M Benefit Solutions®
Bank Strategies
Total solutions for attracting, retaining, and rewarding top talent

ICBA Preferred SERVICE PROVIDER

Third Quarter 2010

THE BOTTOM LINE
EXECUTIVE AND DIRECTOR BENEFITS AND BOLI

Basel III—Higher Global Minimum Capital Standards Announced

The Basel Committee on Banking Supervision announced the strengthening of capital standards, along with the introduction of a global liquidity standard, at its September 12th meeting. These reforms are intended to enable banks to better endure periods of economic and financial stress while simultaneously supporting economic growth.

The recommendations, subject to approval by member nations of the Group of 20 in November, were developed to contribute to the long term financial stability and growth of the global economy with transition agreements enabling banks to meet the new standards while supporting economic recovery.

The minimum requirement for a bank's common equity, more commonly known as the Tier 1 common equity ratio, will increase from 2% to 4.5%. Banks must also maintain a new capital conservation buffer of 2.5% (for a total common equity requirement of 7% of risk weighted assets). The purpose of this buffer is to ensure that banks can absorb losses during periods of economic and financial stress. Also, a countercyclical buffer between 0% and 2.5% of common equity will be implemented when there is excess credit growth that results in a system wide build up of risk. Implementation of this buffer will be according to national circumstances and is projected to be rarely imposed. Standards for minimum capital will change as well. The minimum ratio of Tier 1 capital to total risk weighted assets will gradually increase from 4% to 6%. A summary of these requirements can be found in Table 1.

Table 1
Basel III—Calibration of the Capital Framework
Capital Requirements and Buffers

Item	Common Equity (After Deductions)	Tier 1 Capital	Total Capital
Minimum	4.5%	6.0%	8.0%
Conservation Buffer	2.5%		
Minimum plus Conservation Buffer	7.0%	8.5%	10.5%
Countercyclical Buffer Range *(Common equity or other fully loss absorbing capital)*	0–2.5%		

Source: Basel III - Annex 1

(Continued on next page)

A phase-in period, or transition arrangement, was also recommended for implementing each new requirement (see Table 2). The transition periods are designed to allow the banking sector to meet the higher capital standards through reasonable earnings retention and the raising of capital, while simultaneously supporting lending to the economy.

Table 2: Phase-in Arrangements (Shading indicates transition periods)

(All dates are as of January 1)

	2011	2012	2013	2014	2015	2016	2017	2018	2019
Leverage Ratio	Supervisory Monitoring		Parallel Run January 1, 2013–January 1, 2017 Disclosure Starts January 1, 2015					Migration to Pillar 1	
Minimum Common Equity Capital			3.50%	4.00%	4.50%	4.50%	4.50%	4.50%	4.50%
Capital Conservation Buffer						0.625%	1.25%	1.875%	2.50%
Minimum Common Equity Plus Capital Conservation Buffer			3.50%	4.00%	4.50%	5.125%	5.75%	6.375%	7.00%
Phase-in of Deductions from CET1 (Including amounts exceeding the limit for DTAs, MSRs and financials)				20%	40%	60%	80%	100%	100%
Minimum Tier 1 Capital			4.50%	5.50%	6.00%	6.00%	6.00%	6.00%	6.00%
Minimum Total Capital			8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%
Minimum Total Capital Plus Conservation Buffer			8.00%	8.00%	8.00%	8.625%	9.25%	9.875%	10.50%
Capital Instruments that No Longer Qualify as Non-core Tier 1 Capital or Tier 2 Capital			Phased Out Over 10 Year Horizon Beginning 2013						
Liquidity Coverage Ratio	Observation Period Begins				Introduce Minimum Standard				
Net Stable Funding Ratio		Observation Period Begins						Introduce Minimum Standard	
Source—Basel III - Annex 2									

The Basel Committee is working with the Financial Stability Board (FSB) to develop standards for systemically important financial institutions that may involve additional capital requirements that could include combinations of capital surcharges and contingent capital such as convertible bonds, or "bail-in" debt. It is unclear whether the United States, which didn't adopt the last round of Basel reforms, will accept these current recommendations or accept a portion of the reforms while altering some aspects, such as transition periods as well as further defining the acceptable capital instruments for inclusion as Tier 1 capital.

The committee's impact study found that the large banks, in aggregate, need a significant amount of additional capital to meet the new requirements. Currently most community banks already meet or exceed these new minimum standards. The new rules offer much awaited definitive capital guidelines for the industry.

Fitch Upgrades Sector Outlook on U.S. Life Insurers to Stable

Fitch Ratings has revised the outlook for the U.S. life insurance sector to stable (from negative). The negative outlook was initially assigned in September 2008. Since assigning the negative outlook, Fitch says it has downgraded the majority of U.S. life insurers in its rating universe. The stable rating outlook indicates that Fitch believes a majority of life insurer ratings will be affirmed as they are reviewed during the next 12–18 months.

Fitch says the outlook is based on material improvement in the industry's balance sheet and operating fundamentals over the past year. Industry capitalization and liquidity have strengthened due to improved investment valuations and financial market liquidity. As a result, gross unrealized and realized investment losses have been reduced significantly in 2010.

The ICBA Community Bank Wealth Preservation Program

Executive and Director Supplemental Disability and Long Term Care Insurance

Earlier this year, M Benefit Solutions - Bank Strategies and the Independent Community Bankers of America (ICBA) partnered to offer The Community Bank Wealth Preservation Program to ICBA community bank members. This successful and unique program protects income during working years and preserves hard-earned wealth in later, or retirement, years.

M Benefit Solutions developed a program to help solve the problem of overlooked benefits designed to protect the income and assets of community bank executives and directors. The solution is a bank-paid supplemental individual disability income (DI) insurance that can be exchanged for long term care (LTC) insurance at retirement, or in later years. The program has been customized for community banks with special deep discounts to enhance affordability and guaranteed insurability makes it accessible and easy to implement.

Community Bank Wealth Preservation Program

Income Protection → Asset Protection

Executives	Directors		Executives & Directors
Catastrophic (LTC) Up to 100% Total Income	**Catastrophic (LTC)** $10,000 Monthly Benefit	**Convertible at ages 60–70*** →	**Individual Long Term Care**
Individual DI Coverage 60% to 75% of ***Total Income*** (less GLTD benefits)	**Individual DI Coverage** $500 Monthly Benefit		**$5,000 Monthly Benefit**

*Age 75 in Texas

- The ICBA Program focuses on asset preservation for the Directors
- The ICBA Program addresses income protection AND asset preservation for the Executives

vs.

Typical Group Plans

***Limited* Income Protection → No Asset Protection**

Executives
Group LTD 60% of ***Base Salary Only***

- Group LTD provides basic disability coverage to executives and employees

The Overlooked Benefit

Supplemental disability income and long term care are often overlooked when designing key employee benefit programs but may be two of the most valuable benefits an executive can have.

The Risk of Disability **It happens more often than you think and causes severe financial hardship.**	**The Risk of Needing Long Term Care** **Long term care can wreak havoc on retirement savings and doesn't take long to deplete all retirement assets if care is needed.**
• Almost one-third of Americans entering the work force today **(3 in 10) will become disabled before they retire.** Social Security Administration, Fact Sheet January 31, 2007	• For a man over 65, the odds are 1 in 3 or 33% that he will need LTC in his life.
• The chances of becoming disabled are at least three to **five times greater than death**, even though most Americans are better prepared financially for death than becoming disabled. www.soundfinancialplan.com, from MDRT	• For a woman over 65, the odds are 1 in 2 or 50% that she will need LTC in her life.
• A 40-year-old has a 45% chance of becoming disabled for a 90-day period or longer before age 65. MetLife, The MetLife Study of Employee Benefits Trends, November 2004	• In aggregate, **42% of all individuals over age 65 will enter a nursing home**.
• The average long-term disability absence lasts $2^{1/2}$ years. Commissioner's Individual Disability Table A	• Nursing homes can cost as much as **$100,000 a year** for a private room.
• 350,000 personal bankruptcies every year are blamed on injuries and unexpected illnesses. "Illness and Injury as Contributors to Bankruptcy," Health Affairs, February 2, 2005	• Life expectancy for a health retiree has extended well into the 80s and 90s.

The program is an affordable recruitment and retention tool that generates tax deductions for bank-paid premiums and also includes a number of attractive proprietary features, including:

- Ease of implementation
- Guaranteed insurability
- Enhanced benefits and benefit amounts
- Premium discounts
- Directors included on the same census with executives

If you would like to learn more about this program, please contact Russell McMillan (russell.mcmillan@mben.com; 503.414.7307)

Advisor Firms

M Benefit Solutions - Bank Strategies

Michael Elliott
mike.elliott@mben.com

1125 NW Couch Street, Suite 900
Portland, OR 97209
Phone: 503.414.7622; Fax: 503.238.1815

Thomas J. Jordan
tjordan@ecicompanies.com

Austin, TX
Phone: 512.656.9950

Capital Strategies Group, Inc.

David F. Byers
dbyers@csginc.us

Wes Caudell
wcaudell@csginc.us

Richard Meadows
rmeadows@csginc.us

Two Metroplex Drive, Suite 111
Birmingham, AL 35209
Phone: 205.263.2400; Fax: 205.263.2300

Corrigan & Company

Michael E. Corrigan
mcorrigan@corrigan-co.com

322 N Nopal Street
Santa Barbara, CA 93103
Phone: 800.456.3377; Fax: 805.962.5053

Dan Wagner
dwagner@corrigan-co.com

Chesterfield, MO
Phone: 636.530.1635

ECI/Bank Benefits

Thomas V. Lynch
tlynch@ecicompanies.com

1650 West 82nd Street, Suite 850
Minneapolis, MN 55431
Phone: 952.885.2727; Fax: 952.885.0995

Evergreen Consulting, Inc.

James Cheney
jcheney@evergreenci.com

Robert Kozloski
rkozloski@evergreenci.com

1400 Williams Street
Chattanooga, TN 37408
Phone: 423.756.3828; Fax: 423.265.0735

Financial Designs Ltd.

Gerald Middel
jmiddel@fdltd.com

1775 Sherman Street, Suite 1800
Denver, CO 80203
Phone: 303.948.4068; Fax: 303.832.7100

GW Financial, LLC

John Gagnon
jgagnon@cfnii.com

2 Haven Street, Suite 307
Reading, MA 01867
Phone: 781.942.5700; Fax: 781.942.5710

John F. Saunders
Edgewater Advisors Ltd.
saunders@edgewateradvisorsltd.com

Pleasantville, NY
Phone: 914.747.0626

SilverStone Group

Thomas J. Von Riesen
tvonriesen@ssgi.com

11516 Miracle Hills Drive
Omaha, NE 68154
Phone: 800.288.5501; Fax: 402.963.4084

Jamie Corbin
jcorbin@ssgi.com

Des Moines, IA
Phone: 515.285.5882

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.

M Benefit Solutions®
Bank Strategies

An M Financial Group Company

ICBA
Preferred
SERVICE PROVIDER

M Benefit Solutions - Bank Strategies
M Financial Plaza
1125 NW Couch Street, Suite 900
Portland, OR 97209
503.238.1813
fax: 503.238.1815
www.mben.com/bank