



M Benefit Solutions® Bank Strategies

Total solutions for attracting, retaining, and rewarding top talent

Second Quarter 2009

THE BOTTOM LINE
EXECUTIVE AND DIRECTOR BENEFITS AND BOLI

“THE FIVE ESSENTIALS OF PAY FOR PERFORMANCE”

by: Tom Miller—VisionLink for Banks

Tom Jordan—M Benefit Solutions - Bank Strategies and ECI/VisionLink for Banks

In adopting a rewards philosophy for how people will be remunerated for their contributions within an organization, a bank has to determine what the right balance should be between short and long-term compensation and guaranteed versus variable compensation. Pivotal in that philosophy development is how and to what extent pay will be tied to specific types of performance. This issue will not be treated the same in every organization. However, every bank should be able to identify certain performance objectives it wants its workforce to fulfill and the financial outcome that will be achieved if that result is attained. Such a projection can be translated into an increased shareholder value figure. With that number in mind, performance based compensation strategy seeks to answer the questions, “how much of that increased value should be shared, with whom should it be shared and what form should it take?” In charting that course and carving out a Pay for Performance strategy, there are Five Essentials that you should keep in mind.

Developing a pay for performance philosophy and strategy is easier when we understand what such an approach is intended to achieve. If effectively constructed, pay for performance compensation plans should help a bank fulfill the following objectives:

- Recruit and retain the highest quality employees
- Communicate and reinforce the values, goals and objectives of the bank
- Engage employees in the organization’s success
- Reward contributors for successful achievements

Ultimately, the combination of rewards strategies that a bank institutes should help to draw a correlation in

FEATURED ARTICLES

- “The Five Essentials of Pay for Performance”
- Schedule of Complimentary Online Compensation Briefings
- TARP Restrictions on Executive Compensation
- M Benefit Solutions - Bank Strategies and ICBA Celebrate Five-Year Anniversary by Extending Relationship
- BOLIPRO™ Update
- Welcome New Team Members
- M Benefit Solutions - Bank Strategies Adds Community Bank Consultants

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the mind of the employees between interdependent elements:

- Vision—where is this bank going?
- Strategy—how is it going to get there?
- Roles and Expectations—what role does each key person have in that strategy and what is expected of him or her in that role?
- Rewards—how will each employee be financially rewarded for the achievement of the expectations associated with his or her role

Pay for performance is the mechanism that is used to create this “line of sight” between related elements of bank culture and purpose. In the final analysis, compensation needs to reinforce the behaviors that are desired within the strategy framework of the bank in a way that is compelling enough to produce the desired performance. To accomplish this, there are Five Essentials.

1. Essential #1—Must Tie Performance Awards to Shareholder Financial Objectives
2. Essential #2—Must Employ the Proper Mix of Compensation Elements
3. Essential #3—Must Result in Meaningful Dollars
4. Essential #4—Must Embrace Performance That Employees Can Impact
5. Essential #5—Must Effectively Communicate and Reinforce Rewards

For more information on this topic and others, please visit The Executive Compensation Institute at <http://executivecompensationinstitute.ning.com/forum/categories/webinar-archives/listForCategory>.



COMPLIMENTARY ONLINE COMPENSATION BRIEFINGS

Tom Jordan, Advisor to M Benefit Solutions - Bank Strategies and Founder and CEO of The Executive Compensation Institute (ECI Companies) invites you to join ECI's VisionLink for Banks monthly Complimentary Online Compensation Conversations. Each conversation will last under one hour and you'll come away with valuable information on current compensation issues in the community bank marketplace.

For more information on how to attend these events, please email webinars@ecicompanies.com or call 1.800.577.2261.

ECI's UPCOMING VISIONLINK FOR BANKS WEBINAR SERIES

June 24 at 12:00 PM (CST)

“Selecting the Right Performance Measures for Your Incentive Plan”

TARP RESTRICTIONS ON EXECUTIVE COMPENSATION

On February 17, 2009, President Obama signed into law the American Recovery and Reinvestment Act of 2009 (the “Act”). Among its numerous tax and spending provisions, the Act also imposed new limits on executive compensation for recipients of funding under the Troubled Asset Relief Program (TARP). In some cases, these limits had already been imposed through the term sheets recipients signed in return for TARP funds. In other cases, the limits are entirely new and, to some degree, retroactive.

Below is a summary of the Act's provisions. Just as this newsletter was being finalized the Treasury Department issued interim final rules under the Act. We will provide information on these rules shortly.

The Act provides the following executive compensation standards and restrictions:

COMPENSATION SUBJECT TO \$500,000 COMPENSATION DEDUCTION LIMIT

During the period in which any obligation arising from financial assistance provided under TARP remains outstanding (TARP Obligation Period), each TARP recipient is subject to a new rule under Code Section 162(m) that provides for a \$500,000 deduction limit on compensation paid to named executive officers under the proxy rules (or their private company counterparts). The deduction limit includes deferred compensation such as voluntary deferred compensation and SERP accruals.

NO ACCRUAL OF BONUS OR INCENTIVE AWARDS

A prohibition on any TARP recipient paying or accruing any bonus, retention award, or incentive compensation during the TARP Obligation Period, except for the payment of long-term restricted stock, provided that such long-term restricted stock—

- Does not fully vest during the TARP Obligation Period;
- Has a value not greater than 1/3 of the total amount of annual compensation of the employee receiving the stock; and
- Is subject to such other terms and conditions as the Secretary may determine to be in the public interest.

EMPLOYEES AFFECTED BY THE RESTRICTIONS ON BONUS AND INCENTIVE AWARDS

The amount of TARP assistance received will determine who is affected by this limitation:

AMOUNT OF FINANCIAL ASSISTANCE RECEIVED	EMPLOYEE(S) AFFECTED BY INCENTIVE COMPENSATION ACCRUAL RESTRICTIONS
<\$25 million	The most highly compensated employee of the financial institution
\$25 million or more, but less than \$250 million	At least the 5 most highly compensated employees of the financial institution, or such higher number as the Secretary may determine is in the public interest
\$250 million or more, but less than \$500 million	The senior executive officers (generally the named executive officers in the proxy or their nonpublic company counterparts) and at least the 10 next most highly compensated employees, or such higher number as the Secretary may determine is in the public interest
\$500 million or more	The senior executive officers and at least the 20 next most highly compensated employees, or such higher number as the Secretary may determine is in the public interest

WRITTEN EMPLOYMENT CONTRACT EXCEPTION

The rule against bonus and incentive awards will not apply to any amount “required to be paid” pursuant to a written employment contract executed on or before February 11, 2009, as determined by the Treasury.

ADDITIONAL LIMITS AND RESTRICTIONS ON COMPENSATION

- Limits on compensation that exclude incentives for senior executive officers of the TARP recipient to take unnecessary and excessive risks that threaten the value of the TARP recipient during the TARP Obligation Period.
- A provision for the recovery by a TARP recipient of any bonus, retention award, or incentive compensation paid to a senior executive officer and any of the next 20 most highly compensated employees of the TARP recipient based on statements of earnings, revenues, gains, or other criteria that are later found to be materially inaccurate.
- A prohibition on each TARP recipient from making any golden parachute payment to a senior executive officer or any of its next five most highly compensated employees during the TARP Obligation Period.
- A prohibition on any compensation plan that would encourage the manipulation of reported earnings of the TARP recipient to enhance the compensation of any of its employees.

BOARD COMPENSATION COMMITTEE

Each TARP recipient must establish a Board Compensation Committee, comprised entirely of independent directors, for the purpose of reviewing employee compensation plans. The Board Compensation Committee must meet at least semiannually to discuss and evaluate employee compensation plans in light of an assessment of any risk posed to the TARP recipient from such plans. For nonpublic TARP recipients who've received less than \$25 million, the Board may act as the Compensation Committee.



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LIMITATION ON LUXURY EXPENDITURES

The board of directors of any TARP recipient shall have in place a companywide policy regarding excessive or luxury expenditures, as identified by the Secretary, which may include excessive expenditures on:

1. Entertainment or events;
2. Office and facility renovations;
3. Aviation or other transportation services; or
4. Other activities or events that are not reasonable expenditures for staff development, reasonable performance incentives, or other similar measures conducted in the normal course of the business operations of the TARP recipient.

SHAREHOLDER APPROVAL OF EXECUTIVE COMPENSATION

Any proxy or consent or authorization for an annual or other meeting of the shareholders of any TARP recipient during the TARP Obligation Period shall permit a separate shareholder vote to approve the compensation of executives, as disclosed pursuant to the compensation disclosure rules of the Commission (which disclosure shall include the compensation discussion and analysis, the compensation tables, and any related material).

- The shareholder vote is not binding on the board of directors, and may not be construed as overruling a decision by the board, nor to create or imply any additional fiduciary duty by such board.
- The vote does not restrict or limit the ability of shareholders to make proposals for inclusion in proxy materials related to executive compensation.

REVIEW OF PRIOR PAYMENT TO EXECUTIVES

The Treasury is required to review bonuses, retention awards, and other compensation paid to the

senior executive officers and the next 20 most highly compensated employees of each TARP recipient before the Act's enactment (February 17, 2009), to determine whether any of these payments were inconsistent with the purposes of the Act's executive compensation provisions or TARP or were otherwise contrary to the public interest.

If the Treasury makes a determination payments were inconsistent with the purposes of the Act's executive compensation provisions or TARP or were contrary to the public interest, the Treasury is directed to negotiate with the TARP recipient and the employee for appropriate reimbursements to the Federal Government with respect to compensation or bonuses.

COMPLIANCE CERTIFICATION

The CEO and CFO of each TARP recipient must provide a written certification of compliance by the recipient with the requirements of Act's executive compensation provisions.

- If the TARP recipient is publicly traded, the certification is made to the Securities and Exchange Commission, together with its annual securities filings.
- If the TARP recipient is not publicly traded, the certification is made to the Treasury.



JOINT ICBA SERVICES NETWORK BOARD OF DIRECTORS MEETINGS

JUNE 5-7, 2009 THE WESTIN PROVIDENCE
PROVIDENCE, RI

M BENEFIT SOLUTIONS - BANK STRATEGIES ADVISOR FIRM REPRESENTATIVES

John Gagnon, *Partner of GW Financial*

Thomas Lynch, *Wealth Coach, ECI/Bank Benefits*

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M BENEFIT SOLUTIONS - BANK STRATEGIES AND ICBA CELEBRATE FIVE-YEAR ANNIVERSARY BY EXTENDING RELATIONSHIP

M Benefit Solutions - Bank Strategies and the Independent Community Bankers of America (ICBA) have extended their relationship through December 2011. The extension celebrates M Benefit Solutions - Bank Strategies' fifth year as an ICBA Preferred Service Provider for executive and director benefits, compensation consulting and Bank-Owned Life Insurance (BOLI) solutions.

"Over the past five years, M Benefit Solutions has helped ICBA member community banks attract, retain and reward key executives and directors through the design, implementation and administration of benefit programs that maximize the use of a bank's financial resources," said Dan Clancy, ICBA senior vice president of services. "We are pleased to extend this relationship so member community banks can continue to take advantage of M Benefit Solutions' offerings."

"It is a privilege and honor to continue to be recognized as an ICBA Preferred Service Provider," said Don Friedman, president and CEO of M Benefit Solutions. "ICBA sets rigorous standards for selecting their Preferred Service Providers, and earning this extension is a testament to the long-term commitment to our clients, the depth and caliber of our staff, our exceptional technical and compliance capabilities, and our financial strength. We fully support the ICBA's efforts to keep the community banking industry strong and prosperous and we seek a similar goal with the services and products we offer."

For more information about ICBA, visit www.icba.org. For more information about M Benefit Solutions - Bank Strategies, visit www.mben.com/bank.

WELCOME NEW TEAM MEMBERS!

Jennifer Adams joined M Benefit Solutions as an Associate on April 1st. Prior to coming to M Benefit Solutions, Jennifer worked as a Relationship Associate for Credit Suisse Private Bank in San Francisco. Jennifer's previous experience also included two Sales Assistant positions—one with Lehman Brothers and one with Bank of America. Jennifer earned her Bachelor's degree from University of Portland.

Jan Ferschweiler joined M Benefit Solutions as a Senior Associate on April 20th. Prior to coming to M Benefit Solutions, Jan was with Unum Life Insurance Company. In her most recent position as National Account Manager, she had responsibility for over 20 accounts ranging in size from 2,000 to 12,000 employees. Jan earned her Bachelor's degree from Portland State University.



BOLIPRO™ UPDATE

Effective May 1, 2009 we have updated and expanded the life insurance carrier information available to our clients on their websites. In recognition of the need for fast and accurate information about carrier ratings and financial strength, we have expanded our carrier information area to include instant access to correspondence from the carriers about their ratings or financial situation, press releases and news and will maintain historic information there in addition to the quarterly rating updates from Vital Signs. We believe in providing our clients and their auditors the most up to date financial information available on their life insurance holdings.



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M BENEFIT SOLUTIONS - BANK STRATEGIES ADDS TO LINEUP OF COMMUNITY BANK CONSULTANTS

M Benefit Solutions - Bank Strategies is pleased to announce the addition of **Thomas Von Riesen** and **Jamie Corbin** of **SilverStone Group**, **John Saunders** of **Edgewater Advisors Ltd.**, and **Dan Wagner** of **Corrigan & Company** to its lineup of Community Bank Consultants. Each of these individuals brings extensive experience working with financial institutions in the creation of retention and reward programs for key executives and directors and the strategic use of BOLI to finance employee benefit programs. These additions further enhance our ability to service our bank clients nationwide. Contact information can be found at the end of this newsletter.

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ABOUT M BENEFIT SOLUTIONS - BANK STRATEGIES

M Benefit Solutions - Bank Strategies, based in Portland, Oregon, is a division of M Benefit Solutions, a Subsidiary of M Financial Group. Please go to www.mfin.com/DisclosureStatement.htm for further details regarding this relationship. M Benefit Solutions is a recognized leader in the community bank executive and director benefits and BOLI marketplace. Through a network of firms located in key markets across the country, M Benefit Solutions - Bank Strategies helps banks attract, retain, and reward key executives and directors through the design, implementation, and administration of benefit programs that maximize the use of a bank's financial resources. M Benefit Solutions - Bank Strategies is the Independent Community Bankers of America's ("ICBA") Preferred Service Provider for executive and director benefits and BOLI. For more information, please visit www.mben.com/bank.

This information incorporated into this presentation has been taken from sources, which we believe to be reliable, but there is no guarantee as to its accuracy.

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