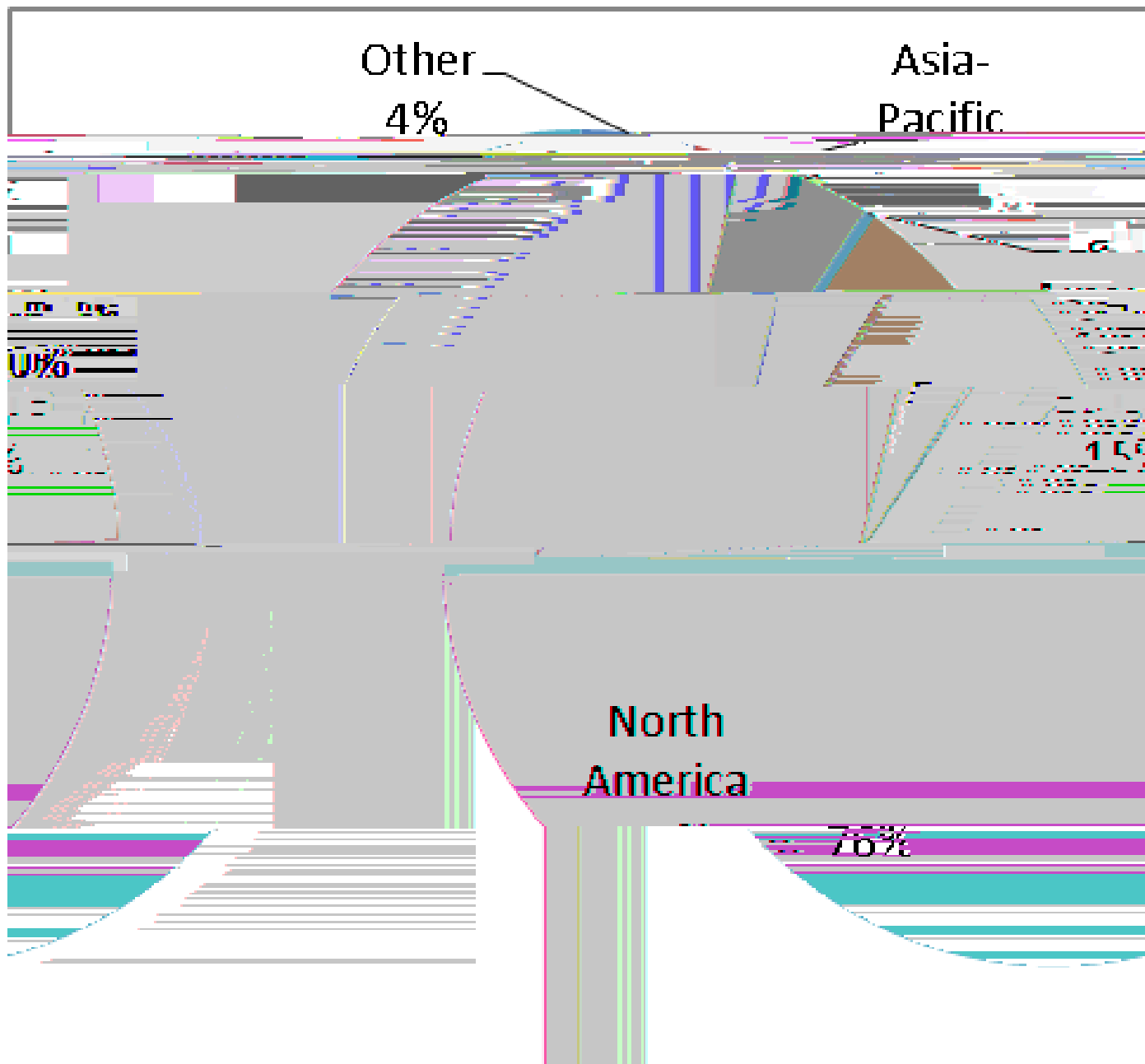
Credit Quality Distribution

As of year-end 2016, about 96.7% of financial sector bond exposure was B on



Geographic Distribution

U.S. insurers' exposure to financial sector bonds remains highly concentrated in North America at 75.7% of the total, or \$250.8 billion, at year-end 2016 (see Chart 2), which was a slight decrease from 76.4% in 2015. The majority of the exposure (about 95%) was in the U.S. (\$238.1 billion), followed by 4.8% in Canada (\$12.1 billion). Exposure to Eus s) (\$bi rom b)



Five European countries, including the United Kingdom (UK) (\$16.9 billion), Netherlands, Switzerland, France and Sweden, accounted for 98% of the industry's total European financial sector bond exposure. (See Table 3.)

Industry Name	1 yr or Less	2 yrs to 5 yrs	6 yrs to 10 yrs	11 yrs to 20 yrs	Greater than 20 yrs	Total
Life						
Banks	24,686	40,376	42,718	9,149	13,777	130,706
Diversified Financial Services	11,739	15,372	7,118	7,219	3,656	45,053
Insurance	5,465	13,100	9,874	17,552	10,732	56,723
Securities	13,329	18,229	11,329			42,887
Other	21,664	11,841	717	2,351	14,968	51,541
					Banks	18,394

The distr

As of year-end 2016, unaffiliated financial sector preferred and common stock totaled \$74.6 billion (see Table 5 and Table 6, respectively), a decrease from \$89.6 billion in 2015, and it was about 24% of total unaffiliated preferred and common stock.

Preferred

Industry Name	Life	P/C	Title	Fraternal	Health	Total	Pct of Total
Banks	2,409	2,249	236	209	131	5,234	78%
Life	289	285	17	1	10	602	8%
Health	1	1	1	1	1	5	0%
Fraternal	1	1	1	1	1	5	0%
Title	1	1	1	1	1	5	0%
Total	2,902	2,747	276	223	144	3,752	50%
Pct of Total	65%	64%	62%	60%	62%	61%	78%

Common

Industry Name	P/C	Life	Health	Fraternal	Title	Total	Pct of Total
Banks	45,738	1,736	557	233	9	48,273	71%
Life	1	1	1	1	1	5	0%
Health	1	1	1	1	1	5	0%
Fraternal	1	1	1	1	1	5	0%
Title	1	1	1	1	1	5	0%
Total	45,738	1,736	557	233	9	48,273	71%
Pct of Total	71%	71%	71%	71%	71%	71%	71%

P/C companies accounted for the

	Bonds	Preferred	Common	Total
Wells Fargo	11,743	30	30,180	41,954
American Express Co.	4,159	51	11,267	15,477
Bank of America	10,329	217	3,141	13,687
Goldman Sachs	5,065	617	6,008	11,685
U.S. Bancorp	2,310	230	1,067	3,607
Bank of Montreal	1,174	76	1,205	2,455
GE Capital	761	40	8,501	9,302
HSBC	736	61	47	7,846
FICO	430	347	330	7,127
Bank of New York Mellon	253	184	877	6,315
Capital One	1,534	1,780	1,014	4,328
Other	117,770	2,698	55,402	175,861
Pct of Total:	36%	40%	82%	45%
Other Pct of Total:	64%	60%	18%	55%

The largest-15 single-name exposures accounted for 45% of the industry's total financial sector bonds, unaffiliated preferred and common stocks, for a total of \$175.9 billion. The unaffiliated common stock exposure was highly concentrated in the largest 15 names at 82%.

U.S. insurers—predominantly life and P/C companies—reported exposure to financial sector counterparties in derivative transactions with a BACV of about \$31 billion as of year-end 2016. (See Table 8.) The total consists of exposure net of collateral and potential exposure. Exposure net of collateral is the BACV of exposure after subtracting the value of posted collateral. The NAIC *Annual Statement Instructions* defines potential exposure as "... a statistically derived measure of the potential increase in derivative instrument risk exposure" In addition, according to the NAIC *Annual Statement Instructions* "Counterparty exposure to any one counterparty is the exposure to credit risk associated with the use of derivative instruments with that counterparty."

Insurer	Exposure Net	Potential	Total	Pct of Total
Life	4,307	25,355	29,662	95%
P/C	148	1,281	1,429	5%
Others	122	8	130	0%
4,577	26,644	31,221	100%	Total

As shown in Table 9, the 10 largest counterparty exposures reported by U.S. insurers at year-end 2016 accounted for \$27.2 billion, or 87% of total counterparty exposure. The main risk in any multiparty transaction is that the counterparty may not be able to perform its obligation (a breach of obligation) as required under the transaction. A breach of obligation by the counterparty is a default after any stipulated time frame to perform as obligated (cure period). The non-defaulting party may experience a partial or complete loss of value from the default. As it relates to U.S. insurers, losses due to a counterparty default may reduce the insurer's available capital, thereby increasing liquidity risk.

	Exposure Net	Potential	Total
Goldman Sachs	460	3,241	3,701
Citigroup	142	3,428	3,570
Pru Global Fund	933	2,409	3,341
Bank of America	64	3,059	3,123
Deutsche Bank AG	310	2,615	2,925
Morgan Stanley	165	2,712	2,877
Wells Fargo	252	2,347	2,599
JP Morgan Chase	252	2,347	2,599
Others Total	1,190	2,805	3,995
13%	Others Pct of Total	26%	11%

Banks

Standard & Poor's (S&P) Global Ratings report, titled "Global Financial Services Outlook 2018: Uncomfortably Numb," published on Dec. 12, 2017 states that the Financial Services Outlook is at least

April 6, 2018				Change			Prior		
0.22	Dow Jones Ind.	23,932.76	(0.7)	(0.7)	(3.2)	24,103.11	24,103.11	24,71	
	SP 500	2,078.12	(0.1)	(0.1)	(0.2)	2,078.12	2,078.12	2,078	
	NASDAQ	5,456.12	(0.1)	(0.1)	(0.2)	5,456.12	5,456.12	5,456	
	Russell 2000	1,345.67	(0.1)	(0.1)	(0.2)	1,345.67	1,345.67	1,345	
	Dollar	US Dollar \$							
	Oil	48.12	(0.1)	(0.1)	(0.2)	48.12	48.12	48.12	
	Gold	1,234.56	(0.1)	(0.1)	(0.2)	1,234.56	1,234.56	1,234	
	Change bps								
(0.04)	0.31	2.10	2.10	1.73	1. Year	2.03	(0.04)		
0.05	1.95	2.74	2.74	2.41	10 Year	2.78	0.03		
	Treasury Yield								

April 6, 2018										
Major Issuer Bond Yields										
Yield	Size	Change	Change	Coupons	Coupon	Maturity	Current	Change	Yield	Yield
3.47%	77	(1)	13	Life	Ameriprise	AMP	3.700%	10/15/2024	\$101.31	(\$0.09)
3.63%	89	1	6		Lincoln National	LNC	3.350%	3/9/2025	\$98.28	(\$0.14)
3.37%	68	3	13		MassMutual	MASSMU	3.600%	4/9/2024	\$101.23	(\$0.30)
3.45%	69	(4)	11		New York Life	NYL	3.450%	3/1/2024	\$92.13	(\$0.06)
4.57%	160	5	4		Pacific Life	PACLIF	4.570%	1/30/2043	\$108.18	(\$1.24)
4.29%	136	1	13		Principal	PFG	4.290%	10/15/2036	\$122.30	(\$0.67)
4.22%	124	(7)	17		Prudential	PPL	4.220%	5/15/2044	\$106.93	(\$0.40)
4.300%	99	(5)	9		Berkshire Hathaway	BRK	4.300%	5/15/2043	\$105.39	\$0.17
6.250%	145	3	4		XL Group	XL	6.250%	5/15/2027	\$115.04	(\$0.43)
4.250%	152	1	13	Other	AON	AON	4.250%	12/12/2042	\$96.08	(\$0.72)
6.820%	177	(7)	18		AIG	AIG	6.820%	11/15/2037	\$126.45	\$0.45
4.300%	130	(6)	15		Hartford	HIG	4.300%	4/15/2043	\$100.30	(\$0.01)
5.300%	165	3	21		Nationwide	NATMUT	5.300%	11/18/2044	\$109.79	(\$1.32)
6.750%	151	(5)	1	Health	Aetna	AET	6.750%	12/15/2037	\$129.99	(\$0.03)

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