

Sample Pro Forma Balance Sheet & Income Statement

In this example an investment of \$10,000,000 in BOLI is used as an illustration

Call Report Item Description	Current	Modified	Change
Cash and Balances	\$24,754,000	\$14,754,000	\$(10,000,000)
Net loans & leases	\$455,001,000	\$455,001,000	-
Available for sale securities	\$78,517,000	\$78,517,000	-
All other assets	\$20,840,000	\$30,840,000	\$10,000,000
Average assets, year-to-date	\$565,826,000	\$565,826,000	-
Tier 1 (core) capital	\$80,088,000	\$80,088,000	-
Pre-tax net operating income	\$6,576,000	\$6,551,000	\$(25,000)
(Less applicable income taxes)	\$(2,475,000)	\$(2,465,000)	\$10,000
Plus additional non-taxable income from BOLI	-	\$325,000	\$325,000
Net Income	\$4,101,000	\$4,411,000	\$310,000
Average equity	\$84,191,000	\$84,191,000	-
Return of assets (ROA)	.72%	.78%	.05%
Return on equity (ROE)	4.87%	5.24%	.37%

Assumptions

- 40% Marginal Tax Rate
- 0.25% Opportunity Cost
- 3.25% Return on BOLI

In this example we have a 565mm asset community bank which is making a BOLI purchase to offset employee benefit costs. The funding source is cash currently earning 0.25%, fully taxable.

The pro forma demonstrates cash and balances due from depository institutions reduced by 10mm and other assets increasing by 10mm. The income reduces by the 0.25% earnings on the cash: \$25,000; but therefore the tax reduces by \$10,000 applying the marginal tax rate of 40%.

The BOLI income of \$325,000 is bookable, non taxable, non interest income. The net result is an additional \$310,000 going directly to the bottom line.

Capital is not impacted in any way. The only change is that the 10mm moves from status as a current asset to a long term asset. We also are providing a split dollar life insurance benefit to the 4 covered officers equal to 2 times income on a pre-retirement basis. The bank will also pay the reportable income arising from the economic benefit of the life insurance.