CUNA Mutual Insurance Society and Subsidiaries

Consolidated Financial Statements
As of December 31, 2008 and 2007 and for the Three Years Ended December 31, 2008
And Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
CUNA Mutual Insurance Society and Subsidiaries:

We have audited the accompanying consolidated balance sheets of CUNA Mutual Insurance Society and its subsidiaries (the "Company") as of December 31, 2008 and 2007, and the related consolidated statements of operations, policyholders' surplus, and cash flows for each of the three years in the period ended December 31, 2008. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the consolidated financial statements of The CUMIS Group Limited and subsidiaries ("CUMIS"), the Company's 87%-owned Canadian subsidiary, which statements reflect total assets of $867 million and $1,238 million at December 31, 2008 and 2007, respectively, and total revenues of $144 million, $163 million, and $131 million and total net income of $10 million, $53 million, and $17 million for the years ended December 31, 2008, 2007 and 2006, respectively. We also did not audit the financial statements of the Company's 50% equity investment in CMG Mortgage Insurance Company and CMG Mortgage Assurance Company (collectively, "CMG"), which are accounted for under the equity method. The Company's equity investment in CMG's net assets was $122 million and $118 million at December 31, 2008 and 2007, respectively. The Company's equity in the net income of CMG was $4 million, $15 million, and $17 million for the years ended December 31, 2008, 2007, and 2006, respectively. The financial statements of CUMIS and CMG were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included in the consolidated financial statements for CUMIS and CMG, is based solely on the report of such other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based upon our audits and the reports of the other auditors, such financial statements present fairly, in all material respects, the consolidated financial position of CUNA Mutual Insurance Society and subsidiaries at December 31, 2008 and 2007, and the results of their operations and cash flows for each of the three years in the period ended December 31, 2008 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the consolidated financial statements, the Company changed its method of accounting for and reporting for the fair value measurement of financial instruments in 2008 and uncertainty in income taxes and defined pension and other postretirement plans in 2007.

/s/ Deloitte & Touche
March 25, 2009

CUNA MUTUAL INSURANCE SOCIETY AND SUBSIDIARIES
Consolidated Balance Sheets
December 31, 2008 and 2007
(000s omitted)

Assets	2008	2007
Cash and investments		
Debt securities, available for sale, at fair value		
(amortized cost 2008 - $6,117,054; 2007 - $5,944,461)	$ 5,331,132	$ 5,705,846
Equity securities, available for sale, at fair value		
(amortized cost 2008 - $283,475; 2007 - $441,538)	216,930	467,757
Equity in unconsolidated affiliates	157,903	165,561
Mortgage loans	760,902	642,804
Real estate, at cost less accumulated depreciation		
(2008 - $6,145; 2007 - $63,764)	9,190	53,061
Real estate held for sale, at cost less accumulated depreciation		
(2008 - $27,917)	21,221	-
Policy loans	104,775	105,136
Short-term investments	227,088	232,864
Limited partnerships	329,684	245,485
Other invested assets	61,346	95,726
Total investments	7,220,171	7,714,240
Cash and cash equivalents	278,855	607,209
Total cash and investments	7,499,026	8,321,449
Accrued investment income	74,565	73,329
Premiums receivable, net	289,295	232,204
Reinsurance recoverables	193,788	157,609
Federal income taxes receivable	7,205	-
Deferred policy acquisition costs	776,622	734,316
Office properties, equipment and computer software at cost less		
accumulated depreciation (2008 - $308,272; 2007 - $367,822)	192,455	209,300
Deferred tax asset, net	516,996	227,800
Goodwill and other intangibles, net	21,690	23,350
Other assets and receivables	232,496	171,309
Separate account assets	3,414,109	5,051,272
Total assets	$ 13,218,247	$ 15,201,938

See accompanying notes to consolidated financial statements.

CUNA MUTUAL INSURANCE SOCIETY AND SUBSIDIARIES
Consolidated Balance Sheets, continued
December 31, 2008 and 2007
(000s omitted)

Liabilities and Policyholders' Surplus	2008	2007
Liabilities		
Claim and policy benefit reserves - life and health	$ 2,533,919	$ 2,541,949
Loss and loss adjustment expense reserves - property and casualty	499,161	458,702
Policyholder account balances	4,168,056	3,896,845
Unearned premiums	536,006	503,024
Notes payable	100,000	928
Dividends payable to policyholders	19,114	18,136
Reinsurance payable	68,275	23,420
Federal income taxes payable	-	15,046
Accrued postretirement benefit liability	41,390	188,053
Accrued pension liability	199,489	83,737
Accounts payable and other liabilities	397,443	595,936
Separate account liabilities	3,414,109	5,051,272
Total liabilities	11,976,962	13,377,048
Commitments and contingent liabilities (Note 11)		
Minority interest	36,932	28,641
Policyholders' surplus		
Retained earnings	1,804,996	1,953,098
Accumulated other comprehensive loss, net of tax (2008 - ($306,081); 2007 - ($101,013))	(600,643)	(156,849)
Total policyholders' surplus	1,204,353	1,796,249
Total liabilities and policyholders' surplus	$ 13,218,247	$ 15,201,938

See accompanying notes to consolidated financial statements.

CUNA MUTUAL INSURANCE SOCIETY AND SUBSIDIARIES
Consolidated Statements of Operations
Years Ended December 31, 2008, 2007 and 2006
(000s omitted)

	2008	2007	2006
Revenues:			
Life and health premiums	$ 1,280,413	$ 1,262,066	$ 1,230,932
Contract charges	88,518	81,835	69,959
Property and casualty premiums	893,912	712,035	561,084
Net investment income	372,652	451,503	419,138
Net realized investment gains (losses)	(460,783)	(69,874)	22,349
Other income	257,868	303,686	298,273
Total revenues	2,432,580	2,741,251	2,601,735
Benefits and expenses:			
Life and health insurance claims and benefits	770,616	796,388	741,659
Property and casualty insurance loss and loss adjustment expenses	577,966	420,264	360,251
Interest credited to policyholder account balances	148,988	150,710	149,137
Policyholder dividends	30,760	30,173	29,300
Operating and other expenses	1,132,426	1,147,234	1,096,522
Total benefits and expenses	2,660,756	2,544,769	2,376,869
Income (loss) from continuing operations before income taxes, equity in income of unconsolidated affiliates and minority interest	(228,176)	196,482	224,866
Income tax expense (benefit)	(74,334)	45,381	57,028
Income (loss) from continuing operations before equity in income of unconsolidated affiliates and minority interest	(153,842)	151,101	167,838
Equity in income of unconsolidated affiliates, net of tax (2008 - $3,193; 2007 - $200; 2006 - $2,314)	5,208	16,492	19,096
Income (loss) from continuing operations before minority interest	(148,634)	167,593	186,934
Minority interest in income	(277)	(1,841)	(3,153)
Income (loss) from continuing operations	(148,911)	165,752	183,781
Gain from discontinued operations, net of tax (2007 - $9,945; 2006 - $433)	-	17,875	2,820
Net income (loss)	$ (148,911)	$ 183,627	$ 186,601

See accompanying notes to consolidated financial statements.

CUNA MUTUAL INSURANCE SOCIETY AND SUBSIDIARIES
Consolidated Statements of Policyholders' Surplus
Years Ended December 31, 2008, 2007 and 2006
(000s omitted)

	Comprehensive income (loss)	Accumulated other comprehensive income (loss)	Retained earnings	Total policyholders' surplus
Balance, December 31, 2005		**$ 92,647**	**$ 1,582,470**	**$ 1,675,117**
Net income	$ 186,601	-	186,601	186,601
Foreign currency translation adjustment, net of tax - ($891)	(60)	(60)	-	(60)
Change in unrealized losses, net of tax - ($15,087)	(35,298)	(35,298)	-	(35,298)
Reclassification adjustment for losses included in net income, net of tax - $12,192	38,397	38,397	-	38,397
Change in minimum pension liability, net of tax - $9,756	18,369	18,369	-	18,369
Comprehensive income	$ 208,009			
Balance, December 31, 2006		**114,055**	**1,769,071**	**1,883,126**
Net income	$ 183,627	-	183,627	183,627
Cumulative effect of change in accounting for income taxes	-	-	400	400
Cumulative effect of change in accounting for pension obligations, net of tax - ($32,059)	-	(59,190)	-	(59,190)
Foreign currency translation adjustment, net of tax - ($1,601)	33,331	33,331	-	33,331
Change in unrealized losses, net of tax - ($106,012)	(210,871)	(210,871)	-	(210,871)
Reclassification adjustment for (gains) included in net income, net of tax - ($19,523)	(37,841)	(37,841)	-	(37,841)
Change in pension liability, net of tax - $1,975	3,667	3,667	-	3,667
Comprehensive loss	$ (28,087)			
Balance, December 31, 2007		**(156,849)**	**1,953,098**	**1,796,249**
Net loss	$ (148,911)		(148,911)	(148,911)
Cumulative effect of change in accounting for SFAS No. 157, net of tax - $435			809	809
Foreign currency translation adjustment, net of tax - $3,239	(18,595)	(18,595)	-	(18,595)
Change in unrealized losses, net of tax - ($184,344)	(383,557)	(383,557)	-	(383,557)
Reclassification adjustment for losses included in net loss, net of tax - $7,665	14,236	14,236	-	14,236
Change in pension liability, net of tax - ($31,628)	(55,878)	(55,878)	-	(55,878)
Comprehensive loss	$ (592,705)			
Balance, December 31, 2008		**$ (600,643)**	**$ 1,804,996**	**$ 1,204,353**

See accompanying notes to consolidated financial statements.

CUNA MUTUAL INSURANCE SOCIETY AND SUBSIDIARIES
Consolidated Statements of Cash Flows
Years Ended December 31, 2008, 2007 and 2006
(000s omitted)

	2008	2007	2006
Cash flows from operating activities:			
Net income (loss)	$ (148,911)	$ 183,627	$ 186,601
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Undistributed (earnings) losses of unconsolidated subsidiaries	403	3,349	(1,657)
Other investment (income)	-	-	(696)
Amortization of deferred policy acquisition costs	354,142	317,348	284,503
Policy acquisition costs deferred	(360,811)	(371,137)	(458,044)
Depreciation of office properties, equipment, software and real estate	45,058	44,322	39,794
Amortization of bond premium and discount	49,627	12	11,481
Net realized investment (gains) losses	460,783	69,874	(22,349)
Policyholder assessments on investment-type contracts	(29,168)	(30,785)	(47,690)
Interest credited to policyholder account balances	148,988	162,143	149,137
Gain on sale of discontinued operations	-	(17,875)	(2,820)
Impairment of computer software	15,725	-	-
Changes in other assets and liabilities:			
Accrued investment income	(2,825)	4,649	2,518
Reinsurance recoverables	(51,298)	(15,731)	88,126
Premiums receivable	(67,151)	(87,581)	(6,850)
Other assets and receivables	13,504	17,723	(75,572)
Deferred tax asset, net	(89,037)	(24,427)	12,156
Insurance reserves	139,361	272,527	156,371
Unearned premiums	19,646	(78,375)	2,725
Accrued income taxes	(22,749)	14,169	(20,484)
Accounts payable and other liabilities	(97,383)	(47,392)	75,783
Net cash provided by operating activities	377,904	416,440	373,033

CUNA MUTUAL INSURANCE SOCIETY AND SUBSIDIARIES
Consolidated Statements of Cash Flows, continued
Years Ended December 31, 2008, 2007 and 2006
(000s omitted)

	2008	2007	2006
Cash flows from investing activities:			
Purchases of investments:			
Debt securities	$ (2,461,114)	$ (1,970,580)	$ (3,138,725)
Equity securities	(284,396)	(344,491)	(341,865)
Mortgage loans	(108,562)	(277,746)	(260,445)
Real estate	(2,894)	(2,634)	(4,221)
Short-term investments	(414,498)	(240,597)	(292,842)
Other invested assets	(610,696)	(269,226)	(173,838)
Proceeds on sale or maturity of investments:			
Debt securities	1,714,319	2,322,072	3,535,678
Equity securities	385,687	521,419	356,851
Mortgage loans	51,437	73,890	48,503
Real estate	53,841	12,350	76
Short-term investments	218,636	362,657	154,682
Other invested assets	487,640	79,490	105,344
Purchases of office properties, equipment, and computer software	(43,245)	(53,065)	(46,486)
Proceeds from sale of discontinued operations	-	75,260	-
Proceeds from sale of unconsolidated affiliate	1,312	-	-
Investments in unconsolidated affiliates	(137)	(12,223)	(27,525)
Change in policy loans and other, net	5,519	1,445	5,418
Net cash provided by (used in) investing activities	(1,007,151)	278,021	(79,395)
Cash flows from financing activities:			
Policyholder account deposits	1,170,101	1,112,242	1,030,592
Policyholder account withdrawals	(969,675)	(1,446,817)	(1,312,874)
Change in bank overdrafts	18,403	(5,485)	34,067
Distribution to minority partners	(13,064)	-	-
Notes payable - borrowings	102,643	-	-
Notes payable - repayments	(3,572)	(810)	(56)
Net cash provided by (used in) financing activities	304,836	(340,870)	(248,271)
Effect of foreign exchange rate on cash balances	(3,943)	7,338	3,333
Change in cash and cash equivalents	(324,411)	353,591	45,367
Cash and cash equivalents at beginning of year	607,209	246,280	197,580
Cash and cash equivalents at end of year	$ 278,855	$ 607,209	$ 246,280
Supplemental disclosure of cash information:			
Cash paid during the year for interest	$ 3,310	$ 3,977	$ 62
Cash paid during the year for income taxes, net of refunds	38,653	59,521	59,175

See accompanying notes to consolidated financial statements.

1. General

Merger

CUNA Mutual Insurance Society is a mutual life insurance company that represents the merger of two predecessor companies, CUNA Mutual Insurance Society and CUNA Mutual Life Insurance Company ("CMLIC"), both of which were mutual life insurance companies. Prior to the merger, which was consummated on December 31, 2007, CUNA Mutual Insurance Society and CMLIC had been joined in an agreement of permanent affiliation. The companies had a common management team and board of directors. During 2007 CUNA Mutual Insurance Society changed its state of domicile from Wisconsin to Iowa and both companies secured the necessary approvals from the Iowa Insurance Commissioner and the Attorney General as well as the approvals of their respective Boards of Directors and policyholders to merge into a single corporate entity ("CUNA Mutual" or the "Company"). The Internal Revenue Service also issued a private letter ruling that the merger would be tax free.

The merger has been accounted for as a pooling of interests. Accordingly, the accompanying consolidated financial statements reflect the sum of the two merged entities' previous financial statements as if they had been merged prior to the earliest period presented herein. The accompanying consolidated financial statements reflect the elimination of intercompany balances and transactions between the two merged companies.

Nature of Business

CUNA Mutual is a mutual life insurance company organized under the laws of Iowa for the purpose of serving the insurance needs of credit unions and their members. Its primary products include group credit life and group credit disability sold to credit unions; retirement plans, and group life and disability products for credit union employees; and life, health and annuity policies for credit union members. The Company markets its products for credit union members through face-to-face and direct response distribution systems, while group products are sold primarily by salaried representatives. The Company's subsidiaries and affiliates are also engaged in the business of property and casualty insurance, investment management, retail investment brokerage, private mortgage insurance, and other businesses useful to credit unions and their members. The Company also writes crop insurance.

CUNA Mutual is licensed to sell insurance in all 50 states and the District of Columbia and most of its revenue and the revenues of its affiliated companies are generated in the United States. It also conducts business in Canada and other foreign countries through branch offices or subsidiaries. None of these foreign operations and no individual state in the United States have a significant concentration of business.

The current financial market turmoil could impact the operations of both credit unions as well as credit union members, which in turn could impact the Company's collection of balances due from its customers and future revenues and operations. Management believes that it has made appropriate provision for any probable collection losses of balances due from credit unions or their members at December 31, 2008.

2. Summary of Significant Accounting Policies

Basis of Presentation

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and include the accounts of CUNA Mutual and companies in which the Company directly or indirectly has a controlling financial interest. All intercompany accounts and transactions have been eliminated. The Company consolidates Variable Interest Entities ("VIE") when it is the primary beneficiary. A primary beneficiary is the variable interest that will absorb a majority of the expected losses or receive a majority of the entity's expected returns, or both. The Company began consolidating CU System Funds ("CUSF"), a VIE, after it became the primary beneficiary effective August 1, 2008. CUSF invests primarily in commercial mortgage loans issued by credit unions.

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Investment valuations, determinations of other-than-temporary impairments, deferred policy acquisition costs, capitalized internally developed software, goodwill and intangible assets, deferred tax asset valuation, insurance reserves, pension and post-retirement obligations and accrued expenses are most affected by the use of estimates and assumptions.

Investments Other Than Investments in Unconsolidated Affiliates

Investments in debt securities, including bonds and redeemable preferred stocks, and investments in equity securities, including common stocks and non-redeemable preferred stocks, are classified as available for sale and are carried at fair value.

Unrealized gains and losses on investments in debt and equity securities, net of any deferred federal income taxes, are included in accumulated other comprehensive loss as a separate component of policyholders' surplus unless designated as a hedged item in a fair value hedge.

Debt and equity securities are considered other-than-temporarily impaired, and their cost basis written down to fair value with the impairment loss being included in net realized investment gains (losses), when management expects the cost not to be recoverable. In determining whether an unrealized loss is expected to be other than temporary, the Company considers, among other factors, the severity and duration of impairment, financial position of the issuer, recent events affecting the issuer's business and industry sector, credit ratings, and the intent and ability of the Company to hold the investment until the fair value has recovered. See Note 3 for a more detailed discussion.

Mortgage loans held for investment are generally carried at their aggregate unpaid principal balance, net of valuation allowances. Impairments are recorded in net realized investment gains (losses) and are determined based upon the carrying value of the recorded investment in the mortgage loan and the estimated fair value of the underlying collateral. The present value of expected future cash flows discounted at the loan's effective interest rate is used to determine fair value. Valuation allowances are provided when it becomes probable the Company will be unable to collect the total contractual amounts due. Based on the Company's analysis as of December 31, 2008 and 2007 there was no need for a mortgage loan valuation allowance. The Company carries certain investments in mortgage loans at fair value that are owned by an investment company consolidated effective August 1, 2008. See Note 16.

Investments in real estate are carried at cost net of accumulated depreciation. The cost of real estate is adjusted for impairment whenever events or circumstances indicate the carrying value of the asset may not be recoverable. Impairments are determined when the carrying value of the real estate investment exceeds the sum of the undiscounted cash flows expected to result from the investment. Impaired real estate is written down to estimated fair value with the impairment loss being included in net realized investment gains (losses). Certain real estate was reclassified to held for sale August 1, 2008 and is not being depreciated after that date.

Policy loans are reported at their unpaid principal balance.

Short-term investments includes debt securities with maturities from date of purchase under one year, and in 2007 the reinvestment of cash collateral received for securities lending transactions, are reported at amortized cost, which approximates fair value.

Limited partnerships represent interests in companies that primarily invest in debt and equity securities of other corporations. Investments in limited partnerships are accounted for using the equity method. The portfolios of these limited partnerships frequently hold non-investment grade debt and private equity securities of smaller privately held companies which are significantly less liquid than public securities. As such, they are subject to market-related risks and uncertainties and the risk inherent in estimating the fair values of such securities.

Other invested assets primarily represent derivatives and student loans receivable. Derivative financial instruments are accounted for at fair value. See "Derivative Financial Instruments" below for a detailed discussion of the Company's derivatives. Student loans receivable are also carried at fair value and changes in fair value are reported in net realized investment gains (losses).

Interest income is recognized on an accrual basis. For mortgage-backed and other structured securities, income is recognized using a constant effective yield based on anticipated prepayments and the estimated economic life of the securities. When estimates of prepayments change, the effective yield is recalculated to reflect actual payments to date and anticipated future payments. Such adjustments are reflected in net investment income. Prepayment assumptions for loan-backed bonds and structured securities are obtained from industry survey values or internal estimates. Discounts and premiums on debt securities are amortized over the estimated lives of the respective securities on an effective yield basis. Dividends are recorded at the ex-dividend date. Investment income is also derived from real estate investments, limited partnerships, student loans receivable and derivative activity. Income from real estate investments and student loans receivables is accounted for on the accrual basis. Income from investments in limited partnership interests accounted for utilizing the equity method of accounting is recognized based on the financial results of the entity and Company's proportionate interest. Income from derivatives is recognized when the cash settlement is received.

Realized gains and losses on the sale of investments are determined on a specific identification basis and are recorded on the trade date.

The Company adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 157, *Fair Value Measurements* ("SFAS No. 157"), as of January 1, 2008, for its financial assets and financial liabilities that are, by policy, carried at fair value. See Note 3 for a discussion of the provisions of this accounting standard and the effects of its implementation.

Derivative Financial Instruments

The Company uses derivative instruments, such as interest rate swaps, equity options, cross currency swaps and foreign currency futures and forwards, to manage exposure to various currency and market risks. All such derivatives are recorded in the consolidated balance sheets at estimated fair value.

Derivatives embedded within non-derivative instruments must be separated from the host instrument when the embedded derivative is not clearly and closely related to the host instrument. Embedded derivative instruments subject to bifurcation are also accounted for at estimated fair value. Examples include certain guarantees contained in variable annuity policies and equity indexed annuities.

When derivatives meet specific criteria, the Company may classify derivatives as fair value hedges, cash flow hedges or hedges of net investment. At inception of the hedge, the Company formally documents the hedging relationship and risk management objective and strategy. In addition, the documentation includes a description of the hedging instrument, hedged transaction, nature of the risk being hedged and methodologies for assessing effectiveness and measuring ineffectiveness. Quarterly, the Company performs procedures to measure the ineffectiveness and assesses the effectiveness of the hedging relationship and records any ineffectiveness in net realized investment gains (losses).

Fair Value Hedges: The Company designates certain interest rate swaps and foreign currency futures and forward contracts as fair value hedges when the hedging instrument is highly effective in offsetting the risk of changes in the fair value of the hedged item. The changes in fair value of the hedging instruments used in fair value hedges are recorded in net realized investment gains (losses). The changes in fair value of the hedged item, attributable to the risk being hedged, are also recorded in net realized investment gains (losses). The difference between the changes in fair value of the hedging instrument and the changes in fair value of the hedged item represents the ineffectiveness in an otherwise effective hedging relationship.

Cash Flow Hedges: The Company designates cross currency swaps and interest rate swaps as cash flow hedges when the hedging instrument is highly effective in offsetting the hedged risk of variability in cash flows that could affect net income. The changes in fair value of the swaps attributable to hedged risk are recorded in accumulated other comprehensive loss to the extent it is effective. Amounts are reclassified from accumulated other comprehensive loss to net investment income when the hedged item affects earnings.

Hedges of Net Investments: The Company uses foreign currency futures to hedge a portion of the outstanding after tax equity in its consolidated foreign affiliates from the effects of fluctuations in currency exchange rates. When deemed effective, changes in fair value of the foreign currency futures are recorded in accumulated other comprehensive loss. Any ineffectiveness, in an otherwise effective hedging relationship, is recorded currently in net realized investment gains (losses).

Non-Hedge Derivatives: Changes in fair value, income and expense associated with derivatives that are not classified as qualified hedges are recorded in net realized investment gains (losses).

Equity in Unconsolidated Affiliates

Equity in unconsolidated affiliates includes investments in companies in which the Company can exercise significant influence over the operating and financial policies of the investee. Generally, this occurs when its ownership ranges from 20% to 50%. The Company accounts for these investments using the equity method whereby the Company's proportionate share of the net income of these unconsolidated affiliates is reported in the consolidated statement of operations, net of related income taxes.

The Company owns 50% of an affiliate which collects fees from credit unions for use of technology used to make consumer auto loan underwriting and interest rate pricing determinations. The fee is only collected on issued loans which are covered by default insurance underwritten by the Company. The Company has determined that this is a revenue arrangement with multiple deliverables which cannot be divided into separate units of accounting. Accordingly, the Company defers its share of the earnings of the affiliate and recognizes them in proportion to the premium recognized over the expected period of insurance risk.

Cash and Cash Equivalents

Cash and cash equivalents include unrestricted deposits in financial institutions, money market mutual funds, and U.S. Treasury bills, money market instruments, and commercial paper with maturities at the date of purchase under 90 days.

Recognition of Insurance Revenue and Related Benefits

Credit life and disability coverages are issued on either a single premium or monthly premium basis and revenue is recognized in relation to anticipated benefits to policyholders. Generally, individual and group life and health insurance premiums are recognized as earned on a monthly pro rata basis over the time period to which the premiums relate. Property and casualty insurance premiums are generally earned ratably over the periods to which the premiums relate. Premiums written for crop insurance are recorded on the later of the effective date of the contract or when they can be reasonably estimated, and are generally earned on a pro rata basis over the period of risk. Certain property and casualty contracts insure lenders against losses related to loan collateral. For these types of policies, the Company recognizes the premium over the expected period of exposure, usually two to six years. The premium is also recognized on an accelerated basis compared to the pro rata method to reflect the pattern of declining insurance loss exposure. An unearned premium reserve is established for the unexpired portion of credit, property and casualty, health, and certain other insurance premiums.

Term-life and whole-life insurance premiums are recognized as premium income when due. Related policy benefits and expenses for these products are recognized in relation to the premiums so as to result in the recognition of profits over the expected lives of the policies and contracts.

Revenue is recognized at the time of issue on immediate annuity and supplemental contracts that subject the Company to mortality or longevity risk (risk that the Company will have to make payments contingent upon the continued survival of an insured or insureds). A deferred profit liability is established for the excess of the gross premium collected over the sum of acquisition expenses incurred plus the initial benefit and maintenance expense reserve established. The deferred profits are recognized over the expected benefit payment period.

Amounts collected on policies not subject to significant mortality or longevity risk, principally group annuity and deferred annuity contracts (investment contracts), are recorded as increases in policyholder account balances. Revenue for investment contracts consists of net investment income and policy fees such as expense and surrender charges. Expenses for investment contracts consist of interest credited to contracts, benefits incurred in excess of related policyholder account balances and policy maintenance costs.

Universal life-type policies are insurance contracts with terms that are not fixed or guaranteed. Amounts received as payments for such contracts are credited to policyholder account balances. Revenues from universal life-type policies, which are recorded as contract charges in the accompanying consolidated statements of operations, consist of fees assessed against policyholder account balances for surrender charges, cost of insurance and policy administration. Policy benefits and claims that are charged to expense include interest credited to contracts and benefits incurred in excess of related policyholder account balances.

Other Income

The Company acts as an advisor for mutual funds and recognizes investment advisory fees when earned in accordance with the underlying agreements. CUNA Mutual also acts as investment advisor and administrator for employee benefit plans. Revenues for advisory services are recognized pro rata, largely based upon contractual rates applied to the market value of the customer's portfolio. Fees received for performance of recordkeeping and reporting services for benefit plans are recognized as revenue when the service is performed or earned. Administrative fees paid in advance are deferred and recognized over the period of service. The Company sells non-proprietary insurance products and recognizes commission income on the policy effective date, net of an allowance for refunds on expected cancellations. Service fee income is generally recognized ratably over the period of service.

Deferred Policy Acquisition Costs and Sales Inducements

Deferred Costs: The costs of acquiring insurance business that vary with, and are primarily related to, the production of new and renewal business are deferred to the extent that such costs are deemed recoverable from future profits. Such costs principally include commissions and sales costs, premium taxes, and certain policy issuance and underwriting costs. In addition, the Company reimburses credit unions for certain administrative expenses they incur from the production of new and renewal business sold by the Company. These expenses primarily relate to credit life and credit disability policies as well as property and casualty products sold to credit unions and credit union members, products of other insurers sold on a brokered basis, and certain investment products. Such reimbursements totaled $224,776, $194,821 and $184,775 for the periods ended December 31, 2008, 2007 and 2006, respectively. These expenses are also deferred unless the expenses are associated with non-insurance products or brokered business, or do not vary with production.

Amortization of Costs: Costs deferred on property and casualty insurance products and credit life and credit disability policies are amortized over the term of the related policies generally in proportion to the premium recognized. For term-life and whole-life insurance products, deferred policy acquisition costs are amortized in proportion to the ratio of the annual premium to the total anticipated premiums generated by the deferred acquisition costs. For investment contracts (primarily deferred annuities) and universal life-type products, deferred policy acquisition costs are amortized principally over the expected contract life in relation to the present value of estimated gross profits from mortality, investment, and expense margins. The deferred policy acquisition cost assets for investment contracts and universal life-type products are adjusted retrospectively for changes in the present value of estimated gross profits. Such adjustments are recorded in the period that the change in the present value of future years' gross profits becomes apparent. An additional adjustment to deferred acquisition costs on investment contracts is made and allocated to accumulated other comprehensive income for the effect on deferred acquisition costs that would occur if the unrealized gains and losses on investments related to these contracts were realized. Deferred policy acquisition costs on participating insurance contracts are amortized over the life of the participating contracts at a constant rate based on the present value of the estimated gross margin expected to be realized.

Estimating future gross profits is a complex process requiring considerable judgment and the forecasting of events well into the future. The primary assumptions for determining the amount of the estimated gross profits are future investment returns, including capital gains and losses, on assets supporting contract liabilities, interest crediting rates to contract holders, and the effects of future persistency, mortality, expenses, and hedges, if any. The current economic turmoil, particularly the volatility of the current financial markets and the impairment of securities, increase the variability and risk of estimating gross profits, which in turn could impact amortization of the deferred acquisition costs. Future changes in estimated gross profits could result in additional retrospective adjustments to deferred acquisition costs and such adjustments could be material.

Recoverability and Loss Recognition: Deferred acquisition costs are subject to recoverability testing at the time of policy issue and loss recognition testing on an annual basis, or when an event occurs that may warrant loss recognition. If loss recognition is necessary, deferred acquisition costs would be written off in the consolidated statement of operations to the extent that future policy premiums and investment income or gross profits are not adequate to cover related losses and expenses.

Internal Replacements: An internal replacement is defined as the modification of product benefits, features, rights or coverages that occurs by the exchange of an existing contract for a new contract, or by amendment, endorsement or rider, or by election of a feature or coverage within a contract. When an internal replacement occurs that results in a substantial change to a policy, unamortized deferred policy acquisition costs, unearned revenues and deferred sales inducements are written off to expense. Acquisition costs, sales inducements, and unearned revenue associated with the new contract are deferred and amortized over the lifetime of the new contract. An internal replacement that is not a substantial change is accounted for as a continuation of the existing contract and the existing deferred acquisition costs, sales inducements and unearned revenue are carried over to the replacement contract.

(000s omitted)

Sales Inducements: The costs related to sales inducements offered on sales to new policyholders are deferred and recorded in other assets. These costs are primarily related to deferred annuities and are in the form of additional credits to the policyholder's account balance or enhancements to interest credited for a specified period, which are beyond amounts currently being credited to existing contracts. Deferred sales inducements are amortized principally over the expected contract life in relation to the present value of estimated gross profits from mortality, investment and expense margins.

Office Properties, Equipment and Computer Software

Office properties, equipment, and computer software are carried at cost net of accumulated depreciation. Depreciation is determined on a straight-line basis over the estimated useful lives of the assets. The useful life of equipment and software is generally three to seven years. The useful life of capitalized internally developed software ranges from three to ten years, while for office properties it is generally 20 years. The following table provides a summary of office properties, equipment, and computer software.

	2008	2007
Office properties	$ 201,074	$ 199,675
Office equipment	131,113	190,174
Computer software	168,540	187,273
Total cost of office properties, equipment, and computer software	500,727	577,122
Accumulated depreciation	(308,272)	(367,822)
Office properties, equipment and computer software at cost less accumulated depreciation	$ 192,455	$ 209,300

Depreciation expense totaled $42,337, $39,444, and $34,593 in 2008, 2007, and 2006, respectively. The Company determined that a portion of its internally developed software was impaired in 2008 and recorded a charge to expense of $15,725.

Separate Accounts

Separate accounts represent customer accounts that are related to certain contracts issued by the Company, such as variable annuities, variable life insurance policies, and certain other contracts, where investment income and investment gains and losses accrue directly to the contract holders who bear the investment risk. In some contracts the Company provides certain guarantees. Such guarantees may include a minimum return or account value upon death, partial withdrawal or specified contract anniversary date. The liabilities for these guarantees are not included in the separate accounts. See Note 3, Investments—Embedded Derivatives, for a discussion of these guarantees. Contract holders are able to invest in investment funds managed for their benefit. More than 50% of the separate account assets are invested in unit investment trusts that are registered with the Securities and Exchange Commission.

(000s omitted)

The Company acts as the investment advisor for more than 85% of the funds invested in the unit investment trusts.

Separate account assets are carried at fair value. Separate account assets are legally segregated and may only be used to settle separate account liabilities. Separate account liabilities are equal to the separate account assets and represent contract holders' claims to the related assets. Contract holder deposits to and withdrawals from the separate accounts are recorded directly to the separate account assets and liabilities and are not included in the Company's consolidated statement of operations or accumulated other comprehensive income, except to the extent that the Company has an investment in the separate account.

Charges made by the Company to the contract holders' balances include fees for maintenance, administration, cost of insurance, and surrenders of contracts prior to the contractually specified dates. Such fees are reflected as revenues (contract charges) by the Company when they are assessed to the contract holder.

Goodwill and Other Intangibles

Goodwill and other intangible assets resulting from acquisitions are subject to an annual impairment test. See Note 16 for a description of 2008 and 2006 impairments charged to expense. Other intangible assets are amortized on the straight line basis over their estimated useful lives, typically five or six years. Goodwill is not amortized. Goodwill and other intangible assets are set forth in the following table.

	2008	2007
Goodwill, net	$ 20,641	$ 20,656
Intangible assets	5,402	6,270
Accumulated amortization on intangible assets	(4,353)	(3,576)
Intangible assets, net	1,049	2,694
Total goodwill and other intangibles, net	$ 21,690	$ 23,350

(000s omitted)

Amortization expense of other intangible assets was $1,338, $999, and $727 for the years ended December 31, 2008, 2007, and 2006, respectively. The following table is a summary of the estimated aggregate amortization expense for the next five years and thereafter.

Estimated aggregate amortization expense for other intangibles		
2009	$	230
2010		161
2011		161
2012		161
2013		154
Thereafter		182
Total estimated amortization expense	$	1,049

Insurance Reserves

Life and health reserves consist principally of future policy benefit reserves and reserves for estimates of future payments on incurred claims reported and unreported but not yet paid. Such estimates are developed using actuarial principles and assumptions based on past experience adjusted for current trends. Any change in the probable ultimate liabilities is reflected in net income in the period in which the change in probable ultimate liabilities is determined.

For non-participating term-life and whole-life insurance products, or participating products for which no policyholder dividends are expected to be paid, future policy benefit reserves are computed using the net level premium method based on assumptions related to estimated future investment yield, mortality, morbidity, withdrawals and expenses. For participating term-life and whole-life insurance products, future policy benefit reserves are computed using the net level premium method based on assumptions related to estimated future investment yield, mortality, morbidity, withdrawals and expenses at the date of policy issuance. Mortality, morbidity and withdrawal assumptions reflect the Company's historical experience and industry standards. Interest rate assumptions range from 2.5% to 9.5%. Provisions for adverse deviation have been reflected in the interest assumption and also in the mortality/morbidity assumption where deemed necessary.

For immediate annuities or similar contracts with life contingencies, the reserve is calculated as the present value of future benefits. The mortality rates used are based on statutory valuation tables and the interest rates used range from 4.8% to 7.0%.

Reserves for property and casualty products represent the estimated claim cost and loss adjustment emerging expense necessary to cover the ultimate cost of investigating and settling all losses incurred and unpaid. Similar reserves are also recorded for unpaid life and accident and health benefits. Certain claims, usually resulting from a disability, are discounted. Such estimates are based on individual case estimates for reported losses and estimates for incurred but not reported losses based on past experience and are stated net of estimated salvage and subrogation recoverables of $33,702 and $38,175 at December 31, 2008 and 2007, respectively. These estimates are adjusted in the aggregate for ultimate loss expectations based on historical experience patterns and current economic trends. Any change in the probable ultimate liabilities, which might arise from new information emerging, is reflected in the consolidated statements of operations in the period the change is determined to be necessary. Such adjustments could possibly be significant.

Policyholder Account Balances

The Company recognizes a liability at the stated account value for policyholder deposits that are not subject to significant policyholder mortality or longevity risk and for universal life-type policies. The account value equals the sum of the original deposit and accumulated interest, less any withdrawals and expense charges. Average credited rates ranged from 3.4% to 4.3% in 2008 and 2.8% to 7.0% in 2007. Future minimum guaranteed interest rates during the life of the contracts vary from 1.5% to 4.5%.

Prepaid Commissions

The Company offers mutual funds to credit union members and other investors. Investors purchasing "B" or "C" shares do not pay an upfront sales charge but are subject to higher annual fees and must pay a surrender charge for redemptions during a designated surrender period, currently six years for "B" shares and one year for "C" shares. Commissions paid to the Company's sales representatives are deferred and amortized to expense ratably over the surrender charge period. The Company assesses the recoverability of the prepaid commissions by calculating the undiscounted cash flows expected from future annual fees and surrender charges. An impairment is required if the asset exceeds the expected cash flows. No such impairments were required in the periods presented.

Reinsurance

Reinsurance premiums, claims and benefits, commission expense reimbursements, and reserves related to reinsured business ceded are accounted for on a basis consistent with those used in accounting for the underlying direct policies that have been ceded and the terms of the reinsurance contracts. Premiums and insurance claims and benefits in the consolidated statements of operations are reported net of the amounts ceded to other companies under such reinsurance contracts. Reinsurance recoverables are recorded as an asset for the portion of benefits paid and insurance reserves that have been ceded. A prepaid reinsurance asset is recorded for the portion of unearned premiums that relate to policies that have been ceded. Any contracts that do not effectively transfer the risk of loss are recorded using the deposit method of accounting.

Benefit Plans

The Company recognizes costs for its defined benefit pension plans and postretirement benefits on an accrual basis as employees perform services to earn the benefits. Net periodic benefit cost is determined using management estimates and actuarial assumptions to derive service cost, interest cost and expected return on plan assets. Net periodic benefit cost also includes the applicable amortization of any prior service cost (credit) arising from changes in prior years' benefit costs due to plan amendments or initiation of new plans. The Company uses a December 31 measurement date for all pension and other postretirement benefit plans.

In 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – An Amendment of FASB Statements No. 87, 88, 106, and 132(R*). Effective with the adoption of the statement on December 31, 2007, the Company recognized the funded status of the benefit obligations for each of its plans on the consolidated balance sheet. The actuarial gains or losses, prior service costs and credits, and the remaining net transition asset or obligation that had not yet been included in net periodic benefit costs as of December 31, 2007 are now charged, net of income tax, to accumulated other comprehensive loss. Changes in funded status in future periods will also be charged, net of income tax, to accumulated other comprehensive loss. Additionally, the statement amended the additional minimum pension liability provision required by previous accounting guidance.

Calculations of benefit obligations for postretirement medical benefits reflect a reduction for subsidies expected from the federal government pursuant to the Medicare Prescription Drug, Improvement and Modernization Act of 2003. Postretirement medical benefits are generally funded on a pay-as-you-go basis. The cost of benefits provided to former or inactive employees after employment but before retirement are recognized during an employee's service years if certain requirements are met. These benefits were eliminated effective December 31, 2008 for non-represented employees and those represented employees who retired prior to June 1, 2005. See Note 9 for a detailed discussion of these changes.

Income Taxes

The Company recognizes taxes payable or refundable currently and deferred taxes for the tax consequences of differences between financial reporting and the tax basis of assets and liabilities. Deferred tax assets and liabilities are measured by applying the enacted tax rates to the difference between the financial statement and tax basis of assets and liabilities. Deferred income tax assets can be realized through future earnings, including but not limited to the generation of future income, reversal of existing temporary differences and available tax planning strategies. The Company records a valuation allowance for deferred tax assets if it determines it is more likely than not that the asset will not be realized. See Note 4 for a detailed discussion.

The Company is subject to tax-related audits in the normal course of operations. These audits may result in additional tax assets or liabilities. The Company accounts for such contingent liabilities in accordance with FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes,* beginning in 2007. Accordingly, the Company reports a liability for unrecognized tax benefits resulting from uncertain tax positions taken or expected to be taken in a tax return.

Foreign Exchange

The Company's financial statements are impacted by changes in foreign currency exchange rates related to foreign-based subsidiaries and branch operations and investment holdings denominated in foreign currencies.

The accounts of significant foreign-based subsidiaries and branch operations are measured using the local currency as the functional currency. Revenues and expenses of these operations are translated into U.S. dollars at the average exchange rate for the period. Assets and liabilities of these operations are translated at the exchange rate as of the end of the reporting period. The resulting gains or losses from translating foreign currency are included in accumulated other comprehensive loss as a separate component of policyholders' surplus.

The foreign exchange impacts of investment holdings classified as available for sale are included in accumulated other comprehensive loss as a separate component of policyholders' surplus. The foreign exchange impacts on all other investment holdings are reflected as transaction gains and losses in the Company's consolidated statements of operations.

Recent Accounting Standards - Adopted

In 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 157, *Fair Value Measurements* ("SFAS No. 157"), effective for financial statements issued for fiscal years beginning after November 15, 2007 and is to be applied prospectively. SFAS No. 157 provides consistent guidance for using fair value to measure assets and liabilities. SFAS No. 157 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value but does not expand the use of fair value in any new circumstances. In February 2008 the FASB issued Staff Positions No. 157-1 and No. 157-2 which partially defer the effective date of SFAS No. 157 for one year for certain nonfinancial assets and liabilities and remove certain leasing transactions from the scope of SFAS No. 157. In October 2008 the FASB issued Staff Position No. 157-3 which clarifies the application of SFAS No. 157 when the market for an asset is not active.

The Company applied the provisions of SFAS No. 157 in the 2008 consolidated financial statements. In addition to the new disclosures required by SFAS No. 157, the most significant impact was on the calculation of the fair value of derivatives embedded in annuity products. The Company recognized an increase to policyholders' surplus of $809 at January 1, 2008 to reflect the effect of initial adoption of SFAS No. 157 on the fair value of embedded derivatives, net of tax. The Company's adoption of SFAS No. 157 did not materially impact the fair values of other financial instruments. The Company did not apply SFAS No. 157 to nonfinancial assets and liabilities as permitted by FASB Staff Position No. FAS 157-2. See Note 3 for a further discussion of fair value measurement and SFAS No. 157.

In 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* ("SFAS No. 159"), effective for fiscal years beginning after November 15, 2007. SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. Most of the provisions of this statement, except for the provisions relating to the valuation of debt and equity securities, apply only to entities that elect the fair value option. The Company did not apply the fair value option to any existing assets or liabilities as of January 1, 2008. Accordingly, the initial adoption of SFAS No. 159 had no impact on the Company's consolidated financial statements. During 2008, the Company chose to apply the fair value option to its originations/purchases of student loans receivables. See Note 3 for a further discussion of the fair value measurement and SFAS No. 159.

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles* ("SFAS No. 162"). SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements presented in conformity with GAAP but does not change current practices. SFAS No. 162 became effective November 15, 2008. SFAS No. 162 and had no effect on the Company's consolidated financial statements.

In January 2009, the FASB issued FASB Staff Position ("FSP") No. EITF 99-20-1, *Amendments to the Impairment Guidance of EITF Issue No. 99-20*, effective for fiscal years ending after December 15, 2008. The objective of the new FSP is to make the impairment models for debt securities more consistent between those subject to analysis under SFAS No. 115 and Emerging Issues Task Force No. 99-20. Adoption of the FSP did not have a material impact on the Company's consolidated financial statements.

Recent Accounting Standards - Pending

In 2007, the FASB issued a revision of SFAS No. 141, *Business Combinations,* which is effective prospectively for fiscal years beginning after December 14, 2008. Some of the significant provisions include: a clear definition of the acquirer in a business combination; full recognition of all assets acquired and liabilities assumed at their fair values on the acquisition date, including certain contingencies; expensing acquisition-related costs; and recognition of a bargain purchase as a gain in earnings. Because the new statement will be adopted prospectively, it will only have an impact on the Company in the event the Company makes future acquisitions.

In 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51* ("SFAS No. 160"). The new statement clarifies that a noncontrolling interest in a subsidiary is an ownership interest that should be reported in equity; requires disclosure in the income statement of the amounts of consolidated net income attributed to both the parent and the noncontrolling interest; establishes a single method of accounting for changes in a parent's ownership interest in a subsidiary that do not result in deconsolidation; and requires a parent to recognize a gain or loss in net income when a subsidiary is deconsolidated. The Company is currently evaluating SFAS No. 160, which is effective for fiscal years beginning after December 14, 2008, and has not determined the impact on its consolidated balance sheet or statement of operations.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities—An Amendment of FASB Statement No. 133* ("SFAS No. 161"). SFAS No. 161 requires enhanced qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. Because SFAS No. 161 only requires additional disclosures, it will have no impact on the Company's consolidated balance sheets and statements of operations, and cash flows.

In May 2008, the FASB issued SFAS No. 163, *Accounting for Financial Guarantee Insurance Contracts, an interpretation of FASB Statement No. 60* ("SFAS No. 163"). The Company does not issue financial guarantee insurance contracts and therefore SFAS No. 163 will have no impact on its consolidated financial statements.

The FASB issued FSP No. 132(r)-1, *Employers' Disclosures About Postretirement Benefit Plan Assets* which will be effective for fiscal years ending after December 15, 2009. The main objectives of the new FSP are to expand information about benefit plan assets and provide detail about determination of fair values of plan assets consistent with SFAS No. 157. The FSP will increase disclosures but will not have an impact on the Company's consolidated balance sheets and statements of operations.

(000s omitted)

3. Investments

Debt Securities

The amortized cost, gross unrealized gains and losses and estimated fair values of debt securities at December 31, 2008 are as follows:

December 31, 2008	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. government and agencies	$ 451,149	$ 9,359	$ (2,371)	$ 458,137
States and political subdivisions	348,691	1,339	(22,345)	327,685
Foreign government securities	250,997	12,008	(6,949)	256,056
Domestic corporate securities	2,358,712	22,538	(275,302)	2,105,948
Mortgage-backed securities:				
Residential mortgage-backed	1,084,999	12,347	(178,647)	918,699
Commercial mortgage-backed	472,939	2,227	(137,226)	337,940
Non-mortgage asset-backed securities	300,312	297	(129,249)	171,360
Foreign corporate securities	849,255	3,838	(97,786)	755,307
Total debt securities	$ 6,117,054	$ 63,953	$ (849,875)	$ 5,331,132

The amortized cost, gross unrealized gains and losses and estimated fair values of debt securities at December 31, 2007 are as follows:

December 31, 2007	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. government and agencies	$ 88,258	$ 957	$ -	$ 89,215
States and political subdivisions	301,885	5,227	(1,450)	305,662
Foreign government securities	360,710	8,778	(2,812)	366,676
Domestic corporate securities	2,375,012	30,658	(44,564)	2,361,106
Mortgage-backed securities:				
Residential mortgage-backed	1,236,934	3,756	(183,557)	1,057,133
Commercial mortgage-backed	521,691	1,753	(35,213)	488,231
Non-mortgage asset-backed securities	220,231	485	(2,521)	218,195
Foreign corporate securities	839,740	10,867	(30,979)	819,628
Total debt securities	$ 5,944,461	$ 62,481	$ (301,096)	$ 5,705,846

(000s omitted)

The amortized cost and estimated fair values of investments in debt securities at December 31, 2008, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because certain borrowers have the right to call or prepay obligations with or without call or prepayment penalties. Because of the potential for prepayment on mortgage-backed and non-mortgage, asset-backed securities, such securities have not been displayed in the table below by contractual maturity.

	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 155,410	$ 150,546
Due after one year through five years	1,501,108	1,433,278
Due after five years through ten years	1,766,813	1,616,940
Due after ten years	835,473	702,368
Mortgage-backed securities:		
Residential mortgage-backed	1,084,999	918,699
Commercial mortgage-backed	472,939	337,941
Non-mortgage asset-backed securities	300,312	171,360
Total debt securities	$ 6,117,054	$ 5,331,132

Equity Securities

The cost, gross unrealized gains and losses, and estimated fair value of investments in available for sale equity securities at December 31 are as follows:

		Gross Unrealized		Estimated
	Cost	Gains	Losses	Fair Value
2008	$ 283,475	$ 2,722	$ (69,267)	$ 216,930
2007	441,538	37,085	(10,866)	467,757

(000s omitted)

Equity in Unconsolidated Affiliates

The carrying value, ownership percentage and summarized financial information of significant unconsolidated affiliates for the years ended and at December 31 are set forth in the table below:

Name of Affiliate and the Company's Ownership Percentage	CUNA Mutual Carrying Value 2008	CUNA Mutual Carrying Value 2007	CUNA Mutual Share of Net Income (Loss), After Tax 2008	2007	2006
CMG Mortgage Insurance Company (50%)	$ 117,903	$ 113,840	$ 4,233	$ 15,321	$ 16,802
CMG Mortgage Assurance Company (50%)	4,324	4,411	(94)	(138)	78
CMG Mortgage Reinsurance Company (50%)	9,501	9,636	48	1,083	1,216
Credential Financial Inc. (50%)	11,245	15,597	(1,366)	1,690	1,315
All other affiliates (various ownership percentages)	14,930	22,077	2,387	(1,464)	(315)
Total	$ 157,903	$ 165,561	$ 5,208	$ 16,492	$ 19,096

The total assets and liabilities for significant unconsolidated affiliates at December 31, 2008 and 2007 are set forth in the table below:

	Assets 2008	Liabilities 2008	Assets 2007	Liabilities 2007
CMG Mortgage Insurance Company	$ 339,431	$ 103,625	$ 283,199	$ 55,518
CMG Mortgage Assurance Company	9,344	696	9,577	755
CMG Mortgage Reinsurance Company	30,577	11,575	23,859	4,588
Credential Financial Inc.	178,162	155,673	199,204	168,012

(000s omitted)

Mortgage Loans

The Company's mortgage loan portfolio consists mainly of commercial mortgage loans made to borrowers throughout the United States. All outstanding commercial mortgage loans are secured by completed income-producing properties. At December 31, 2008, the commercial mortgage loan portfolio had an average remaining life of 6.0 years, with all principal due prior to 2028. The Company limits its concentrations of credit risk by diversifying its mortgage loan portfolio so that loans made in any one major metropolitan area are not greater than 20% of the aggregate mortgage loan portfolio balance. No loan to a single borrower represented more than 4.1% of the aggregate mortgage loan portfolio balance. There were no delinquencies and no valuation allowances as of December 31, 2008 and 2007.

The Company's mortgage loans are located throughout the United States. The following table identifies states with greater than 5% of the commercial mortgage portfolio at December 31:

	2008	2007
California	15.1%	15.6%
Illinois	8.3	8.7
Texas	8.0	9.1
Kansas	7.3	7.4
Missouri	6.4	7.8
Ohio	5.9	8.0
Florida	5.8	5.3
New York	5.4	1.2
Washington	5.1	6.4
Minnesota	4.9	6.4

The types of properties collateralizing the commercial mortgage loans at December 31 are as follows:

	2008	2007
Office	31.7%	36.7%
Industrial	26.1	25.1
Retail	23.2	21.8
Apartment	9.6	10.1
Other	9.4	6.3
Total	100.0%	100.0%

(000s omitted)

Real Estate

Real estate investments consisted of the following at December 31:

	2008	2007
Real estate held for the production of income	$ 15,335	$ 116,825
Accumulated depreciation	(6,145)	(63,764)
Net real estate held for the production of income	$ 9,190	$ 53,061
Real estate held for sale	$ 49,138	$ -
Accumulated depreciation	(27,917)	-
Net real estate held for sale	$ 21,221	$ -

Depreciation expense on investments in real estate totaled $2,721, $4,878 and $5,201 for the years ended December 31, 2008, 2007 and 2006, respectively. There were no impairments recognized on real estate in 2008, 2007 or 2006.

Real estate investments were categorized as follows at December 31:

	2008		2007	
	Amount	Percent	Amount	Percent
Office	$ 25,588	84.1%	$ 38,718	73.0%
Land	3,766	12.4	4,194	7.9
Retail	1,057	3.5	10,149	19.1
Total real estate investments	$ 30,411	100.0%	$ 53,061	100.0%

(000s omitted)

Short-Term Investments

The details of short-term investments at amortized cost, which approximates fair value as of December 31, are as follows:

	2008	2007
U.S. government and agencies	$ 211,605	$ -
Foreign government securities	9,301	11,565
Domestic corporate securities	1,001	208,883
Certificates of deposit	4,381	9,822
Foreign corporate securities	800	2,594
Total short-term investments	$ 227,088	$ 232,864

Limited Partnerships

The Company accounts for its investments in limited partnerships under the equity method. Accordingly, the Company's investments in these limited partnerships are carried at cost plus or minus the Company's equity in the undistributed earnings or losses as reported by the partnerships. As a result of normal delays in the reporting of results by the partnerships, the Company records its equity interests on a one quarter lag basis, which means the partnership results for the fourth quarter are not recorded until the first quarter of the following year. Given fourth quarter 2008 market conditions, the Company expects the limited partnerships will report to the Company losses from their fourth quarter operations, which the Company will record in the first quarter of 2009.

The cost and carrying values of limited partnerships were composed of the following as of December 31:

	2008		2007	
	Cost	Carrying Value	Cost	Carrying Value
Energy funds	$ 16,189	$ 15,237	$ 6,884	$ 6,412
Mezzanine	130,464	125,348	85,829	83,674
Private equity	151,977	144,290	98,446	106,664
Real estate	43,087	18,241	26,794	25,081
Other	31,279	26,568	23,617	23,654
Total limited partnerships	$ 372,996	$ 329,684	$ 241,570	$ 245,485

The Company funded $177,926 in 2008 and $197,549 in 2007, respectively.

(000s omitted)

Net Investment Income

Sources of net investment income for the years ended December 31 are summarized as follows:

	2008	2007	2006
Gross investment income (loss):			
Debt securities, available for sale	$ 342,109	$ 373,268	$ 366,851
Equity securities, available for sale	11,865	32,293	25,080
Mortgage loans	46,140	37,732	25,288
Real estate	16,993	19,735	18,680
Policy loans	7,134	7,248	7,200
Limited partnerships	(34,941)	1,737	(3,313)
Derivative financial instruments	673	229	295
Short-term investments and other	12,863	14,565	11,192
Total gross investment income	402,836	486,807	451,273
Investment expenses	(30,184)	(35,304)	(32,135)
Net investment income	$ 372,652	$ 451,503	$ 419,138

Additional net investment income of $7,178 in 2007 and $4,969 in 2006 has been included with the results of discontinued operations. See Note 15.

Limited partnerships generally carry their investments at fair value. Changes in market value are a component of the results of operations reported by the partnerships and are therefore included in the Company's recorded share of income. This accounting policy contributes to potentially significant fluctuations in the operating results of the Company's interests in limited partnerships. In addition, determinations of the fair value of such investments by the limited partnerships is highly judgmental given the nature of the investments held by these limited partnerships, the fact that observable market data is frequently not available, and the current illiquid markets. Accordingly, the values assigned are subject to risks of variability. See discussion of "Fair Value Measurement" which is included in this Note.

(000s omitted)

Net Realized Investment Gains (Losses)

Realized investment gains (losses) for the years ended December 31 are summarized as follows:

	2008	2007	2006
Debt securities:			
Gross gains on sales	$ 41,101	$ 18,245	$ 48,631
Gross losses on sales	(43,916)	(36,401)	(54,615)
Maturities and other	(19,549)	10,988	7,292
Other than temporary impairment losses	(421,853)	(143,335)	(7,913)
Equity securities:			
Gross gains on sales	23,690	118,559	50,312
Gross losses on sales	(21,929)	(13,880)	(4,056)
Other	(1,436)	(225)	(380)
Other than temporary impairment losses	(19,182)	(4,966)	(25)
Real estate	31,194	1,927	-
Mortgage loans	(1,593)	6,441	-
Derivative financial instruments	(11,866)	(22,278)	(22,752)
Derivative financial instruments - embedded	(5,424)	-	-
Other	(10,020)	(4,949)	5,855
Net realized investment gains (losses)	$ (460,783)	$ (69,874)	$ 22,349

Additional net realized investment gains of $19,531 and $298 in 2007 and 2006, respectively, have been reported in the results of discontinued operations; they were recognized by a Canadian property and casualty subsidiary which was sold in 2007. See Note 15.

Proceeds from the sale of debt securities were $1,168,584, $1,812,882 and $3,071,520 in 2008, 2007 and 2006, respectively. Proceeds from the sale of equity securities were $291,771, $494,233 and $310,413 in 2008, 2007 and 2006, respectively.

Other Than Temporary Investment Impairments

Investment securities are reviewed for other-than-temporary impairment on an ongoing basis. The Company creates a watchlist of securities based on the fair value of an investment security relative to its amortized cost. When the fair value drops below 95% of the Company’s cost the Company monitors the security for impairment. When the fair value drops below 80% of the Company’s cost or amortized cost or the potential impairment is greater than $1,000, the Company performs a full analysis to determine if the decline in fair value qualifies as an other-than-temporary impairment. The determination of other-than-temporary impairment requires significant judgment on the part of the Company and will depend on several factors, including:

- The duration and extent to which fair value has been less than book value.
- The reason for the decline in fair value (credit concerns, interest rates, etc.).
- The financial condition and near term prospects of the issuer/borrower, including the ability to meet contractual obligations, relevant industry trends and conditions and implications of rating agency actions.
- The intent and ability of CUNA Mutual to retain its investment for a period of time sufficient to allow for an anticipated recovery in fair value.
- The Company's ability to recover all amounts due according to the contractual terms of the agreements. (Investments will be considered impaired when it is probable that amounts due according to contractual terms of the agreements will be uncollectible.)
- The Company's collateral positions. (The bankruptcy of an issuer will not automatically trigger other-than-temporary impairment if the Company holds sufficient collateral.)

Determinations of other-than-temporary impairments are made by a combination of financial accounting and investment professionals after consideration of all of the relevant factors including those noted above. These determinations are estimates which are subject to risks and uncertainties of variability. If a security is deemed to be other-than-temporarily impaired, a charge is recorded in net realized capital losses equal to the difference between the fair value and the cost or amortized cost basis of the security. In addition, for securities expected to be sold, an other-than-temporary impairment charge is recorded if the Company does not expect the fair value of the security to recover to its cost or amortized cost prior to the expected date of sale. The fair value of the other-than-temporarily impaired security becomes its new cost basis.

For certain securitized financial assets with contractual cash flows, Emerging Issues Task Force No. 99-20 requires the Company to periodically update its best estimate of cash flows over the life of the security. If the fair value of a securitized financial asset is less than its cost or amortized cost and there has been a decrease in the present value of the estimated cash flows since the last revised estimate, considering both timing and amount, an other-than-temporary impairment charge is recognized. The Company also considers its intent and ability to retain a temporarily impaired security until recovery. Estimating future cash flows is a judgment process involving both quantitative and qualitative factors. Such determinations incorporate various information and assessments regarding the future performance of the underlying collateral. In addition, projections of expected future cash flows may change based upon new information regarding the performance of the underlying collateral.

The provision for other-than-temporary impairments in 2008 ($441,035) was substantially larger than the provisions in 2007 ($148,301) and 2006 ($7,938). As shown in the table on the next page the vast majority of the Company's charges for other-than-temporary impairments have been attributable to residential mortgage-backed securities and, to a lesser extent, commercial mortgage-backed securities and non-mortgage, asset-backed securities as well as other securities. The significant increase in the provision for these losses over the past three years, and particularly in 2008, is due to a number of significant factors and downward trends in the general economy and financial markets, which have negatively affected the values of virtually all financial investments. The most significant factor contributing to the increased losses in both 2008 and 2007 is the severe decrease in residential real estate values.

(000s omitted)

Management believes it has made an appropriate provision for other-than-temporarily impaired securities owned at December 31, 2008, 2007 and 2006. As a result of the subjective nature of these estimates, however, additional provisions may subsequently be determined to be necessary, as new facts emerge and greater understanding of economic trends develop. However, interpreting the effects and extent of the current market turmoil—particularly the decline in residential home values, the nature and effect of the government's actions, the overall employment trends, and the availability of credit—is a very complex estimation process and the predictive usefulness of historical trends is not known. Consistent with the Company's past practices, additional loss provisions will be recorded as appropriate and as determined by the Company's regular monitoring procedures of additional facts. In light of the variables involved, such additional provisions could be material.

The following table identifies the Company's other-than-temporary impairments by type as of December 31:

	2008	2007	2006
States and political subdivisions	$ (27)	$ -	$ -
Foreign government securities	-	(261)	(3)
Domestic corporate securities	(27,590)	(3,024)	(11)
Mortgage-backed securities:			
Residential mortgage-backed			
Prime	(844)	(938)	-
Alt-A	(120,608)	(18,978)	(308)
Sub-prime	(59,871)	(76,162)	(6,798)
Other	(3,995)	(974)	(399)
Commercial mortgage-backed			
Non-resecuritized	-	(1,900)	(331)
Non-mortgage asset-backed securities			
Collateralized debt obligations	(199,968)	(40,600)	(46)
Other	(1,113)	(74)	(17)
Foreign corporate securities	(7,837)	(424)	-
Total debt securities	(421,853)	(143,335)	(7,913)
Equity securities	(19,182)	(4,966)	(25)
Total other than temporary impairment losses	$ (441,035)	$ (148,301)	$ (7,938)

(000s omitted)

Net Unrealized Investment Gains (Losses)

The components of net unrealized investment gains (losses) included in accumulated other comprehensive loss at December 31 were as follows:

	2008	2007	2006
Debt securities	$ (785,922)	$ (238,615)	$ 50,534
Equity securities	(66,545)	26,219	134,117
Derivatives	56,988	(2,471)	(423)
Deferred policy acquisition cost adjustments	56,740	16,984	(9,992)
Deferred income taxes	239,899	66,886	(55,693)
Other, including minority interest	(6,055)	(4,577)	(5,405)
Net unrealized investment gains (losses)	$ (504,895)	$ (135,574)	$ 113,138

(000s omitted)

The following table presents fair value and unrealized losses for the Company's available for sale debt securities and equity securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position as of December 31, 2008.

	Months in Unrealized Loss Position					
	Less Than Twelve Months		Twelve Months or Greater		Total December 31, 2008	
Debt securities	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. government and agencies	$ 255,552	$ 2,371	$ -	$ -	$ 255,552	$ 2,371
States and political subdivisions	260,438	20,008	7,192	2,337	267,630	22,345
Foreign government securities	69,088	6,728	9,723	222	78,811	6,950
Domestic corporate securities	1,388,306	211,317	114,516	63,985	1,502,822	275,302
Mortgage-backed securities:						
Residential mortgage-backed	298,682	76,586	78,359	102,061	377,041	178,647
Commercial mortgage-backed	224,478	69,164	45,717	68,062	270,195	137,226
Asset backed non-mortgage-backed securitites	86,349	42,886	50,232	86,363	136,581	129,249
Foreign corporate securities	470,093	71,721	103,436	26,064	573,529	97,785
Total of debt securities	3,052,986	500,781	409,175	349,094	3,462,161	849,875
Equity securities	105,827	54,722	23,570	14,545	129,397	69,267
Total temporarily impaired securities	$ 3,158,813	$ 555,503	$ 432,745	$ 363,639	$ 3,591,558	$ 919,142

At December 31, 2008, the Company owned 1,913 debt securities with a fair value of $3,462,161 in an unrealized investment loss position. Of these, 394, with a fair value of $409,175, have been in an unrealized loss position for twelve or more months. The $349,094 unrealized loss for debt securities with a loss period twelve months or greater represents an aggregate 46.0% price impairment. The price impairment on the remaining 1,519 debt securities is 14.1%. The total fair value of debt securities, which reflect an unrealized loss at December 31, 2008 and which are rated "investment grade," is $3,169,522 or 91.5% of the total fair value of all debt securities which reflect an unrealized loss at

(000s omitted)

December 31, 2008. For these purposes "investment grade" is defined by the Company to be securities rated BBB or greater.

At December 31, 2008, the Company owned 83 stocks with a fair value of $129,397 in an unrealized loss position. Of these, 18 with a fair value of $23,570 have been in an unrealized position for more than twelve months; the unrealized loss on these securities represents a 38.3% price impairment.

The following table presents fair value and unrealized losses for the Company's available for sale debt securities and equity securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position as of December 31, 2007.

	Months in Unrealized Loss Position					
	Less Than Twelve Months		Twelve Months or Greater		Total December 31, 2007	
Debt securities	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
States and political subdivisions	$ 79,722	$ 1,440	$ 1,078	$ 10	$ 80,800	$ 1,450
Foreign government securities	114,226	2,516	28,119	296	142,345	2,812
Domestic corporate securities	900,040	36,049	155,098	8,515	1,055,138	44,564
Mortgage-backed securities:						
Residential mortgage-backed	567,286	149,644	273,694	33,913	840,980	183,557
Commercial mortgage-backed	262,192	24,704	109,657	10,509	371,849	35,213
Asset backed non-mortgage-backed securitites	163,579	2,110	8,086	411	171,665	2,521
Foreign corporate securities	367,652	20,127	87,007	10,852	454,659	30,979
Total of debt securities	2,454,697	236,590	662,739	64,506	3,117,436	301,096
Equity securities	147,412	10,596	24,030	270	171,442	10,866
Total temporarily impaired securities	$ 2,602,109	$ 247,186	$ 686,769	$ 64,776	$ 3,288,878	$ 311,962

At December 31, 2007, the Company owned 955 debt securities with a fair value of $3,117,436 in an unrealized investment loss position. Of these, 162, with a fair value of $662,739, have been in an unrealized loss position for twelve or more months. The $64,506 unrealized loss for debt securities with a loss period twelve months or greater represents an aggregate 8.9% price impairment. The price impairment on the remaining 800 debt securities is 8.8%. The total fair value of debt securities, which reflect an unrealized loss at December 31, 2007 and which are rated “investment grade,” (as defined previously), was $2,808,191, or 90.1% of the total fair value of all debt securities which reflect and unrealized loss at December 31, 2007.

At December 31, 2007, the Company owned 58 stocks with a fair value of $171,442 in an unrealized loss position. Of these, five with a fair value of $24,030 have been in an unrealized position for more than twelve months; the unrealized loss on these securities represents less than a one percent price impairment.

(000s omitted)

The following table summarizes the amortized cost and fair value of the Company's mortgage and asset-backed securities ("structured securities") which have an unrealized loss at December 31, 2008. The table further shows the number of months the structured securities have been in an unrealized loss position and the extent of impairment (percent of impairment=unrealized loss/amortized cost). Also shown are the number of structured securities involved.

		Fair Value By Percent of Impairment				
	Amortized Cost	Total	Under 20%	20-49%	50-80%	Greater than 80%
Residential mortgage-backed:						
Six months or less	$ 177,834	$ 157,745	$ 120,796	$ 36,949	$ -	$ -
Greater than six to twelve months	197,435	140,938	46,135	90,984	3,819	-
Greater than twelve months	180,419	78,358	22,868	30,372	19,265	5,853
Total residential mortgage-backed	555,688	377,041	189,799	158,305	23,084	5,853
Number of securities		100	55	30	9	6
Commercial mortgage-backed:						
Six months or less	226,524	184,774	155,133	18,329	10,888	424
Greater than six to twelve months	67,119	39,705	6,162	26,147	6,768	628
Greater than twelve months	113,778	45,716	11,499	17,816	10,576	5,825
Total commercial mortgage-backed	407,421	270,195	172,794	62,292	28,232	6,877
Number of securities		72	42	11	12	7
Non-mortgage asset-backed securities:						
Six months or less	94,976	71,526	62,639	6,081	-	2,806
Greater than six to twelve months	34,259	14,823	-	9,791	3,529	1,503
Greater than twelve months	136,595	50,232	19,735	9,033	16,501	4,963
Total non-mortgage asset-backed securities	265,830	136,581	82,374	24,905	20,030	9,272
Number of securities		55	30	4	10	11
Total:						
Six months or less	499,334	414,045	338,568	61,359	10,888	3,230
Greater than six to twelve months	298,813	195,466	52,297	126,922	14,116	2,131
Greater than twelve months	430,792	174,306	54,102	57,221	46,342	16,641
Total	$ 1,228,939	$ 783,817	$ 444,967	$ 245,502	$ 71,346	$ 22,002

(000s omitted)

Investment Credit Risk

The Company maintains a diversified investment portfolio including issuer, sector and geographic stratification, where applicable, and has established certain exposure limits, diversification standards, and review procedures to mitigate credit risk. The Company's largest ten exposures by fair value to a single credit exposure, other than the United States government or agencies backed by the full faith and credit of the United States government, at December 31, 2008 are as follows:

December 31, 2008	Average Credit Rating	Amortized Cost	Fair Value
Spartech Corporation	BBB-	$ 35,000	$ 30,041
American Capital Strategies	BBB	31,279	28,466
JP Morgan Mortgage Trust 2005-S3	AAA	24,818	19,090
Cattles PLC	BBB	20,000	18,549
Dupont E I Nemours & Company	A	20,444	18,456
GMAC Mortgage Corporation 2005-JI	AAA	19,953	17,354
LB-UBS Commercial Mortgage Trust 2001-C7	AAA	17,732	17,009
RREEF America II	A-	19,000	16,769
Bank of America Alternative 2005-6	AAA	25,248	16,485
Verizon Wireless Inc.	A	14,867	16,409
		$ 228,341	$ 198,628

The Company's largest ten unrealized loss positions, at December 31, 2008 are as follows:

December 31, 2008	Amortized Cost	Fair Value	Unrealized Loss
Countrywide Alternative Loan T 2005-46CB	$ 16,571	$ 4,463	$ (12,109)
Preferred Term XXIV	12,384	1,576	(10,808)
Credit Suisse 2006-OMA	13,129	2,518	(10,611)
Popular ABS Mortgage 2005-6	12,000	1,476	(10,524)
Countrywide Alternative Loan 2005-57CB	12,068	1,759	(10,308)
G-Force LLC 2005 RR2	20,059	9,935	(10,124)
Morgan Stanley Managed ACES 2007-11A	9,968	200	(9,768)
Washington Mutual 2005-AR15	10,184	927	(9,257)
Bank of America Alternative 2005-6	25,248	16,485	(8,763)
Alesco Preferred Funding 10X	10,064	1,414	(8,650)
	$ 141,675	$ 40,753	$ (100,922)

(000s omitted)

Securities Lending Agreements

The Company and certain of its subsidiaries were party to securities lending agreements until October 2008 when the Company and its subsidiaries discontinued its participation in these lending agreements. Prior to the discontinuance of the program, unrelated parties could borrow debt securities from the Company and were required to deposit cash or short-term investments as collateral equal to a minimum of 102% of the fair value of the loaned securities. The security custodian monitored the collateral position daily and additional collateral was obtained if the market value of the collateral fell below 102% of the market value of the loaned securities. The Company remained the beneficial owner and the loaned securities were reported with debt securities on the consolidated balance sheets. At December 31, 2007, the fair value of securities loaned by the Company totaled $236,514.

The majority of collateral received was invested in short-term securities and is included in the consolidated balance sheets as short-term investments with a corresponding liability included in accounts payable and other liabilities. The cash flow changes related to securities lending activities are included in the investing section of the consolidated statements of cash flow. The fair value of collateral held was $243,845 at December 31, 2007, of which $47,283 was not available for investment by the Company and is not reflected in the consolidated balance sheets. The Company earned income from the cash collateral or received a fee from the borrower.

Derivative Financial Instruments

Consistent with its asset allocation strategy, the Company utilizes derivative financial instruments to help maximize risk-adjusted investment returns; to reduce interest rate risks of long-term assets; to manage exposure to various credit, currency and market risks; and to manage exposure to various equity and fixed income market sectors.

The following table provides a summary of the carrying value, notional amount and current market or fair value of derivative financial instruments held at December 31, 2008:

December 31, 2008	Carrying Value	Notional Amount	Fair Value Assets	Fair Value Liabilities
Financial futures	$ (14,227)	$ 304,678	$ 115	$ 14,342
Cross currency swaps	8,352	37,989	8,352	-
Purchased option contracts	11,737	280,733	11,737	-
Written option contracts	(8,902)	2,808	-	8,902
Total derivative financial instruments	$ (3,040)	$ 626,208	$ 20,204	$ 23,244

(000s omitted)

The following table provides a summary of the carrying value, notional amount and current market or fair value of derivative financial instruments held at December 31, 2007:

December 31, 2007	Carrying Value	Notional Amount	Fair Value Assets	Fair Value Liabilities
Financial futures	$ 1,053	$ 142,418	$ 1,356	$ 303
Currency forwards	(24)	1,967	4	28
Cross currency swaps	(1,491)	37,989	197	1,687
Interest rate swaps	(2,388)	29,000	-	2,388
Purchased option contracts	17,155	233,430	17,155	-
Written option contracts	(10,113)	(4,238)	-	10,114
Total derivative financial instruments	$ 4,192	$ 440,566	$ 18,712	$ 14,520

Futures Contracts: Futures contracts are a commitment to purchase or deliver securities or currency in the future at a predetermined price or yield, and are usually settled in cash. When a futures contract is entered into, a margin account is established with the broker based on the requirements of the futures exchange.

The Company utilizes short positions in foreign currency futures to manage the foreign currency fair value risk exposure to investments denominated in foreign currencies. Foreign currency futures designated as hedging the foreign currency risk of foreign currency denominated long-term bonds and common stock are classified as foreign currency fair value hedges. The Company assesses the effectiveness of foreign currency fair value hedges based on the changes in fair value attributable to changes in spot prices. The change in the fair value of the foreign currency futures related to the changes in the difference between the spot price and the futures price is excluded from the assessment of hedge effectiveness and currently recognized in earnings. Based on this assessment of effectiveness, the foreign currency fair value hedges using short foreign currency futures contracts were effective in 2008 and 2007. Ineffectiveness could be present in a hedging relationship even if the assessment of effectiveness shows a highly effective relationship. The ineffectiveness in a fair value hedge is calculated as the extent that the change in the fair value of hedging instrument does not offset the change in the fair value of the hedged item.

The Company utilizes short positions in foreign currency futures to hedge a portion of its net assets in its consolidated foreign affiliates from the effects of fluctuations in currency exchange rates and designates these futures as net investment hedges. The Company assesses the effectiveness of the foreign net investment hedges based on the changes in forward exchange rates. When deemed effective, changes in fair value of the foreign currency futures are recorded in accumulated other comprehensive loss. Ineffectiveness could be present in a hedging relationship even if the assessment of effectiveness shows a highly effective relationship. Based on this assessment of effectiveness, the foreign net investment hedge using short foreign currency futures contracts were effective in 2008 and 2007.

Foreign currency futures and equity futures that cannot be designated to specific foreign currency risk are not accounted for under hedge accounting. All changes in the fair value of undesignated foreign currency futures are recorded in net realized investment gains (losses).

Currency Forwards: Currency forward contracts are a commitment to purchase or deliver currency in the future at a predetermined price and time. The Company utilizes short positions in foreign currency forwards to manage the foreign currency fair value risk exposure to investments denominated in foreign currencies. Foreign currency forwards designated as hedging the foreign currency risk of foreign currency denominated long-term bonds are classified as foreign currency fair value hedges. The Company assesses the effectiveness of the foreign currency fair value hedge based on the changes in fair value attributable to changes in spot prices. The change in the fair value of the foreign currency futures related to the changes in the difference between the spot price and the futures price is excluded from the assessment of hedge effectiveness and currently recognized in earnings. Based on this assessment of effectiveness, the foreign currency fair value hedges using short foreign currency forward contracts were highly effective in 2008 and 2007. If the foreign currency forwards were not deemed highly effective, the change in fair value of the foreign currency forwards would be recorded in net realized investment gains (losses) with no offset from the hedged item. Ineffectiveness could be present in a hedging relationship even if the assessment of effectiveness shows a highly effective relationship. The ineffectiveness in a fair value hedge is calculated as the extent that the change in the fair value of hedging instrument does not offset the change in the fair value of the hedged item.

Foreign currency forwards hedging foreign currency denominated bonds that cannot be designated to specific foreign currency risk are not accounted for under hedge accounting. All changes in the fair value of undesignated foreign currency forwards are recorded in net realized investment gains (losses).

Cross Currency Swaps: Under cross currency swaps, the Company agrees with other parties to exchange, at specified intervals, the difference between functional currency (U.S. Dollar) fixed or floating rate interest amounts and foreign currency fixed or floating rate interest amounts calculated by reference to agreed upon notional principal amounts. Generally, exchanges of functional currency (U.S. Dollar) and foreign currency notional amounts are made at the initiation and maturity of the contract. The Company uses cross currency swaps to eliminate the variability in functional currency equivalent cash flows of foreign currency denominated debt instruments. The Company designates the cross currency swaps as foreign currency cash flow hedges when the swaps are deemed highly effective. The changes in fair value of the cross currency swaps attributable to the hedged risk is recorded in accumulated other comprehensive loss to an extent it is effective. If the cross currency swaps were not deemed highly effective, the change in fair value of the cross currency swaps would be recorded in net realized investment gains (losses). Based on this assessment of effectiveness, the foreign currency fair value hedges using short foreign currency forward contracts were highly effective in 2008 and 2007.

Interest Rate Swaps: The Company uses interest rate swaps to reduce market risks from changes in interest rates and to properly align the risk characteristics of assets and liabilities. Under interest rate swaps the Company agrees with other parties to exchange, at specified intervals, the difference between fixed-rate and floating-rate interest amounts calculated by reference to an agreed notional principal amount. Generally no cash is exchanged at the outset of the contract and no principal payments are made by either party. The interest rate swap contracts are entered into pursuant to master agreements that normally provide for a single net payment to be made by one counterparty at each due date.

In 2008, the Company entered into interest rate swaps designated as cash flow hedges. The Company assesses the effectiveness of cash flow hedges based on a comparison of the change in fair value of the actual swap to the change in fair value of a "perfect" hypothetical swap which has terms that identically match the critical terms of the hedged instruments. Based on this assessment of effectiveness, the cash flow hedges were highly effective in 2008. Accordingly, the fair value of the actual swap was recorded at fair value on the balance sheet and accumulated other comprehensive loss was adjusted to the lesser of the actual swap fair value or the hypothetical swap's fair value. If the amount in accumulated other comprehensive loss was limited to the hypothetical swap's fair value, the difference was recorded in net realized investment gains (losses). The amounts in accumulated other comprehensive loss will be reclassified into earnings in the same periods during which the hedged forecasted transactions affect earnings. If the hedges were not deemed highly effective, the change in fair value of the interest rate swaps would be recorded in net realized investment gains (losses) with no offset from the hedged instruments. All changes in the fair value of undesignated interest rate swaps are recorded in net realized investment gains (losses).

In 2007, the Company designated its interest rate swaps as fair value hedges. The Company assesses the effectiveness of fair value hedges based on the changes in fair value attributable to changes in the benchmark interest rate. Based on this assessment of effectiveness, the fair value hedges were highly effective in 2007. If the hedges were not deemed highly effective, the change in fair value of the interest rate swaps would be recorded in net realized investment gains (losses) with no offset from the hedged item. All changes in the fair value of undesignated interest rate swaps are recorded in net realized investment gains (losses).

Options: Options are contracts that grant the purchaser, for a premium payment, the right to receive an amount of money based on a specified formula within a specified period of time. The Company issues market index certificates, equivalent to a written option. In return for the premium received, the Company agrees to pay the participant a percentage of the market price increase of an equity index above an agreed upon strike price at the end of a specified term. The Company mitigates risk from these agreements by purchasing over-the-counter call options with identical terms.

The Company also purchases over-the-counter call options to mitigate the risk of returns offered to policyholders who purchase equity indexed annuities. Net gains (losses) of ($13,823), $459 and $2,084 were recorded to net realized investment gains (losses) in 2008, 2007 and 2006, respectively.

The Company issues equity-indexed annuity contracts that guarantee a return of principal to the customer and credit interest based on certain indices, primarily the S&P 500 Index. A portion of the premium from each customer is invested in investment grade fixed income securities and is intended to cover the minimum guaranteed value due to the customer at the end of the term. A portion of the premium is used to purchase over-the-counter call options to hedge the potential growth in interest credited to the customer as a direct result of the increases in the related indices.

(000s omitted)

The following table provides the financial statement classification and impact of derivatives used in qualifying and non-qualifying hedge relationships, excluding embedded derivatives and the offset of the hedged item in an effective hedge for the years ended December 31:

	2008	2007	2006
Net investment income, reclassed from accumulated other comprehensive income (loss):			
Cross currency swaps, cash flow hedge	$ -	$ (2,208)	$ -
Interest rate swaps, cash flow hedge	317	148	-
Total derivatives reclassed to net investment income	317	(2,060)	-
Net realized investment gains (losses):			
Currency futures, fair value hedge	13,245	(10,065)	(19,491)
Currency futures, ineffectiveness in hedge	307	(268)	(207)
Currency futures, non-qualifying	1,271	(10,377)	(4,860)
Currency forwards, non-qualifying	(14)	(171)	(144)
Equity futures, non-qualifying	(10,736)	333	-
Interest rate swaps, fair value hedge	(1,706)	(1,927)	-
Interest rate swaps, ineffectiveness in hedge	(366)	(173)	-
Interest rate swaps, non-qualifying	-	-	(190)
Options, non-qualifying	(13,867)	370	2,140
Total net realized investment gains (losses) on derivatives	(11,866)	(22,278)	(22,752)
Accumulated other comprehensive income (loss):			
Currency futures, net investment hedge	44,525	(1,783)	(711)
Cross currency swaps, cash flow hedge	9,843	(3,896)	288
Interest rate swaps, cash flow hedge	5,408	1,571	-
Total accumulated other comprehensive income (loss) on derivatives	59,776	(4,108)	(423)
Total derivative impact	$ 48,227	$ (28,446)	$ (23,175)

(000s omitted)

The following table presents the components of accumulated other comprehensive loss, before income tax, related to cash flow hedges as of December 31:

	2008	2007	2006
Unrealized loss on derivatives included in accumulated other comprehensive loss as of January 1	$ (2,471)	$ (423)	$ -
Gains (losses) deferred in accumulated other comprehensive loss on the effective portion of cash flow hedges	59,776	(4,108)	(423)
Amounts reclassified to net investment income	(317)	2,060	-
Unrealized gain (loss) on derivatives included in accumulated other comprehensive loss as of December 31	$ 56,988	$ (2,471)	$ (423)

In 2009 the Company estimates that $1,031 will be reclassed from accumulated other comprehensive loss to net investment income as contractual cash flows on cross currency swaps are settled and from cash flows on interest rate swaps designated as cash flow hedges that were terminated in 2008. The Company is hedging its exposure to the variability in future cash flows for a maximum of 11 years on forecasted transactions excluding those transactions related to the payment of variable interest on existing instruments.

The Company is exposed to credit losses in the event of nonperformance by the counterparties to its swap and forward agreements. The Company monitors the credit standing of the counterparties and has entered into cash collateral agreements based on the credit rating of the counterparty. The Company anticipates that the counterparties will be able to fully satisfy their obligations under the contracts given their high credit ratings. The futures contracts are traded on a regulated exchange and, in the opinion of management, have little or no counterparty risk.

(000s omitted)

Embedded Derivatives

The Company issues products that contain embedded derivatives including equity indexed annuities and guarantees contained in variable annuity policies. Such embedded derivatives are required to be separated from their host contracts and accounted for at fair value. The following table presents the fair value of embedded derivatives, which are reported as part of policyholder account balances in the consolidated balance sheets, as of December 31:

	2008	2007
Equity indexed annuities	$ 20,272	$ 22,627
Guarantees on variable annuities	8,851	1,180
Total embedded derivatives	$ 29,123	$ 23,807

The following table presents changes in fair value related to embedded derivatives for the years ended December 31:

	2008	2007	2006
Net realized investment gains (losses)	$ 5,424	$ -	$ -
Interest credited to policyholder account balances	-	1,136	5,204

Fair Value Measurement

The Company adopted SFAS No. 157 effective January 1, 2008. SFAS No. 157 defines fair value, establishes a framework for measuring fair value under GAAP, establishes a fair value hierarchy based on the observability of inputs used to measure fair value, and enhances disclosures about fair value measurements. SFAS No. 157 provides guidance on how to measure fair value when required under existing accounting standards.

The Company applied the provisions of SFAS No. 157 in the 2008 consolidated financial statements. In addition to the new disclosures required by SFAS No. 157, the most significant impact was on the calculation of the fair value of derivatives embedded in annuity products. The Company recognized an increase to policyholders' surplus of $809 to reflect the effect of initial adoption of SFAS No. 157 on the fair value of embedded derivatives, net of tax. The Company's adoption of SFAS No. 157 did not materially impact the fair values of other financial instruments. The Company did not apply SFAS No. 157 to nonfinancial assets and liabilities as permitted by FASB Staff Position No. FAS 157-2.

SFAS No. 157 establishes a fair value hierarchy that prioritized the inputs to valuation techniques used to measure fair value into three broad levels. In accordance with SFAS No. 157, we have categorized our financial instruments, based on the degree of subjectivity inherent in the valuation technique, as follows:

- Level 1: Inputs are directly observable and represent quoted prices for identical assets or liabilities in active markets the Company has the ability to access at the measurement date (for example, U.S. Government securities and active exchange-traded equity securities).

- Level 2: Inputs are observable, either directly or indirectly, other than quoted prices included in Level 1, for the asset or liability. This includes: (i) quoted prices for similar instruments in active markets, (ii) quoted prices for identical or similar instruments in markets that are not active, (iii) inputs other than quoted prices that are observable for the instruments and (iv) inputs that are derived principally from or corroborated by observable market data by correlation or other means. (for example, certain corporate and municipal bonds and certain preferred stocks).

- Level 3: Inputs are unobservable inputs reflecting the Company's estimates of the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk, (for example, certain structured securities and privately held investments).

For purposes of applying the provisions of SFAS No. 157, observable inputs are those inputs used by market participants in valuing financial instruments, which are developed based on market data obtained from independent sources. In the absence of sufficient observable inputs, unobservable inputs, reflecting the Company's estimates of the assumptions market participants would use in valuing financial assets and liabilities, are developed based on the best information available in the circumstances. The Company uses prices and inputs that are current as of the measurement date. In periods of market turmoil, such as that existing at year end 2008, the ability to observe prices and inputs may be reduced for many investments, which in turn could cause an investment to be reclassified from Level 1 to Level 2 or from Level 2 to Level 3. In some instances, valuation inputs used to measure fair value fall into different levels of the fair value hierarchy. The category level in the fair value hierarchy is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

The availability of observable inputs varies by investment. The availability can also be significantly affected by illiquid or disrupted markets such as the market at December 31, 2008. In situations where the fair value is based on inputs that are unobservable in the market or on inputs from inactive markets, the determination of fair value requires more judgment and is subject to the risk of variability. The degree of judgment exercised by the Company in determining fair value is typically greatest for investments categorized in Level 3.

(000s omitted)

The hierarchy requires the use of market observable information when available for assessing fair value. The following table summarizes the Company's assets and liabilities that are measured at fair value on a recurring basis as of December 31, 2008.

Assets, at fair value	Level 1	Level 2	Level 3	Total December 31, 2008
Cash equivalents	$ 69,533	$ -	$ -	$ 69,533
Debt securities:				
U.S. government and agencies	375,226	82,911	-	458,137
States and political subdivisions	-	327,685	-	327,685
Foreign government securities	-	254,953	1,103	256,056
Domestic corporate securities	-	2,029,126	76,822	2,105,948
Mortgage-backed securities:				
Residential mortgage-backed	-	549,078	369,621	918,699
Commercial mortgage-backed	-	286,211	51,729	337,940
Non-mortgage asset-backed securities	-	119,325	52,035	171,360
Foreign corporate securities	-	731,112	24,195	755,307
Total debt securities	375,226	4,380,401	575,505	5,331,132
Equity securities	189,408	4,153	23,369	216,930
Mortgage loans	-	-	55,767	55,767
Short-term investments	225,617	1,471	-	227,088
Student loans receivable	-	-	8,159	8,159
Derivative assets	(14,227)	11,187	-	(3,040)
Separate account assets	3,414,109	-	-	3,414,109
Total assets	$ 4,259,666	$ 4,397,212	$ 662,800	$ 9,319,678

Liabilities, at fair value	Level 1	Level 2	Level 3	Total December 31, 2008
Derivatives embedded in annuity contracts	$ -	$ -	$ 29,123	$ 29,123
Total liabilities	$ -	$ -	$ 29,123	$ 29,123

A summary of valuation techniques for classes of financial assets and liabilities by fair value hierarchy level are as follows:

Level 1 Measurements
Cash equivalents: Consists of money market funds; valuation is based on the closing price as of the balance sheet date.

U.S. government and agencies: Consists of U.S. Treasury securities and debentures (non-MBS/ABS) issued by agencies of the U.S. government. Valuation is based on unadjusted quoted prices for identical assets in active markets that the Company can access.

Equity securities - common and preferred stock, publicly traded: Consists of U.S. and Canadian exchange traded common and preferred stocks; valuation is based on unadjusted quoted prices for identical assets in active markets that the Company can access.

Short-term investments: Consists of U.S. Treasury securities and short-term domestic securities; valuation is based on unadjusted quoted prices for identical assets in active markets that the Company can access.

Derivative assets: Exchange traded derivatives (primarily futures and options) that are actively traded and are valued based on quoted prices for identical instruments in markets that are active. Other derivatives are reported in Level 2, as their fair value is based on inputs that are not directly observable and based on certain valuation inputs.

Separate account assets: Consists of actively traded mutual funds that have daily quoted net asset values at which the Company could transact.

Level 2 Measurements
U.S. Government and agencies: Valued based on observable inputs such as the U.S. Treasury yield curve, market indicated spreads by security rating and quoted prices for identical assets in markets that are not active and/or similar assets in markets that are active.

States and political subdivisions: Consists of municipal general obligation and revenue bonds for which pricing is determined based on observable inputs such as the U.S. Treasury yield curve, market indicated spreads by security rating and comparable trades in the municipal bond markets.

Foreign government securities: Consists primarily of Canadian sovereign and provincial debentures and Australian sovereign and provincial debentures. Valued based on observable inputs such as the applicable market yield curve, market indicated spreads by security rating, and quoted prices for identical assets in markets that are not active and/or similar assets in markets that are active.

Domestic corporate securities: Valued based on observable inputs such as the U.S. Treasury yield curve, market indicated spreads by security rating and quoted prices for identical assets in markets that are not active and/or similar assets in markets that are active.

Residential mortgage-backed securities: Valuation is principally based on observable inputs including quoted prices for similar assets in markets that are active and observable market data, such as the U.S. Treasury curve.

Commercial mortgage-backed securities: Valuation is principally based on observable inputs including quoted prices for similar assets in markets that are active and observable market data, such as the U.S. Treasury curve.

Non-mortgage asset-backed securities: Valued based on inputs including quoted prices for identical or similar assets in markets that are not active.

Foreign corporate securities: Valued based on observable inputs such as the applicable, country-specific market yield curve, market indicated spreads by security rating and quoted prices for identical assets in markets that are not active and/or similar assets in markets that are active.

Equity securities - common and preferred stock, publicly traded: Consists of U.S. and Canadian exchange traded common and preferred stocks; valuation is based on observable inputs such as the applicable market yield curve, market indicated spreads by security rating, and quoted prices for identical assets in markets that are not active and/or similar assets in markets that are active.

Short-term investments: Consists of U.S. Treasury securities and short-term domestic securities; valuation is based on observable inputs such as the U.S. Treasury yield curve, market indicated spreads by security rating and quoted prices for identical assets in markets that are not active and/or similar assets in markets that are active.

Derivatives: Consists of derivatives such as interest-rate swaps, currency forwards, and other over the counter derivatives used for hedging purposes. Valuation inputs having a material effect on fair value include market quoted interest rates, market-implied volatility and other observable inputs regularly used by industry participants in the over-the-counter derivatives markets. Exchange-traded derivatives are reported in Level 1.

<u>Level 3 Measurements</u>
Foreign government securities: Valued based on unobservable inputs such as quoted prices for similar assets in markets that may not be active.

Domestic corporate securities: Valued based on unobservable inputs such as quoted prices from a third party for identical assets in markets that are not active and/or similar assets in markets that are active.

Residential mortgage-backed securities: Valuation is principally based on unobservable inputs including quoted prices for similar assets in markets that may not be active. When available, market indices and observable inputs, along with analytical modeling are used. However, observable inputs on non-distressed asset trades are not frequent.

Commercial mortgage-backed securities: Valuation is principally based on unobservable inputs including quoted prices for similar assets in markets that may not be active. When available, market indices and observable inputs, along with analytical modeling are used. However, observable inputs on non-distressed asset trades are not frequent.

Non-mortgage asset-backed securities: Valuation is principally based on unobservable inputs including quoted prices for similar assets in markets that may not be active. When available, market indices and observable inputs, along with analytical modeling are used. However, observable inputs on non-distressed asset trades are not frequent.

Foreign corporate securities: Valued based on unobservable inputs such as quoted prices from a third party for identical assets in markets that are not active and/or similar assets in markets that are active.

Equity securities - common and preferred stock, non-publicly traded: Consists of non-public securities primarily acquired in conjunction with investments in limited partnerships. Such investments are initially valued at transaction price and subsequently adjusted when evidence is available to support adjustments. Such evidence includes change in value as a result of public offerings, market comparables, market liquidity, the investees' financial results, sales restrictions, or other items.

Mortgage loans: Consists of commercial mortgage loans; valuation is based on the loan interest rate compared to published rates of similar loans based on type, duration (including prepayment positions), and interest rate and by considering collateral values and credit risk of the borrower.

Student loans receivable: Valued based on discounted cash flow analyses with interest rates currently being offered in the marketplace for similar loans to borrowers with similar credit ratings.

Derivatives embedded in annuity contracts: The Company offers certain variable annuity products with guaranteed minimum benefit riders. These include guaranteed minimum withdrawal benefit (“GMWB”) riders and guaranteed minimum accumulation benefit (“GMAB”) riders. GMWB and GMAB riders are embedded derivatives, which are measured at fair value separately from the host variable annuity contract. Equity indexed annuities also contain an embedded derivative, the option on a stock index. Changes in fair value are reported in net realized investment gains (losses).

The fair value for these riders is estimated using the present value of future benefits minus the present value of future fees using actuarial and capital market assumptions related to the projected cash flows over the expected lives of the contracts. In 2007, a risk neutral valuation methodology was used under which the cash flows from the riders were projected under multiple capital market scenarios using observable risk free rates. Effective January 1, 2008, upon adoption of SFAS No. 157, the valuation of these riders now includes an adjustment for the Company’s own credit and risk margins for non-capital market inputs. The Company’s own credit adjustment is determined taking into consideration publicly available information relating to the Company’s debt as well as its claims paying ability. Risk margins are established to capture the non-capital market risks of the instrument which represent the additional compensation a market participant would require to assume the risks related to the uncertainties of such actuarial assumptions as annuitization, premium persistency, partial withdrawal and surrenders. The establishment of risk margins requires the use of significant management judgment. These riders may be more costly than expected in volatile or declining equity markets. Market conditions including, but not limited to, changes in interest rates, equity indices, market volatility and foreign currency exchange rates; changes in the Company’s own credit standing; and variations in actuarial assumptions regarding policyholder behavior and risk margins related to non-capital market inputs may result in significant fluctuations in the fair value of the riders that could materially affect net income. See Embedded Derivatives within this Note for the 2008 impact to net income.

(000s omitted)

The following table sets forth the fair values of assets classified as level 3 within the fair value hierarchy:

		Total Realized/Unrealized Gain (Loss) Included in:				
	Balance January 1, 2008	Earnings[1]	Other Comprehensive Income	Net Purchases, (Sales) and (Maturities)	Transfer in to Level 3	Balance December 31, 2008 [2]
Debt securities	$ 213,374	$ (198,546)	$ 16,729	$ (16,092)	$ 560,040	$ 575,505
Equity securities	19,404	(1,004)	(9,118)	14,087	-	23,369
Mortgage loans	-	(3,336)	-	59,103	-	55,767
Student loans receivable	-	(530)	-	8,689	-	8,159
Total assets	$ 232,778	$ (203,416)	$ 7,611	$ 65,787	$ 560,040	$ 662,800
Derivatives embedded in annuity contracts	$ 23,807	$ 5,316	$ -	$ -	$ -	$ 29,123
Total liabilities	$ 23,807	$ 5,316	$ -	$ -	$ -	$ 29,123

[1] Included in earnings is amortization of premium/discount, impairments, realized gains and losses and lapses associated with embedded derivatives.
[2] There were no material unrealized gains (losses) for the period included in earnings attributable to the fair value relating to assets and liabilities classified as level 3 that are still held at December 31, 2008.

Fair Value Measurement - Nonrecurring Basis

Certain assets and liabilities are measured at fair value on a nonrecurring basis; that is, the assets and liabilities are not measured at fair value on an ongoing basis but are subject to fair value adjustments only in certain circumstances. The Company had no assets or liabilities that required a fair value adjustment as of December 31, 2008.

(000s omitted)

Fair Value Option and Student Loans

As set forth in Note 2 the Company adopted SFAS No. 159 at January 1, 2008. In addition, beginning in the third quarter of 2008 with the Company's initiation of its student lending program, the Company elected the fair value option with respect to all of these loans/receivables to better reflect the economics of this program. The Company expects to securitize these receivables in the future, which are included in other invested assets at December 31, 2008.

The fair value and the aggregate unpaid principal balance of the Company's student loans for which the SFAS No. 159 fair value option has been elected at December 31, 2008 are as follows:

December 31, 2008	Fair Value	Aggregate Contractual Principal Amount Outstanding	Fair Value Over (Under) Aggregate Contractual Principal Amount Outstanding
Student loans for which fair value option has been elected	$ 8,343	$ 8,862	$ (519)

The fair values of the student loans are estimated using discounted cash flow analyses with interest rates currently being offered in the marketplace for similar loans to borrowers with similar credit ratings. Loans with similar characteristics are aggregated for purposes of the calculations. The change in the fair value of the loans is included in net realized investment gains (losses) in the accompanying consolidated statement of operations. Interest income is recorded on an accrual basis and is included in net investment income. At December 31, 2008 no loan amounts were currently due or past due and no loans were in a nonaccrual status.

Securities on Deposit/Assets Designated

Iowa law requires that assets equal to a life insurer's legal reserve must be designated for the Iowa Department of Commerce, Insurance Division. The legal reserve is equal to the net present value of all outstanding policies and contracts involving life contingencies. At December 31, 2008 and 2007, bonds and notes, mortgage loans and policy loans with a carrying value of $5,133,615 and $4,924,728, respectively, were accordingly designated for Iowa. Other regulatory jurisdictions require cash and securities to be deposited for the benefit of policyholders. Pursuant to these requirements, securities with a fair value of $38,578 and $37,595 were on deposit as of December 31, 2008 and 2007, respectively. The Company has also pledged debt securities to the Federal Home Loan Bank of Des Moines. See Note 12.

The Company entered into a modified coinsurance agreement in 2008. Under the terms of the coinsurance agreement the risk of loss is not sufficiently transferred to the reinsurer. Accordingly, the agreement is accounted for using the deposit method. As part of the agreement the Company is required to maintain certain assets according to guidelines contained in the agreement. These assets are managed according to guidelines contained in the agreement and provide the basis for investment income to be earned and paid to the reinsurer.

(000s omitted)

Asset Restrictions

Certain contract holders' account balances that relate to contracts issued by the Company are legally "separate accounts" but are reported in the consolidated balance sheets as part of general account assets because the Company has retained the risk of investment gains and losses. As a result, debt securities with a market value of $21,000 as of December 31, 2007 were restricted and available only to satisfy the obligations of these contract holders. There were no such similarly restricted assets as of December 31, 2008.

At December 31, 2008 and 2007, $41,506 and $41,243 of securities were held in trust, securing an agreement by the Company's wholly owned subsidiary, CUNA Mutual Investment Corporation, to provide, under certain circumstances, capital support to an unconsolidated subsidiary. See Note 11, Commitments and Contingencies—Capital Support Agreement, for a further description of this arrangement.

4. Income Tax

CUNA Mutual and certain of its domestic subsidiaries file a consolidated life-nonlife federal income tax return. The Company has entered into a tax sharing agreement with its subsidiaries. The agreement provides for the allocation of tax expense between CUNA Mutual and its subsidiaries and is based on each subsidiary's contribution to the consolidated federal income tax liability. The agreement is substantially in accordance with Reg. Section 1.1552-1(a)(1) and1.1502-33(d)(3). The agreement departs from Reg. Section 1.1552-1(a)(1) and 1.1502-33(d)(3) in that subsidiaries which have incurred losses are reimbursed regardless of the utilization of the loss in the current year.

Income tax expense attributable to income from continuing operations for the years ended December 31 is as follows:

	2008	2007	2006
Current tax expense	$ 10,913	$ 85,638	$ 44,338
Deferred tax expense (benefit)	(85,247)	(40,257)	12,690
Total income tax expense (benefit)	$ (74,334)	$ 45,381	$ 57,028

The income tax effects of discontinued operations are shown in Note 15.

(000s omitted)

Income tax expense (benefit) differs from the amount computed by applying the U.S. federal corporate income tax rate of 35% to income (loss) from continuing operations before income taxes, equity in income of unconsolidated affiliates and minority interest due to the items listed in the following reconciliation:

	2008	2007	2006
Tax expense computed at federal corporate tax rate	$ (79,861)	$ 68,769	$ 78,703
Tax-exempt investment income	(4,511)	(3,869)	(4,047)
Settlement of prior year taxes	-	(9,623)	(12,378)
Dividends-received deduction	(2,761)	(4,972)	(3,982)
Meals and entertainment	986	869	749
Investments held for sale	-	-	(3,151)
Rate differential on dividends received from foreign affiliates	6,268	3,854	308
Foreign operations	3,738	(9,785)	(808)
Other, net	1,807	138	1,634
Total income tax expense (benefit) on continuing operations	$ (74,334)	$ 45,381	$ 57,028

(000s omitted)

Deferred income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial statement purposes and the amounts for income tax purposes. Significant components of the Company's deferred tax assets and liabilities at December 31, 2008 and 2007 are as follows:

	2008	2007
Deferred tax assets:		
Policy liabilities and reserves	$ 141,859	$ 124,615
Pension and other employee benefits	90,350	102,334
Investments	130,088	14,958
Unearned revenue	49,292	51,210
Loss reserve discounting	11,951	12,215
Accrued expenses	32,445	37,802
Fixed assets and real estate	-	5,714
Dividends payable to policyholders	12,517	11,734
Foreign currency translation	9,037	12,275
Loss carryforwards	25,469	12,152
Unrealized investment losses	252,899	66,886
Other	5,132	3,984
Gross deferred tax assets	761,039	455,879
Less: valuation allowance	13,000	-
Net deferred tax assets	748,039	455,879
Deferred tax liabilities:		
Deferred policy acquisition costs	164,452	166,479
Deferred and uncollected premium	7,789	-
Fixed assets and real estate	3,359	-
Intangible assets	15,450	16,670
Undistributed net income of unconsolidated affiliates	31,500	32,441
Other	8,493	12,489
Gross deferred tax liabilities	231,043	228,079
Deferred tax asset, net	$ 516,996	$ 227,800

SFAS No. 109, "Accounting for Income Taxes", requires a company to determine the need for a valuation allowance for recorded gross deferred income tax assets. All available evidence, both positive and negative, should be considered in making this evaluation. Sources of taxable income available under the tax law to realize these deferred tax assets, which represent a combination of tax benefits associated with temporary differences and carryforwards, include (1) future reversals of existing taxable temporary differences, (2) future taxable income exclusive of reversing temporary differences and carryforwards, (3) taxable income in prior carryback years, and (4) tax planning strategies. To qualify as a source of taxable income, tax planning strategies must, among meeting other tests, be prudent and feasible.

Forming a conclusion with respect to valuation allowances can be difficult in certain circumstances, including situations where there are significant deferred tax assets related to realized and unrealized capital losses, the benefit of which may ultimately require the realization of future capital gain taxable income during a carryforward period that is limited by tax law. These determinations are ultimately judgments based on an evaluation of the best facts available at the time. The ultimate outcome could vary from the amounts recorded.

The Company considered the need for a valuation allowance with respect to its gross deferred tax assets, including deferred tax assets, aggregating $434,000, that relate to realized and unrealized capital losses recorded in the determination of income and other comprehensive income for financial statement purposes as of December 31, 2008. Included in the $434,000 is approximately $280,000 related to fixed income securities with unrealized losses, for which a valuation allowance is not required as management has the intent and ability to hold these securities to recovery. Based on the Company's evaluation of both the positive and negative evidence and certain identified tax planning strategies, the Company recorded a valuation allowance of $13,000, all of which related to investment capital losses. No valuation allowance was recorded or determined to be required at December 31, 2007. The realization of further investment capital losses in 2009 could generate additional deferred tax assets. Those deferred tax assets, along with the remaining deferred tax assets from December 31, 2008, would be subjected to subsequent determinations of the need for a valuation allowance. The outcome of such future determinations would necessarily be based on the facts and circumstances at that time and cannot be predicted with certainty.

As of December 31, 2008, for income tax purposes the Company had federal capital loss carryforwards of approximately $57,000; the related tax benefits are $20,000. These carryforwards expire in 2012 and 2013. As of December 31, 2008, for income tax purposes the Company had federal operating loss carryforwards of approximately $13,000; the related tax benefits are approximately $5,000. These carryforwards expire in years 2024 through 2026.

The Company generally does not provide U.S. deferred income taxes or foreign withholding taxes on undistributed earnings from foreign affiliates since the earnings are intended to be reinvested indefinitely. It is not practical to estimate the amount of additional taxes that might be payable on such undistributed earnings. In 2008, however, the Company established U.S. deferred income taxes of $2,700 related to its investment in a Canadian affiliate.

(000s omitted)

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	2008	2007
Balance at January 1,	$ 55,981	$ 43,090
Additions based on tax positions related to the current year	4,526	12,521
Additions for prior years' tax positions	7,303	904
Reductions for prior years' tax positions	(631)	(56)
Reductions for settlements	(4,657)	(444)
Reductions for expiration of statutes	(73)	(34)
Balance at December 31,	$ 62,449	$ 55,981

Included in the balance of unrecognized tax benefits at December 31, 2008 and 2007 are $35,500 and $30,700, respectively, of unrecognized tax benefits that, if recognized would affect the effective income tax rate in future periods. The statute of limitations relating to certain tax years may close in 2009. Management does not anticipate that the closing of any statute of limitation will result in a material change in its uncertain tax benefits.

The Company recognizes interest and penalties accrued related to unrecognized tax benefits as part of the income tax provision. During the years ended December 31, 2008 and 2007, the Company recognized approximately $3,273 and ($955) in interest and penalties. The Company had accrued $26,944 and $23,672 for the payment of interest and penalties at December 31, 2008 and 2007, respectively.

The Company or one of its subsidiaries files income tax returns in the U.S. federal jurisdiction and various states and foreign jurisdictions. For the major jurisdictions where it operates, the Company is generally no longer subject to income tax examinations by tax authorities for years ended before December 31, 2005 for CUNA Mutual and subsidiaries and December 31, 2005 for CMLIC and subsidiaries. However, the statutes remain open for years ended before December 31, 2001 for CUNA Mutual and subsidiaries and December 31, 1998 for CMLIC and subsidiaries. The merger of CMLIC into CUNA Mutual was a tax free merger at December 31, 2007 with CUNA Mutual as the survivor. The merger does not affect the possibility of income tax examinations for years prior to the merger for CMLIC.

5. Related Party Transactions

In the normal course of business, there are various transactions between the Company and other related entities. In certain circumstances, expenses are shared between the companies. Expenses incurred that are specifically identifiable with a particular company are borne by that company; other expenses are allocated among the companies on the basis of time and usage studies.

The Company and Producers Agriculture Insurance Company ("PAIC") are parties to a crop insurance pooling arrangement. CUNA Mutual Investment Corporation ("CMIC"), a wholly-owned subsidiary of the Company, owns 22.4% of PAIC's parent company. All crop insurance business written by the Company is ceded to PAIC. A portion of the pooled premiums is ceded to the Federal Crop Insurance Corporation ("FCIC"). The Company assumed 50% and 40% of the net business after cessions to the FCIC in 2008 and 2007, respectively. The Company has a recoverable of $48,017 and $21,890 from PAIC at December 31, 2008 and 2007, respectively.

In 2006, the Company began offering through a program called the CMG Employee Co-Investment Fund ("Co-Investment plan") the ability for selected senior leaders to participate in a program to invest their personal funds in limited partnerships in which the Company had invested in. This participation came in the form of a percentage share of the underlying investment pool of all of the Company's limited partnership investments. In July 2008, the Company bought out the employee participants in the Co-Investment plan due to the increasing complexity of the program from an administrative and tax perspective for both the Company and the participants. The participants received their net capital contributions through their last statement date of March 31, 2008 and calculated interest on those contributions from inception of their investment through the buyout date. The total distributed back to participants was $2,300 with $189 of that being calculated interest.

(000s omitted)

6. Reinsurance

The Company enters into reinsurance agreements to reduce overall risk, including exposure to large losses and catastrophic events. The Company retains the risk of loss in the event that a reinsurer is unable to meet the obligations assumed under the reinsurance agreements. The Company also assumes insurance risk that was directly written by other insurance entities.

The effects of reinsurance on premiums and on claims, benefits, and losses incurred for the years ended December 31 are as follows:

	2008		2007		2006	
	Life & Health Insurance	Property & Casualty Insurance	Life & Health Insurance	Property & Casualty Insurance	Life & Health Insurance	Property & Casualty Insurance
Premiums:						
Direct	$ 1,403,946	$ 605,224	$ 1,349,783	$ 535,144	$ 1,343,151	$ 499,775
Assumed from affiliates	-	248,309	-	127,830	-	1,288
Assumed from non-affiliates	19,814	161,601	14,991	126,131	14,951	111,910
Ceded to affiliates	-	(66,857)	-	(32,970)	-	-
Ceded to non-affiliates	(143,347)	(54,365)	(102,708)	(44,100)	(127,170)	(51,889)
Net premiums	$ 1,280,413	$ 893,912	$ 1,262,066	$ 712,035	$ 1,230,932	$ 561,084
Claims, benefits and losses incurred:						
Direct	$ 825,005	$ 325,008	$ 855,789	$ 300,614	$ 787,876	$ 309,086
Assumed from affiliates	-	203,466	-	93,418	-	2,989
Assumed from non-affiliates	17,045	128,125	15,440	81,059	12,928	77,221
Ceded to affiliates	-	(49,828)	-	(30,751)	-	-
Ceded to non-affiliates	(71,434)	(28,805)	(74,841)	(24,076)	(59,145)	(29,045)
Net claims, benefits and losses	$ 770,616	$ 577,966	$ 796,388	$ 420,264	$ 741,659	$ 360,251

The balance of reinsurance recoverables at December 31, 2008 and 2007 was $193,788 and $157,609, respectively. These balances are subject to uncertainties similar to the estimates of the gross reserves for claims and policy benefits and loss and loss adjustment expenses. The collection of the balances is also subject to risk. The Company evaluates the risks to collection of these balances in determining the need to establish an allowance for uncollectible reinsurance. In making this determination, the Company considers, among other factors, the credit rating of the reinsurers, its past collection experience, the aging of balances, and any known credit concerns or disputes over contract interpretations. Based on the Company's evaluation, no allowance for uncollectible reinsurance was recorded at December 31, 2008 or 2007. The Company has a recoverable of $48,017 and $21,890 from PAIC, a related party (see Note 5), at December 31, 2008 and 2007, respectively. The Company also has recoverables of $112,942 and

(000s omitted)

$106,024 from three non-affiliated reinsurers at December 31, 2008 and 2007, respectively. The Company believes there is no significant risk of loss related to these recoverables.

7. Deferred Policy Acquisition Costs

A summary of the policy acquisition costs deferred and amortized is shown in the following table:

	2008		2007	
	Life and Health Insurance	Property and Casualty Insurance	Life and Health Insurance	Property and Casualty Insurance
Balance at beginning of year	$ 706,486	$ 27,830	$ 632,149	$ 26,626
Policy acquisition costs deferred	291,353	69,458	309,440	61,697
Policy acquisition costs amortized and adjustments for changes in life and health gross profit assumptions	(283,154)	(70,988)	(256,467)	(60,881)
Effect of change in net unrealized gains (losses) on securities available for sale	69,084	-	26,976	-
Impact of foreign exchange	(32,430)	(1,017)	(5,612)	388
Balance at end of year	$ 751,339	$ 25,283	$ 706,486	$ 27,830

(000s omitted)

8. Liability for Claim Reserves

The following table presents activity relating to unpaid claim and claim adjustment expense reserves for property and casualty and certain accident and health insurance policies:

	2008		2007	
	Accident and Health Insurance	Property and Casualty Insurance	Accident and Health Insurance	Property and Casualty Insurance
Balance as of January 1	$ 425,032	$ 458,702	$ 445,400	$ 428,753
Less discontinued operations	-	-	-	68,378
Less experience refunds liability	51,648	3,862	43,513	-
Less reinsurance recoverables	5,805	90,256	5,183	51,849
Net balance as of January 1	367,579	364,584	396,704	308,526
Incurred, net of reinsurance recoverable, related to:				
Current year	236,681	641,066	254,619	461,550
Prior years	(26,936)	(63,100)	(45,096)	(41,286)
Total incurred	209,745	577,966	209,523	420,264
Paid, net of reinsurance recoverable related to:				
Current year	82,406	359,747	82,159	231,799
Prior years	152,681	165,238	156,489	132,407
Total paid	235,087	524,985	238,648	364,206
Net balance at December 31	342,237	417,565	367,579	364,584
Plus experience refunds liability	50,664	5,241	51,648	3,862
Plus reinsurance recoverables	6,277	76,355	5,805	90,256
Balance at December 31	$ 399,178	$ 499,161	$ 425,032	$ 458,702

The liability for claim reserves from prior years decreased by $26,936 and $45,096 for accident and health products in 2008 and 2007, respectively. For property and casualty products, the decreases were $63,100 and $41,286 in 2008 and 2007, respectively. The experience improvements, as determined by actuarial analysis, can be generally attributed to loss mitigation efforts, and the benefit resulting from implementation of claim handling best practices.

For accident and health products, the 2008 and 2007 decreases in claim reserves primarily relates to better experience in both group and credit disability products.

For property and casualty products, the significant decreases in 2008 and 2007 relates to improvements from losses associated with fraudulent use of credit and debit cards issued by credit unions, which were in part covered by fidelity bond insurance issued by the Company. Smaller favorable development in certain other property and casualty lines was offset by adverse experience in workers compensation.

9. Benefit Plans

The Company has noncontributory defined benefit pension plans covering substantially all full time employees other than employees of The CUMIS Group, Ltd., a holding company for the Canadian insurance operations, which is owned 87% by CUNA Mutual, and the employees of Lending Call Center Services, LLC, a 100% owned subsidiary of the Company. Certain employees and directors are also eligible for non-qualified defined benefit plans. Retirement benefits are provided using either a traditional or cash balance formula. The traditional formula provides benefits based on compensation and years of service. The cash balance formula utilizes notional accounts which credit participants with benefits equal to a percentage of eligible pay as well as earnings credits for each account balance. The cash balance formula applies to employees hired after December 31, 2001 for employees not covered under a collective bargaining agreement and September 1, 2005 for employees covered under a collective bargaining agreement and the majority of the benefit obligations relate to the traditional formula. The Company's policy is to fund pension costs as required to meet the minimum funding requirements under the Employee Retirement Income Security Act of 1974. $231,772 and $448,033 of the United States benefit plan assets shown in the table below, at December 31, 2008 and 2007, respectively, are invested in the Ultra Series Fund, a family of mutual funds which is managed by a wholly-owned investment advisor.

The CUMIS Group, Ltd. maintains a noncontributory defined benefit pension plan, which covers substantially all of its employees, and two contributory defined benefit pension plans. Retirement benefits are based on length of service and final average earnings.

The Company has postretirement benefit plans which provide certain medical and life insurance benefits to eligible participants and dependents. The cost of postretirement benefits is recognized over the period the employees perform services to earn the benefits. Effective December 31, 2008 retiree health benefits were eliminated for all non represented employees and those represented employees who had retired prior to June 1, 2005. As discussed in greater detail below, the effect of eliminating these benefits was a pre-tax increase to 2008 income of $121,823.

The measurement date for all benefit plans is December 31.

(000s omitted)

Amounts recognized in accumulated other comprehensive income as of December 31, 2008 and 2007 are as follows:

	2008	2007
Net transition obligation	$ (1,564)	$ (2,777)
Net prior service costs	(46)	(21,804)
Net actuarial loss	183,368	115,830
Total recognized in accumulated other comprehensive loss, before tax	181,758	91,249
Tax expense	68,043	32,059
Total recognized in accumulated other comprehensive loss, net of tax	$ 113,715	$ 59,190

The estimated net actuarial loss and prior service cost for the postretirement benefit plans that will be amortized from accumulated other comprehensive income into net periodic benefit cost during 2009 are $11,250 and ($450), respectively.

The following table summarizes information about the plans at December 31:

	Pension Benefits		Other Postretirement Benefits	
	2008	2007	2008	2007
Fair value of plan assets	$ 433,358	$ 635,670	$ 6,625	$ 8,918
Benefit obligation	(632,847)	(719,407)	(48,015)	(196,971)
Net liability recognized in the consolidated balance sheet	$ (199,489)	$ (83,737)	$ (41,390)	$ (188,053)

The accumulated benefit obligations for the Company's defined benefit pension plans were $556,612 and $622,782 at December 31, 2008 and 2007, respectively.

(000s omitted)

The following table provides information for the plans for the years ended December 31:

	Pension Benefits			Other Benefits		
	2008	2007	2006	2008	2007	2006
Pension benefits:						
Employee contributions	$ -	$ -	$ 422	$ -	$ -	$ -
Employer contributions	9,807	11,980	71,955	8,243	6,406	6,921
Benefit payments	40,783	45,103	49,450	8,002	6,406	6,921
Net periodic benefit cost	13,308	22,193	33,525	12,107	11,387	10,075
Settlement gain	-	-	-	75,101	-	-
Curtailment gain	-	-	-	46,722	6,573	-

The postretirement benefit costs for 2008 include recognition of a curtailment gain of $46,722. This curtailment gain is the result of the suspension of the Company's retiree health benefits for employees not represented under a collective bargaining agreement, effective December 31, 2008. Subsequently, retiree health benefits were eliminated for those non-represented employees and retirees as well as represented employees who retired prior to June 1, 2005. This resulted in a settlement gain of $75,101 recorded as a reduction to 2008 operating expenses in the consolidated 2008 statement of operations.

The postretirement benefit costs for 2007 include recognition of a curtailment gain of $6,573. This curtailment gain is the result of the termination of a significant number of employees covered under the plan as the result of the Company's outsourcing effort that began in 2005. Termination dates for the impacted employees ended in 2007, which triggered the recognition of the curtailment gain.

The 2007 curtailment was net of $3,329, which is the amount the Company recognized for the implementation of SFAS No. 158. This reduction was for the elimination of prior service costs related to the curtailment that were recognized as a part of the curtailment gain in postretirement benefit costs.

(000s omitted)

In the table below, information is presented as of December 31 for those pension plans for which the accumulated benefit obligation exceeds the fair value of plan assets.

	2008	2007
Projected benefit obligation	$ 588,890	$ 128,362
Accumulated benefit obligation	522,660	113,709
Fair value of plan assets:		
Debt securities	$ 245,550	$ 50,614
Equity securities	118,439	27,890
All other investments	25,434	3,667
Total fair value of plan assets	$ 389,423	$ 82,171

CUNA Mutual's actuarial assumptions used to develop pension and other postretirement benefit expense for the years ended December 31 were as follows:

	2008	2007
Discount rate	5.76%	5.62%
Expected long-term rate of return on plan assets	7.87%	7.91%
Assumed rate of compensation	4.13%	4.89%

The assumed health care cost trend rate used in measuring the accumulated postretirement benefit obligation is 11.2% reducing to 3.6% by 2077. The discount rate used in determining the accumulated postretirement benefit obligation is 6.8% and 5.6% for 2008 and 2007 respectively.

The CUMIS Group Ltd.'s actuarial assumptions used to develop pension and other postretirement benefit expense for the years ended December 31 were as follows:

	2008	2007
Discount rate	7.50%	5.75%
Expected long-term rate of return on plan assets	6.66%	7.13%
Assumed rate of compensation	4.25%	4.25%

The assumed health care cost trend rate used in measuring the accumulated postretirement benefit obligation for The CUMIS Group Ltd is 8.0% reducing to 5.0% by 2011. The discount rate used in determining the accumulated postretirement benefit obligation is 7.5% for 2008 and 5.8% for 2007.

(000s omitted)

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 introduced a prescription drug benefit under Medicare Part D as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. The effects of the subsidy are reflected in the measurement of the net periodic postretirement benefit costs. The effect of the subsidy for 2008 was a reduction of the postretirement benefit cost of $2,388 including $938 related to service cost, $1,266 related to interest cost and $184 related to recognized net actuarial gain/loss. Comparable figures for 2007 were a reduction of the postretirement benefit cost of $2,945 including $1,192 related to service cost, $1,482 related to interest cost and $271 related to recognized net actuarial gain/loss. The subsidy reduced the 2008 accumulated postretirement benefit obligation by $4,500 compared to $22,870 in 2007. Subsidies received in 2008 and 2007 amounted to $489 and $416, respectively.

Estimated future benefit payments for the years ended December 31 are as follows:

	Pension Benefits	Other Benefits Before Subsidy	Other Benefits Medicare Subsidy	Other Benefits After Subsidy
Estimated future benefit payments				
2009	$ 35,195	$ 1,649	$ 19	$ 1,630
2010	36,297	1,788	27	1,761
2011	38,021	2,069	38	2,031
2012	39,392	2,355	54	2,301
2013	41,073	2,682	71	2,611
2014-2018	253,983	22,126	753	21,373

We anticipate making a minimum contribution of $45,000 in 2009 with future amounts to be determined based on future asset performance and liabilities. For other benefits, the employer contribution will be equivalent to the estimated 2009 benefits.

(000s omitted)

CUNA Mutual's pension plan asset allocation at December 31, by asset category, as a percentage of plan assets, and the target allocation, is shown below:

	2008	2007	Target Allocation
Asset category			
Equity securities	33.1%	62.2%	41.0%
Debt securities	60.6	33.1	59.0
Other investments	6.3	4.7	-
Total	100.0%	100.0%	100.0%

The CUMIS Group Ltd.'s pension plan asset allocation at December 31, by asset category, as a percentage of plan assets, and the target allocation, is shown below:

	2008	2007	Target Allocation
Asset category			
Equity securities	54.8%	53.8%	55.0%
Debt securities	38.4	40.6	45.0
All other	6.8	5.6	-
Total	100.0%	100.0%	100.0%

CUNA Mutual and CUMIS Group Ltd. invest the pension plans' assets with the goal of meeting short and long term obligations, employing optimization techniques to achieve the highest expected return under a target level of portfolio risk. The portfolio risk target is based on the pension plans' funded status, payout features, and participants' characteristics. This methodology takes into account asset class correlations to assure appropriate portfolio diversification. Asset class allocations are allowed to approximate target with a small tolerance to changes in overall portfolio risk. Derivatives may be used to maintain the target allocation.

The expected rates of return and variance for each asset class are derived using statistical techniques based on long-term historical data. Returns and correlations are adjusted slightly to reflect trends and portfolio manager expectations.

Other Post Employment Benefits

The Company has a plan to provide severance pay and continuation of certain life and health benefits to qualifying inactive or former employees during the severance period. The Company also provides certain life and health benefits to employees in disability status. The liability for these other post employment benefits was $6,235 and $14,830 at December 31, 2008 and 2007, respectively.

Defined Contribution Plans

The Company sponsors thrift and savings plans which cover all regular full-time employees and agents who meet certain eligibility requirements. Under the plans, the Company contributes an amount equal to a participant's contribution, up to a maximum of 5% of a participant's salary. The Company match is vested according to plan schedules. The Company's contributions for the years ended December 31, 2008, 2007 and 2006 were $13,884, $13,058 and $12,973 respectively.

Benefit Plans Funded with Rabbi Trusts

The Company also has a variety of deferred compensation plans for key executives and directors. The accrued liability for these plans was $64,340 and $69,301 as of December 31, 2008 and 2007, respectively, and is included in accounts payable and other liabilities in the consolidated balance sheets. These plans have been partially funded with assets in Rabbi trusts. Assets placed in trust also include amounts deposited to fund certain qualified defined benefit plans which are excluded from the determination of the accrued liability. The total amounts held in the Rabbi trusts were $55,105 and $68,817 at December 31, 2008 and 2007, respectively. These assets represent investments in mutual funds carried at fair value and are included with other equity securities in the consolidated balance sheets. Assets in such trusts are held for the benefit of the plan beneficiaries but remain the property of the Company.

10. Statutory Financial Data and Dividend Restrictions

The Company and its insurance subsidiaries are subject to statutory regulations as to maintenance of policyholders' surplus and its insurance subsidiaries are subject to regulations relating to payment of dividends. Generally, ordinary dividends, including those to the parent, must be reported to the Iowa Department of Commerce, Insurance Division ("Insurance Department") within five days following the declaration and can not be paid until at least 14 days after such notice is given. The Company must notify the Insurance Department at least 30 days in advance of payment of extraordinary dividends, as defined by Iowa statutes, and those dividends must be approved by the Insurance Department. The Company has three wholly-owned subsidiaries that are subject to statutory dividend restrictions. CUMIS Insurance Society, Inc., CUMIS Specialty Insurance Company, Inc. and MEMBERS Life Insurance Company ("MEMBERS") have dividend restrictions at December 31, 2008 of $43,385, $4,151 and $723, respectively. MEMBERS, through its parent company, paid the Company $15,000 in return of capital in 2008; this return of capital was eliminated in consolidation.

Risk-based capital requirements promulgated by the National Association of Insurance Commissioners require U.S. insurers to maintain minimum capitalization levels that are determined based on formulas incorporating credit risk, insurance risk, interest rate risk, and general business risk. At December 31, 2008, the Company and its insurance affiliates' adjusted surplus exceed the minimum requirements.

(000s omitted)

CUNA Mutual and its insurance company affiliates file statutory-basis financial statements with insurance regulatory authorities. The Insurance Department has allowed CUNA Mutual to use certain accounting practices which differ from prescribed statutory accounting practices (permitted practices). These permitted practices relate to the amount of admitted deferred tax assets, the carrying value of mortgage insurance affiliates, the carrying value of fixed maturity securities held in the separate account which support certain funding agreements and the method of recognizing certain group life, credit life, and credit disability premiums. The use of these permitted practices increased reported statutory surplus by $162,628 as of December 31, 2008 and $115,641 as of December 31, 2007.

Unaudited statutory-basis net income (loss) of CUNA Mutual was ($37,828), $10,605 and $71,433 for the years ended December 31, 2008, 2007 and 2006, respectively. Unaudited statutory-basis surplus was $985,178 and $1,035,435 at December 31, 2008 and 2007, respectively.

11. Commitments and Contingencies

Investment Commitments

The Company has the following investment commitments outstanding at December 31:

	2008	2007
Limited partnerships	$ 260,629	$ 336,237
Mortgage loans	-	55,700
Student loan receivables	2,324	-
Bank loans	2,945	-

Limited partnership commitments generally represent commitments to acquire financial interests or instruments. The Company enters into these agreements to allow for additional participation in certain limited partnership investments.

Mortgage loan commitments are agreements to lend to a borrower provided there is no violation of any condition established in the contract. The Company enters into these agreements to commit to future loan fundings at a predetermined interest rate. Commitments generally have fixed expiration dates or other termination clauses.

Student loan commitments represent additional loan purchases after year end related to disbursements to borrowers on loans approved prior to year end.

Bank loan commitments represent commitments to acquire loans from banks at a specified future date.

Leases

The Company contracts for long-term leases for office space, autos, and equipment, most of which are classified as operating leases. Certain leases have renewal options and/or fixed rental increases. Renewal options that are reasonably assured of exercise are included in determining the lease term. Any rent abatements or lease incentives, in addition to fixed rental increases, are included in the calculation of rent expense and amortized on a straight-line basis over the defined lease term.

The Company accounts for certain lease agreements, substantially all for computer equipment, as capital leases; these capital lease obligations totaled $2,327 and $3,022 at December 31, 2008 and 2007, respectively. These obligations are included in office properties, equipment and computer software and accounts payable and other liabilities in the Company's consolidated balance sheets. Amortization of capital lease obligations is included in depreciation expense.

At December 31, 2008, the Company was committed under non-cancelable operating and capital leases with minimum rentals of approximately $32,020 of which $9,653 is due in 2009, $5,568 in 2010, $3,468 in 2011, $2,069 in 2012, and $11,262 in 2013 and thereafter. Rental expense included in the Company's results of operations amounted to $16,794, $16,496 and $17,814 in 2008, 2007 and 2006, respectively.

Insurance Guaranty Funds

The Company is liable for guaranty fund assessments related to certain unaffiliated insurance companies that have become insolvent during 2008 and prior years. The Company includes a provision for all known assessments that will be levied as well as an estimate of amounts that it believes will be assessed in the future relating to past insolvencies. The Company has established a liability of $3,760 and $4,899 at December 31, 2008 and 2007, respectively, for guaranty fund assessments. The Company also estimates the amount recoverable from future premium tax payments related to these assessments and has established an asset of $2,582 and $3,564 at December 31, 2008 and 2007, respectively. Recoveries of assessments from premium taxes are generally made over a five-year period.

Capital Support Agreement

CUNA Mutual Investment Corporation, a wholly-owned subsidiary of the Company, owns 50% of CMG Mortgage Insurance Company ("CMG"), a Wisconsin company which sells residential mortgage guaranty insurance. The other 50% of CMG is owned by PMI Mortgage Insurance Company ("PMI"), an unaffiliated company. In 2008, PMI and CMIC executed a capital support agreement whereby the parties agreed to contribute up to $37,650 each, subject to certain limitations, so as to maintain the statutory risk-to-capital ratio of CMG at or below 19 to 1. The period of the agreement is three years, but may be terminated earlier if certain conditions are met. At December 31, 2008, the statutory risk-to-capital ratio for CMG was 16 to 1. The carrying value of securities owned by CUNA Mutual and held in a trust pursuant to this agreement, was $41,506 and $41,243 as of December 31, 2008 and 2007, respectively. In the event that CMIC needs funds to meet the terms of the agreement, CMIC may draw such funds from this trust. See Note 3.

Other Contingencies

The Company has a 50% interest in a joint venture. The Company's share of operating results of the joint venture for 2008 was $1,549. In accordance with the joint venture agreement, the Company's partner in the joint venture provided the Company notice that it was exercising its contractual option to "put" its 50% interest to the Company. The transaction price is based on fair value as determined by the terms of the joint venture agreement. Negotiations are ongoing. The Company does not expect that the amount of the future buy-out will have a material impact on the Company's financial statements.

Various legal and regulatory actions, including state market conduct exams, are currently pending that involve the Company and specific aspects of its conduct of business. Like other members of the insurance industry, the Company is the target of a number of lawsuits and other types of proceedings, some of which may involve claims for substantial or indeterminate amounts. These actions are based on a variety of issues and target a range of the Company's practices. The ultimate outcome of these disputes is unpredictable.

These matters in some cases raise difficult and complicated factual and legal issues and are subject to many uncertainties and complexities, including but not limited to, the underlying facts of each matter; novel legal issues; variations between jurisdictions in which matters are being litigated, heard or investigated; differences in applicable laws and judicial interpretations; the length of time before many of these matters might be resolved by settlement, through litigation or otherwise and, in some cases, the timing of their resolutions relative to other similar matters involving other companies. In connection with regulatory examinations and proceedings, government authorities may seek various forms of relief, including penalties, restitution and changes in business practices. The Company may not be advised of the nature and extent of relief sought until the final stages of the examination or proceeding. In the opinion of management, the ultimate liability, if any, resulting from all such pending actions will not materially affect the consolidated financial statements of the Company.

12. Notes Payable

CUNA Mutual entered into a $255,000 three year unsecured revolving credit facility agreement with JP Morgan Chase Bank in 2008. A facility fee of .08% per year on the committed principal is assessed. Interest on amounts borrowed will vary based on certain benchmark interest rates. The Company is required to comply with financial covenants including a maximum ratio of total debt to policyholders' surplus, a minimum statutory risk-based capital ratio, and minimum statutory surplus. At December 31, 2008 the Company was in compliance with all of these covenants. As of December 31, 2008 the Company had borrowed $100,000 in two separate borrowings of $50,000 in September 2008 and December 2008. Interest is being accrued at the London InterBank Offered Rate ("LIBOR") plus 27 basis points and is due at maturity or quarterly, whichever is first. The rate is 3.4% for the September borrowing and 2.1% for the December borrowing. The Company is also charged a commitment fee should the total borrowing exceed 50% of the credit facility. The credit facility expires in February, 2011.

The Company has additional borrowing capacity as a result of contractual arrangements with the Federal Home Loan Bank of Des Moines ("FHLB) that were entered in 2007 and evidenced by Advances, Collateral Pledge, and Security Agreements. These agreements provide that the Company would be entitled to borrow from the FHLB if the Company purchased FHLB common stock and provided securities as collateral for such borrowings. The amount of such permitted borrowings would be 22.5 times the Company's FHLB stock ownership, with an overall limitation based on 30% of the Company's statutory assets. Interest on borrowings during 2008 and 2007 was calculated daily at floating rates that ranged from 2.24% to 2.63% in 2008 and 4.04% to 5.73% in 2007. As of December 31, 2008 the Company owned $11,597 of FHLB common stock, but did not have any pledged securities or outstanding borrowings under these arrangements.

(000s omitted)

Borrowings from the FHLB are typically used for short-term cash flow management and are typically settled within one month.

13. Accumulated Other Comprehensive Income (Loss)

The components of accumulated other comprehensive income (loss) are as follows:

	Foreign currency translation gains (losses)	Unrealized investment gains (losses)	Minimum pension liability	Accumulated other comprehensive income (loss)
Balance, December 31, 2006	$ 5,229	$ 113,138	$ (4,312)	$ 114,055
Foreign currency translation, net of tax - ($1,601)	33,331	-	-	33,331
Unrealized holding losses, net of tax - ($125,535)	-	(248,712)	-	(248,712)
Minimum pension liability adjustment, net of tax - $1,975	-	-	3,667	3,667
Cumulative effect of change in accounting for pension obligations, net of tax - ($32,059)	-	-	(59,190)	(59,190)
Balance, December 31, 2007	38,560	(135,574)	(59,835)	(156,849)
Foreign currency translation, net of tax - $3,239	(18,595)	-	-	(18,595)
Unrealized holding losses, net of tax - ($176,679)	-	(369,321)	-	(369,321)
Minimum pension liability adjustment, net of tax - ($31,628)	-	-	(55,878)	(55,878)
Balance, December 31, 2008	$ 19,965	$ (504,895)	$ (115,713)	$ (600,643)

14. Fair Value Measurement of Other Financial Instruments

Accounting standards require disclosure of fair value information about certain on- and off-balance sheet financial instruments for which it is practicable to estimate that value. In cases where quoted market prices are not readily available, fair values are based on estimates using present value of estimated cash flows or other valuation techniques. These techniques are significantly affected by the assumptions used, including the discount rates and estimates of future cash flows. Although fair value estimates are calculated using assumptions that management believes are appropriate, changes in assumptions could cause these estimates to vary materially. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in the immediate settlement of the instruments.

Certain financial instruments, investments accounted for using the equity method, and all nonfinancial instruments are excluded from the disclosure requirements. In addition, the tax ramifications of the realization of unrealized gains and losses can have a significant effect on fair value estimates and have not been taken into consideration.

The following methods and assumptions were used by the Company in estimating the fair value disclosures for significant financial instruments:

Mortgage Loans: The fair values for mortgage loans are estimated using discounted cash flow analyses with interest rates currently being offered in the marketplace for similar loans to borrowers with similar credit ratings. Loans with similar characteristics are aggregated for purposes of the calculations. Fair values for mortgages in default are reported at the estimated fair value of the underlying collateral.

Policy Loans: The Company believes it is not practicable to determine the fair value of its policy loans since there is no stated maturity and policy loans are often repaid by reductions to policy benefits.

Cash, Short-term Investments, and Accrued Investment Income: The carrying amounts for these instruments approximate their fair values due to their short term nature.

Investment-Type Contracts: Investment-type contracts include group and individual annuity contracts in the general account and deposit-type contracts in the general and separate accounts. In most cases, the fair values are determined by discounting expected liability cash flows and required profit margins using the year-end swap curve plus a spread equivalent to a cost of funds for insurance companies. This methodology while theoretically valid and consistent with industry practice produces lower than expected fair values at December 31, 2008. This anomaly is mainly attributable to the large illiquidity premium embedded in the insurance company cost of funds spread used for discounting. In a few cases where liability cash flows are not available, fair value was assumed to equal statutory book value.

Notes Payable: The fair value for notes payable is estimated using discounted cash flow analyses with interest rates currently being offered in the marketplace for similar loans to borrowers with similar credit ratings.

Separate Account Liabilities: Separate account liabilities represent the account value owed to the customer which is equal to the segregated assets carried at fair value.

(000s omitted)

The carrying amounts and estimated fair values of the Company's financial instruments not disclosed in the section above at December 31 are as follows:

	2008		2007	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial instruments recorded as assets:				
Mortgage loans	$ 760,902	$ 749,188	$ 642,804	$ 657,409
Policy loans	104,775	104,775	105,136	105,136
Cash	209,322	209,322	607,209	607,209
Accrued investment income	74,565	74,565	73,329	73,329
Financial instruments recorded as liabilities:				
Investment-type contracts	3,749,389	2,751,777	3,377,265	3,304,932
Notes payable	100,000	85,082	-	-
Separate account liabilities	3,414,109	3,414,109	5,051,272	5,051,272

15. Discontinued Operations

The Company sold certain operations that have been accounted for in the accompanying financial statements as discontinued operations. In accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, the results of operations and the gain or loss on the sale of the discontinued operations are reported, after applicable taxes, on a one-line basis in the consolidated statements of operations. Prior year consolidated statements of operations have been reclassified to conform to the current year presentation. The consolidated balance sheets of the prior years have not been reclassified to identify the assets and liabilities of these discontinued operations.

The principal components of the discontinued operations relate to three transactions. In 2007, the Company's then 87%-owned Canadian subsidiary sold its wholly-owned property and casualty subsidiary. The Canadian subsidiary recorded $75,260 in proceeds and a $5,091 after-tax gain on the sale. In 2005, the Company sold its mortgage servicing rights and ceased its mortgage banking operations. In connection with this sale the Company concluded in 2006 that it was also necessary to write down a related receivable by $1,012. In 1998 the Company sold a property and casualty insurance subsidiary. Under the terms of that agreement the Company was entitled to receive additional sales proceeds in the event the insurance reserves assumed by the purchaser developed favorably. Subsequent favorable development has been recorded as part of discontinued operations in 2007 and 2006.

(000s omitted)

The following table displays the components of discontinued operations for 2007 and 2006.

	2007	2006
Total revenues	$ 119,186	$ 96,026
Total expenses	104,919	94,374
Gains from discontinued operations before income taxes and non-operating items	14,267	1,652
Gain (loss) on disposal	10,825	(452)
Gain from favorable loss reserve development	2,728	2,053
Income tax expense	(9,945)	(433)
Gain from discontinued operations, net of tax	$ 17,875	$ 2,820

There are no significant assets or liabilities pertaining to discontinued operations as of December 31, 2008 or 2007.

16. Acquisition of Controlling and Minority Interests

In July 2008 the Company increased its 37.3% ownership of CU System Funds ("CUSF") to a 51.1% ownership when an investor withdrew from the fund. CUSF is a private investment fund which purchases commercial mortgage loans and certain other secured loans originated by credit unions. As a result of this increase in ownership, subsequent to August 1, 2008 CUSF is accounted for on a consolidated basis. Included in the 2008 results of operations and the balance sheet at December 31, 2008 are the following amounts related to CUSF: net realized loss of $1,401, expenses of $468, net loss of $1,869, assets of $60,945, and liabilities of $9,569. Prior to August 2008 the Company accounted for CUSF on the equity method of accounting.

In June 2007, CMIC purchased 100% of the common stock of CU BizSource, LLC from MEMBERS Development Company, LLC ("MDC") for $787 in cash. The Company owns a 49% interest in MDC. Operating results attributable to the Company's increased interested in CU BizSource are included in the statement of operations subsequent to the purchase date. The Company assigned $537 of the purchase price to an intangible asset for a covenant not to compete, which was recorded as an asset by the parent (CMIC) and was being amortized on a pro rata basis over five years. The Company determined that the covenant not to compete was impaired in 2008 and recorded a charge to expense of $376. In addition, goodwill of $1,060 and a note payable of $928 were acquired as part of the transaction. CU BizSource provides certification services and maintains underwriting standards for commercial loans issued by credit unions.

In August 2007 CMIC purchased a 25% minority interest in Producers AG Insurance Group, Inc. ("ProAg") for $12,250 in cash. The Company assigned $6,107 of the acquisition cost to goodwill, which was recorded as part of CMIC's equity in unconsolidated affiliates. In March 2008, the Company sold 2.6% back to ProAg, resulting in no gain or loss. Operating results attributable to the Company's interest in ProAg are accounted for on an equity basis subsequent to the acquisition date. Both the

Company and ProAg issue crop insurance policies and participate in a reinsurance pooling agreement. ProAg also acts as a managing general agent for the crop insurance business.

In December 2007, the Company bought the interests of the minority owners of Lending Call Center Services, LLC ("LCCS") for $1,095, generating goodwill of $1,057. Half the purchase price was paid in cash and the remainder is payable in equal installments in December 2008 and 2009. LCCS processes loan applications and handles member service calls for credit unions and other financial institutions.

In May 2005, the Company purchased controlling interest in LCCS. The Company had previously owned 46.2% of the outstanding stock and this transaction increased the ownership percentage to 92.7%. The Company recognized a goodwill impairment loss of $8,268 in 2006, after re-evaluating the strategic intent with respect to LCCS. The Company also recognized an impairment loss of $486 in 2006, representing the unamortized balance of customer lists acquired in 2005.

17. Subsequent Events

In February 2009, the Company purchased all of the limited partnerships from its noncontributory pension trusts for $19,169. These limited partnerships were valued by the pension trusts at $18,346 and had unfunded commitments of $12,712 as of the transaction date.

The Company established a new Bermuda insurance company in March 2009 to act as a reinsurer for crop insurance risks underwritten by a subsidiary. In the event that the new company needs additional capital to meet regulatory minimums, the Company has designated up to $30,000 from the line of credit discussed in Note 12 to be used for such funding. Accordingly, that amount is unavailable for general borrowing purposes.