



MICHAEL WHITE ASSOCIATES'
BOLI CAPITAL CONCENTRATION REPORT™

PREPARED ON 9/14/2005 EXCLUSIVELY FOR
MICHAEL WHITE ASSOCIATES (MWA)

REPORT ORDERED BY: Michael D. White
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REPORT ORDERED FOR: CONFIDENTIAL
TITLE:
INSTITUTION:
ADDRESS:
PHONE:
FAX:
EMAIL:

CUSTOMIZED REPORT ON: BOLI Capital Concentration

This report is based on institutional call reports as originally filed with federal banking regulators on their required reporting dates.

INCLUDES RANKINGS AND COMPARISONS OF THE FOLLOWING:

BANK(s):

#444 -- People's State Bank of Wyalusing, Pennsylvania



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BOLI Captial Concentration Report
on
People's State Bank of Wyalusing, Pennsylvania

Bank-owned life insurance (BOLI) can be used effectively to recover costs linked to providing employee benefits. But, BOLI is not without risks and could pose a variety of threats to the safety and soundness of People's State Bank of Wyalusing, Pennsylvania. The MWA BOLI Capital Concentration Report is part of the ongoing system of risk management prescribed by the "Interagency Statement on the Purchase and Risk Management of Life Insurance" issued December 7, 2004, to identify, measure, monitor and control risks involved in holding BOLI.

The MWA BOLI Capital Concentration Report fulfills the specific regulatory requirement that the post-purchase risk assessment of People's State Bank of Wyalusing, Pennsylvania include a "peer analysis of BOLI holdings... [by which] an institution should compare its BOLI holdings relative to capital to the holdings of its peers to assess whether it is an outlier." Using the call report data of thousands of financial institutions, MWA's peer analysis measures the BOLI assets of People's State Bank of Wyalusing, Pennsylvania in the form of cash surrender value: (CSV). It compares by rank, percentile, deviation from the mean, and difference from the mean in standard deviation units the BOLI assets of People's State Bank of Wyalusing, Pennsylvania to those of all banks with BOLI in the nation, its asset-peer group and its charter class to assess whether its BOLI program is an outlier.

REPORT ON THIS INSTITUTION: People's State Bank of Wyalusing, Pennsylvania
ADDRESS: Route 6 East
Wyalusing, PA 18853
THIS INSTITUTION IS A BANK OR BHC: Bank
BANK CERTIFICATE NO. OR HOLDING CO. ID NO.: 444
CHARTER CLASS: NM
INSTITUTION ASSETS: \$168,134.000
CASH SURRENDER VALUE OF LIFE INSURANCE: \$4,106.000
TIER 1 CAPITAL: \$11,780.000
ALLOWANCE FOR LOAN AND LEASE LOSSES: \$1,126.000

CUSTOMIZED REPORT ON: BOLI Capital Concentration
REPORT PERIOD: January 01, 2004 to December 31, 2004
SPECIAL NOTATION: Dollars in thousands (\$000).

The percentage listed in the Findings showing how far the bank is from the mean compared to its peers is the lowest percentage it attained among all banks with BOLI nationwide, in its asset class or in its charter class.



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## People's State Bank of Wyalusing, Pennsylvania

|   | NATION | ASSET CLASS   | CHARTER CLASS        |
|---|--------|---------------|----------------------|
| 12/31/2004 BOLI Capital Concentration                               |        | \$100M-\$300M | FDIC Regulated Banks |
| No. of Banks reporting Cash Surrender Value (CSV) of Life Insurance | 3360   | 1279          | 2173                 |

### Cash Surrender Value (CSV) of Life Insurance

|   |              |             |              |
|---|--------------|-------------|--------------|
| Mean  | \$6,374.949  | \$2,414.074 | \$4,860.401  |
| Median  | \$1,835.000  | \$2,164.000 | \$1,620.000  |
| Standard Deviation                                  | \$30,035.980 | \$1,747.054 | \$17,988.941 |
| People's State Bank of Wyalusing, Pennsylvania      | \$4,106.000  | \$4,106.000 | \$4,106.000  |
| -- Rank Within Peer Group                           | 901          | 205         | 525          |
| -- Percentile Within Peer Group                     | 73rd         | 84th        | 75th         |
| -- Difference from Peer Group Mean                  | -\$2,268.949 | \$1,691.926 | -\$754.401   |
| -- Difference from Mean in Standard Deviation Units | -0.08        | 0.97        | -0.04        |

### Cash Surrender Value (CSV) of Life Insurance as % of Tier 1 Capital

|   |          |          |          |
|---|----------|----------|----------|
| Mean  | 15.6602% | 14.9070% | 15.2383% |
| Median  | 15.8436% | 15.4350% | 15.3818% |
| Standard Deviation                                  | 10.0478% | 9.0509%  | 10.1557% |
| People's State Bank of Wyalusing, Pennsylvania      | 34.8557% | 34.8557% | 34.8557% |
| -- Rank Within Peer Group                           | 92       | 22       | 54       |
| -- Percentile Within Peer Group                     | 97th     | 98th     | 97th     |
| -- Difference from Peer Group Mean                  | 19.1955% | 19.9487% | 19.6174% |
| -- Difference from Mean in Standard Deviation Units | 1.91     | 2.20     | 1.93     |

### Cash Surrender Value (CSV) of Life Insurance as % of Sum of Tier 1 Capital and Allowance for L&LL

|   |          |          |          |
|---|----------|----------|----------|
| Mean  | 14.3153% | 13.6549% | 13.9286% |
| Median  | 14.4221% | 14.0591% | 13.9592% |
| Standard Deviation                                  | 9.1659%  | 8.2788%  | 9.2552%  |
| People's State Bank of Wyalusing, Pennsylvania      | 31.8147% | 31.8147% | 31.8147% |
| -- Rank Within Peer Group                           | 84       | 18       | 49       |
| -- Percentile Within Peer Group                     | 97th     | 98th     | 97th     |
| -- Difference from Peer Group Mean                  | 17.4994% | 18.1598% | 17.8861% |
| -- Difference from Mean in Standard Deviation Units | 1.91     | 2.19     | 1.93     |



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## People's State Bank of Wyalusing, Pennsylvania

### CONCENTRATION GUIDELINES

"A number of institutions own life insurance with an aggregate cash surrender value (CSV) in excess of 25 percent of capital even though the agencies have previously identified this capital concentration threshold as the level that institutions should consider when establishing internal limits for their BOLI holdings... The illiquid nature of insurance assets, combined with the difficulty of projecting liquidity needs far into the future, is a major reason an institution should keep its BOLI holdings below the agencies' concentration guidelines." (Interagency Statement, pp. 1, 11)

### FINDINGS

For charter classes "NM" (state-chartered commercial bank and Fed Nonmember) and "SB" (state-chartered, FDIC-insured savings bank), the FDIC's concentration guidelines define the capital base used to determine the concentration threshold as a percentage of Tier 1 Capital.

As of the reporting period ending December 31, 2004, People's State Bank of Wyalusing, Pennsylvania's CSV of Life Insurance as a percent of Tier 1 Capital is 34.86%. That ratio exceeds the FDIC's asset-concentration guideline of 25% of Tier 1 Capital.

"An institution holding BOLI in an amount that approaches or exceeds the 25 percent of capital concentration threshold can expect examiners to more closely scrutinize the risk management policies and controls associated with the BOLI assets and, where deficient, to require corrective action " (Interagency Statement, pp. 5-6)  
"Therefore, the FDIC expects an institution that plans to acquire BOLI in an amount that results in an aggregate CSV in excess of this concentration limit, or any lower internal limit, to gain prior approval from its board of directors or the appropriate board committee. In this situation, management is expected to justify that any increase in BOLI resulting in an aggregate CSV above 25 percent of Tier 1 capital does not constitute an imprudent capital concentration." (FDIC, Executive Summary-Interagency Statement, December 7, 2004)

#### **Compared to all institutions with BOLI in your asset class:**

People's State Bank of Wyalusing, Pennsylvania is further from the mean of "Cash Surrender Value (CSV) of Life Insurance as % of Tier 1 Capital" than 98% of its peers. Specifically, People's State Bank of Wyalusing, Pennsylvania is over 2.0 standard deviation units from the mean of the "Cash Surrender Value (CSV) of Life Insurance as % of Tier 1 Capital." This indicates that People's State Bank of Wyalusing, Pennsylvania is among those institutions with BOLI whose CSVs constitute the highest percentages of adjusted capital, and it suggests that People's State Bank of Wyalusing, Pennsylvania might be considered an "outlier" in terms of its concentration of BOLI assets in terms of Cash Surrender Value (CSV) of Life Insurance as % of Tier 1 Capital."

#### **Compared to all institutions with BOLI nationwide and in your charter class:**

Even though its BOLI holdings exceed the recommended 25% of capital, People's State Bank of Wyalusing, Pennsylvania is one of the 98% of institutions whose concentration of BOLI is fewer than +2.0 standard deviation units from the mean in its ratio of "Cash Surrender Value (CSV) of Life Insurance as % of Tier 1 Capital." While People's State Bank of Wyalusing, Pennsylvania can always benefit from monitoring its "Cash Surrender Value (CSV) of Life Insurance as % of Tier 1 Capital," these readings would suggest that, because 2% of these institutions with BOLI have higher ratios, People's State Bank of Wyalusing, Pennsylvania is not an "outlier."