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ICBA Preferred SERVICE PROVIDER

Fourth Quarter 2011

THE BOTTOM LINE
EXECUTIVE AND DIRECTOR BENEFITS AND BOLI

M Financial Group Announces a New Partner Carrier: TIAA-CREF Life Insurance Company

In October, M Financial Group introduced TIAA-CREF Life Insurance Company (TC Life) as its newest Partner Carrier. This new, exclusive relationship will create additional differentiation for Member Firms through TIAA-CREF's market-segmented product offerings, industry-leading ratings, and pristine brand. No other third-party distribution will have access to TC Life products exclusively designed for the M partnership.

Two recent pieces highlight the qualities that make TIAA-CREF an excellent fit for M Financial. In the September 5, 2011, edition of Fortune magazine, TIAA-CREF CEO (and former Vice Chairman of the Federal Reserve) Roger Ferguson provided his insight on the current market volatility and the positive steps TIAA-CREF is taking to manage in this economic cycle. The article, "Finding Value in Chaotic Markets", details Roger's perspectives on market volatility, S&P's downgrade of the U.S. debt, and economic challenges in Europe. Ferguson's comments reflect optimism and a disciplined focus on long-term value, both of which will contribute to a healthy Partnership.

In addition, on Monday, December 12, Moody's issued a new ratings report for TIAA and TC Life. According to the report, Moody's rates TIAA and TC Life 'Aaa' for insurance financial strength, one notch higher than the Aa1 rating indicated by the adjusted insurance financial strength rating scorecard.

Driving this higher rating are:

- A governance structure with a strong focus on the best interests of policyholders/creditors, and
- An emphasis on superior customer value with substantial experience-rated policyholder dividends, and
- A strong capital position, which depresses reported profitability metrics.

The comments from Moody's validate that M Financial and TC Life's interests are aligned.

Featured Articles

Temporary Extension of Payroll Tax Cut

On December 23rd, the House and Senate both passed by unanimous consent legislation (H.R. 3765) that provides for an extension of the 4.2 percent Social Security payroll tax for individuals, as well as unemployment insurance benefits and a provision to prevent reimbursements to Medicare providers from being cut, through Feb. 29. Later the same day, President Obama signed the legislation into law.

The extension is only through February 29, 2012 because of the inability of the parties to agree to more than 2 months' worth of offsets to pay for the extension. There will be further negotiations to extend the payroll tax cut through the end of 2012.

The legislation also includes a requirement for President Obama to make a decision within 60 days on a permit to authorize construction of the Canada-Texas Keystone XL pipeline.

Note: The legislation includes a "recapture" provision, which applies to those employees who receive more than $18,350 in wages during the January-February 2012 period ($18,350 represents two months of the full-year Social Security wage base of $110,100). This provision imposes an additional income tax in an amount equal to 2 percent of the amount of wages they receive during the two-month period in excess of $18,350 (but not greater than $110,100). IRS News Release (IR-2011-124).

Institutional Shareholder Services 2012 Proxy Voting Policies

Institutional Shareholder Services Inc. (ISS) updated its proxy voting guidelines for the 2012 proxy season in November 2011. No changes were made with respect to nonqualified plans.

ISS analysts will begin applying the updated policies to publicly-traded companies with shareholder meetings on or after February 1, 2012.

Pay-for-Performance Policy. One of the most significant updates is the revised pay-for-performance policy. During its review of policy, ISS found that both its clients and the issuers it reviews believe that pay-for-performance alignment should be viewed in a long-term context rather than the most recent year. In light of this, the new ISS approach will provide a more robust view of the relationship between executive pay and company performance over a sustained time horizon. Specifically, ISS will consider the relative alignment between the company's total shareholder return and the CEO's total pay rank within a peer group, as measured over one and three years, as well as absolute alignment (the alignment between CEO pay and a company's share return over the prior five years). If alignment appears weak, further in-depth analysis will determine if there are mitigating factors.

For more detail on the ISS pay-for-performance analysis including its peer group methodology and rationale, ISS issued a white paper in December 2011, which can be found at: http://www.issgovernance.com/sites/default/files/EvaluatingPayForPerformance_20111219.pdf.

Other key policy updates include:

Board responsiveness to earlier say-on-pay votes: ISS will make recommendations on a case-by-case basis on compensation committee members and the management say-on-pay proposal if the company's previous say-on-pay resolution received less than 70 percent support from all votes cast, taking into account:

- The company's response;
- Disclosure of engagement with major investors;
- Specific actions taken to address the compensation issue(s) that caused the significant dissent;
- Whether the issue(s) raised are recurring or one-time; and
- The company's ownership structure.

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Proxy access: While the revised policy remains case-by-case, ISS will expand the factors that will be examined. ISS will consider various company-specific and proposal-specific aspects, including

- The ownership thresholds proposed (i.e., percentage and duration);
- The maximum proportion of directors that shareholders may nominate each year;
- And the method of determining which nominations should appear on the ballot if multiple shareholder groups submit nominations.

S&P Issues 2012 U.S. Life Insurance Outlook and Assesses Interest Rate Risk for Life Insurers

Standard & Poor's said it is maintaining its stable outlook on the U.S. life insurance industry in 2012. S&P cited its expectation of continued strong capital and liquidity, as well as moderate investment portfolio losses in the industry. However, S&P also said it continues to monitor the macroeconomic headwinds facing life insurers, including low interest rates and equity market volatility.

S&P currently has stable outlooks on 75 percent of its 79 rated life insurance groups. Eighteen percent have negative outlooks, down from 45 percent at the end of 2010. Of the groups with negative outlooks, over half are related to S&P's negative outlook on the U.S. sovereign credit rating.

Regarding the low interest rate environment, S&P published a separate report analyzing the risk it poses to the life insurance industry. In the report S&P expressed the opinion that low interest rates heighten the importance of strong enterprise risk management (ERM) and asset/liability management. Because the effects of low interest rates will take several years to unfold, S&P said it does not expect rating actions in the near term. S&P believes that while interest rate risk exposures for the life insurance annuity industry are significant, it is well-positioned to manage those risks as ERM programs have generally mitigated much of the risk.

Among products impacted by low interest rates, S&P says fixed annuities and universal life are most sensitive to the risk. This is due to the guaranteed minimum interest rates associated with these products. Less risk is posed to participating whole life policies which, while the underlying product performance is affected by fixed income interest rates, have significant flexibility to adjust dividends downward to absorb much of the risk posed by low interest rates.

Fitch Issues Stable Outlook for U.S. Life Insurance Industry in 2012

Fitch Ratings announced that its outlook for the U.S. life insurance industry in 2012 is stable based upon the industry's very strong balance sheet fundamentals. Fitch said that the strength of the industry's balance sheets helps to somewhat mitigate concerns over the challenging macroeconomic conditions that continue to put pressure on the industry's operating performance.

According to Fitch, the industry's capitalization has been restored to pre-crisis levels as a result of improved operating performance and capital raising initiatives undertaken by many companies. However, Fitch expects positive trends on earnings and investment performance to come under pressure in 2012 due to low interest rates, increased hedging costs, and continuing equity market volatility. The industry's large book of variable annuity business will continue to negatively impact earnings over the near term and could impact capital levels in a severe stress scenario.

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Fitch said over the next 12–18 months its primary rating concerns for the industry will include the threat of contagion from the Eurozone, the impact of a sustained low interest rate environment, and the fragility of the global economic recovery and potential for a double-dip recession.

Moody's Comments on U.S. Life Insurers' Third Quarter Results

In a special comment on third quarter financial results released by U.S. life insurers, Moody's Investors Service said that while most companies reported lower operating earnings than in the second quarter, capital levels in the industry remained strong.

According to Moody's, the following were the key takeaways for the third quarter as compared to the second quarter:

- Operating earnings declined due to volatile markets and historically low interest rates.
- Asset impairments were slightly elevated but Moody's does not see it as a signal of a trend and believes impairments will continue to moderate in 2012.
- Sales of both variable and fixed annuities were down.
- Sales of life insurance were essentially flat.
- Financial flexibility in the industry remains strong despite most public companies utilization of excess capital to repurchase shares.
- Moody's expects the weak economy and sluggish recovery will continue to hold the industry back from achieving pre-crisis profitability but said that improving equity markets at the beginning of the fourth quarter could help earnings and capital levels to improve.

Moody's said it expects that equity market volatility in the third quarter has likely required some insurers to post additional reserves, which hurts profitability and statutory capital. This would likely offset positive momentum seen by companies in the first half of the year. As a result, Moody's said it expects year-end 2011 risk-based capital ratios to decline from the previous year but to still remain strong.

Upcoming Event: 2012 ICBA National Convention and Techworld

March 11–15, 2012
Gaylord Opryland Resort & Convention Center; Nashville, TN

M Benefit Solutions - Bank Strategies is once again proud to be a sponsor and exhibitor at the 2012 ICBA National Convention and Techworld. Please join us at **Booth 510**:

- For free ice cream
- Enter to win an Amazon Kindle Fire
- Pick up your bank's customized BOLI Empowerment Page

For more information on the convention, please visit http://www.icba.org/convention/

We look forward to seeing you in Nashville.

Advisor Firms

M Benefit Solutions - Bank Strategies is structured to provide our clients with consistent nationwide coverage. We have identified several Advisors with superior reputations in bank executive and director benefits and BOLI to provide consulting services to clients nationwide.

Distributed throughout the country, these Advisors work interactively with M Benefit Solutions and bank clients to design programs which meet each bank's specific needs and to ensure high quality administrative and compliance services.

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About M Benefit Solutions - Bank Strategies

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