

Accounting & Reporting the Cash Surrender Value of Bank-Owned Life Insurance

Accounting Guidance

The Accounting Standards Codification (ASC) 325-30 provides the guidance to properly account for investments in insurance contracts. The code states that the entity should record the amount that it could realize under the insurance policy (i.e., the cash surrender value (CSV)) as of the date of the financial statements as an "other asset". The change in cash surrender value during the period is recognized as income (other noninterest income) for the period.

We recommend that the bank establish subsidiary accounts for each policy. The monthly asset report provided by Bank Compensation Consulting gives a policy-by-policy summary of each individual life insurance policy that will facilitate the monthly general ledger entries for these subsidiary accounts. These subsidiary accounts will allow the bank to record net policy earnings on a policy specific basis.

Call Report Guidance

Schedule RI – Income Statement

The change in cash surrender value is reported on Schedule RI (form example follows) in item 5 (Noninterest income), line I - Other noninterest income. Additionally, these other noninterest income will be detailed on Schedule RI-E – Explanations (form example follows) on item 1.b Earnings on/increase in value of cash surrender value of life insurance.

Schedule RC – Balance Sheet

The CSV of the bank-owned life insurance policies are reported on the bank's Consolidated Report of Financial Income and Condition ("Call Reports") on Schedule RC, line 11 (form example follows). The CSV is further detailed on Schedule RC-F – Other Assets (form example follows). Specifically, it is reported in item 5.

BCC neither practices accountancy, nor does BCC engage in the practice of law. Information contained in this report should not be considered legal, tax, accounting or investment advice. Any appropriate review by the bank's legal, tax, accounting and/or investment professionals should precede any action taken on reliance of the information contained herein.



Item 5 is separated into 3 types of life insurance as follows:

5.a is for general account life insurance assets

5.b is for separate account life insurance assets

5.c is for hybrid account life insurance assets

The monthly asset report will differentiate between the 3 types by including in the insurance carrier's name whether the policies are "Separate Account" or "Hybrid". For example, if the bank holds hybrid policies with New York Life, then the carrier's name would state "New York Life Insurance Co. – Hybrid Account". If there is no designation of hybrid or separate account stated with the carrier's name, then the policies are General Account Life Insurance. Beginning in June 2015, the monthly asset report will designate the General Account policies as well by stating "General Account" next to the carrier name.

Schedule RC-R, Part II Risk Weighted Assets

The CSV of all BOLI will be added to Schedule RC-R Part II, item 8 – All other assets (form example follows). **All general account policies will have a risk weight of 100%.** Therefore, these amounts will be reported with all other assets in Column i.

Separate account insurance products, including hybrid separate account life insurance products, are reported in 8.a in columns R and S (form example follows). The CSV is reported in column R and the risk-weighted asset amount is reported in column S.

Separate account life insurance may be eligible for a risk weighting less than 100 percent, but in no case less than 20 percent. It is considered an equity exposure to an investment fund that should be measured under one of three methods. They are the full look-through approach, the simple modified look-through approach, and the alternative modified look-through approach.

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From the FFIEC Instructions for Preparation of Consolidated Reports of Condition and Income page RC-R-41 the different approaches are described as follows:

(2) Full look-through approach: Used only for equity exposures to a mutual fund or other investment fund. Requires a minimum risk weight of 20 percent. Under this approach, banks calculate the aggregate risk-weighted asset amounts of the carrying value of the exposures held by the fund as if they were held directly by the bank multiplied by the bank's proportional ownership share of the fund.

(3) Simple modified look-through approach: Used only for equity exposures to a mutual fund or other investment fund. Requires a minimum risk weight of 20 percent. Under this approach, risk-weighted assets for an equity exposure is equal to the exposure's adjusted carrying value multiplied by the highest risk weight that applies to any exposure the fund is permitted to hold under the prospectus, partnership agreement, or similar agreement that defines the funds permissible investments.

(4) Alternative modified look-through approach: Used only for equity exposures to a mutual fund or other investment fund. Requires a minimum risk weight of 20 percent. Under this approach, banks may assign the adjusted carrying value on a pro rata basis to different risk-weight categories based on the limits in the fund's prospectus, partnership agreement, or similar contract that defines the fund's permissible investments.

In addition, any general account and stable value protection (SVP) portions of the carrying value of a separate account insurance product should be risk weighted at the risk weights applicable to claims on the insurer (100 percent) and the SVP provider (100 percent or, if appropriate, 20 percent), respectively.

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Schedule RI—Continued

	Dollar Amounts in Thousands				Year-to-date				
					RIAD	Bil	Mil	Thou	
2. Interest expense (continued):									
d. Interest on subordinated notes and debentures					4200				2.d.
e. Total interest expense (sum of items 2.a through 2.d)					4073				2.e.
3. Net interest income (item 1.h minus 2.e)	4074								3.
4. Provision for loan and lease losses	4230								4.
5. Noninterest income:									
a. Income from fiduciary activities ¹					4070				5.a.
b. Service charges on deposit accounts					4080				5.b.
c. Trading revenue ²					A220				5.c.
d. (1) Fees and commissions from securities brokerage					C886				5.d.(1)
(2) Investment banking, advisory, and underwriting fees and commissions					C888				5.d.(2)
(3) Fees and commissions from annuity sales					C887				5.d.(3)
(4) Underwriting income from insurance and reinsurance activities					C386				5.d.(4)
(5) Income from other insurance activities					C387				5.d.(5)
e. Venture capital revenue					B491				5.e.
f. Net servicing fees					B492				5.f.
g. Net securitization income					B493				5.g.
h. Not applicable									
i. Net gains (losses) on sales of loans and leases					5416				5.i.
j. Net gains (losses) on sales of other real estate owned					5415				5.j.
k. Net gains (losses) on sales of other assets (excluding securities)					B496				5.k.
l. Other noninterest income*					B497				5.l.
m. Total noninterest income (sum of items 5.a through 5.l)	4079								5.m.
6. a. Realized gains (losses) on held-to-maturity securities	3521								6.a.
b. Realized gains (losses) on available-for-sale securities	3196								6.b.
7. Noninterest expense:									
a. Salaries and employee benefits					4135				7.a.
b. Expenses of premises and fixed assets (net of rental income (excluding salaries and employee benefits and mortgage interest)					4217				7.b.
c. (1) Goodwill impairment losses					C216				7.c.(1)
(2) Amortization expense and impairment losses for other intangible assets					C232				7.c.(2)
d. Other noninterest expense*					4092				7.d.
e. Total noninterest expense (sum of items 7.a through 7.d)	4093								7.e.
8. Income (loss) before income taxes and extraordinary items and other adjustments (item 3 plus or minus items 4, 5.m, 6.a, 6.b, and 7.e)	4301								8.
9. Applicable income taxes (on item 8)	4302								9.
10. Income (loss) before extraordinary items and other adjustments (item 8 minus item 9)	4300								10.
11. Extraordinary items and other adjustments, net of income taxes*	4320								11.
12. Net income (loss) attributable to bank and noncontrolling (minority) interests (sum of items 10 and 11)	G104								12.
13. LESS: Net income (loss) attributable to noncontrolling (minority) interests (if net income, report as a positive value; if net loss, report as a negative value)	G103								13.
14. Net income (loss) attributable to bank (item 12 minus item 13)	4340								14.

*Describe on Schedule RI-E—Explanations.

- For banks required to complete Schedule RC-T, items 14 through 22, income from fiduciary activities reported in Schedule RI, item 5.a, must equal the amount reported in Schedule RC-T, item 22.
- For banks required to complete Schedule RI, Memorandum item 8, trading revenue reported in Schedule RI, item 5.c, must equal the sum of Memorandum items 8.a through 8.e.

Schedule RI-E—Explanations

Schedule RI-E is to be completed each quarter on a calendar year-to-date basis.

Detail all adjustments in Schedule RI-A and RI-B, all extraordinary items and other adjustments in Schedule RI, and all significant items of other noninterest income and other noninterest expense in Schedule RI. (See instructions for details.)

		Dollar Amounts in Thousands				Year-to-date			
		RIAD	Bil	Mil	Thou				
1. Other noninterest income (from Schedule RI, item 5.I)									
Itemize and describe amounts greater than \$25,000 that exceed 3 percent of Schedule RI, item 5.I:									
a.	Income and fees from the printing and sale of checks.....	C013							1.a.
b.	Earnings on/increase in value of cash surrender value of life insurance.....	C014							1.b.
c.	Income and fees from automated teller machines (ATMs).....	C016							1.c.
d.	Rent and other income from other real estate owned.....	4042							1.d.
e.	Safe deposit box rent.....	C015							1.e.
f.	Net change in the fair values of financial instruments accounted for under a fair value option.....	F229							1.f.
g.	Bank card and credit card interchange fees.....	F555							1.g.
h.	Gains on bargain purchases.....	J447							1.h.
i.	<input type="text" value="TEXT 4461"/>	4461							1.i.
j.	<input type="text" value="TEXT 4462"/>	4462							1.j.
k.	<input type="text" value="TEXT 4463"/>	4463							1.k.
2. Other noninterest expense (from Schedule RI, item 7.d)									
Itemize and describe amounts greater than \$25,000 that exceed 3 percent of Schedule RI, item 7.d:									
a.	Data processing expenses.....	C017							2.a.
b.	Advertising and marketing expenses.....	0497							2.b.
c.	Directors' fees.....	4136							2.c.
d.	Printing, stationery, and supplies.....	C018							2.d.
e.	Postage.....	8403							2.e.
f.	Legal fees and expenses.....	4141							2.f.
g.	FDIC deposit insurance assessments.....	4146							2.g.
h.	Accounting and auditing expenses.....	F556							2.h.
i.	Consulting and advisory expenses.....	F557							2.i.
j.	Automated teller machine (ATM) and interchange expenses.....	F558							2.j.
k.	Telecommunications expenses.....	F559							2.k.
l.	<input type="text" value="TEXT 4464"/>	4464							2.l.
m.	<input type="text" value="TEXT 4467"/>	4467							2.m.
n.	<input type="text" value="TEXT 4468"/>	4468							2.n.
3. Extraordinary items and other adjustments and applicable income tax effect									
(from Schedule RI, item 11) (itemize and describe all extraordinary items and other adjustments):									
a.	(1) <input type="text" value="TEXT 4469"/>	4469							3.a.(1)
	(2) Applicable income tax effect.....	4486							3.a.(2)
b.	(1) <input type="text" value="TEXT 4487"/>	4487							3.b.(1)
	(2) Applicable income tax effect.....	4488							3.b.(2)
c.	(1) <input type="text" value="TEXT 4489"/>	4489							3.c.(1)
	(2) Applicable income tax effect.....	4491							3.c.(2)

Consolidated Report of Condition for Insured Banks and Savings Associations for March 31, 2015

All schedules are to be reported in thousands of dollars. Unless otherwise indicated, report the amount outstanding as of the last business day of the quarter.

Schedule RC—Balance Sheet

Dollar Amounts in Thousands						RCON	Tril	Bil	Mil	Thou	
Assets											
1. Cash and balances due from depository institutions (from Schedule RC-A):											
a. Noninterest-bearing balances and currency and coin ¹						0081					1.a.
b. Interest-bearing balances ²						0071					1.b.
2. Securities:											
a. Held-to-maturity securities (from Schedule RC-B, column A).....						1754					2.a.
b. Available-for-sale securities (from Schedule RC-B, column D).....						1773					2.b.
3. Federal funds sold and securities purchased under agreements to resell:											
a. Federal funds sold.....						B987					3.a.
b. Securities purchased under agreements to resell ³						B989					3.b.
4. Loans and lease financing receivables (from Schedule RC-C):											
a. Loans and leases held for sale.....						5369					4.a.
b. Loans and leases, net of unearned income.....						B528					4.b.
c. LESS: Allowance for loan and lease losses.....						3123					4.c.
d. Loans and leases, net of unearned income and allowance (item 4.b minus 4.c).....						B529					4.d.
5. Trading assets (from Schedule RC-D).....											
6. Premises and fixed assets (including capitalized leases).....						2145					6.
7. Other real estate owned (from Schedule RC-M).....						2150					7.
8. Investments in unconsolidated subsidiaries and associated companies.....						2130					8.
9. Direct and indirect investments in real estate ventures.....						3656					9.
10. Intangible assets:											
a. Goodwill.....						3163					10.a.
b. Other intangible assets (from Schedule RC-M).....						0426					10.b.
11. Other assets (from Schedule RC-F).....						2160					11.
12. Total assets (sum of items 1 through 11).....						2170					12.
Liabilities											
13. Deposits:											
a. In domestic offices (sum of totals of columns A and C from Schedule RC-E).....						2200					13.a.
(1) Noninterest-bearing ⁴						6631					13.a.(1)
(2) Interest-bearing.....						6636					13.a.(2)
b. Not applicable											
14. Federal funds purchased and securities sold under agreements to repurchase:											
a. Federal funds purchased ⁵						B993					14.a.
b. Securities sold under agreements to repurchase ⁶						B995					14.b.
15. Trading liabilities (from Schedule RC-D).....						3548					15.
16. Other borrowed money (includes mortgage indebtedness and obligations under capitalized leases) (from Schedule RC-M).....						3190					16.
17. and 18. Not applicable											
19. Subordinated notes and debentures ⁷						3200					19.
20. Other liabilities (from Schedule RC-G).....						2930					20.
21. Total liabilities (sum of items 13 through 20).....						2948					21.
22. Not applicable											

1. Includes cash items in process of collection and unposted debits.
2. Includes time certificates of deposit not held for trading.
3. Includes all securities resale agreements, regardless of maturity.
4. Includes noninterest-bearing demand, time, and savings deposits.
5. Report overnight Federal Home Loan Bank advances in Schedule RC, item 16, "Other borrowed money."
6. Includes all securities repurchase agreements, regardless of maturity.
7. Includes limited-life preferred stock and related surplus.

Schedule RC-F—Other Assets

				Dollar Amounts in Thousands				RCON	Bil	Mil	Thou	
1.	Accrued interest receivable ¹			B556								1.
2.	Net deferred tax assets ²			2148								2.
3.	Interest-only strips receivable (not in the form of a security) ³ on:											
	a. Mortgage loans			A519								3.a.
	b. Other financial assets			A520								3.b.
4.	Equity securities that DO NOT have readily determinable fair values ⁴			1752								4.
5.	Life insurance assets:											
	a. General account life insurance assets			K201								5.a.
	b. Separate account life insurance assets			K202								5.b.
	c. Hybrid account life insurance assets			K270								5.c.
6.	All other assets (itemize and describe amounts greater than \$25,000 that exceed 25 percent of this item)			2168								6.
	a. Prepaid expenses	2166										6.a.
	b. Repossessed personal property (including vehicles)	1578										6.b.
	c. Derivatives with a positive fair value held for purposes other than trading	C010										6.c.
	d. Retained interests in accrued interest receivable related to securitized credit cards	C436										6.d.
	e. FDIC loss-sharing indemnification assets	J448										6.e.
	f. Not applicable											
	g. <small>TEXT 3549</small>	3549										6.g.
	h. <small>TEXT 3550</small>	3550										6.h.
	i. <small>TEXT 3551</small>	3551										6.i.
7.	Total (sum of items 1 through 6) (must equal Schedule RC, item 11)			2160								7.

1. Include accrued interest receivable on loans, leases, debt securities, and other interest-bearing assets.
 2. See discussion of deferred income taxes in Glossary entry on "income taxes."
 3. Report interest-only strips receivable in the form of a security as available-for-sale securities in Schedule RC, item 2.b, or as trading assets in Schedule RC, item 5, as appropriate.
 4. Include Federal Reserve stock, Federal Home Loan Bank stock, and bankers' bank stock.

Schedule RC-G—Other Liabilities

				Dollar Amounts in Thousands				RCON	Bil	Mil	Thou	
1.	a. Interest accrued and unpaid on deposits ¹			3645								1.a.
	b. Other expenses accrued and unpaid (includes accrued income taxes payable)			3646								1.b.
2.	Net deferred tax liabilities ²			3049								2.
3.	Allowance for credit losses on off-balance-sheet credit exposures			B557								3.
4.	All other liabilities (itemize and describe amounts greater than \$25,000 that exceed 25 percent of this item)			2938								4.
	a. Accounts payable	3066										4.a.
	b. Deferred compensation liabilities	C011										4.b.
	c. Dividends declared but not yet payable	2932										4.c.
	d. Derivatives with a negative fair value held for purposes other than trading ..	C012										4.d.
	e. <small>TEXT 3552</small>	3552										4.e.
	f. <small>TEXT 3553</small>	3553										4.f.
	g. <small>TEXT 3554</small>	3554										4.g.
5.	Total (sum of items 1 through 4) (must equal Schedule RC, item 20)			2930								5.

1. For savings banks, include "dividends" accrued and unpaid on deposits.
 2. See discussion of deferred income taxes in Glossary entry on "income taxes."

Schedule RC-R—Continued

Part II—Continued

	(Column A) Totals From Schedule RC			(Column B) Adjustments to Totals Reported in Column A			(Column C)			(Column D)			(Column E)			(Column F)			(Column G)			(Column H)			(Column I)			(Column J)					
	Allocation by Risk-Weight Category																																
	0%			2%			4%			10%			20%			50%			100%			150%											
Dollar Amounts in Thousands	Bil	Mil	Thou	Bil	Mil	Thou	Bil	Mil	Thou	Bil	Mil	Thou	Bil	Mil	Thou	Bil	Mil	Thou	Bil	Mil	Thou	Bil	Mil	Thou	Bil	Mil	Thou	Bil	Mil	Thou	Bil	Mil	Thou
4. Loans and leases held for sale (continued):																																	
d. All other exposures.....	RCON S431			RCON S432			RCON S433												RCON S434			RCON S435			RCON S436			RCON S437					
5. Loans and leases, net of unearned income:																																	
a. Residential mortgage exposures.....	RCON S439			RCON S440			RCON H178												RCON S441			RCON S442			RCON S443								
b. High volatility commercial real estate exposures.....																			RCON H180			RCON H181			RCON H182			RCON S447					
c. Exposures past due 90 days or more or on nonaccrual ⁷	RCON S449			RCON S450			RCON S451												RCON S452			RCON S453			RCON S454			RCON S455					
d. All other exposures....																			RCON S460			RCON S461			RCON S462			RCON S463					
6. LESS: Allowance for loan and lease losses	RCON 3123			RCON 3123																													
RCON D976	RCON D976			RCON S466			RCON D977												RCON D978			RCON D979			RCON D980			RCON S467					
7. Trading assets																			RCON D983			RCON D984			RCON D985			RCON H185					
8. All other assets ⁸																																	
a. Separate account bank-owned life insurance.....																																	
b. Default fund contributions to central counterparties																																	

7. For loans and leases, net of unearned income, exclude residential mortgage exposures, high volatility commercial real estate exposures, or sovereign exposures that are past due 90 days or more or on nonaccrual.

8. Includes premises and fixed assets; other real estate owned; investments in unconsolidated subsidiaries and associated companies; direct and indirect investments in real estate ventures; intangible assets; and other assets.

Schedule RC-R—Continued

Part II—Continued

	(Column K)			(Column L)			(Column M)			(Column N)			(Column O)			(Column P)			(Column Q)			(Column R)			(Column S)					
	Allocation by Risk-Weight Category																					Application of Other Risk-Weighting Approaches ⁹								
	250% ¹⁰			300%			400%			600%			625%			937.5%			1250%			Exposure Amount			Risk-Weighted Asset Amount					
Dollar Amounts in Thousands	Bil	Mil	Thou	Bil	Mil	Thou	Bil	Mil	Thou	Bil	Mil	Thou	Bil	Mil	Thou	Bil	Mil	Thou	Bil	Mil	Thou	Bil	Mil	Thou	Bil	Mil	Thou	Bil	Mil	Thou
4. Loans and leases held for sale (continued):																														
d. All other exposures.....																														
5. Loans and leases, net of unearned income:																														
a. Residential mortgage exposures.....																														
b. High volatility commercial real estate exposures.....																														
c. Exposures past due 90 days or more or on nonaccrual ¹¹																														
d. All other exposures.....																														
6. LESS: Allowance for loan and lease losses.....																														
7. Trading assets.....																														
8. All other assets ¹²																														
a. Separate account bank-owned life insurance.....																														
b. Default fund contributions to central counterparties.....																														

9. Includes, for example, investments in mutual funds/investment funds, exposures collateralized by securitization exposures or mutual funds, separate account bank-owned life insurance, and default fund contributions to central counterparties.

10. Effective January 1, 2018.

11. For loans and leases, net of unearned income, exclude residential mortgage exposures, high volatility commercial real estate exposures, or sovereign exposures that are past due 90 days or more or on nonaccrual.

12. Includes premises and fixed assets; other real estate owned; investments in unconsolidated subsidiaries and associated companies; direct and indirect investments in real estate ventures; intangible assets; and other assets.