



M Benefit Solutions® Bank Strategies

Total solutions for attracting, retaining, and rewarding top talent



Fourth Quarter 2010

LETTER TO COMMUNITY BANKS FROM OUR PRESIDENT AND CEO

Over the past year, community banks have battled a sluggish economy and an ever-evolving regulatory environment, both of which have created significant challenges. In these turbulent times we feel fortunate that our primary customers—community banks—remain vibrant, healthy, and uniquely positioned to help lead the U.S. economic recovery.

As the Independent Community Bankers of America's (ICBA) Preferred Service Provider for Executive Benefits and Bank-Owned Life Insurance (BOLI), M Benefit Solutions - Bank Strategies shares the ICBA's goal of protecting and advancing the community banking industry's strength and prosperity. We continue to serve as a well established, successful, and stable resource for banks by identifying, implementing, and maintaining executive benefit plans and BOLI solutions.

M Benefit Solutions - Bank Strategies serves community banks with a comprehensive work product that addresses all facets of nonqualified executive benefit plans, including installation, financing, compliance, and administration. Our staff includes professionals with extensive experience in the fields of tax, accounting, law, actuarial science, and finance. We partner with Advisor Firms, M Financial Group Member Firms, and others to provide banks with local representation and the economies of scale and expertise that accompany centralized service.

Banks choose M Benefit Solutions - Bank Strategies for their executive benefits and BOLI needs due to our long-term commitment to clients, our financial strength, and our unparalleled service. For more than 30 years, M Benefit Solutions - Bank Strategies

has provided services to corporate and bank clients, building a model around exceeding the expectations of the most demanding clients.

The plans we create and the insurance products we utilize are designed to remain in place for decades. For this reason, our stability and financial strength is a critical consideration in any vendor selection process. The financial strength of our parent company, M Financial, is considerable: \$34 billion of total assets under management, more than \$122 billion of face value in-force, and gross 2009 revenues exceeding \$691 million.

The ownership structure of M Financial is as important as its financial scale. M Financial is owned by more than 125 independent financial services firms in the U.S. and Canada, each considered among the finest in the insurance industry. As a private U.S. company, we are not subject to the pressures of public company ownership, which allows us to focus on long-term objectives ahead of short-term performance. This dynamic fuels planning that is effective, sustainable, and in the best interests of our clients.

We know that a majority of community banks survived this past year by conducting business in a sound, principled manner. We believe these same banks will be in a position to thrive in 2011 and beyond. Thank you for your confidence and the opportunity to contribute to your ongoing success.

On behalf of everyone at M Benefit Solutions - Bank Strategies, we wish you a Happy New Year.

Sincerely,



Donald H. Friedman

Donald H. Friedman
President and CEO

THE BOTTOM LINE
EXECUTIVE AND DIRECTOR BENEFITS AND BOLI

SILVERSTONE GROUP, A BOLI ADVISOR FIRM, RECOGNIZED AMONG BEST PLACES TO WORK IN INSURANCE

SilverStone Group, a BOLI Advisor firm in Omaha, Nebraska, was honored recently by *Business Insurance* magazine and Best Companies Group as one of the nation's Best Places to Work in Insurance for 2010.

According to the Business Insurance website, Business Insurance launched the Best Places to Work in Insurance program to identify and recognize high-quality workplaces in the commercial insurance industry. As employers compete for talent and strive to be an employer of choice, these companies are being honored for creating workplaces that do a superior job of encouraging employees to thrive in a workplace of excellence.

Best Companies Group determined its list from a two-part procedure involving an analytical evaluation of company practices and an extensive, anonymous review of SilverStone Group associate point-of-views. CEO of SilverStone, John Nelson said:

"WE CONSIDER OURSELVES FORTUNATE TO HAVE A TEAM OF ASSOCIATES THAT WORK TOGETHER AND RESPECT ONE ANOTHER. THEIR COMMON FOCUS IS GIVING THE BEST POSSIBLE SERVICE."

Congratulations to SilverStone for this exciting recognition. It is a testament to their leadership and their continued dedication to their employees and the clients they serve. To learn more about SilverStone, please visit www.silverstonegroup.com.



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409A FAILURE RELIEF MODIFIED AND EXPANDED

On November 30, the IRS expanded the corrections program for nonqualified deferral plans that fail IRC Section 409A with the release of Notice 2010-80. The notice modifies prior notices as follows:

Notice 2010-6 modifications, effective for tax years beginning on or after January 1, 2009:

- Extends the correction program to certain linked plans so long as the linkage has no effect on time and form of payment, and to stock rights intended to comply with 409A rules.
- Provides additional correction method and transition relief for plans where the participant can accelerate or delay payment by tying payment commencement to a participant-controlled, employment-related event, such as when an employment agreement or non-compete is signed.
- For plan document corrections made before January 1, 2011, plan sponsors are no longer required to report corrections to participants and participants are no longer required to report those corrections with their federal income tax filings. However, plan sponsors are still required to report corrections on their own tax return.

Notice 2008-113 modifications, effective for tax years beginning on or after January 1, 2010:

- For 409A operational failures corrected within the same tax year as the failure occurred, the participant reporting requirement is also relieved.

The IRS issued the expanded corrections program in anticipation of the plan document and operational failure corrections deadline at the end of this year. In the notice, the IRS says they are continuing to analyze comments on correction guidance and expect to issue additional corrections guidance in the future.



QUALIFIED PENSION PLAN LIMITATIONS FOR 2011

PROVISION	2011 LIMIT
401(k) Elective Deferral Limit	
Annual employee contribution to 401(k) plans	\$16,500
Additional 401(k) contributions for employees age 50 or over	\$5,500
Maximum Compensation Limit	
The amount of annual compensation that can be taken into account when determining plan benefits	\$245,000
Defined Benefit Limit	
The maximum annual straight-life benefit at age 65 (not to exceed 100% of average annual compensation)	\$195,000
Defined Contribution Limit	
The maximum annual contribution to a defined contribution plan (not to exceed 100% of compensation)	\$49,000
Highly Compensated Employee Definition	
Dollar limit on who is considered a highly compensated employee	\$110,000

SOCIAL SECURITY ADMINISTRATION ANNOUNCES TAXABLE WAGE BASE FOR 2011

The maximum amount of earnings subject to the Social Security tax will remain unchanged in 2011 at \$106,800. The payroll/self-employment tax holiday, announced in late December 2010, reduces Social Security tax paid by employees in 2011 by two percentage points to 4.2%. Medicare tax remains unchanged at 1.45% on total earnings.



SAS 70

OUR COMMITMENT TO QUALITY CONTROL

In light of the increased financial controls being placed on corporations, M Benefit Solutions made a corporate commitment in 2003 to begin providing a SAS 70 for our clients. Despite the fact that we could be considered “exempt” from this type of control review, we determined it was in the best interests of our company and our clients to do so.

OUR RESULTS

M Benefit Solutions recently completed a SAS 70 report without exception for 2010.

ASSESSING YOUR VENDOR'S TECHNOLOGICAL CAPABILITIES

When contemplating implementation of an executive benefits program and/or a BOLI purchase, the most important decision a bank will make is the selection of an appropriate vendor to coordinate the bank's services over a long time.

As pointed out in OCC 2004-56, because of the long duration of both the underlying benefit programs and any BOLI financing, it is critical that the bank assess a potential vendor's ability to honor its commitments over the expected life of the program. A thorough due diligence process should include a review of each vendor's technological capabilities with consideration given to the following key variables:

- Security
- Disaster recovery
- Systems
- Quality controls and processes

The following provides questions banks should ask while conducting appropriate due diligence.

OUTLINE YOUR SECURITY MODEL.

M Benefit Solutions takes a layered approach to security, with each layer dependent upon the others. The layers of our security model are:

- **Policy**—M Benefit Solutions maintains clear and concise security policies. These policies are reviewed regularly by senior management.
- **Training**—Training is conducted to ensure everyone not only understands our security policies, but understands why they are necessary.
- **Technology**—With policies and training in place, M Benefit Solutions can apply the appropriate technologies to protect our information assets. These technologies ensure that our assets are protected from anyone who may try to steal or compromise them. The technologies that are in place are a combination of firewalls, intrusion

detections systems, access control, encryption, backup, patch management, and vulnerability assessments.

- **Monitoring**—M Benefit Solutions constantly monitors for internal and external attacks and violations.

DESCRIBE YOUR DISASTER RECOVERY AND BUSINESS CONTINUATION PLANS.

Due to the critical nature of our business, M Benefit Solutions has made a commitment to ensuring the continuation of business should a disaster occur. We have established a formal disaster recovery plan consisting of:

- **Business Continuation Plan (BCP)**—Governs all recovery options, resources and role definitions, as well as how the plan is to be monitored, maintained, modified, and tested. Actual testing takes place annually.
- **Emergency Action Plan (EAP)**—Step-by-Step guide to recovering all M Benefit Solutions services and processes in mission critical prioritized order.

Experts in the field assist with the monitoring and review of our plans and conduct annual tests. The plans are maintained in a sustenance process which dictates regular plan reviews, upgrades, testing, and modification. Plan highlights include:

- **Hardware Redundancy**—Redundant hardware (servers, firewalls, routers, switches, etc.) is maintained at our primary data center.
- **Secondary Remote Data Center**—If a disaster occurs that renders our primary data center non-operational, critical services are transferred to our Secondary Data Center. The Secondary Data Center contains all hardware and software necessary for the continuation of business. It is located at a secure site in a different geographic region of the country than our primary data center.
- **Data Backups**—Full backups are stored at our primary data center and at a secure remote site.



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DO YOU DEVELOP YOUR OWN ADMINISTRATIVE SOFTWARE OR USE AN OUTSIDE VENDOR?

Since 1983, M Benefit Solutions has devoted considerable resources to developing proprietary software for our administrative services. Systems are designed, implemented, maintained and improved by our in-house team of programmers, database developers, and network engineers. This expert team works closely with our actuarial and administrative staff to make ongoing improvements and respond to client-specific requests. Our systems conform to the “best practices” standards established by several vendor management organizations for our clients.

Utilizing our own in-house software engineering team enables us to customize our software to ensure that it will meet the unique and complex needs of our business and that it will be efficiently and effectively supported in the future. It also means that we, not a third-party vendor, own and control all the data and are independent from reliance on outside vendors for software support.

WHAT ACCESS, IF ANY, DO CLIENTS HAVE TO PLAN INFORMATION VIA THE INTERNET?

Client administrators have access to a plethora of custom information via BOLIPRO™, an M Benefit Solutions secure, password-protected website.

- **Home Page**—This page provides an overview for the bank and the auditors (many of our banks give their auditors limited access to their website) of all the information available on our site. From this screen, the administrator can access *quick links* to:
 - Cash Values
 - Liability Benefit Accounting
 - Carrier Ratings Profiles
 - Individual Participant Statements
 - Internal Audit and Review
 - Annual Compliance Review

- Additional information available through BOLIPRO™’s tabs menu includes:
 - Board Resolutions
 - Plan Documents (including individual participant documents if applicable)
 - Master Administrative Calendar
 - Financial Projections
 - Cash value downloads
 - Yield Analysis by year and since policy inception
 - Life Insurance Accounting (Journal Entries for the year)
 - Benefit Liability Accounting (Journal Entries and explanation of methodology)
 - Annual Imputed Income
 - Annual FICA with explanation
 - Risk Evaluation
 - Concentration Analysis
 - Peer Analysis
- **Financials**—This area contains all the current cash value information and allows the administrator to download the information into Excel or Adobe for ease of reporting. This area also includes the full year’s reporting (including journal entries and assumptions and calculation methodology) for Benefit Accounting, Annual Imputed Income, and Annual FICA charges.
- **Risk Evaluation**—This area provides all the tools necessary to meet the requirements of the OCC Bulletin including a Concentration Analysis with Peer Reviews and sample memorandum to be used for Annual Board Review.

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SUMMARIZE THE QUALIFICATIONS AND EXPERIENCE OF THE STAFF WHICH DEVELOPS AND MAINTAINS YOUR SYSTEMS.

M Benefit Solutions’ team of programmers, database developers, and network engineers brings significant depth and breadth of expertise to the table—in terms of both technological capabilities and knowledge of the executive benefits and BOLI marketplace.

This team has an average tenure of 12 years with the company and averages 17 years of total related experience.

In addition to participating in ongoing training to keep skills current, team members collectively hold a number of professional certifications.

DO YOU GO THROUGH AN ANNUAL SAS 70 AUDIT?

The Statement of Auditing Standards (SAS) No. 70 is an internationally recognized auditing standard developed by the American Institute of Certified Public Accountants (AICPA). A SAS 70 report represents that a service organization has been through an in-depth audit of its control activities, which generally include controls over information technology and processes which relate to the data belonging to clients.

In light of the increased financial controls being placed on corporations, M Benefit Solutions made a corporate commitment in 2003 to begin providing a SAS 70 for our clients. Despite the fact that we could be considered “exempt” from this type of control review, we determined it was in the best interests of our company and clients to do so. The requirements of Section 404 of the Sarbanes-Oxley Act of 2002 make SAS 70 audit reports important to the process of reporting on effective internal controls at service organizations.

M Benefit Solutions has completed a Type II SAS 70 report without exception for 2010.



DESCRIBE YOUR PROCESSES FOR MAINTAINING ACCURACY AND QUALITY IN PROVIDING SERVICES TO YOUR CLIENTS.

Each activity performed by the administrative team is peer reviewed with a formal audit checklist and sign off system. This includes cash value reporting, financial accounting, preparation and distribution of participant information, website posting, and fielding participant and corporate administrative requests and questions. These reports (checklists sign-off and review) are maintained in our Records area and available to external auditors assigned to review our processes, our clients, outside regulatory agencies, or our own internal auditors.

OUTLINE THE PROCESS YOU USE FOR MANAGING SERVICE LEVEL AGREEMENTS (“SLA”) AND THE SPECIFIC TECHNIQUES USED TO REPORT THE REQUIRED METRICS.

Our services are provided using a comprehensive Master Calendar system that establishes the performance requirements in the management areas of: relationship, operations, technology, financial, risk, and control and project management. This system tracks the tasks performed and the dates completed and reports variances to the performance targets. Each quarter, we review with our clients the metrics that compare our performance to the expected performance outlined in the SLA. From these variances we identify any items that require review or timing that needs correction. Then, we prepare and maintain an issues log which tracks variances and special projects and requests that are routine for most of our clients.



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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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