

**Composite/Multi-Line
Insurers
US and Canada
Credit Analysis**

**CUNA Mutual Group
And Insurance Subsidiaries**

Ratings

Security Class	Rating
CUNA Mutual Insurance Society Senior Unsecured Notes	AA-
Insurer Financial Strength	AA-
CUMIS Insurance Society Inc. Insurer Financial Strength	AA-

Outlook

Stable

Financial Data

CUNA Mutual Group		
Financials	Date	\$ Mil.
Net Income(Loss)	2006	180
Equity	12/31/06	1,863
Debt and Hybrids	12/31/06	0
Prism Score	12/31/06	AAA

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Related Research

- [Review and Outlook 2007–2008: North American Life Insurance, Special Report, Dec. 3, 2007](#)
- [Fitch Comments on US Life Insurance Exposure to Subprime Markets, Special Report, Aug. 17, 2007](#)
- [Fitch Affirms CMG Mortgage Insurance's IFS at 'AA', Outlook Stable, Press Release, Oct. 30, 2007](#)
- [Fitch Affirms CUNA Mutual's IFS at 'AA-', Outlook Stable, Press Release, Oct. 16, 2007](#)
- [Fitch Withdraws the Rating of CUNA Mutual Life Insurance Company, Press Release, Jan. 15, 2008](#)

Rating Rationale

- Competitive position and strong advantages in the credit union insurance market niche, although this creates concentration risk in the event of legal or regulatory changes in this market.
- Conservative high-quality investment portfolio with good liquidity.
- Strong balance sheet with no financial leverage, although mutual insurer status limits financial flexibility.
- Very good capital adequacy for life, property/casualty and aggregate capital as measured by Prism, Fitch's new economic capital model. Aggregate score of 102% of the 'AAA' threshold for year-end 2006, which is within Fitch's expectations and reflects the company's high capital levels and earnings diversification.
- Stable operating performance and moderate but improving profitability.

Key Rating Drivers

- The CUNA Mutual Group (CUNA Mutual) has improved recent results due, in part, to the success of its operational restructuring program. Fitch expects the continued implementation of this restructuring to contribute to earnings growth going forward.
- A benign regulatory environment in the credit union industry is important given CUNA Mutual's business concentration.
- CUNA Mutual must maintain its competitive niche in the credit union market, despite increasing competition.
- CUNA Mutual must continue to grow organically through new products and marketing.

Recent Events

After 17 years of operating under an agreement of permanent affiliation, on Dec. 31, 2007, CUNA Mutual Life Insurance Company (CMLIC) merged into CUNA Mutual Insurance Society (CMIS). The ratings on CMLIC were withdrawn as a result. Since CMLIC's obligations under its CMG Notes Program were transferred to CMIS, a new rating of 'AA-' for that program was established under CMIS.

Previously CMIS, CUMIS Insurance Society Inc. (CUMIS) and CMLIC were all redomesticated to Iowa in May 2007.

On Dec. 31, 2007 CUNA Mutual's Canadian business sold part of its property/casualty operation, Canadian Northern Shield Insurance Company (CNS), to The Royal & SunAlliance Canada Group (R&SA) for CAD75 million to concentrate more on the credit union market.

Key Rating Issues

Strong Capital Position

CUNA Mutual maintains solid capitalization, as measured by its 'AAA' Prism score, Fitch's economic capital model. CUNA Mutual's capital position is further augmented by the absence of financial leverage. However, Fitch notes the limited nature of the company's financial flexibility given its mutual status, thus making it more difficult to raise capital if needed.

Additional credence to Fitch's capital views is added by CUNA Mutual's year-end 2006 risk based capital (RBC) ratio of 354% on a consolidating basis, which is considered adequate for the rating category. The company's RBC ratio decreased from its 2005 level of 373%, which is attributed to a change in investment asset mix and growth in the property/casualty business. As of Sept. 30, 2007, Fitch estimates CUNA Mutual's RBC to be near its 2005 level.

Improving Profitability and Changing Investment Profile Through Restructuring Program

Recent profitability trends have been favorable.

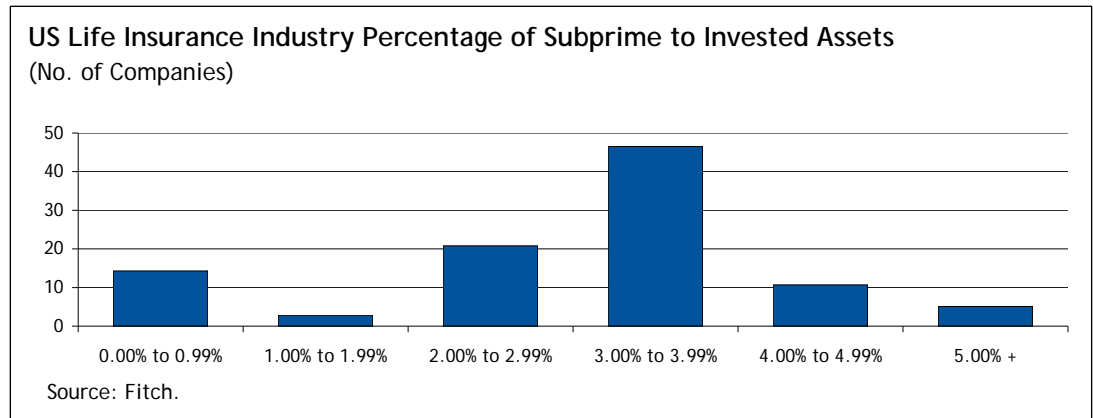
Fitch historically considered CUNA Mutual's profitability to be moderate. However, after a change in management in 2006, CUNA Mutual embarked on a three-year restructuring program to make the company more streamlined, efficient and easier to do business with. The program is expected to lead to increased revenues and lower costs. Two full years into the program, results have been successful and are ahead of financial benchmarks used to measure progress. Aspects of the program have focused on claims and administrative efficiencies, investment operations and distribution optimization, which are worth several hundred million dollars. The results can be seen in the improved pretax operating gains of CUNA Mutual, which increased 47% in 2006 and are trending favorably in 2007.

Business Concentration Risk Due to Focus on the Credit Union Market

CUNA Mutual has a dominant position in the US and Canadian credit union insurance market. Such business concentration increases the impact of any possible business or regulatory risk in the industry. CUNA Mutual's customer base consists of 98% of the credit unions in the US having at least one CUNA Mutual product. CUNA Mutual holds particularly strong positions in the credit union market in credit disability/life, direct sold life and health, fidelity and collateral protection insurance.

Subprime Exposure Not a Major Concern

Fitch believes CUNA Mutual's subprime exposure is manageable, but it will be closely monitored. CUNA Mutual is exposed to subprime mortgage market weakness through its



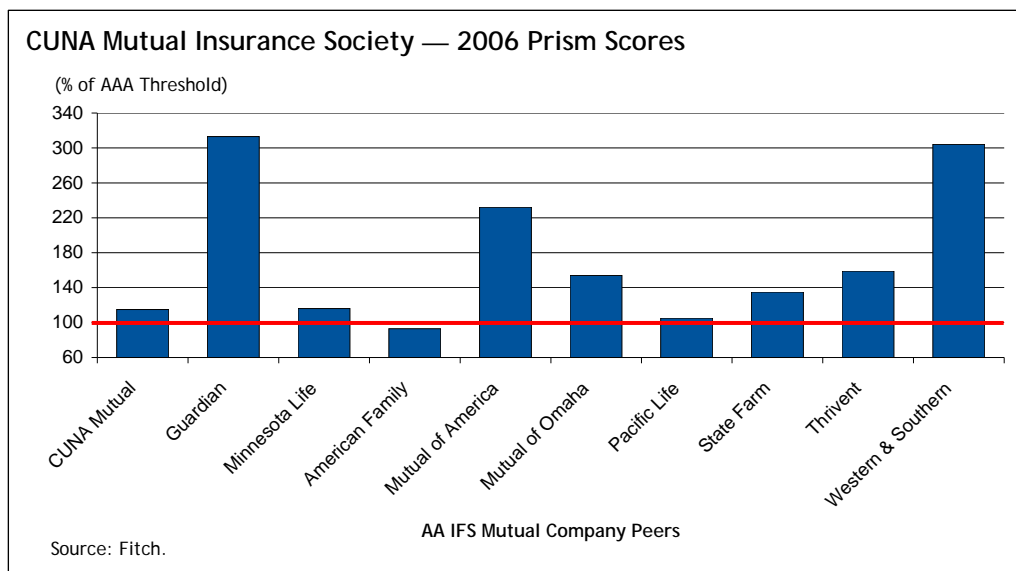
investment portfolio (mostly in its life entities) and its mortgage insurance business (which Fitch rates separately). While subprime exposure relative to invested assets of 3.6% is higher than the life insurance industry average of 2.9%, Fitch believes CUNA Mutual's subprime exposure is manageable but will remain watchful of developments in these securities.

Mortgage insurance production has slowed along with housing market activity while industry losses have escalated. However, the quality of CMG Mortgage Insurance Company's (CMG MI) underwritten portfolio still remains better than competitors, as historically superior characteristics of the credit union market have kept CMG MI a positive earnings contributor.

Peer Analysis

CUNA Mutual's Prism Score vs. Peers' Scores

CUNA Mutual's Prism score exceeded the 'AAA' threshold but by a slimmer margin than other mutual companies with similar insurer financial strength (IFS) ratings. However many of these companies are much larger with more meaningful business diversification.



Expense Ratio for Credit Life Higher than Peers but Being Addressed

CUNA Mutual's expense ratio for its credit life business is consistent with the industry average but higher than the top competitors. This is counter to CUNA Mutual's strategy to be price competitive in those businesses and is being addressed by the company's restructuring program. Fitch believes CUNA Mutual will benefit in increased sales and profits from the realization of savings from its efforts.

Property/Casualty Peer Analysis

When compared with its rating category, CUMIS is smaller than its peers on the basis of premiums and surplus. The company also boasts a higher expense ratio, which is typical for smaller regional insurance companies. Favorably, CUMIS has one of the strongest RBC ratios and is among the more unlevered companies in Fitch's rating universe. Fitch also views the company's reserve quality favorably. Overall, CUMIS may lack some of the national presence or franchise values that some of its higher-rated peers have; however, it does have a strong niche among credit unions and solid market share in the fidelity market.

**Operating Subsidiaries:
Ratings List and History**

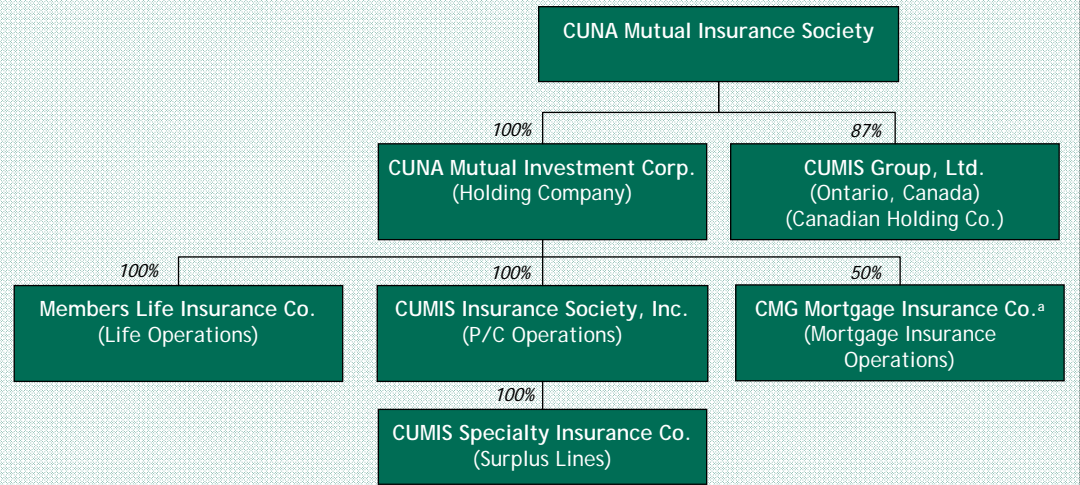
CUNA Mutual Insurance Society
Medium-Term Notes AA-
IFS Rating AA-
Former Rating AA
Change Date 9/19/02

CUMIS Insurance Society Inc.
IFS Rating AA-
Former Rating AA
Change Date 9/19/02

CMG Mortgage Insurance Co.
IFS Rating AA^a
Former Rating AA-
Change Date 10/11/99

^aOn Negative Outlook as of Feb. 25, 2008.

Simplified Organizational Chart



^a50% owned with PMI Mortgage Insurance Corporation.
Source: CUNA Mutual Group.

Company Profile

Company Ownership and Overview

CUNA Mutual is based in Madison, Wis., and has operations in the US, Canada and approximately 30 other select international markets.

CUNA Mutual’s adopted mission is to create financial security for both credit unions and the members of credit unions. To do this, CUNA Mutual offers a broad array of insurance, investment and technological solutions through strategic relationships and multiple service channels, acting as a major support function to the credit union industry.

Fitch believes CUNA Mutual’s long history in this market, where it has established strong and enduring relationships, and dominant market share, are part of its key competitive

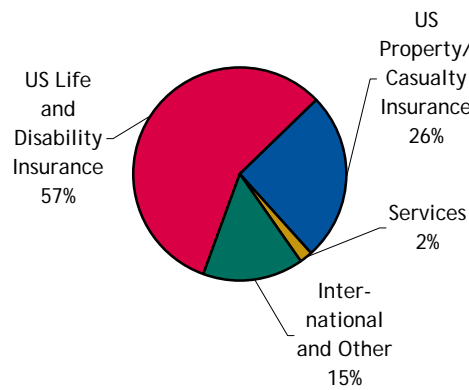
advantages. Among those relationships is its association with The Credit Union National Association (CUNA), which has endorsed CUNA Mutual as its insurance carrier of choice.

The lead operating companies within CUNA Mutual are CMIS and CUMIS. These Iowa-domiciled companies operate under a similar strategy and have a common board of directors.

CMIS is a mutual life insurance company, which serves as the parent organization of the companies that form CUNA Mutual. As a mutual insurance company, CMIS is owned by its policyholders, who in this case include both credit unions and individuals. The company is the direct writer of credit life and disability, loan

CUNA Mutual Mix of Business — Operating Revenues

(As of Dec. 31, 2007)



Source: CUNA Mutual Group.

Summary of Statutory Net Income — CUNA Mutual Group

(\$ Mil.)

	9M2007	9M2006	2006	2005	2004	2003	2002
CUNA Mutual Insurance Society	32	61	68	119	38	38	8
CUNA Mutual Life Insurance Co.	15	23	4	32	23	1	(29)
MEMBERS Life Insurance Co.	(5)	2	1	(3)	1	(1)	0
CUMIS Insurance Society, Inc.	62	28	45	12	41	43	(4)

Source: Highline Data.

protection, life savings, pension products, direct-response-sold life and health insurance, group life and disability, annuity products, group pension products and funding agreements. The overwhelming majority of CMIS' revenues are generated in the US. MEMBERS Life Insurance Company is a stock life insurance subsidiary of CMIS that is used to market a small amount of ordinary life retail products.

CUMIS is a stock property/casualty insurance company owned by CMIS through a holding company that was created in 1960. The company writes the majority of the property/casualty business for CUNA Mutual. CUMIS is the largest fidelity bond insurer within the credit union marketplace with approximately 95% market share. CUMIS also writes commercial multi-peril, other liability and collateral protection insurance.

In 1998 the company formed an alliance with Liberty Mutual to market its personal lines products (auto, home, etc.) to credit union members in exchange for a distribution fee. CUMIS assumed 15% of the business written prior to 2005, 25% of the business written in 2005 and 2006, and 35% of the business written in 2007. For policies written in 2008, CUMIS will assume 45% of the business written and will begin distributing Liberty Mutual's workers' compensation product as well.

Through a partnership with Producers Agriculture Insurance Group (Pro Ag), the company also offers crop insurance to family farmers and agricultural producers nationwide—its foray into the non-credit union marketplace. In 2007 CUNA Mutual reached an agreement to purchase a minority ownership share in Pro Ag.

CUMIS Specialty Insurance Company (CUMIS Specialty) is an Iowa surplus lines insurance company formed in 2006 with an initial capitalization of \$20 million. Currently, the company is licensed in Pennsylvania but plans to expand. CUMIS Specialty offers blanket physical damage, commercial inland marine, and crime coverage through existing affiliated distribution channels. In addition, the company has received regulatory approval to participate in a pooling reinsurance agreement with CUMIS, assuming 10% of the pool in the quarter preceding the first premiums written by CUMIS Specialty. The company anticipates it will write its first premiums Jan. 1, 2008.

In 1994 CUNA Mutual entered into a joint venture with PMI Mortgage Insurance Co. (PMI) to provide mortgage insurance to credit union members through CMG MI and sister mortgage insurers. Ownership is split 50% by PMI and CUNA Mutual. PMI is the third-largest mortgage insurer in the country and brought expertise in mortgage insurance operations, while CUNA Mutual provides the credit union distribution channel. CMG MI was the ninth-largest mortgage insurer in the US in 2006 and has a dominant market share in the credit union market. CMG MI is approved by the Federal National Mortgage Association and Federal Home Loan Mortgage Association and is licensed to do business in 49 states and the District of Columbia.

In addition to the above companies, CUNA Mutual operates other US non-insurance subsidiaries (see Affiliates section on page 13) and other international insurance companies, which serve the needs of the credit union market. International regions are each served by their own operating companies, which are wholly or partially owned by

CUNA Mutual. Fitch notes that in 2006 CUNA Mutual boosted its ownership interest in CUMIS Group Ltd., its Canadian operation, to 87.4%.

Key Historical Events

CUNA Mutual received its start in 1935 when its lead insurance company, CMIS, was formed by CUNA, a trade association for credit unions and early pioneer of the credit union movement, to provide credit union-oriented services and standardized office supplies to credit unions and their members.

In July 1990, CMLIC, a company established in 1879, joined CUNA Mutual by signing an agreement of permanent affiliation with CMIS. On Dec. 31, 2007, CMLIC merged into CMIS.

Products

Fitch believes CUNA Mutual's recent change to a more focused product strategy is appropriate and will lead to increased profitability. Historically, CUNA Mutual's product strategy has been to provide an expansive cadre of products to the credit union industry. CUNA Mutual offers products for both the commercial credit union itself and the retail credit union member. As a result, its product offerings grew to be extremely broad. After a management change in 2005, CUNA Mutual took a critical look at its product strategy and began to instill more product discipline, a process that is continuing to unfold.

Broadly defined, CUNA Mutual's products fall into three categories:

1. Insurance (consumer or commercial) — 87% of 2007 operating revenues, mostly consumer.
2. Asset management (retail, retirement, institutional) — 10% of operating revenues.
3. Services (business forms, call centers, administration) — 3% of operating revenues.

Operationally, CUNA Mutual is organized into groups centered on its customer and product offerings. The primary groupings are Consumer Products, Commercial Products, Asset Accumulation, Service Products and International.

Consumer Products are focused on individuals who use credit unions to meet their financial services needs. Products include debt cancellation, credit, life, and auto and home insurance.

All credit insurance products are underwritten by CMIS. Products to insure credit unions' loan collateral against loss are marketed by CUMIS.

Commercial Products focuses primarily on meeting the needs of credit union. Products include business protection including fidelity insurance, employee benefits, collateral products, crop insurance and mortgage insurance. Mortgage insurance, which is a small product for CUNA Mutual, is marketed by CMG MI.

Products offered through *Asset Accumulation* comprise various institutional and retail offerings including investment advisory, qualified retirement services, annuities, mutual funds and managed accounts. This segment also includes brokerage services and universal and variable universal life products.

CUNA Mutual has maintained its 50% share in the credit union pension market by becoming a full-service, one-stop pension provider and through product and service innovations. The company has \$5.6 billion in mostly 401(k) pension assets under administration at Dec. 31, 2007.

Service Products offer services to credit unions and its members for call center outsourcing, business-form completion and IRA administration.

International companies sell similar life, credit, disability, and auto/home insurance products as those sold in the US, along with wealth management products.

In October 2000, CUNA Mutual initiated a medium-term, non-callable funding agreement program marketed to corporate credit unions. These funding agreements were written in the separate account of CMLIC and became obligations of CMIS with the merger. The company has about \$50 million of these notes in force at Dec. 31, 2007. There are no new notes being written under this program and the existing balance is expected to run off by 2010.

Target Market

CUNA statistics for late 2007 suggest credit unions in the US serve more than 90 million members. Although the number of credit unions has declined over the past decade to about 8,800 as consolidation has occurred, overall credit union membership continues to grow. The competitive positioning and overall health of the credit union market in the financial services industry has a direct impact on CUNA Mutual's revenue and earnings opportunities. CUNA Mutual counts about 98% of the credit unions in the US as its customers.

CUNA Mutual has a dominant position in the credit union insurance marketplace.

US Credit Union Trends

Date	No. of Credit Unions	No. of Members (000)	No. of Full-Time Employees
June 2007	8,538	89,054	218,110
Dec. 2006	8,662	88,222	213,764
June 2006	8,854	87,905	210,677
Dec. 2005	9,011	87,014	206,626
June 2005	9,198	86,988	204,118
Dec. 2004	9,346	86,051	200,572
June 2004	9,542	85,640	198,487
Dec. 2003	9,709	84,852	195,080
June 2003	9,875	84,240	190,685
Dec. 2002	10,041	83,373	185,986
June 2002	10,174	82,557	182,948
Dec. 2001	10,355	81,589	179,833
June 2001	10,514	80,938	176,569
Dec. 2000	10,684	79,752	171,221
June 2000	10,860	78,866	168,803
Dec. 1999	11,016	77,517	165,797
June 1999	11,224	76,736	163,231
Dec. 1998	11,392	75,616	159,792
June 1998	11,531	74,691	156,767

Source: CUNA.

Historically, CUNA Mutual has focused on the small to medium-size credit unions, although it is now looking to increase product penetration deeper into larger (top 5%) credit unions, where the majority of credit union assets lie and the most membership growth is taking place. CUNA Mutual has even started to expand beyond credit unions with its crop insurance program.

Internationally, operations are concentrated in Canada, which accounts for 72% of the international segment's operating revenue and has been improving for some time. Canada is CUNA Mutual's next biggest market after the US. In Canada the credit union industry is more developed with greater participation in the credit unions on a per capita basis and in assets in credit union per member. Credit union members numbered around 11 million and credit unions around 1,000, making the credit unions slightly larger than in the US.

International operations are an increasing share of operating revenues, driven primarily by Canada.

Other international regions—Australia, the Caribbean (based in Trinidad, Tobago) and Europe (based in Ireland)—make up the lion's share of the segment's remaining revenue. International earnings in these other regions have shown some volatility. In 2005 international earnings were hit by some growth-related expenses in Australia and China (where CUNA Mutual's operational strategy has changed to emphasize partnership over ownership). In Fitch's view, the International group provides CUNA Mutual with some added diversification and the opportunity to grow as these markets mature.

Distribution

Fitch believes CUNA's distribution model is effective for reaching its core credit union market on both the commercial and retail level. Over the past couple of years, CUNA has reorganized its distribution force around customer segments to improve account management and better position itself to serve the needs of its traditional small to medium-size credit union customer as well as increase its presence among the largest credit unions.

The traditional, non-credit-related individual insurance and asset accumulation products are distributed primarily through representatives located inside the credit unions.

Credit union representatives are registered, securities are sold and investment advisory services are offered through CMIS subsidiary, CUNA Brokerage Services, Inc. (CBSI). CBSI is under contract with the financial institution to make securities and services available to members. CBSI is a registered broker/dealer in the United States. The representative may also be a credit union employee that accepts deposits on behalf of the financial institution. Products are also sold through direct mail and a centralized phone and Internet sales force.

Financial Analysis — Operating Company

Operating Performance

Fitch considers CUNA Mutual's earning profile to be moderate but improving. The company's 2006 GAAP earnings (from continuing operations) improved approximately 36% and are up approximately 21% through nine months of 2007. The improvement can be largely attributed to the company's restructuring program, which resulted in reduced operating expenses and improved investment results. Results over the past year have also benefitted from efforts to combat plastic card losses in the company's fidelity lines.

Consolidated GAAP Net Income — CUNA Mutual Group

(\$ Mil.)

	9M2007	9M2006	2006	2005	2004	2003	2002
Pretax Operating Income and Other	167	128	170	112	119	153	31
Net Realized Gains/(Losses)	4	13	10	12	21	30	(50)
Net Income	171	141	180	124	140	135	(12)

Source: CUNA Mutual Group.

CUNA Mutual's restructuring program has been successful in improving profitability, but continued improvement is needed.

The three-year restructuring program CUNA Mutual began in 2006 is expected to produce several hundred million dollars of efficiencies and savings from changes in claims processing, administration, investments and distribution. Through 2007 the program has exceeded its goals, partially through acceleration of some of the changes.

US life earnings in 2006 reflected very favorable underwriting results in the credit insurance, employee group benefit and asset accumulation products. However, results have largely flattened out for these products and declined slightly for employee group benefits through nine months of 2007. Stable results were seen in the consumer life and health products.

Operating Performance — CUNA Mutual Insurance Society

(\$ Mil.)

	9/30/07	9/30/06	2006	2005	2004	2003	2002
Total Premium Income	1,233	1,096	1,558	1,408	1,448	1,324	1,294
Investment Income	104	113	151	158	97	101	92
Total Revenue	1,410	1,283	1,764	1,658	1,633	1,503	1,464
Gain Before Federal Income Tax and Dividend	68	98	89	130	40	35	22
Policyholder Dividend	2	1	2	2	2	1	4
Pretax Gain from Operations	67	96	87	128	38	34	18
Federal Income Tax	24	38	24	10	(0)	(7)	(5)
Net Operating Gain	43	58	63	118	39	41	23
Realized Capital Gains	(10)	4	4	1	(1)	(3)	(15)
Net Income	32	61	68	119	38	38	8
Total Net Admitted Assets	3,498	3,311	3,393	3,226	3,124	2,873	2,598
Operating Return on Total Adjusted Capital	5.87	8.73	7.13	13.71	4.72	6.10	7.89
Pretax Return on Total Assets Pre-Dividend	2.63	3.97	2.69	4.09	1.33	1.27	0.86
Pretax Return on Total Assets Post-Dividend	2.57	3.91	2.63	4.03	1.28	1.25	0.71
Pretax Operating Margin	4.72	7.50	4.93	7.72	2.34	2.27	1.22
Expense Ratio	14.32	14.16	14.35	14.05	13.91	14.17	16.02
Net Investment Yield	4.44	5.09	5.07	5.52	3.58	4.16	4.19
Mortality Ratio	—	—	68.43	73.75	74.46	66.00	69.33
Ordinary Life Lapse Ratio	—	—	17.30	16.90	15.40	15.00	15.40

Note: Statutory accounting principles.
Source: CUNA Mutual Insurance Society.

Fitch views overall earnings trends in CUNA Mutual's property/casualty business positively. US property/casualty earnings were up in 2006, followed by even greater earnings improvement in 2007. The biggest change came in significant improvement for the plastic card business, a component of fidelity insurance. Although earnings continued to be hurt by prior-year losses in plastic card in 2006, increased rates, more onerous security requirements and good account retention led to a significant improvement in the accident-year loss ratio in 2007. Fitch expects prior-year losses to continue to adversely impact results through 2008, although accident-year losses should remain benign.

Although CUNA Mutual's partnership with Liberty Mutual resulted in very good growth in its auto and home business, profitability, measured by its 110% combined ratio as of Sept. 30, 2007, trails similarly rated peers.

Operating and Underwriting Ratios, Property/Casualty Lines — CUNA Mutual Group

(%)

	2006	2005	2004	2003	2002
Return on Assets	3.6	1.0	4.9	6.7	1.5
Return on Surplus	10.2	2.9	10.8	13.9	(1.4)
Loss Ratio	64.1	68.7	60.0	59.5	65.7
Expense Ratio	36.4	34.6	34.9	33.0	36.9
Combined Ratio	100.5	103.3	94.9	92.5	102.7

Note: Statutory accounting principles.
Source: CUMIS Insurance Society, Inc.

International, led by Canada, the Caribbean and Europe, is another area that has grown rapidly in 2006 and 2007. Earnings doubled in 2006 and are showing further improvement in 2007. Contributing to the earnings growth is a strategic change to focus on core product sets and disinvestment in markets that fail to develop. CUNA Mutual's new crop insurance product also contributed to growth in 2007.

Investment Portfolio — CUNA Mutual Insurance Society

(%)

	9/30/07	9/30/06	2006	2005	2004	2003	2002
Total Invested Assets (\$ Mil.)	3,213	3,029	3,087	2,972	2,899	2,669	2,384
% Bonds	56.6	62.6	59.8	67.7	61.4	61.7	60.1
% Common and Preferred Stock	26.8	24.4	0.9	1.2	1.4	0.9	1.4
% Mortgage Loans	7.4	5.2	5.4	0.9	1.2	1.6	1.9
% Real Estate	3.0	3.2	3.1	3.4	3.2	3.1	3.2
% Policy Loans	0.3	0.3	0.3	0.3	0.3	0.3	0.3
% Cash and Equivalents	1.5	1.5	2.5	1.3	1.4	2.3	3.1
% Affiliated Investments	—	—	24.1	23.1	29.5	28.7	28.6
% Other Invested Assets	4.4	2.8	3.8	2.1	1.6	1.5	1.5
Below Investment Grade/TAC	24.2	23.2	24.4	16.6	7.8	13.0	12.8
Troubled Real Estate/TAC	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Unaffiliated Common Stock/TAC	—	—	3.1	4.2	4.6	3.2	5.3
Schedule BA Other Invested Assets/TAC	—	—	8.1	7.2	11.0	13.8	30.9
Risky-Assets Ratio	—	—	35.6	28.0	23.3	29.9	49.0

TAC – Total adjusted capital. Note: Statutory accounting principles.
Source: CUNA Mutual Insurance Society.

Investments and Liquidity

Fitch believes that CUNA Mutual's investment profile is conservative. Investments are managed by an in-house staff of investment professionals. Overall asset quality and liquidity has deteriorated but remains strong.

In 2007 CUNA Mutual continued to shift its investment portfolio to increase allocation to private placement bonds, commercial mortgages and other private asset classes. This was part of an investment-strategy change started in 2006 to increase emphasis on investment yield versus total return. CUNA Mutual augmented its investment team by adding 29 investment professionals with an expertise in various sectors. CUNA Mutual also started managing against appropriate indexes instead of peer results during this time period, which Fitch feels is more appropriate. While Fitch acknowledges that performance should be measured over the long term, yields have improved markedly during 2006 and 2007.

As Fitch expected, CUNA Mutual's average credit quality and overall asset liquidity decreased slightly after the investment strategy shift but still remained very good. Average bond quality decreased from 'AA-' to 'A+'. CUNA Mutual limits credit risk in its bond portfolio by maintaining a diversified portfolio that is subject to sector and issuer limitations, and by limiting total exposure to below-investment-grade bonds to no more than 7% of invested assets. Exposure to below-investment-grade securities, once significantly below peers, is now on par with peers.

CUNA Mutual has incurred increased credit losses in the bond portfolio in recent years due to the downturn in the credit market. However, Fitch notes that realized losses have been moderate relative to peers due to CUNA Mutual's historically below-average allocation to below-investment-grade bonds and very conservative accounting for loss recognition. However, given the increased allocation to below-investment-grade bonds, Fitch expects realized losses to increase. At this time it is too early to determine the possible extent of the increase.

CUNA Mutual's investment philosophy is conservative, although the allocation to below-investment-grade bonds increased in 2007.

Asset liquidity and interest rate risk is managed within the context of the company's asset/liability management process, and is well controlled in the aggregate. Assets are tagged to specific liabilities, and durations are tightly managed.

The primary sources of disintermediation risk for CUNA Mutual's life companies relate to the individual fixed annuities and funding agreements. Fitch believes that the risks associated with the fixed annuity portfolio are somewhat mitigated through product

design and maintaining a tight duration match. The organization primarily sells fixed annuities with market value surrender adjustments.

Liquidity risk is managed through controlled growth of the funding agreement portfolio, tight duration matching and significant backup liquidity sourced from a borrowing facility with the Federal Home Loan Bank and the liquid assets in the general account of the insurance subsidiaries.

Reinsurance

Fitch believes CUNA Mutual's reinsurance approach is appropriate given the geographic and demographic diversity of its insurance exposures. CUNA Mutual centrally manages its global reinsurance program and makes modest use of external reinsurance. It has minimal asbestos and environmental exposure from selling business liability insurance. Underwriting risk is largely retained except for catastrophe risk and large insurance exposures. Catastrophe risk covers commercial and residential property in excess of retention limits linked to 1-in-250-year events. Fidelity bond reinsurance is also used for coverage above retention limits.

Fitch views CUNA Mutual's reinsurance recoverable risk as neutral. The company's top reinsurers, along with Fitch IFS ratings, are Lloyd's of London (not rated), Allied World Assurance (not rated), Swiss Re ('AA-') and Berkshire Hathaway ('AAA').

Internal reinsurance included arrangements between CMLIC and Members prior to CMLIC's merger with CMIS, under which CMLIC ceded 50% of its fixed annuity and nonvariable life insurance premium to MEMBERS Life Insurance Company. In conjunction with the CMIS/CMLIC merger, the reinsurance agreement was commuted. The assets and reserves were reclaimed by CMIS.

Reserve Adequacy and Development

Fitch believes that CUNA Mutual's reserves are slightly redundant, as the company utilizes a conservative reserving strategy. However, management has expressed an interest in reserving less conservatively in the future, although Fitch expects that reserves will remain strong relative to peers. Fitch's opinion on CUNA Mutual's reserves for ongoing business is shaped largely from its review of the company's recent development trends, Schedule P data and discussions with management.

Recent Reserve Development Trends: CUNA Mutual's reserves have developed favorably in recent years.

Schedule P Analysis: Fitch's reserve adequacy model implicitly assumes that reserves for accident years 1996 and prior are adequate. The model uses Schedule P data on a by-line basis to develop loss development factors and to predict ultimate accident-year losses. Fitch believes that the effectiveness of its reserve-adequacy model is limited due to the amount and resolution of Schedule P data available for input.

Historical reserve development trends have been favorable.

Reserve Development, Property/Casualty Lines — CUNA Mutual Group

(\$ Mil.)

	2006	2005	2004	2003	2002	Five-Year Avg.	
						Company	Industry
Adverse (Favorable) Reserve Development	(11.9)	(21.6)	(48.2)	(35.8)	(32.1)	—	—
Surplus — Prior Year (PY)	414.7	402.8	353.1	266.8	278.3	—	—
Reserve Development/Surplus — PY (%)	(2.9)	(5.4)	(13.7)	(13.4)	(11.5)	(9.4)	4.7

Note: Statutory accounting principles.
Source: CUMIS Insurance Society, Inc.

Capitalization — CUNA Mutual Insurance Society

(\$ Mil.)

	9/30/07	9/30/06	2006	2005	2004	2003	2002
Beginning-of-Period TAC	927	833	838	882	755	582	599
Net Operating Gain	43	58	63	118	39	41	23
Net Realized Gain/Loss	(10)	4	4	1	(1)	(3)	(15)
Change in Unrealized Gain/Loss	56	25	55	(142)	87	129	(31)
Change in Reserve Valuation	0	0	0	0	0	0	0
Paid-in Capital/Surplus	0	0	0	0	0	0	0
Dividends to Stockholders	0	0	0	0	0	0	0
Other Changes	(8)	4	(29)	(20)	3	6	6
Total Changes	81	91	94	(44)	128	172	(17)
End-of-Period TAC	1,007	923	932	838	882	755	582
Statutory Surplus	831	808	790	747	725	619	502
Asset Valuation Reserve	176	114	136	85	151	129	74
1/2 Policyholders' Dividends	1	1	1	1	1	1	2
Regulatory Capital	1,007	923	927	833	877	749	578
Required Capital (Company Action Level) ^a	255	228	255	228	351	301	266
Risk-Based Capital Ratio (%)	395	362	366	368	251	251	219
Assets/Statutory Surplus (x)	4.21	4.10	4.29	4.32	4.31	4.64	5.18
Adjusted Liabilities/Statutory Surplus (x)	3.00	2.96	3.12	3.21	3.10	3.43	4.03

^aRequired Capital at the company action level, for the quarters, is estimated based on year-to-date invested asset growth
Note: Statutory accounting principles.
Source: CUNA Mutual Insurance Society.

Capitalization

Fitch believes that CUNA Mutual maintains a conservative capital position based on the company's very strong Prism scores, good risk-based capitalization and absence of financial leverage.

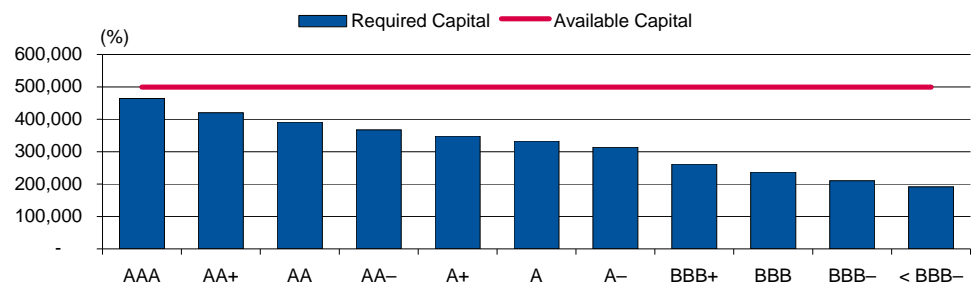
CUNA Mutual has strong capital and a 'AAA' Prism capital score.

The quality of CUNA Mutual's statutory capital position is strong and has not been influenced by the use of financial leverage or financial reinsurance. Statutory adjusted capital and surplus of the CUNA Mutual Group grew 6.5% through nine months of 2007 and 7% to \$1,289 million during 2006.

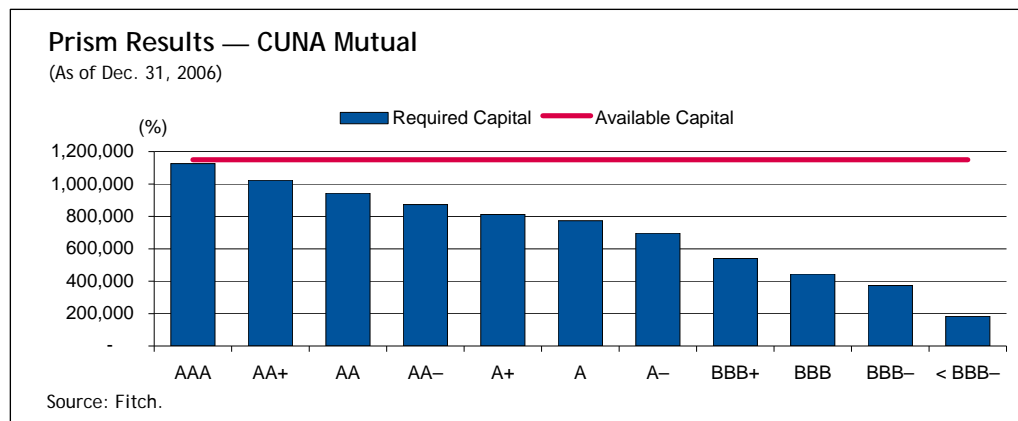
CUNA Mutual has very good aggregate life and property/casualty capital adequacy, as measured by Prism, Fitch's new economic capital model, of 102% of the 'AAA' threshold for year-end 2006. This score is within Fitch's expectations and reflects the company's high capital levels and good earnings diversification, but is weaker than 2005's score, reflecting some asset-mix changes and business growth. Individual Prism scores for CMIS and CUMIS are both over the 'AAA' threshold for 2006 and 2005.

Prism Results — CUMIS Insurance Society

(As of Dec. 31, 2006)



Source: Fitch.



Fitch estimates that CUNA Mutual's combined RBC ratio was about 373% at Sept. 30, 2007, compared with 356% at year-end 2006 and 373% at year-end 2005. Fitch believes the increase in 2007 is partially due to management's efforts to improve earnings and profitability in its operations. Fitch expects CUNA Mutual to manage its RBC position near its current levels, which compares favorably to its peers.

CUNA Mutual's financial flexibility is somewhat constrained by its mutual form of ownership. For a mutual company, the primary option to raise additional capital is borrowing. CMIS does have in place an advance, collateral pledge, and security agreement with the Federal Home Loan Bank of Chicago. At Dec. 31, 2006, or Sept. 30, 2007, CMIS had no outstanding borrowings under the agreement.

CMIS also has a capital support agreement in place for its subsidiary CMG MI, where it agrees to provide up to \$37.65 million, subject to certain limits, so as to maintain a statutory-risk-to-capital ratio of 18 to 1 or less. At Sept. 30, 2007, the statutory-risk-to-capital ratio was 14.5 to 1. Securities were held in trust for this purpose, which had a value of \$41.1 million at Dec. 31, 2006.

Affiliates

MEMBERS Capital Advisors, Inc. is a registered investment advisor and is the investment advisor for the general and separate account assets of CUNA Mutual, MEMBERS Mutual Funds, proprietary mutual funds offered through MEMBERS Financial Services (MEM FS), and certain credit union pension assets.

CUNA Brokerage Services, Inc. is a wholly owned subsidiary of CMIC and is a full-service brokerage operation for MEM FS. A similar operation in Canada, CUIS Brokerage Services Ltd., is jointly owned with the co-operators.

CUNA Mutual exited the mortgage business with the sale of CUNA Mutual Mortgage Corporation to PHH Mortgage in the fourth quarter of 2005.

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