

2010

**MM** Members Mutual  
Holding Company

*Insurance coverage of exceptional value and ease*

ANNUAL

REPORT

## VISION

*Our vision is to collaborate with our partners, employees and customers to be the predominate provider of insurance products to American families. We endeavor to provide:*

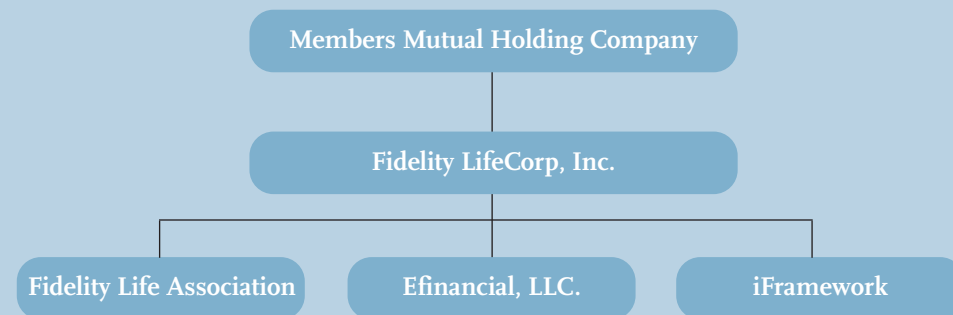
*Expert guidance, convenience and choice to consumers seeking the best insurance solutions available*

*Industry leading technology that enables superior customer experiences*

*A comprehensive set of resources that enable the success of insurance producers*

*Unrelenting commitment to efficiency in the insurance process*

### Organizational Chart



## LETTER TO MEMBERS & POLICYHOLDERS

We are pleased to report the 2010 results of Members Mutual Holding Company and its operating subsidiaries to you as a member of Members Mutual. As a policyholder of Fidelity Life Association you are automatically a member of Members Mutual, the parent mutual holding company that controls Fidelity Life. Your membership continues so long as you maintain ownership of a Fidelity Life policy. We value your relationship with us and look forward to serving your life insurance needs for many years to come.

In 2010, we made great strides in integrating the operations of Fidelity Life and Efinancial. Efinancial is a marketing and distribution company based in Bellevue, Washington that, like Fidelity Life, was organized to serve the middle market. Our combined mission is to deliver high value life insurance products to middle market customers at fair prices via a simple, efficient sales process. Efinancial was acquired by a subsidiary of MMHC in 2009. Together, our companies have become leaders in innovation and developing means to effectively sell to Middle American households, many of which are beyond the reach of traditional life insurance sales activity.

You may have read in recent news reports that the life insurance industry is focused on the affluent customer and has little to offer to average Americans. Indeed, studies show that 56% of American households do not own any individual life insurance and 11 million households with children under 18 have

no life insurance coverage. Our industry reports that individual life insurance sales in the U.S. peaked in 1955 and the number of policies sold in most years declined from the prior year. In 2009, according to current data, less than 10 million policies were sold—the fewest annual sales since the 1930s. It is not uncommon to hear stories of unexpected deaths leading to severe financial hardship for uninsured or underinsured families. This is a shocking result, especially when life insurance is available at much lower cost than in years past. The U.S. population has nearly doubled since 1955, yet fewer people are buying life insurance. The need for protection, however, has not changed and we view our role to be helping average Americans understand why life insurance is a key part of financial planning, how to easily understand their needs and how to secure coverage. Members Mutual is out to prove that we have much to offer.

Originally founded in 1896, Fidelity Life has a long history of serving the life insurance needs of American households. In 2005, Fidelity Life was operating as a mutual insurance company under a management contract within a group of publically held companies. At the end of 2005, Fidelity Life was separated from its group of stock affiliates, one of whom had managed the company for decades. In essence, Fidelity Life was restarted in 2005 as an independent mutual company and reset its course to serve Middle America. Since then we have doubled our membership and increased

annualized new business premium at Fidelity Life by double digit percentages each year since 2005.

Since its founding in 2001, Efinancial has simplified the life insurance sales transaction through leading edge technology and easy to place products. Efinancial's core strategy has been to build technology that streamlines the sales process. As Efinancial develops new processes and greater efficiencies, it continues to grow and attract other partners seeking Efinancial's superior capabilities for transacting business.

Financial strength will remain a continued hallmark of the Members Mutual group. FLA continues to enjoy superior risk adjusted capital levels compared to its industry peers and provides high levels of financial security to its policyholders. Members Mutual entered 2010 with equity of \$314.7 million. As of December 31, 2010 equity was \$321.8 million.

On the following pages, we provide more information about our companies' accomplishments and plans for the future. As we build our business we will continue to assure our policyholders and distribution partners that the Members Mutual companies constitute a financially strong organization worthy of your continued trust.



Sincerely,

A handwritten signature in dark ink, appearing to read "Richard A. Hemmings". The signature is fluid and cursive, written over a white background.

Richard A. Hemmings  
Chairman, President  
& CEO

## MEMBERS MUTUAL HOLDING COMPANY BOARD OF DIRECTORS

Richard Hemmings  
Chairman

Linda Walker Bynoe  
Director

John Fibiger  
Director

Steven Groot  
Director

James Schacht  
Director

## MANAGEMENT

Richard Hemmings

President

Chief Executive Officer

Ciaran Brady

Vice President, Operations

Jim Harkensee

Vice President, Product and

Corporate Development

Michael Honeysett

Vice President

Chief Marketing Officer

Mark Wray

Senior Vice President

Chief Financial Officer and

Secretary

## FIDELITY LIFE ASSOCIATION—INNOVATION IS OUR POLICY



Established 1896

Fidelity Life Association (FLA) is a life insurance company (rated A- [Excellent] by A.M. Best)\* and is one of two principal operating subsidiaries of Fidelity LifeCorp, Inc. (FLC), its immediate parent. Its ultimate parent is Members Mutual Holding Company (Members Mutual)—a mutual holding company of which all Fidelity Life policyholders also are members.† FLC and Members Mutual were formed in 2007 upon FLA's reorganization.

Fidelity Life originally was organized in 1896 as a fraternal benefit society dedicated to providing financial security for the growing middle class of the Midwest and Northern states. It currently conducts business in all states but New York and Wyoming. In 2004, the Fidelity Life Board of Directors determined that the interests of the company and its policyholders would be best served by ending the management agreement under which the company had operated for nearly 50 years.

In 2006, Fidelity Life re-launched independent operations with a renewed commitment to meeting

the needs of today's busy Middle Americans—a segment long underserved by the industry. Fidelity Life has defined its value proposition as reducing the time it takes to make policy approval decisions, thereby making it easier for distributors to serve the middle market. With continued effort to improve speed and efficiency of each element of the life insurance sales process, FLA is building a new kind of life insurance company—one that leverages innovative technology with industry experience to create value for its policyholders, distributors and its upstream parent company.

In 2009, FLC acquired Efinancial—a dynamic leader in insurance distribution and related technology. The Efinancial transaction creates a powerful synergy between product manufacturing and distribution that will benefit members in coming years. The transaction will provide FLA with an additional outlet for the sale of its life insurance products and offers Efinancial a product manufacturing facility to develop innovative products for a multitude of markets and distribution channels. This will allow

the combined group of companies to efficiently develop and test new products while pursuing its goal of meeting life insurance needs of the middle market.

Members Mutual's vision is to serve Middle America by delivering fair value, easy-to-understand life insurance products in a simple, efficient sales transaction. Members Mutual's business strategy continues to use its mutual holding company structure—which allows for the potential to raise significant capital—to grow the business in two ways. Continued investments in technology, product innovation and distribution will allow organic growth of FLA and Efinancial. In addition, we will use our structure and associated capital-raising potential to grow through combinations, partnerships and other strategic transactions. This will allow Members Mutual to best serve the interests of its members over the long term.

\* For the latest A.M. Best ratings, go to [www.ambest.com](http://www.ambest.com)

† All Fidelity Life policyholders are members of Members Mutual while their policies are in force.

## 2010—GROWTH AND NEW OPPORTUNITY

In 2010, Fidelity Life implemented several initiatives in product and technology to further its objective of making it economically viable for distributors to serve the middle market. These initiatives have come in the form of new products, expanded underwriting capabilities and leading edge technology—all of which have allowed the company to continue to grow its sales volume.

### PRODUCTS

In 2010, Fidelity Life introduced Rapid Decision Universal Life. This new product uses the Rapid Decision process, among the most convenient application and underwriting processes available in the industry. Fidelity Life has streamlined the application and

approval process so that consumers can obtain coverage in days, not months. With the Rapid Decision Universal Life product, consumers have flexible premium universal life insurance coupled with competitive cash value accumulation. Rapid Decision Universal Life is an ideal product for those who seek solid life insurance protection, flexibility, and sustainable cash value accumulation.

For its Rapid Decision Term product, Fidelity Life added additional rate classes. This change was implemented to increase placement ratios and expand product availability to consumers.

Fidelity Life also enhanced its Accidental Death Benefit product

by increasing the available face amount from \$300,000 to \$500,000. The optional Waiver of Premium Rider was added to the Accidental Death Benefit as well.

In addition, Fidelity Life streamlined its Hybrid Life and Rapid Decision Term electronic application processes based on user feedback. These changes contributed to a briefer sales transaction, increasing the products' appeal to distributor and customer.

### TECHNOLOGY

Fidelity Life remains committed to using technology to streamline the underwriting and policy approval process to create efficiencies that attract distributors and benefit its members. FLA has long been a pioneer in the use of e-commerce. In 2010, the company introduced significant enhancements to its Rapid App II online application system. Rapid App II allows agents to make complete sales over the phone and Internet in hours or even minutes that typically take weeks or days. In 2010 approximately 75% of new business was being submitted through the Rapid App process.



## RESULTS-IN-BRIEF FOR 2010

**Increase In Members—**  
95,000 in 2009 to 110,700 in 2010

**Policies & Certificates Sold—**  
25,529

**Life Insurance In Force—**  
\$23.5 billion

## MANAGEMENT

Mike Rowell  
Chief Executive Officer

Brian Fife  
President

Angie Cook  
Senior Vice President  
of Information Technology

Brian Gould  
Senior Vice President  
of Marketing

## EFINANCIAL—LEADING THE INDUSTRY THROUGH INNOVATION



Efinancial was founded in 2001 as a direct distributor of life insurance. Through ongoing commitment to technology and process innovation it has evolved into a robust, multifaceted organization. Efinancial continues its focus on driving efficiencies in life insurance distribution. As a catalyst in the industry, Efinancial provides marketing, fulfillment, technology, and product solutions to agents, financial institutions, and many strategic partners. Efinancial is a subsidiary of FLC and Members Mutual. It represents a number

of insurance companies, including its affiliate Fidelity Life.

### KEY 2010 ACCOMPLISHMENTS

- Continued Revenue Growth
- Increased Call Center agents to over 100
- Expanded Call Center application growth by 50% over previous year.
- Made several key hires to the management team
- Placed premium through brokerage distribution growth of 50% over previous year.



Efinancial identifies the following key elements that have contributed to its success. The synergy between these elements has allowed the organization to be nimble and responsive and has created additional opportunities that have caused the company to grow far beyond its original vision.

### ALISS TECHNOLOGY

ALISS—The Automated Life Insurance Sales System is a patented customer relationship and life insurance sales process manager. This technology, coupled with a team dedicated to back-end business processing, has promoted efficiency by enabling sales agents to focus on



selling. This increases productivity and adds value to the processing capabilities of agents. In addition to being developed and used by Efinancial, ALISS is available for licensing and use by unrelated agents.

#### STRATEGIC PARTNERSHIPS

Efinancial has partnered with organizations such as Esurance, Progressive, TD Bank and others to offer life insurance products to their customer base. These partnerships provide valuable exposure with benefits for both Efinancial and the sponsoring entity.

#### BROKERAGE

Efinancial's proprietary tools, processes and partnerships have allowed it to develop a brokerage channel that generates additional revenue from outside agents and agencies. Offering the tools and capabilities developed for Efinancial to

#### RESULTS-IN-BRIEF FOR 2010

Call Center Agents increase to over 100

Call Center Application growth of over 50%

Brokerage Distribution Placed Premium increase of 50% over previous year



independent distributors and agents expands the traditional bounds of agency relationships to independent agents and opens a source of future growth.

#### CULTURE

Efinancial fosters a corporate culture that is success-driven and fueled by a positive, energetic atmosphere. Its efforts in developing agent training, coaching and best practices contribute to its success.

For 2011, Efinancial has a number of exciting new initiatives to continue to expand its business.

**Pete Kalasountas**  
Wholesale Director

**Shaun Patrickus**  
Senior Vice President of Sales

**Kathleen Rowell**  
Senior Vice President  
of Operations

**Eileen Takeuchi**  
Chief Financial Officer



# MEMBERS MUTUAL HOLDING COMPANY 2010 CONSOLIDATED FINANCIAL STATEMENTS

The financial statements include the consolidated accounts of the affiliated companies comprising the Members Mutual Holding Company (MMHC) group of companies (collectively referred to as the Company). The MMHC group is comprised of MMHC and Fidelity LifeCorp (FLC); both holding companies that currently have no operations. The financial statements are comprised almost entirely of the accounts of the two operating entities within the MMHC group; Fidelity Life Association (FLA) and Efinancial, LLC (Efinancial). The consolidated financial statements include the results of Efinancial since the its acquisition in July, 2009.

The Company continues to make investments in the future growth of the operating companies. Such growth investments include key personnel to expand operations and build depth in key competency areas, product and sales process development including both Efinancial and FLA joint efforts to redefine the life insurance sales and marketing processes, and technology investments to make the companies easier to do business with and drive future efficiencies. Total "growth" investment expenses were approximately \$5 million in 2010. One immediate result was that Efinancial increased sales of FLA insurance products through its call center and wholesale distributions from approximately 5% of net revenues in 2009 to 31.4% for in 2010.

The investment markets continue to impact the financial statements. The markets in 2010 were much less volatile than in 2009, which was a recovery year from the investment market declines resulting from the extreme conditions in the United States and world economies in 2008. During 2010 MMHC experienced favorable market value adjustments on its fixed maturity securities holdings that increased Accumulated Other Comprehensive Income by \$6.0 million, net of taxes and related adjustments. Additional favorable market value adjustments on other invested assets were recorded in Net Income.

The positive market value increases from the investment portfolio are tempered somewhat due to lower yield rates available in the fixed maturity security market. The yield rates for new investments are close to 200 basis points lower than the yields on current holdings, which reduced the overall yield rate of the fixed maturity portfolio resulting in lower net investment income.

Total Assets increased from \$718.5 million to \$741.4 million (3.2%) due to the favorable market value adjustments for nearly all investment asset categories and an increase in deferred policy acquisition costs (DAC). Total Liabilities increased by \$15.7 million (3.8%) to \$419.6 million primarily due to a \$10.7 million increase in future policy benefits and a \$5.7 million increase in deferred income tax liability. The increase in future policy benefits results from continued growth in life insurance sales combined with a one-time increase in life insurance reserves of \$1.8 million resulting from revaluation in connection with the implementation of a new reserve computation system.

Total Equity increased by \$7.1 million (2.2%) to \$321.8 million. The increase was comprised of Other Comprehensive Income of \$6.0 million and Net Income of \$1.1 million, inclusive of net income attributable to the noncontrolling interests.

The Consolidated Statement of Operations showed the results of the continued efforts to grow revenue and scale in the business with net income being down due to investments made in the business, and certain non-recurring expenses.

Total revenues increased by \$12.3 million (13.8%) to \$101.1 million. First year life insurance premiums continued to increase. Much of the increase in insurance premiums was driven by the first full year of group health premiums written under the NationCare fronted insurance program. Earned Commissions on insurance sales by Efinancial increased by \$5.7 million (59.9%) over 2009.

Net Investment Income decreased by \$1.2 million (5.2%) to \$21.4 million due to continued reduction in assumed annuity deposit liabilities and lower investment yields available in the market. Annuity deposits result from a prior assumed reinsurance treaty and no new deposits are being added.

Realized gains on investments, which includes both net gains realized through sales, market value on investments classified as "trading securities," and investments accounted for under the "equity method" are \$7.2 million, down from \$13.7 million amount in

2009. While down from the prior year, the 2010 results reflect strong results for equity investments, convertible bonds and hedge funds. The 2009 results were driven by the recovery from the market lows experienced in the last half of 2008.

Benefit expenses increased in 2010, with much of the result from the NationCare fronted group health program. Overall life insurance benefits reflect the growth in the business, reserve adjustments and expected year to year fluctuations due to timing of claims.

General Operating Expenses increased by \$4.7 million (15.5%) to \$34.9 million. This increase reflects the inclusion of Efinancial for a full year in 2010, planned growth investments of \$5.0 million, net of experience refund credits on NationCare of \$(2.2) million.

Amortization of DAC and Amortization of Intangible Assets increased by \$1.6 million (26%) and \$2.9 million (221%), respectively during 2010. Higher DAC amortization resulted from continued growth in sales by FLA and lower persistency on certain products. Higher amortization of intangible assets results from having a full year of amortization in 2010 with only six months in 2009. In addition, the Company recorded a write down of \$1.78 million for certain contract based intangible assets in 2010 resulting from lower sales volumes than the amounts projected in the development of the initial intangible assets values.

Net income for 2010 was \$1.1 million, inclusive of the net income attributable to the noncontrolling interests, which is down from \$11.2 million for 2009. Higher realized investment gains in 2009 combined with increased investment spending and nonrecurring expenses in 2010, account for the difference in the two periods.

The results for 2010 reflect the Company's continued strong balance sheet and capital position. Profitability in 2010 was down due to the continued investment by Efinancial and FLA in the future growth of the business and due to the one-time items mentioned above related to life and annuity policy reserves and for intangible assets (totaling \$3.5 million after tax). The Company intends to maintain its strong financial position, while continuing to invest for the future.

Members Mutual Holding Company Consolidated Balance Sheets  
as of December 31, 2010 and 2009 (\$ in thousands)

Assets	Investments	2010	2009
	Fixed maturities, available for sale, at fair value	\$373,038	\$368,147
	Fixed maturities, trading, at fair value	21,453	18,440
	Equity securities, available for sale, at fair value	12,078	11,849
	Equity securities, trading, at fair value	23,406	21,605
	Mortgage loans	7,857	8,694
	Limited partnership interests	32,309	29,770
	Policy loans	13,273	13,760
	Real estate	428	257
	<b>Total Investments</b>	<b>483,842</b>	<b>472,522</b>
	Cash and cash equivalents	18,575	27,455
	Deferred policy acquisition costs	74,677	57,784
	Accrued investment Income	3,766	3,903
	Commissions and agent balances receivable	6,785	7,034
	Current income taxes receivable	4,193	2,248
	Reinsurance recoverable	118,534	116,528
	Intangible assets	6,903	11,087
	Goodwill	15,073	15,073
	Other Assets	9,035	4,886
	<b>Total Assets</b>	<b>\$741,383</b>	<b>\$718,520</b>
	<b>Liabilities</b>		
<b>Liabilities and Equity</b>	Future policy benefits and claims	\$197,974	\$187,264
	Policyholder funds	162,345	171,631
	Other policyholder liabilities	9,910	13,413
	Deferred income tax liability	25,005	19,300
	Reinsurance liabilities and payables	3,595	5,786
	Commission chargeback liability	1,228	-
	Other liabilities	9,503	6,434
	<b>Total Liabilities</b>	<b>419,560</b>	<b>403,828</b>
	<b>Equity</b>		
	Retained earnings	296,535	296,449
	Accumulated other comprehensive income	11,558	5,840
	<b>Total equity MMHC</b>	<b>308,093</b>	<b>302,289</b>
	Noncontrolling interest in subsidiary	13,730	12,403
	<b>Total equity</b>	<b>321,823</b>	<b>314,692</b>
	<b>Total Liabilities and Equity</b>	<b>\$741,383</b>	<b>\$718,520</b>

Members Mutual Holding Company Consolidated Statements of Operations  
for the Years Ending December 31, 2010 and 2009 (\$ in thousands)

Revenues	2010	2009
Life insurance premiums - net	\$55,176	\$42,051
Net investment income	21,419	22,597
Net realized investment gains	7,204	13,716
Earned commissions	15,328	9,585
Other income	1,923	874
<b>Total Revenues</b>	<b>101,050</b>	<b>88,823</b>
<b>Benefits and Expenses</b>		
Life, annuity and health claim benefits - net	46,293	25,482
Interest credited to policyholder account balances	6,390	6,658
General operating expenses	34,911	30,225
Amortization of deferred policy acquisition costs	7,604	6,039
Amortization of intangible assets	4,184	1,303
<b>Total Benefits and Expenses</b>	<b>99,382</b>	<b>69,707</b>
Income before income taxes	1,668	19,116
Income tax expense	583	7,526
<b>Net Income</b>	<b>1,085</b>	<b>11,590</b>
Less: net income attributable to the noncontrolling interests	(58)	(388)
<b>Net Income attributable to MMHC</b>	<b>\$1,027</b>	<b>\$11,202</b>

Members Mutual Holding Company Consolidated Statements of Changes in Equity  
for the Years Ending December 31, 2010 and 2009 (\$ in thousands)

Retained Earnings	2010	2009
Balance - Beginning of Period	\$296,449	\$285,204
Adoption of accounting change regarding recognition of other than temporary impairments	-	488
Net income attributable to MMHC	1,027	11,202
Transfer retained earnings to noncontrolling interest	(941)	(445)
<b>Balance - End of Period</b>	<b>296,535</b>	<b>296,449</b>
<b>Accumulated Other Comprehensive Income (Loss)</b>		
Balance - Beginning of Period	5,840	(5,768)
Adoption of accounting change regarding recognition of other than temporary impairments	-	(488)
Unrealized holding gains (losses) arising during the year on other than temporarily impaired securities (net of taxes)	179	(285)
Other unrealized holding gains arising during the year (net of taxes)	5,867	12,678
Less other comprehensive income attributable to the noncontrolling interests	(328)	(297)
Balance - End of Period	11,558	5,840
<b>Total equity MMHC</b>	<b>308,093</b>	<b>302,289</b>
<b>Noncontrolling Interest in Subsidiary</b>		
Balance - Beginning of Period	12,403	-
Issue noncontrolling interest in subsidiary	-	11,273
Retained earnings transferred to noncontrolling interest	941	445
Net income	58	388
Other comprehensive income	328	297
Balance - End of Period	13,730	12,403
<b>Total Equity</b>	<b>\$321,823</b>	<b>\$314,692</b>

I N T E G R I T Y  
honesty, transparency

S U C C E S S  
motivate, recognize achievement

P R O F I T  
essential for future growth

I N N O V A T I O N  
advances through commitment

D I V E R S I T Y  
beneficial for development

E F F I C I E N C Y  
using resources to fullest potential

A C C O U N T A B I L I T Y  
trustworthy, responsible

## VALUES

### INTEGRITY

*We are honest and transparent. We treat others the way we want to be treated.*

### INNOVATION

*We make advances in our company and the industry through a relentless commitment to improving the way business is done.*

### EFFICIENCY

*We constantly strive to maximize the efficient use of our resources.*

### ACCOUNTABILITY

*We do what we say we are going to do at the time we say we are going to go it.*

### SUCCESS

*We recognize and value our employees and seek to motivate them to achieve greatness in what they do. We recognize people for their achievement.*

### PROFIT

*We recognize that profit is essential to our future success.*

### DIVERSITY

*We seek to develop the benefits of a diverse workforce*

**MM** Members Mutual  
Holding Company

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