

CUNA Mutual Insurance Society and Subsidiaries

**GAAP Consolidated Financial Statements, Unaudited
For the six months ended and as of June 30, 2011**



CUNA Mutual Insurance Society and Subsidiaries

June 30, 2011 GAAP Financial Highlights, unaudited

CUNA Mutual stands committed to credit unions, credit union members, and other policyholders through these challenging times. Like many non-public companies, we produce audited financial statements annually, on a calendar year basis. This update is designed to provide customers with interim **unaudited** information about CUNA Mutual's 2011 capital and surplus position and operating results.

Capital and Surplus

GAAP Surplus – On an insurance company's balance sheet, surplus represents the excess of the value of its assets over its liabilities. Generally accepted accounting principles (GAAP) defines how surplus is measured through a common set of accounting principles and standards. CUNA Mutual, like many insurance companies, experienced a decline in its GAAP surplus in 2008 due to unrealized losses on investments. The market recovery since 2008 resulted in net appreciation on our investments. The combination of net investment gains and strong operating results produced a significant increase in our GAAP surplus. Our GAAP surplus at December 31, 2010 is well above our year-end 2009 GAAP surplus. Through the second quarter of 2011, our surplus continued to grow due to strong operating results and continued market improvements and now is nearly \$2.0 billion.

GAAP Surplus – 12/31/08	GAAP Surplus – 12/31/09	GAAP Surplus – 12/31/10	GAAP Surplus – 06/30/11 ¹
\$1.204 Billion	\$1.599 Billion	\$1.877 Billion	\$1.998 Billion

Statutory Surplus – Statutory accounting principles, as defined by the National Association of Insurance Commissioners (NAIC), are generally more conservative than GAAP and, therefore, produce a lower surplus value than under GAAP. CUNA Mutual's primary measure of capital adequacy is total adjusted capital (TAC), which represents surplus plus the asset valuation reserve (AVR) and one-half of the policyholder dividend liability. At the end of the second quarter of 2011 CUNA Mutual's TAC stands at over \$1.4B – a continued high for CUNA Mutual. The continued increase in TAC in 2011 was driven by strong operating performance and investment gains.

TAC – 12/31/08	TAC – 12/31/09	TAC – 12/31/10	TAC – 06/30/11 ¹
\$1.126 Billion	\$1.239 Billion	\$1.420 Billion	\$1.450 billion

Risk-based Capital Ratio – Risk-based capital (RBC) is the amount of required capital that an insurance company must maintain based on the inherent risks in the insurer's operations. The RBC ratio is calculated annually and reported to state regulators and the NAIC. It compares a company's total adjusted capital to its required capital. At the end of 2010, CUNA Mutual's RBC ratio was three times the required capital level and we expect our RBC ratio to exceed this at year-end 2011.

RBC Ratio – 12/31/07	RBC Ratio – 12/31/08	RBC Ratio – 12/31/09	RBC Ratio – 12/31/10
325%	300%	330%	373%

2011 Operating Results (GAAP basis)¹

CUNA Mutual's operating results remain strong during this economic downturn. The momentum from improved financial results in 2010 continues into the second quarter of 2011.

- CUNA Mutual's operating revenue grew 2.3 percent year over year as of June 30, 2011.
- Net income through June 30, 2011 was \$51 million.

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Financial Strength Ratings

The financial strength rating of an insurance organization is derived from an evaluation of the company's balance sheet strength, operating performance and business profile. CUNA Mutual is rated by A.M. Best. Financial strength ratings are summarized below:

January 30, 2008	March 24, 2009	April 1, 2010	April 21, 2011
A (Excellent)	A (Excellent)	A (Excellent)	A (Excellent)
Stable Outlook	Negative Outlook	Negative Outlook	Stable Outlook
Rating Definition: Excellent ability to meet ongoing insurance obligations.	Rating Definition: Excellent ability to meet ongoing insurance obligations.	Rating Definition: Excellent ability to meet ongoing insurance obligations.	Rating Definition: Excellent ability to meet ongoing insurance obligations.

Note that our improved outlook speaks to our solid capitalization and leading position in the credit union market. In affirming our "A" rating and moving our outlook to stable, A.M. Best cited our strong operating performance and successful diversification of risk through the acquisitions of ProAg and CPI Qualified Plan Consultants in 2009. The ratings agency also recognized our improved capital position.

¹ Financial results are unaudited. Complete and audited results will be published in CUNA Mutual's annual report, scheduled for distribution in April, 2012.

CUNA Mutual Insurance Society and Subsidiaries

Consolidated Balance Sheets, unaudited

June 30, 2011 and December 31, 2010

(000s omitted)

Assets	June 30, 2011	December 31, 2010
Cash and investments		
Debt securities, available for sale, at fair value	\$ 7,430,727	\$ 7,104,215
Equity securities, available for sale, at fair value	79,736	79,299
Mortgage loans	868,290	811,595
Real estate, at cost	52,279	51,066
Policy loans	104,192	104,369
Short-term investments	1,313	994
Equity in unconsolidated affiliates	104,738	105,105
Limited partnerships	447,879	421,860
Other invested assets	202,253	60,579
Total investments	9,291,407	8,739,082
Cash and cash equivalents	289,993	243,912
Total cash and investments	9,581,400	8,982,994
Accrued investment income	96,846	95,004
Premiums receivable, net	202,141	123,946
Reinsurance recoverables	337,532	259,351
Receivable from the Federal Crop Insurance Corporation	79,304	260,064
Deferred policy acquisition costs	533,650	537,657
Office properties, equipment and computer software at cost, net	160,501	160,268
Net deferred tax asset	166,559	199,149
Goodwill and other intangibles, net	103,995	107,012
Other assets and receivables	243,361	221,291
Assets of discontinued operations	199,744	223,401
Separate account assets	4,459,157	4,215,651
Total assets	\$ 16,164,190	\$ 15,385,788

CUNA Mutual Insurance Society and Subsidiaries

Consolidated Balance Sheets, unaudited - continued

June 30, 2011 and December 31, 2010

(000s omitted)

	June 30, 2011	December 31, 2010
Liabilities and Policyholders' Surplus		
Liabilities		
Policyholder account balances	\$ 4,846,854	\$ 4,723,960
Claim and policy benefit reserves - life and health	2,539,615	2,460,839
Loss and loss adjustment expense reserves - property and casualty	515,686	496,259
Unearned premiums	603,700	408,937
Notes payable	198,302	247,497
Dividends payable to policyholders	15,299	15,289
Reinsurance payable	122,421	197,600
Federal income taxes payable	16,907	3,965
Accrued pension and postretirement benefit liability	227,377	221,683
Accounts payable and other liabilities	474,750	348,249
Liabilities of discontinued operations	146,044	168,776
Separate account liabilities	4,459,157	4,215,651
Total liabilities	14,166,112	13,508,705
Policyholders' surplus		
Retained earnings	2,041,452	1,990,081
Accumulated other comprehensive loss, net	(43,374)	(112,998)
Total policyholders' surplus	1,998,078	1,877,083
Total liabilities and policyholders' surplus	\$ 16,164,190	\$ 15,385,788

CUNA Mutual Insurance Society and Subsidiaries

Consolidated Statements of Operations, unaudited

Six Months Ended June 30, 2011 and 2010

(000s omitted)

	June 30, 2011	June 30, 2010
Revenues:		
Life and health premiums	\$ 606,728	\$ 609,595
Contract charges	46,290	41,324
Property and casualty premiums	312,708	294,331
Net investment income	262,660	228,263
Other income	139,163	134,861
Total revenues	1,367,549	1,308,374
Benefits and expenses:		
Life and health insurance claims and benefits	396,854	395,284
Property and casualty insurance loss and loss adjustment expenses	250,691	201,831
Interest credited to policyholder account balances	87,368	85,322
Policyholder dividends	14,407	15,889
Operating and other expenses	542,692	512,403
Total benefits and expenses	1,292,012	1,210,729
Income from continuing operations before income taxes and equity in (loss) of unconsolidated affiliates	75,537	97,645
Income tax expense	15,224	31,568
Income from continuing operations before equity in (loss) of unconsolidated affiliates	60,313	66,077
Equity in (loss) of unconsolidated affiliates, net of tax	(1,802)	(5,393)
Income from continuing operations	58,511	60,684
Net realized investment (losses), net of tax	(9,889)	(6,397)
Net income from continuing operations	48,622	54,287
Net income from discontinued operations	2,749	9,032
Net income	51,371	63,319
Less: Net income attributable to noncontrolling interests	-	139
Net income attributable to CUNA Mutual	\$ 51,371	\$ 63,180

CUNA Mutual Insurance Society and Subsidiaries

Consolidated Statements of Cash Flows, unaudited

Six Months Ended June 30, 2011 and 2010

(000s omitted)

	June 30, 2011	June 30, 2010
Cash flows from operating activities:		
Net income from continuing operations	\$ 48,622	\$ 54,287
Adjustments to reconcile net loss to net cash provided by operating activities:		
Undistributed earnings of unconsolidated subsidiaries	1,737	5,334
Amortization of deferred policy acquisition costs	162,274	155,170
Policy acquisition costs deferred	(181,684)	(186,949)
Depreciation of office properties, equipment, software and real estate	17,404	16,759
Amortization of bond premium and discount	(22,999)	(2,503)
Net realized investment losses	13,735	9,980
Policyholder assessments on investment-type contracts	(17,687)	(14,332)
Interest credited to policyholder account balances	87,368	85,322
Changes in other assets and liabilities:		
Accrued investment income	(1,833)	(8,858)
Reinsurance recoverables	(78,182)	(26,393)
Premiums receivable	(77,977)	(52,473)
Other assets and receivables	14,753	218,680
Deferred tax asset, net	(406)	(1,158)
Insurance reserves	97,392	1,414
Unearned premiums	196,859	102,775
Accrued income taxes	12,948	4,329
Accounts payable and other liabilities	44,980	(64,328)
Net cash provided by operating activities	317,304	297,056

CUNA Mutual Insurance Society and Subsidiaries

Consolidated Statements of Cash Flows, unaudited - continued

Six Months Ended June 30, 2011 and 2010

(000s omitted)

	June 30, 2011	June 30, 2010
Cash flows from investing activities:		
Purchases of investments:		
Debt securities	\$ (1,686,945)	\$ (2,034,944)
Equity securities	(11,735)	(40,045)
Mortgage loans	(135,210)	(53,488)
Real estate	(2,497)	(991)
Short-term investments	(328)	(52,836)
Other invested assets	(177,093)	(223,484)
Proceeds on sale or maturity of investments:		
Debt securities	1,491,854	1,584,068
Equity securities	11,649	140,469
Mortgage loans	76,576	26,818
Real estate	7	-
Short-term investments	7	4,653
Other invested assets	152,271	215,684
Purchases of office properties, equipment, and computer software	(16,031)	(4,334)
Change in policy loans and other, net	211	185
Net cash used in investing activities	(297,264)	(438,245)
Cash flows from financing activities:		
Policyholder account deposits	568,054	400,221
Policyholder account withdrawals	(514,779)	(331,957)
Repurchase of noncontrolling interests	-	(8,772)
Change in bank overdrafts	13,509	1,479
Notes payable - borrowings	100,000	110,000
Notes payable - repayments	(147,267)	(95,036)
Net cash provided by financing activities	19,517	75,935
Change in cash and cash equivalents	39,557	(65,254)
Cash flows from discontinued operations	4,600	11,832
Effect of foreign exchange rate on cash balances	1,924	(5,730)
Cash and cash equivalents at beginning of year	243,912	346,178
Cash and cash equivalents at end of period	\$ 289,993	\$ 287,026

CUNA Mutual Insurance Society and Subsidiaries

Consolidated Statement of Policyholders' Surplus, unaudited

Six months ended June 30, 2011

(000s omitted)

	<u>CUNA Mutual Policyholders' Surplus</u>			
	Comprehensive income (loss)	Accumulated other comprehensive income (loss)	Retained earnings	Total policyholders' surplus
Balance, December 31, 2010		\$ (112,998)	\$ 1,990,081	\$ 1,877,083
Net income	\$ 51,371	-	51,371	51,371
Foreign currency translation adjustment	6,331	6,331	-	6,331
Change in unrealized gains	75,310	75,310	-	75,310
Change in pension liability	3,803	3,803	-	3,803
Change in discontinued operations	(15,820)	(15,820)	-	(15,820)
Comprehensive income attributable to CUNA Mutual	<u>\$ 120,995</u>			
Balance, June 30, 2011		\$ (43,374)	\$ 2,041,452	\$ 1,998,078