

## Case Study 2: A Capital Efficient Solution for BOLI Assets

### Client Summary

Western Asset manages fixed-income BOLI (bank-owned life insurance) assets for a large US insurer on behalf of a large US money center bank. Other parties to the structure include a stable value wrap provider and a consultant/broker. Note that a US bank may elect to invest in a BOLI transaction to fund non-qualified executive employee benefits in a tax-efficient manner.

As the bank is subject to US Basel III capital requirements, it can benefit from look-through treatment to the underlying investment portfolio. As such, we built and manage the portfolio in a capital-efficient manner. The stable value wrap helps mitigate portfolio volatility for the US bank by replacing mark-to-market with a quarterly portfolio crediting rate.

### Western Asset's Impact

Western Asset constructed a bank-eligible broad-market portfolio seeking to provide attractive risk-adjusted total return, limited downside risk and capital efficiency. Western Asset has extensive experience managing capital efficient portfolios under US Basel III and was able to identify sectors of the bond market—including certain bank debt and CLOs—which we believed would offer a highly attractive ROC (return on capital). Our proprietary US Basel III risk weight calculator provides daily portfolio risk weight and return on capital statistics. Ongoing management of the portfolio involves close collaboration between our insurance, investment, client solutions and risk management teams.

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