Report

of the

Examination of

CUMIS Insurance Society, Inc.

Madison, Wisconsin

As of December 31, 2005

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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April 10, 2007

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Commissioner of Insurance
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Commissioner of Insurance
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Honorable D. Kent Michie
Secretary, Western Zone, NAIC
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Commissioners:

In accordance with your instructions, a compliance examination has been made of the affairs and financial condition of:

CUMIS INSURANCE SOCIETY, INC.
Madison, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of CUMIS Insurance Society, Inc., (CUMIS or the company) was conducted in 2001 as of December 31, 2000. The current examination covered the intervening period ending December 31, 2005, and included a review of such 2006 transactions as deemed necessary to complete the examination.

The examination consisted of a review of all major phases of the company's operations and included the following areas:

History
Management and Control
Corporate Records
Conflict of Interest
Fidelity Bonds and Other Insurance
Employees' Welfare and Pension Plans
Territory and Plan of Operations
Affiliated Companies
Growth of Company
Reinsurance
Financial Statements
Accounts and Records
Data Processing

Emphasis was placed on the audit of those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

Independent Actuary's Review

An independent actuarial firm was engaged under a contract with the Office of the Commissioner of Insurance. The actuary reviewed the adequacy of the company's loss and loss adjustment expense reserves. The actuary's results were reported to the examiner-in-charge. As deemed appropriate, reference is made in this report to the actuary's conclusion.

II. HISTORY AND PLAN OF OPERATION

As of the date of this report, CUMIS Insurance Society, Inc., is a Wisconsin-domiciled stock property and casualty insurer. Following the completion of the examination fieldwork, the company changed its state of domicile from Wisconsin to Iowa. Further discussion of the redomestication and related plans can be found in the “Subsequent Events” section of this report. CUMIS was organized in 1960 for the purpose of providing insurance on the property and casualty risks of credit unions and their members.

The company provides insurance coverages to credit unions in the United States and obtains approximately 8% of its premium volume from international operations (most of which is from Australia). The company specializes in writing fidelity bonds with directors and officers endorsements and in writing multiple peril package coverages offered to credit unions.

Effective January 1, 1994, the company terminated its direct writing of individual property and casualty risks for credit union members and ceded its entire book of domestic individual property and casualty risks to the then affiliated CUMIS General Insurance Company through a 100% quota share reinsurance facility. As of July 1, 1998, 100% ownership interest of CUMIS General Insurance Company was purchased by Liberty Mutual Insurance Company (Liberty Mutual). Also as of July 1, 1998, the CUNA Mutual group began marketing Liberty Mutual personal lines insurance products to credit union members. The company participates in the Liberty Mutual personal lines business marketed by the CUNA Mutual group through a 15% quota share reinsurance agreement with Liberty Mutual.

All of the outstanding capital stock of the company is owned by CUNA Mutual Investment Corporation (CMIC), a holding company, which in turn is a wholly owned subsidiary of CUNA Mutual Insurance Society (CUNA Mutual). CUNA Mutual is a Wisconsin-domiciled mutual life and health insurer that provides insurance and financial products and services to credit unions and credit union members.

CUMIS does not have any employees and all of its operations are performed by affiliates pursuant to numerous intercompany services agreements. Further discussion of the company's holding company affiliates and intercompany transactions is included in the section of this report captioned "Affiliated Companies."

In 2005, the company wrote direct premium in the following states:

California	$42,078,721	10.0%
Australia	33,845,334	8.1
Florida	27,804,411	6.6
Texas	26,266,218	6.3
Virginia	22,080,315	5.3
Michigan	19,461,087	4.6
Illinois	19,415,576	4.6
New York	18,390,129	4.4
Pennsylvania	14,635,605	3.5
Wisconsin	12,101,714	2.9
Ohio	10,383,691	2.5
All others	173,398,958	41.2
Total	$419,861,759	100.0%

The company is licensed in the District of Columbia and all states, Puerto Rico, Canada, and has business in Australia, Dominican Republic, St. Lucia, Bermuda, Bahamas, Celize, Antigua, Grenada, Ireland and Taiwan.

The company's primary business lines are commercial property, casualty, and fidelity bond coverages sold to credit unions. The company's insurance policies are marketed to credit unions by CUNA Mutual's field force of salaried sales representatives.

Since the fourth quarter 2004, the company has had increasing losses in the credit card insurance it issues to credit unions under the fidelity line. In addition, Hurricane Katrina damaged several credit union properties covered by the company.

The following table is a summary of the net insurance premiums written by the company in 2005. The growth of the company is discussed in the "Financial Data" section of this report.

Line of Business	Direct Premium	Reinsurance Assumed	Reinsurance Ceded	Net Premium
Fire	$ 7,275	$	$ 240	$ 7,035
Allied lines	847,875	105,084	35,244	917,715
Homeowner's multiple peril	9,501,224	14,497,892	497,208	23,501,908
Commercial multiple peril	58,445,948	(21,203)	5,660,542	52,764,203
Inland marine	12,521,142	13,540,653	715,487	25,346,308
Group accident and health	222,000	0	0	222,000
Credit accident and health (group and individual)	4,296,607	636,977	23,286	4,910,298
Worker's compensation	19,703,769	1,000,440	1,561,103	19,143,106
Other liability–occurrence	36,520,103	2,581,757	5,499	39,096,361
Other liability–claims made	36,969,794	253,202	1,447,828	35,775,168
Private passenger auto liability	(86)	31,958,105	0	31,958,019
Commercial auto liability	4,838,671	85,487	59,498	4,864,660
Auto physical damage	130,649,620	38,104,457	3,640,749	165,113,328
Fidelity	105,121,550	1,820,417	5,113,412	101,828,555
Surety	216,267	0	0	216,267
Reinsurance–non-proportional assumed property	0	6,144	0	6,144
Reinsurance–non-proportional assumed liability	0	931,046	0	931,046
Reinsurance–non-proportional assumed financial lines	0	92,121	0	92,121
Total All Lines	$419,861,759	$105,592,579	$18,760,096	$506,694,242

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of 14 members. There are 7 directors in two classes which are elected to serve a four-year terms. The board had filled one of two positions effective July 2006, that were vacant at the end of 2005. Officers are elected at the board's annual meeting. Members of the company's board of directors may also be members of other boards of directors in the holding company group. The board members currently receive $48,000 annually for service on the company and affiliated company boards. In addition, the chairman of the board receives $6,250 annually and the vice-chairman, immediate past chairman and committee chairs receive $4,150 annually.

Currently the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Eldon R. Arnold Peoria, Illinois	Retired President-CEO CEFCU Peoria, Illinois	2010
James L. Bryan, Sr. Dallas, Texas	Retired President-CEO Texas Credit Union Richardson, Texas	2010
Loretta M. Burd Columbus, Indiana	President/CEO Centra Credit Union	2010
William B. Eckhardt Anchorage, Alaska	President/CEO Alaska USA Federal Credit Union	2008
Joseph J. Gasper Dublin, Ohio	Retired President-COO Nationwide Ins. Columbus, Ohio	2010
Bert J. Hash, Jr. Ellicott City, Maryland	President/CEO Municipal Employees Credit Union of Baltimore, Inc.	2008
Victoria W. Miller Atlanta, Georgia	CFO Turner Entertainment Group- Turner Broadcasting System	2008
C. Alan Peppers Denver, Colorado	President/CEO Westerra Credit Union	2008
Jeffrey H. Post Verona, Wisconsin	President/CEO CUNA Mutual Group	2008
Neil A. Springer Wheaton, Illinois	Managing Director Springer and Associates	2008
Farouk D. G. Wang Mililani, Hawaii	Director of Buildings and Grounds Mgmt. University of Hawaii at Manoa	2010

Name and Residence	Principal Occupation	Term Expires
Larry T. Wilson Raleigh, North Carolina	President/CEO Coastal Federal Credit Union	2010
James W. Zilinski Plymouth, Massachusetts	Retired President Berkshire Life Ins. Co. Pittsfield, Massachusetts	2010
Vacant		2008

Officers of the Company

The officers serving at the time of this examination are as follows:

Name	Office	2005 Compensation
Jeffrey H. Post	President and CEO	$154,758
Faye A. Patzner	Secretary, SVP, Chief Legal Officer	89,996
Jeffrey D. Holley	Treasurer, EVP, CFO	85,815
Mark M. Cis	VP, Chief P&C Actuary	148,054

The presented compensation is the amount allocated to CUMIS. Total salaries are allocated to affiliates.

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. The committees at the time of the examination are listed below:

Executive Committee
Loretta M. Burd, Chair
Eldon R. Arnold
James L. Bryan, Sr.

Audit Committee
Victoria W. Miller, Chair
Bert J. Hash, Jr.
Larry T. Wilson
James W. Zilinski

Governance Committee
C. Alan Peppers, Chair
James L. Bryan, Sr.
Farouk D. G. Wang

Investment and Capital Committee
Neil A. Springer, Chair
William B .Eckhardt
Joseph J. Gasper

IV. AFFILIATED COMPANIES

CUMIS is a member of a holding company system. The organizational chart below depicts the relationships among the affiliates in the group. A brief description of the significant affiliates follows the organizational chart.

Organizational Chart
As of December 31, 2005

- CUNA Mutual Insurance Society (1)
- CUNA Mutual Investment Corporation
  - CUMIS Insurance Society, Inc.
  - MEMBERS Life Insurance Company
  - CMG Mortgage Insurance Group (2)
  - MEMBERS Capital Advisors, Inc. (3)
  - Stewart Associates Incorporated
  - MEMBERS Development Company LLC (4)
  - CUNA Mutual Insurance Agency, Inc.
  - CUNA Mutual General Agency of Texas, Inc.
  - CUNA Brokerage Services, Inc.
  - CUNA Mutual Mortgage Corporation
  - Lending Call Center Services, LLC (5)
- The CUMIS Group, LTD. (Canada)
  - CUMIS Life Insurance Company (Canada)
  - CUMIS General Insurance Company (Canada)
  - Canadian Northern Shield Insurance Company (Canada)
- CUNA Mutual Australia Holding Company PTY LTD. (Australia)
  - CUNA Mutual Life Australia, LTD. (Australia)
  - CUNA Mutual Australia, LTD. (Australia)
- Lenders Protection, LLC (6)
- China Credit Co-Operative Services, Limited (7)
  - CUNA Mutual Consulting Services (Guangdong) Co. Limited
- CUNA Caribbean Insurance
- CUNA Mutual Group Holdings Europe, Ltd.
  - CUNA Mutual Life Assurance (Europe), Ltd.
- MEMBERS Trust Company (8)

(1) CUNA Mutual Insurance Society and CUNA Mutual Life Insurance Company (CMLIC) are affiliated pursuant to a mutual agreement to have common management and shared operating functions. The two companies are independent with regard to their respective ownership interests, as each is a mutual insurer owned by its respective policyholders.

(2) Comprised of three mortgage guaranty insurers, each of which is a joint venture that is 50% owned by CUNA Mutual Investment Corporation and 50% owned by PMI Mortgage Insurance Co.

(3) 50% owned by CUNA Mutual Investment Corporation and 50% owned by CUNA Mutual Life Insurance Company.

(4) 49% owned by CUNA Mutual Investment Corporation and 51% owned by various credit unions and credit union organizations.

(5) 92.7% owned by CUNA Mutual Investment Corporation and 7.3% owned by various credit unions and credit union organizations.

(6) 50% owned by CUNA Mutual Insurance Society and 50% owned by Open Lending, LLC.

(7) 70.588% owned by CUNA Mutual Insurance Society and 29.412% is owned by International Finance Corporation, a division of the International Monetary Fund.

(8) 19.93% is owned by CUNA Mutual Insurance Society and 80.07% is owned by various credit unions and credit union organizations.

CUNA Mutual Life Insurance Company (CMLIC)

CMLIC is an Iowa-domiciled mutual life insurer that offers a full range of variable and universal life and health insurance products. CUNA Mutual and CMLIC entered into an Agreement of Permanent Affiliation effective July 1, 1990. Under the agreement, the companies have common management and share functions such as legal, investment, and product administration services. CMLIC formerly was known as Century Life of America; its name was changed to CUNA Mutual Life Insurance Company effective December 31, 1996.

As of December 31, 2005, CMLIC's statutory financial statement reported total admitted assets of $7.78 billion, total liabilities of $7.48 billion, and capital and surplus of $299 million. Operations for 2005 reported net income of $31.6 million.

CUNA Mutual Insurance Society

CUNA Mutual Insurance Society (CMIS) is a Wisconsin-domiciled mutual life and health insurer. It is also the parent of CUNA Mutual Investment Corp., the company's parent. CMIS was established by credit union interests for the purpose of providing for the insurance needs of credit unions, credit union organizations, and credit union members. CMIS was examined at the same time as the company.

As of December 31, 2005, CMIS's statutory financial statement reported admitted assets of $3.226 billion, liabilities of $2.479 billion, and surplus of $747 million. Operations for 2005 produced a net income of $119 million.

CUNA Mutual Investment Corporation (CMIC)

CMIC is a Wisconsin-domiciled holding company that is a wholly owned subsidiary of CUNA Mutual Insurance Society. CMIC serves as a holding company for each of the CUNA Mutual operating companies domiciled in the United States.

As of December 31, 2005, CMIC's statutory basis audited financial statements reported total assets of $2.20 billion, total liabilities of $1.53 billion, and total stockholders' equity of $679 million. In 2005, CMIC reported net income of $23.2 million.

MEMBERS Life Insurance Company (MLIC)

MLIC is a Wisconsin-domiciled stock life and health insurance company wholly owned by CMIC. MLIC primarily services existing blocks of individual and group life policies and serves as a reinsurer of individual life and annuity policies written by the affiliated insurer, CUNA Mutual Life Insurance Company.

As of December 31, 2005, MLIC's statutory financial statements reported total admitted assets of $795 million, total liabilities of $764 million, and capital and surplus of $31 million. Operations for 2005 reported net loss of $3 million.

CMG Mortgage Insurance Group

The CMG mortgage insurance group is comprised of three Wisconsin-domiciled mortgage guaranty insurers, including CMG Mortgage Insurance Company (CMG Mortgage), CMG Mortgage Reinsurance Company (CMG Re), and CMG Mortgage Assurance Company (CMG Assurance). Each CMG mortgage guaranty insurer is operated as an independently organized joint venture enterprise, with the capital stock of each respective company jointly owned 50% by CMIC and 50% by PMI Mortgage Insurance Company. CMG Mortgage is a direct writer of mortgage guaranty insurance and provides coverage for first lien residential mortgage loans originated by credit unions. CMG Re assumes quota share reinsurance coverage of risks written by CMG Mortgage, to enable CMG Mortgage to comply with statutory restrictions on the amount of mortgage guaranty risks that an individual insurer is permitted to retain. CMG Assurance is authorized to insure loans on junior liens and second mortgages.

As of December 31, 2005, the CMG mortgage insurance group's statutory financial statements reported aggregate admitted assets of $345 million, aggregate liabilities of $210 million, and capital and surplus of $135 million. Operations for 2005 reported net income of $17 million.

MEMBERS Capital Advisors, Inc. (MCA)

MCA is an investment advisor and manager that is registered under the Investment Advisers Act of 1940. MCA is jointly owned 50% by CMIC and 50% by CMLIC and acts as an investment advisor and portfolio manager for CUNA Mutual as well as other affiliates. MCA was organized in 1982 under the name Century Investment Management Company, and its name was changed to MEMBERS Capital Advisors, Inc., effective September 21, 2000.

As of December 31, 2005, MCA's audited financial statements reported total assets of $58 million, total liabilities of $9 million, and stockholders' equity of $49 million. Operations for 2005 reported net income of $10 million.

Stewart Associates Incorporated (Stewart)

Stewart is an insurance agency formerly named Stewart and Associates, which was purchased by CMIC in 1998. Stewart was organized to maintain the former collateral protection insurance business of Stewart and Associates and to manage the ongoing collateral insurance program of the CUNA Mutual group.

As of December 31, 2005, Stewart's unaudited financial statements reported total assets of $2,850,500, total liabilities of $2,614,861, and shareholders' equity of $235,639. Operations reported for 2005 were break-even, and did not report a net income or loss.

Members Development Company, LLC (MDC)

MEMBERS Development Company, LLC, is a credit union/CUNA Mutual Group jointly owned, yet credit union-controlled, research and development company. Its mission is to provide a unified credit union approach to the effective and efficient development and delivery of high quality state-of-the-art member-related products and services for the credit union marketplace. Fifty-nine credit unions/credit union service organizations currently hold equity positions in MDC.

As of December 31, 2005, MDC's audited financial statements reported total assets of $7,347,804, total liabilities of $146,320, and shareholders' equity of $7,201,484. Operations for 2005 reported a net loss of $270,009

CUNA Brokerage Services, Inc. (CBS)

CBS is registered with the Securities and Exchange Commission as a broker-dealer and is a member of National Association of Securities Dealers, Inc. (NASD). CBS markets various financial products primarily to credit union members. CBS-marketed products include mutual funds, unit investment trusts, variable annuities, flexible premium variable life insurance, public limited partnerships, financial planning, and discount brokerage services.

As of December 31, 2005, CBS's audited financial statements reported total assets of $8,584,716, total liabilities of $3,426,537, and stockholders' equity of $5,158,179. Operations for 2005 reported net income of $3,081,621.

CUNA Mutual General Agency of Texas, Inc. (CMGA)

CMGA is a Texas managing general agency that produces collateral protection insurance (CPI) issued to credit unions under a fronting arrangement with Old American County Mutual Fire Insurance Company (Old American). The business is written in Old American to satisfy Texas regulatory requirements that CPI business in Texas may be written solely by Texas-domiciled insurers. The Old American business produced by CMGA is 100% ceded to CUMIS Insurance Society, Inc.

As of December 31, 2005, CMGA's unaudited financial statements reported total assets of $2,440,581, total liabilities of $2,154,536, and stockholders' equity of $286,045. Operations for 2005 reported a net loss of $16,459.

CUNA Mutual Insurance Agency, Inc. (CMIA)

CMIA serves as an insurance brokerage affiliate to provide corporate and personal lines insurance brokerage and agency services.

As of December 31, 2005, CMIA's unaudited financial statements reported total assets of $13,246,762, total liabilities of $13,361,661, and stockholders' equity of $(114,889). Operations for 2005 reported a net loss of $4,529,308.

CUNA Mutual Mortgage Corporation (CMMC)

CMMC is a Wisconsin-domiciled financial services corporation wholly owned by CMIC and provides mortgage banking and loan services to credit unions. CMMC maintains a servicing portfolio of mortgage loans that it manages and services and also originates mortgage loans. CMMC was formerly known as CUNA Mortgage Corporation, and its name was changed to the one presently used effective December 17, 1999.

As of December 31, 2005, CMMC's audited financial statements reported total assets of $38,475,201, total liabilities of $9,651,027, and total stockholders' equity of $28,824,174. Operations in 2005 reported a net loss of $10,034,198.

The CUMIS Group, LTD. (CUMIS Group)

CUMIS Group is an insurance holding company incorporated under the Canada Business Corporations Act. As of December 31, 2005, CUNA Mutual holds a 77.366% ownership interest in CUMIS Group; Canadian cooperatives and credit unions hold the remaining ownership interest. CUMIS Group, through its subsidiaries, CUMIS Life Insurance Company (CUMIS Life), CUMIS General Insurance Company, and Canadian Northern Shield Insurance Company, underwrites, markets and services an array of insurance products that are offered to credit unions and credit union members in Canada. CUMIS Group insurance products include life, accident and sickness, property and casualty, and commercial insurance.

As of December 31, 2005, CUMIS Group's consolidated, audited financial statements reported total assets of Cdn$1.02 billion, total liabilities of Cdn$847 million, and shareholders' equity of Cdn$173 million. Operations in 2005 reported net income of Cdn$21.5 million.

Lending Call Center Services, LLC

Lending Call Center Services, LLC, serves as a 24-hour, 7-days-a-week service center for processing of loan applications and handling member service calls for various credit unions and financial institutions throughout the United States. The company facilitates this process by utilizing both in-house staff as well as on-line internet access to loan applications.

As of December 31, 2005, Lending Call Center Services' consolidated, audited financial statements reported total assets of $4,658,754, total liabilities of $3,551,060, and shareholders' equity of $1,107,694. Operations in 2005 reported net loss of $7,753,575.

Lenders Protection, LLC

Lenders Protection, LLC, is a Delaware limited liability company, 50% owned by CUNA Mutual Insurance Society and 50% owned by Open Lending, Inc. Lenders Protection was incorporated on December 19, 2003. This company provides near-prime lending solutions and default insurance to credit unions. As of December 31, 2005, Lenders Protection, LLC's unaudited statements showed CMIS's share of assets as $264,751, liabilities of $149,603, and equity of $115,148. CMIS's share of the 2005 income was $471,689.

MEMBERS Trust Company (MTC)

MEMBERS Trust Company is a Federal Savings Bank located in Tampa, Florida. As of December 31, 2005, CUNA Mutual holds a 19.93% ownership interest in MTC. CUNA Mutual Insurance Society and Suncoast Schools Federal Credit Union in Tampa, Florida, have received federal charter approval to establish MTC. MTC will offer an array of estate financial planning services to members through their credit unions. MTC will operate independently from Suncoast and CUNA Mutual with shares of ownership to be sold to credit unions and credit union entities. The MTC board includes one CUNA Mutual marketing executive, the senior officer of Suncoast, one credit union executive (retired), and two trust industry experts.

As of December 31, 2005, MTC's audited financial statements reported total assets of $23 million, total liabilities of $949,000, and shareholders' equity of $22.1 million. Operations in 2005 reported net loss of $744,389.

Agreements with Affiliates

CUNA Mutual and its affiliates have various intercompany financial and services relationships that are governed by affiliated agreements. A brief summary of significant affiliated agreements pertaining to the company is provided below.

CUNA Mutual and CMLIC Permanent Affiliation

As noted previously in this report, CUNA Mutual and CMLIC are parties to an agreement of permanent affiliation whereby the two companies have unified executive management and corporate governance and under which the two companies maintain unified operating functions. Pursuant to the permanent affiliation agreement, CUNA Mutual, MLIC and CMLIC provide mutual intercompany services, and their respective applicable direct and indirect expenses are assigned, allocated, or shared in accordance with provisions of the affiliation agreement. The affiliation provides that for certain lines of their respective direct business CUNA Mutual and CMLIC share as equal partners in the net profits of the two respective companies.

Tax Allocation Agreement

Effective October 3, 2005, CUNA Mutual and its affiliates entered into a restated tax allocation agreement for filing federal income tax returns on a consolidated basis. The tax liability of the affiliated group is allocated to individual member companies in accordance with Internal Revenue Service regulations. Each participating affiliate reimburses CUNA Mutual for payment of the affiliate's portion of liability included in the consolidated tax liability, and each respective affiliate receives its pro ata share of consolidation-basis tax benefits.

Cost-Sharing Agreement

Effective January 1, 1993, CUNA Mutual, MLIC, and CUMIS established a cost-sharing agreement pertaining to allocation of costs paid by CUNA Mutual for administrative functions and services that CUNA Mutual provides to MLIC and CUMIS. Pursuant to the agreement, joint administrative costs are allocated monthly to MLIC and to CUMIS based on mutually agreed upon allocation methods that take into account appropriate time allocations, item counts, number of employees, or special studies.

Billing and Collections Services Agreement

Effective November 1, 2000, CUNA Mutual and its subsidiaries entered into a revised agreement for allocation of billing and collection services that are performed by CUNA Mutual. Services include processing of all billing notices, printing, mailing and distribution of billing notices, maintenance of customer billing and payment history information, processing and validation of payment receipts, daily electronic transfer of funds to the respective company's designated account, automated feed to the general ledger of all due and received premium, and daily and monthly reconciliation of deposit accounts and outstanding bills. Each participating company pays quarterly to CUNA a servicing fee based on mutually agreed upon allocation methods.

Procurement and Disbursement Services Agreement

Effective November 1, 2000, CUNA Mutual and its subsidiaries entered into a revised agreement for allocation of procurement and disbursement services that are performed by CUNA Mutual. Procurement services include maintenance of a company-wide procurement function, central processing of all requests for purchase, negotiation of purchase agreements and pricing, performance of lease/purchase analysis, and coordination of master inventory management. Disbursement services include processing all disbursement requests for general operating expenditures, facilitation of payment by the appropriate participating subsidiary, maintenance of vendor payment and voucher record archives, maintenance of detailed accrual and cash journal entries, and daily account reconciliation. Each participating company pays quarterly to CUNA a servicing fee based on mutually agreed upon allocation methods.

Investment Advisory Agreement

Effective September 8, 1994, CUNA Mutual and its affiliates entered into an investment advisory agreement with MEMBERS Capital Advisors, Inc. (MCA, formerly known as Century Investment Management Co.). Under the agreement CUNA Mutual appointed MCA to act as the principal investment advisor and portfolio manager for the management and investment of the invested assets of CUNA Mutual and its respective affiliates. The agreement also appointed MCA as the principal investment advisor and manager of specified trust fund assets that are held by United States Trust Company of New York as Trustee. MCA as advisor agreed to provide continuous professional investment management for the company and its affiliates and to comply at all times to the policies, directives and guidelines established by the company's board of directors.

CMG Mortgage Insurance Group Agreements

CUNA Mutual has established separate administrative services agreements with each of the three CMG Mortgage insurance companies: CMG Mortgage, CMG Re, and CMG Assurance. Pursuant to the agreements, CUNA Mutual provides general management, sales, corporate insurance, investment accounting, government relations, and federal income tax return services to each of the three joint venture mortgage guaranty companies. In compensation for CUNA Mutual services, each of the mortgage guaranty insurers pays a quarterly service fee based on actual costs of services.

CUNA Mutual has established a trade name license agreement with CMG Mortgage, wherein CUNA Mutual granted to CMG Mortgage a royalty-free, non-exclusive right and license in the United States to use the term "CMG," a CUNA Mutual Group trade name, as part of the CMG Mortgage corporate name, corporate trade name, and corporate trademarks and service marks. The agreement establishes certain requirements and prohibitions on the authority of CMG Mortgage to use the term "CMG." The agreement provides that any use of the mark "CMG" by CMG Mortgage shall inure for the benefit of CUNA Mutual Group and provides that CMG Mortgage acknowledges the validity of the mark "CMG" and CUNA Mutual Group's exclusive right, title, and interest in the mark.

Effective April 10, 2001, a Capital Support Agreement was executed by CMIC and PMI Mortgage Insurance Company whereby both parties agreed to contribute up to $37,650,000 each, subject to certain limitations, so as to maintain the statutory risk-to-capital ratio of CMG at or below 18 to 1. The guarantee was established in order for CMG Mortgage to obtain an AA rating from Fitch IBCA, Inc. As of December 31, 2005, statutory risk-to-capital ratio of CMG was 12 to 1, and no payment had been made under the agreement.

CUMIS Group Services Agreements

Effective February 2003, CUNA Mutual Insurance Society entered into service agreements with The CUMIS Group, LTD., and its subsidiaries, CUMIS Life Insurance Company and CUMIS General Insurance Company. CUNA Mutual provides network and system security services and standard off-the-shelf service applications such as Web browsing, e-mail, calendaring and desktop productivity services to The CUMIS Group and its subsidiaries.

Australian Insurance Services and Agency Agreements

Effective March 6, 2003, CUMIS Insurance Society entered into an insurance services and agency agreement with an affiliate, CUNA Mutual Australia, LTD. (CMAL). CMAL is an Australian financial services company that is 100% owned by an Australian holding company subsidiary of CUNA Mutual Insurance Society. Pursuant to the services and agency agreement, CMAL provides various data processing, accounting, payroll, cash management, policy administration, and marketing services on behalf of the company. CMAL agreed to provide management, administrative, marketing and support services in connection with the conduct of the CUMIS' Australian business.

V. REINSURANCE

CUMIS Insurance Society, Inc.'s reinsurance program and strategy are described below. The company assumes reinsurance risks in certain lines of business to supplement its direct written business. The company also cedes reinsurance coverages for the purpose of claims-exposure mitigation on risks that the company elects to not retain for its own account. Each reinsurance contract contained proper insolvency provisions.

Unaffiliated Ceding Reinsurance Contracts

CUMIS maintains reinsurance contracts that provide quota share, excess loss, and catastrophic coverages for the business written by the company, including property (per-risk and catastrophic coverages), fidelity (excess of loss and contingency), casualty, and worker's compensation insurance risks. With the exception of any per risk facultative reinsurance coverages and the Commercial Lenders Protection Quota Share noted below, the majority of ceded coverages are placed through Aon Re, a reinsurance intermediary.

The treaties placed by Aon Re include the following reinsurers:

- Lloyds Underwriters (England)
- GE Reinsurance Corporation (IL)
- Partner Reinsurance Company of the U.S (NY)
- Midwest Employers Casualty Company
- Hannover Ruckversicherung-AKTIENGESSELLSCHAFT- (Germany)
- Ace Property and Casualty Insurance Company (PA)
- W R Berkley Insurance (Europe) LTD Through Kiln Reinsurance Consortium
- Liberty Mutual Insurance Company (MA)
- Transatlantic Reinsurance Company (NY)
- IPC Re Limited (Bermuda)
- Allied World Assurance Company, Ltd. (Bermuda) Through IPC Re Underwriting Services Limited
- Odyssey America Reinsurance Corporation (CT)
- Platinum Underwriters Reinsurance, Inc. (MD)
- Axis Specialty Limited (Bermuda)
- Endurance Specialty Insurance LTD (Bermuda)
- Endurance Reinsurance Corporation of America (NY)
- Aspen Insurance UK Limited
- Aspen Insurance Limited (Bermuda)
- Catlin Insurance Company Ltd. (Bermuda)
- QBE International Insurance Limited
- Wurttembergische Versicherungs AG (Germany)
- Markel International Insurance Co. Ltd.
- Partner Reinsurance Co. Ltd.
- Munich Reinsurance Company of Australaisa Ltd.

All of the Aon Re ceding contracts excluding the facultative contracts have one-year duration contract terms and are effective from 12:01 a.m. January 1, 2005, to 12:01 January 1, 2006, Central Standard Time. Any contract durations for facultative placements are individually determined. A summary of the provisions of each of the seven primary reinsurance coverage categories is provided below:

Ceded Property Reinsurance—Per Risk

First layer:	Retention:	$1,000,000 each risk
	Coverage:	$4,000,000 each risk, $8,000,000 maximum per occurrence
	Premium:	3.20% of subject net earned premium, subject to a minimum of $918,000
Second layer:	Retention:	$5,000,000 each risk
	Coverage:	$10,000,000 each risk, $10,000,000 maximum per occurrence
	Premium:	1.31% of subject net earned premium, subject to a minimum of $375,000

Ceded Property Reinsurance—Catastrophe

First layer:	Retention:	$10,000,000 each occurrence
	Coverage:	95% of $10,000,000 maximum per occurrence
	Premium:	1.3134% of subject net earned premium, subject to a minimum of $779,000
Second layer:	Retention:	$20,000,000 each occurrence
	Coverage:	95% of $35,000,000 maximum per occurrence
	Premium:	1.9060% of subject net earned premium, subject to a minimum of $1,130,400

The property reinsurance coverages are depicted graphically as follows:

$10,000,000	$10M xs $5M 2nd Layer
$5,000,000	$4M xs $1M 1st Layer
$1,000,000	Retention

Property Reinsurance
Per Risk Coverage

95% of $35M xs $20M 2nd Layer Cat	$55,000,000
95% of $10M xs $10M 1st :Later Cat	$20,000,000
Retention	$10,000,000

Property Reinsurance
Catastrophe Coverage

***** Reinsured catastrophe coverages are 95% and CUMIS retains 5% of the risk.

<u>Ceded Casualty Excess of Loss Reinsurance - 3</u>

First layer:	Retention:	$2,000,000 each occurrence
	Coverage:	$5,000,000 each occurrence $15,000,000, annual maximum aggregate
	Premium:	9.51% of subject umbrella liability and excess liability net earned premium income, and 1.04% of other subject net earned premium income, $996,120 minimum
Second layer:	Retention:	$7,000,000 each occurrence
	Coverage:	$5,000,000 each occurrence $10,000,000 annual maximum aggregate
	Premium:	1.00% of subject net earned premium, $515,700 minimum

The casualty excess of loss reinsurance coverages are depicted graphically as follows:

$12,000,000	$5M xs $7M Second Layer
$7,000,000	$5M xs $2M First Layer
$2,000,000	Retention

Casualty Per Risk
Excess of Loss Reinsurance

<u>Ceded Worker's Compensation Reinsurance</u>

Specific risk:	Retention:	$1,000,000 each occurrence
	Coverage:	$4,000,000 each occurrence $16,000,000, annual maximum aggregate
	Premium:	4.50% of subject net earned premium, $692,750 minimum premium
Catastrophe Second layer:	Retention:	$5,000,000 each occurrence

	Coverage:	$5,000,000 each occurrence $10,000,000, annual maximum aggregate
	Premium:	1.4895% of subject net earned premium, with $270,000 minimum premium
Third layer:	Retention:	$10,000,000 each occurrence
	Coverage:	$10,000,000 each occurrence $20,000,000 annual aggregate
	Premium:	1.6551% of subject net earned premium, with $300,000 minimum premium
Fourth layer:	Retention:	$20,000,000 each occurrence
	Coverage:	$30,000,000 each occurrence/$5,000,000 any one person ground up $60,000,000 annual aggregate
	Premium:	3.3101% of subject net earned premium with $600,000 minimum premium

The worker's compensation casualty reinsurance coverages are depicted graphically as follows:

$50,000,000	$30M xs $20M Fourth Layer
$20,000,000	$10M xs $10M Third Layer
$10,000,000	$5M xs $5M Second layer
$5,000,000	$4M xs $1M First Layer
$1,000,000	Retention

Worker's Compensation
Per Risk Reinsurance

Ceded Commercial Lender's Protection Quota Share

CUMIS has quota share reinsurance agreements with Allied World Assurance Company, LTD (Bermuda), and Lenders Assurance, Inc. (South Carolina), both effective January 1, 2004, that provide 45% quota share and 10% quota share reinsurance, respectively, for its Commercial Lenders Protection Insurance Policies. CUMIS retains 26% of premium as a reinsurance ceding commission. The contract provides for a premium cap of $35,000,000 in the first 12 months of the term of the contract, whereby the reinsurer reduces its participation in the contract by a formula: (X) * (Y) where (X) = Reinsurer's original Quota Share percentage and

(Y) = Percentage derived from dividing $35,000,000 by actual gross net insurance premium.

Total 2005 premiums ceded for both companies combined was $411,300.

<u>Ceded Fidelity Reinsurance—Per Risk</u>

First excess:	Retention:	$3,000,000, each loss
	Coverage:	$12,000,000 per occurrence, $50,000,000 maximum per occurrence; Contingency maximum recovery (Clash Cover) is $120,000,000 regardless of the number of claims made, losses discovered or loss occurrences
	Premium:	2.375% of subject net earned premium, $3,131,100 combined minimum premium between CGIS and CUMIS Insurance Society

<u>Ceded Fidelity Reinsurance—Contingency Excess of Loss Coverage</u>

Primary:	Retention:	$15,000,000, each occurrence
	Coverage:	$60,000,000 per occurrence with a $30,000,000 sublimit for losses due to terrorism, with an annual aggregate limit of $120,000,000
	Premium:	2.08% of subject net earned premium income, with a combined minimum premium of $2,952,000 between CGIS and CUMIS Insurance Society.

The fidelity reinsurance coverages are depicted graphically as follows:

	Specific Facultative
$15,000,000	$12M xs $3M
$3,000,000	Retention

Per Risk Fidelity Reinsurance

Contingency Cover$60M xs $15M	**$75,000,000**
Retention	$15,000,000

Contingency Excess of Loss Fidelity Reinsurance

Affiliated Assumed Reinsurance

CUMIS assumes an immaterial amount of reinsurance risks from the affiliated insurer CUMIS General Insurance Company (Canada). The coverages are in a four-agreement program. There are two casualty agreements, a underlying agreement and a first and second layer excess of loss agreement. There is one property agreement, a first and second layer excess of loss agreement. There is one Bond and Directors Liability excess of loss agreement. All contracts contained sufficient insolvency provisions. These contracts are annually renewed. Other provisions of these contracts are summarized as follows:

(amounts in this section are in Canadian dollars)

General cession to CUMIS:

Casualty:	Underlying:	Retention:	$500,000
		Coverage:	$1,500, 000, each occurrence
	First layer:	Retention:	$2,000,000
		Coverage:	50% of $5,000,000, each loss 50% of $15,000,000 annual aggregate
	Second layer:	Retention:	$7,000,000
		Coverage:	25% of $5,000,000, each loss 25% of $10,000,000 annual aggregate
Property:	First layer:	Retention:	$10,000,000
		Coverage:	5% of $10,000,000, each occurrence 5% of $20,000,000 annual aggregate.
	Second layer:	Retention:	$20,000,000
		Coverage:	5% of $35,000,000 each occurrence 5% of $70,000,000 annual aggregate
	Bond and Directors	Retention:	$15,000,000
		Coverage:	5% of $60,000,000, each loss 5% of $120,000,000 annual aggregate

Unaffiliated Reinsurance Assumption Contracts

Liberty Mutual Insurance Company

CUMIS assumes 25% quota share reinsurance on the direct homeowner's and automobile program business written by Liberty Mutual through CUNA Mutual Insurance Agency, Inc. The risks assumed by the company are a quota share portion of Liberty Mutual's net liability for gross loss and loss adjustment expense remaining after cessions, if any, to other reinsurance. The total assumed premium for 2005 was $70,342,000.

Old American County Mutual Fronting Arrangement

CUMIS assumes collateral protection insurance (CPI) written in the state of Texas under a "fronting" arrangement with Old American County Mutual Fire Insurance Company (Old American), an unaffiliated Texas county mutual. CUMIS established the fronting arrangement because Texas law provides that a direct writer of CPI in Texas must be a Texas-domiciled insurer. The total assumed premium for 2005 was $12,450,000. Under the fronting arrangement, Old American writes CPI coverages in Texas on loans issued to individual credit union members and cedes 100% of the subject direct business to CUMIS. Old American earns a ceding commission of from 2% to 3%. The Texas CPI business is produced by CUNA Mutual General Agency of Texas, Inc. (CMGA), an affiliate of the company, pursuant to a managing general agency agreement between CMGA and Old American. The reinsurance contract was established effective November 15, 1981, and is cancelable by either party with 90 days' advance written notice.

Virginia Surety Company, Inc.

CUMIS assumes 50% quota share reinsurance on the direct Mechanical Repair Insurance Policies/Extended Contracts program business written by Virginia Surety Company, Inc., in conjunction with Consumer Program Administrators, Inc., and contractual liability insurance policies issued by the company insuring the obligations of the named obligor under a covered service contract. The risks assumed by the company are a quota share percentage of all premium, losses, loss expenses and refunds arising with respect to subject business. The total reinsurance assumed for 2005 was $13,541,000.

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2005, annual statement. Also included in this section are schedules that reflect the growth of the company, NAIC Insurance Regulatory Information System (IRIS) ratio results for the period under examination, and the compulsory and security surplus calculation. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Surplus per Examination."

CUMIS Insurance Society, Inc.
Assets
As of December 31, 2005

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$ 706,617,237	$	$ 706,617,237
Stocks:			
Preferred stocks	3,940,856		3,940,856
Common stocks	189,274,307		189,274,307
Cash, cash equivalents, and short-term investments	13,406,471		13,406,471
Contract loans			
Other invested assets	7,384,532		7,384,532
Receivables for securities	616,693	340,368	276,325
Investment income due and accrued	8,306,372		8,306,372
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	32,524,904	887,546	31,637,358
Deferred premiums, agents' balances, and installments booked but deferred and not yet due	13,084,115	75,000	13,009,115
Reinsurance:			
Amounts recoverable from reinsurers	1,295,339		1,295,339
Funds held by or deposited with reinsured companies	54,113,976		54,113,976
Net deferred tax asset	24,417,847	1,956,698	22,461,149
Guaranty funds receivable or on deposit	100,000		100,000
Electronic data processing equipment and software	6,239,929	6,234,038	5,891
Furniture and equipment, including health care delivery assets	17,263	17,263	0
Receivable from parent, subsidiaries, and affiliates	5,386,823		5,386,823
Write-ins for other than invested assets:			
Items not allocated	6,015,073	6,015,073	0
Total Assets	$1,072,741,737	$15,525,986	$1,057,215,751

CUMIS Insurance Society, Inc.
Liabilities, Surplus, and Other Funds
As of December 31, 2005

Losses		$ 228,875,843
Reinsurance payable on paid loss and loss adjustment expenses		12,745,051
Loss adjustment expenses		38,610,429
Commissions payable, contingent commissions, and other similar charges		477,924
Other expenses (excluding taxes, licenses, and fees)		10,237,775
Taxes, licenses, and fees (excluding federal and foreign income taxes)		5,326,930
Current federal and foreign income taxes		529,347
Net deferred tax liability		
Unearned premiums		283,262,492
Advance premium		28,576,536
Ceded reinsurance premiums payable (net of ceding commissions)		4,002,536
Amounts withheld or retained by company for account of others		80,773
Remittances and items not allocated		1,874,457
Provision for reinsurance		579,600
Payable to parent, subsidiaries, and affiliates		26,740,628
Payable for securities		69,223
Write-ins for liabilities:		
Amounts due AIPSO and underwriting pools		495,779
Liability for levy tax		57,351
Total Liabilities		642,542,674
Common capital stock	$ 5,831,488	
Gross paid in and contributed surplus	38,352,016	
Unassigned funds (surplus)	370,489,573	
Surplus as regards policyholders		414,673,077
Total Liabilities and Surplus		$1,057,215,751

CUMIS Insurance Society, Inc.
Summary of Operations
For the Year 2005

Underwriting Income		
Premiums earned		$470,186,254
Deductions:		
Losses incurred	$284,193,478	
Loss expenses incurred	38,604,947	
Other underwriting expenses incurred	175,327,237	
Total underwriting deductions		498,125,662
Net underwriting gain (loss)		(27,939,408)
Investment Income		
Net investment income earned	37,157,938	
Net realized capital gains (losses)	5,662,248	
Net investment gain (loss)		42,820,186
Other Income		
Net gain (loss) from agents' or premium balances charged off	(171,871)	
Write-ins for miscellaneous income:		
Miscellaneous income	1,277,013	
Total other income		1,105,142
Net income (loss) before dividends to policyholders and before federal and foreign income taxes		15,985,920
Federal and foreign income taxes incurred		4,306,554
Net Income (Loss)		$ 11,679,366

CUMIS Insurance Society, Inc.
Cash Flow
For the Year 2005

Premiums collected net of reinsurance			$511,214,813
Net investment income			39,721,914
Miscellaneous income			(6,523,505)
Total			544,413,222
Benefit- and loss-elated payments		$266,675,797	
Commissions, expenses paid, and aggregate write-ins for deductions		213,887,824	
Federal and foreign income taxes paid (recovered)		8,038,711	
Total deductions			488,602,332
Net cash from operations			55,810,890
Proceeds from investments sold, matured, or repaid:			
Bonds	$396,009,772		
Stocks	41,448,479		
Net gains (losses) on cash, cash equivalents, and short-term investments	(274,086)		
Miscellaneous proceeds	69,223		
Total investment proceeds		437,253,388	
Cost of investments acquired (long-term only):			
Bonds	488,058,077		
Stocks	27,992,393		
Other invested assets	607,837		
Miscellaneous applications	594,454		
Total investments acquired		517,252,761	
Net cash from investments			(79,999,373)
Other cash provided (applied)		5,448,494	
Net cash from financing and miscellaneous sources			5,448,494
Reconciliation:			
Net change in cash, cash equivalents, and short-term investments			(18,739,989)
Cash, cash equivalents, and short-term investments:			
Beginning of year			32,146,461
End of year			$ 13,406,472

CUMIS Insurance Society, Inc.
Compulsory and Security Surplus Calculation
December 31, 2005

Assets			$1,057,215,751
Less liabilities			642,542,674
Adjusted surplus			414,673,077
Annual premium:			
Individual accident and health	$ 0		
Factor	15%		
Total		$ 0	
Group accident and health	5,132,298		
Factor	10%		
Total		513,230	
Lines other than accident and health	501,561,945		
Factor	20%		
Total		100,312,389	
Compulsory surplus (subject to a minimum of $2 million)			100,825,619
Compulsory surplus excess (or deficit)			$ 313,847,458
Adjusted surplus (from above)			$ 414,673,077
Security surplus: (140% of compulsory surplus, factor reduced 1% for each $33 million in premium written in excess of $10 million, with a minimum factor of 110%)			126,032,024
Security surplus excess (or deficit)			$ 288,641,053

CUMIS Insurance Society, Inc.
Reconciliation and Analysis of Surplus
For the Five-Year Period Ending December 31, 2005

The following schedule is a reconciliation of total surplus during the period under examination as reported by the company in its filed annual statements:

	2005	2004	2003	2002	2001
Surplus, beginning of year	$402,785,690	$353,063,669	$266,824,328	$278,347,481	$237,567,753
Net income	11,679,366	40,964,872	43,177,679	(3,795,208)	36,248,227
Change in net unrealized capital gains/losses	1,056,626	9,076,862	24,889,727	(3,131,496)	(21,398,651)
Change in net unrealized foreign exchange capital gains/losses	(2,858,634)	(101,113)	7,909,948	2,279,862	(1,694,491)
Change in net deferred income tax	6,656,179	(1,406,027)	2,388,963	7,264,155	1,172,858
Change in nonadmitted assets	(4,172,551)	2,778,377	15,479,360	(11,839,929)	(14,783,514)
Change in provision for reinsurance	(473,600)	86,000	17,000	88,674	20,526
Cumulative effect of changes in accounting principles					41,881,693
Dividends to stockholders					(2,612,740)
Write-ins for gains and (losses) in surplus:					
Foreign exchange adjustment to operations		(1,327,528)	(6,965,966)	(1,941,225)	1,583,093
Change in foreign exchange adjustment - liabilities		(349,422)	(657,370)	(447,986)	362,727
Surplus, end of year	$414,673,076	$402,785,690	$353,063,669	$266,824,328	$278,347,481

CUMIS Insurance Society, Inc.
Insurance Regulatory Information System
For the Five-Year Period Ending December 31, 2005

The company's NAIC Insurance Regulatory Information System (IRIS) results for the period under examination are summarized below. Unusual IRIS results are denoted with asterisks and discussed below the table.

	Ratio	2005	2004	2003	2002	2001
#1	Gross Premium to Surplus	127%	113%	123%	156%	123%
#2	Net Premium to Surplus	122	109	116	143	119
#3	Change in Net Writings	16	7	7	15	12
#4	Surplus Aid to Surplus	0	0	0	0	0
#5	Two-Year Overall Operating Ratio	92	86	88	92	86
#6	Investment Yield	4.2	4.2*	4.7	5.1	5.3
#7	Gross Change in Surplus	3	14	26	0	17
#8	Net Change in Adjusted Surplus (first used in 2005)	3				
#9	Liabilities to Liquid Assets	73	70	72	75	68
#10	Agents' Balances to Surplus	8	5	8	12	10
#11	One-Year Reserve Development to Surplus	-5	-14	-13	-12	-15
#12	Two-Year Reserve Development to Surplus	-20	-26	-17	-26	-19
#13	Estimated Current Reserve Deficiency to Surplus	-5	-10	-5	-13	-12

Ratio No. 6 measures the company's investment yields. 2004 was exceptional due to lower market interest rates on the company's bond portfolio and an increase in affiliated investments with very low dividend yields.

Growth of CUMIS Insurance Society, Inc.

Year	Admitted Assets	Liabilities	Surplus As Regards Policyholders	Net Income
2005	$1,057,215,751	$642,542,674	$414,673,077	$11,679,366
2004	973,171,812	570,386,121	402,785,691	40,964,872
2003	877,181,351	524,117,682	353,063,669	43,177,679
2002	788,536,521	521,712,193	266,824,328	(3,795,208)
2001	721,227,919	442,880,438	278,347,481	36,248,227
2000	709,352,184	471,784,431	237,567,754	36,078,462

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss and LAE Ratio	Expense Ratio	Combined Ratio
2005	$525,454,338	$506,694,242	$470,186,253	68.7%	60.0%	128.7%
2004	454,249,928	437,877,898	410,040,924	60.0	34.8	94.8
2003	433,167,507	410,666,192	388,335,158	59.5	32.8	92.3
2002	415,873,161	382,088,078	349,827,477	65.7	37.1	102.8
2001	343,058,019	331,218,471	316,981,068	64.9	36.8	101.7
2000	306,467,027	295,978,166	291,601,756	59.3	36.1	95.4

The company's assets have increased from $709 million to $1,057 million. Liabilities increased from $472 million to $643 million. Surplus increased from $238 million to $415 million. Gross, net and earned premiums all increased since the last examination. The combined ratio has been between 92.3% to 128.7%. Current year combined ratio is the highest of the years since the last examination. These results were a result of losses due to Hurricane Katrina and credit card losses.

Reconciliation of Surplus per Examination

The amount of surplus reported by the company as of December 31, 2005, is accepted.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were eight specific comments and recommendations in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the company are as follows:

1. Biographical Disclosures**—**It is recommended that the company provide timely biographical disclosure upon the appointment or election of new officers and directors, in compliance with s. 611.54, Wis. Stat., and s. Ins 6.52 (5), Wis. Adm. Code.

   Action—Compliance.

2. Invested Assets—SVO Compliance—It is recommended that the company establish the following corrective procedures:

   a. All securities held by the company that have not been filed with the SVO and that are not exempt from SVO filing requirements be sold or filed with the SVO within 120 days.

   b. All new securities purchased by the company that are not rated by the SVO and that are not exempt from SVO filing requirements be filed with the SVO within 120 days of purchase.

   c. The company evaluate at least monthly the SVO valuation status of all investments its invested securities and will make all necessary annual filings to maintain SVO valuations for all securities held that are not exempt from SVO filing requirements.

   d. The company provide to the Commissioner copies of all filings made to the SVO.

   Action—Compliance.

3. Loaned Securities Disclosures**—**It is recommended that the company disclose in its statutory annual statements loaned securities supplemental transaction information, in compliance with NAIC Annual Statement Instructions—Property and Casualty.

   Action—Compliance.

4. Financial Reporting—Common Stock—It is recommended that the company report its investments in Ultra Series Funds and MEMBERS Mutual Funds under the classification “Common Stock—Parent, Subsidiaries, and Affiliates” in Schedule D of the company’s statutory annual statements.

   Action—Compliance.

5. Financial Reporting**—**It is recommended that the company report in Schedule Y of its statutory annual statements material transactions among affiliated insurers, in conformity with NAIC Annual Statement Instructions— Property and Casualty.

   Action—Compliance.

6. Financial Reporting—Annual Statement Schedule T**—**It is recommended that the company obtain documentation of its license authorization in each jurisdiction in which it is licensed, and that the company maintain documentation pertaining to its licensure authorization in the various jurisdictions.

   Action—Compliance.

7. Remittances and Items Not Allocated**—**It is recommended that the company exclude transactions from its remittances and items not allocated account that do not relate to unapplied premium and cash receipts, and that the company report unrelated intercompany balances in the course of settlement in an appropriately intercompany asset or liability account, in conformity with NAIC Annual Statement Instructions— Property and Casualty.

   Action—Noncompliance, see comments in the summary of current examination results.

8. Advance Premium Liability—It is recommended that the company report in its statutory financial statements all of the advance premium liability due on the company's complete book of business, in conformity with NAIC Annual Statement Instructions—Property and Casualty.

   Action—Compliance.

Summary of Current Examination Results

This section contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the company's operations is contained in the examination work papers.

Financial Reporting

During the review of the minutes it was noted that the board did not accept or approve minutes from the committee reports. The board did vote on individual items that needed approval from the whole board but did not approve minutes as presented to the board. It is recommended that the board adopt committee minutes to show acceptance of all actions taken in compliance with s. 180.0825 (7), Wis. Stat.

Neither the board nor the Investment and Capital Committee approved investments. The board and committee received a report of consolidated investments. This does not provide for oversight of the individual companies investments by the board and an individual company could be in violation of their investment policy while still being within the guidelines of the group. The board should be reviewing and approving CUMIS's unconsolidated investments regularly to ensure compliance of the investment policy established. It is recommended that the board review and approve investments at regular intervals, at least quarterly. It is also recommended that the board receive investment reports by company to ensure that each company is within its approved investment guidelines.

Premium

The company entered into an arrangement where they wrote business through a broker and reinsured it through a Lloyds Syndicate. The product written is classified as Credit Union Protection coverages sold by the company. These coverages include fidelity bond, wpecial insurance policy, credit union package protection, worker's compensation, commercial automobile, equipment maintenance insurance, other commercial coverages, reinsurance assumed and brokered products. This business was written in 2002 and 2003. There was a contingent commission whereby either the broker or the reinsurer would receive or pay this commission depending on the profitability. This contingent commission was not to be computed until after 48 months. The company booked this commission as Deferred Premium and Ceded Reinsurance Payable. After review by the examiners, it was determined that the accounts that should be used are the Aggregate Write-Ins for Non-Invested Assets and Aggregate Write-Ins for Liabilities, since this is neither premium or reinsurance payable by the company. It is recommended that the company report the offsetting additional commission receivable and payable as aggregate write-ins for other than invested assets and as aggregate write-ins for liabilities in accordance with the NAIC Annual Statement filing instructions.

Reinsurance

Two companies, AXIS Specialty, Ltd., and Munich Reinsurance Company of Australia, Ltd., were not included in Schedule F, Part 5, and should have been, since they are unauthorized reinsurers because they are not licensed in Wisconsin nor are on the state’s list of accredited reinsurers. It is recommended that the company properly record all its unauthorized reinsurers on Schedule F, Part 5, in accordance with annual statement instructions. The examination could not identify that the company has any controls to identify unauthorized reinsurers. It is recommended that the company develop, implement and maintain controls with respect to recognizing and properly reporting unauthorized reinsurance.

Review of Funds Held or Deposited with Reinsurance Companies revealed that the interest income derived from the amount shown at line 14.1, Funds Held or Deposited with Reinsurance Companies, is recorded in the general ledger and reported on line 9 of page 4, Net Investment Income Earned. The interest earned should be recorded on line 1401, Miscellaneous Income, as required by SSAP No. 62, paragraph 35. It is recommended that the company comply with SSAP No. 62, paragraph 35, by reporting the interest earned from amount shown at line 14.1, Funds Held or Deposited with Reinsurance Companies, as a component of aggregate write-ins for miscellaneous income.

Remittances and Items Not Allocated

The prior examination recommended that the company exclude transactions from being reported in this line that are not related to unapplied premium and cash receipts. This examination found that the company is still including several accounts which do not comply with the definition of remittances and items not allocated. Unallocated amounts typically consist of premium receipts that are either payment for policies that are not yet issued or are payments that differ from billed and due amounts. The annual statement instructions provide that premium suspense credit balances shall not be offset by unrelated suspense debit balances and that such debit suspense balances should be reported as a separate asset balance to the extent that they are not offset by related liability items.

The examination determined that the company's reported remittances and items not allocated balance included some affiliated transactions in the course of settlement. Included were general ledger accounts:

Clr Australia Alloc

Clr Grp Tax

Clr Australian Invest

It is again recommended that the company exclude transactions from its remittances and items not allocated account that do not relate to unapplied premium and cash receipts, and that the company report unrelated intercompany balances in the course of settlement in an appropriately intercompany asset or liability accounts, in conformity with NAIC Annual Statement Instructions—Property and Casualty.

VIII. CONCLUSION

As of the date of this report, CUMIS Insurance Society, Inc., is a Wisconsin-domiciled property and casualty insurer originally organized in 1960. The company is a wholly owned subsidiary of CUNA Mutual Investment Corporation and ultimate control of the company is held by CUNA Mutual Insurance Society. As of the date of this report, CUNA Mutual is a Wisconsin-domiciled mutual life and health insurer that provides insurance and financial products and services to credit unions and credit union members. Following the completion of examination fieldwork, CUMIS and CUNA Mutual changed their state of domicile from Wisconsin to Iowa. Further discussion of the redomestication and related plans can be found in the "Subsequent Events" section of this report.

CUMIS is a direct writer of insurance on the property and casualty risks of credit unions. CUMIS specializes in writing fidelity bonds with directors and officers endorsements and in writing multiple peril package coverages.

The examination determined that the company complied with all but one of the recommendations of the previous examination. The current examination made seven recommendations and repeated one recommendation from the prior examination.

The examination accepted surplus as reported by the company. The examination determined that, as of December 31, 2005, the company had total admitted assets of $1.057 billion, total liabilities of $642.5 million, and policyholders' surplus of $414.7 million.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 39 - Financial Reporting—It is recommended that the board adopt committee minutes to show acceptance of all actions taken in compliance with s. 180.0825 (7), Wis. Stat.

2. Page 39 - Financial Reporting—It is recommended that the board review and approve investments at regular intervals, at least quarterly.

3. Page 39 - Financial Reporting—It is also recommended that the board receive investment reports by company to ensure that each company is within its approved investment guidelines.

4. Page 40 - Premium—It is recommended that the company report the offsetting additional commission receivable and payable as aggregate write-ins for other than invested assets and as aggregate write-ins for liabilities in accordance with the NAIC Annual Statement filing instructions.

5. Page 40 - Reinsurance—It is recommended that the company properly record all its unauthorized reinsurers on Schedule F, Part 5, in accordance with annual statement instructions.

6. Page 40 - Reinsurance—It is recommended that the company develop, implement and maintain controls with respect to recognizing and properly reporting unauthorized reinsurance.

7. Page 40 - Reinsurance—It is recommended that the company comply with SSAP No. 62, paragraph 35, by reporting the interest earned from amount shown at line 14.1, Funds Held or Deposited with Reinsurance Companies, as a component of aggregate write-ins for miscellaneous income.

8. Page 41 - Remittances and Items not Allocated—It is again recommended that the company exclude transactions from its remittances and items not allocated account that do not relate to unapplied premium and cash receipts, and that the company report unrelated intercompany balances in the course of settlement in an appropriately intercompany asset or liability accounts, in conformity with NAIC Annual Statement Instructions—Property and Casualty.

X. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

Name	**Title**
Eleanor Oppriecht	Insurance Financial Examiner - Senior
Russell Lamb	Insurance Financial Examiner
Joe Hilgendorf	Insurance Financial Examiner
Stephen Elmer	Insurance Financial Examiner
Thomas Thomas	Insurance Financial Examiner
Sheur Yang	Insurance Financial Examiner
Victoria Chi	Insurance Financial Examiner IT Specialist
Jerry DeArmond	Insurance Financial Examiner - Advanced

Respectfully submitted,

David A. Grinnell
Examiner-in-Charge

XI. SUBSEQUENT EVENTS

Effective May 3, 2007, the company as well as CUNA Mutual Insurance Society and MEMBERS Life Insurance Company changed their state of domicile from Wisconsin to Iowa. Both the Wisconsin and Iowa Insurance Departments approved the redomestications following an April 20, 2007, policyholders' vote on the matter. As a condition of the Wisconsin approval, CUNA Mutual Insurance Society entered into a stipulation and order extending certain policyholder rights under Wisconsin law related to potential future demutualization or mutual holding company formation for varying periods expiring no later than December 31, 2020. The group is also planning to merge CUNA Mutual Life Insurance Company into the CUNA Mutual Insurance Society in 2008.