



Established 1896

Innovation Is Our Policy<sup>SM</sup>

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March 18, 2009

Message to Our Policyholders and Distribution Partners

In our last financial update, September 30, 2008, we commented on the general trends and specific events that were causing stress in the investment market and the overall economy. The string of negative news and events that we thought had reached a crescendo in September continued to varying degrees through the fourth quarter of 2008 and into 2009.

Many life insurance companies are under severe stress with current market conditions. Fidelity Life's investment portfolio is not immune to the current conditions. However, we continue to maintain a very strong balance sheet with much lower than industry average leverage as evidenced by our ratio of statutory capital and surplus to liabilities of 100%. Since our product portfolio does not focus on the "spread business" in which many life companies compete nor contain benefits or other guarantees specifically tied to market performance, our investment portfolio is more conservatively invested than most. We practice disciplined portfolio management including having a high level of diversification and avoiding concentrations in specific securities.

In contrast to many life insurance companies that lost significant capital in recent months due to toxic assets and economic events, Fidelity Life Association continues to weather the storm and maintain high risk adjusted capital and a very strong capital position. We are in need of no government loans, guarantees or capital relief programs.

Fidelity Life Association is part of Members Mutual Holding Company Group (Members Mutual) and as such it is the largest operating entity of the group comprising 99% of consolidated assets. The following financial information about Members Mutual reflects the results of Fidelity Life Association.

Members Mutual entered 2008 with Capital and Surplus of \$285.2 million. As of December 31, 2008 Capital and Surplus was \$261.2 million. As of year-end 2008, surplus declined by \$24 million (8.4%). Approximately \$15 million of the decline resulted from modest exposure to common stock and hedge fund holdings. These assets represent less than 20% of our total invested assets. The losses relate to the current market conditions. When investment markets improve over time, we will be positioned to benefit from the recovery in these holdings.

All investments that relate to policyholder liabilities and statutory capital requirements are invested in various sectors of the bond market. The investment results related to these holdings remain positive as the income earned far exceeded the impairment charges taken on a few securities. We are required to carry our bond portfolio at fair market value. This "mark to market" adjustment lowered capital in 2008. These "mark to market" adjustments approximated \$9 million and reflect current market conditions which at some point should improve.

Please be assured that Fidelity Life Association continues to maintain a well diversified, conservative investment portfolio. We avoid investing in assets classes that have resulted in many of the negative headlines. We will continue to reassess our investment strategies and specific holdings as the economy works its way through these tough times.

We assure our policyholders and distribution partners that Fidelity Life Association remains a financially strong organization worthy of your continued trust.

Sincerely,

Richard A. Hemmings  
President & Chief Executive Officer

Mark S. Wray  
Sr. Vice President & Chief Financial Officer