

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM S-1  
REGISTRATION STATEMENT  
UNDER  
THE SECURITIES ACT OF 1933

**FEDERAL LIFE GROUP, INC.**

(Exact name of registrant as specified in its charter)

Pennsylvania  
(State or other jurisdiction of  
incorporation or organization)

6311  
(Primary Standard Industrial  
Classification Code Number)

82-4944172  
(I.R.S. Employer  
Identification Number)

3750 West Deerfield Road  
Riverwoods, Illinois 60015  
(847) 520-1900

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

Joseph D. Austin  
Chairman and Chief Executive Officer  
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(847) 520-1900

(Name, address, including zip code, and telephone number, including area code, of agent for service)

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**Approximate date of commencement of proposed sale to the public:** As soon as practicable after the registration statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box:

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer   
Non-accelerated filer

Accelerated filer   
Smaller reporting company   
Emerging growth company

If an emerging growth company, indicate by checkmark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided to Section 7(a)(2)(B) of the Securities Act.

**Calculation of Registration Fee**

Title of Each Class of Securities to be Registered	Amount to be Registered <sup>(1)</sup>	Proposed Maximum Offering Price Per Share <sup>(2)</sup>	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee
Common Stock, par value \$0.01 per share	4,600,000	\$10.00	\$46,000,000	\$5,727

(1) Includes shares to be offered to eligible members and directors and officers of Federal Life Mutual Holding Company, pursuant to Federal Life Mutual Holding Company's plan of conversion.

(2) Estimated solely for the purpose of calculating the amount of the registration fee in accordance with Rule 457(o) under the Securities Act of 1933, as amended.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with section 8(a) of the Securities Act of 1933, as amended, or until this registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said section 8(a), may determine.

**The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state or other jurisdiction where the offer or sale is not permitted.**

PROSPECTUS

Subject to Completion, dated [•], 2018

## Federal Life Group, Inc.

We are offering up to 4,600,000 shares of our common stock for sale at a price of \$10.00 per share in connection with the conversion of Federal Life Mutual Holding Company, or Federal Life Mutual, from the mutual to stock form of organization. Immediately following the conversion, we will acquire all of the newly issued shares of Federal Life Mutual common stock. This is our initial public offering.

We are offering shares of our common stock in a subscription offering and a community offering. The subscription offering will be made to eligible members of Federal Life Mutual, who were the policyholders and holders of annuities of Federal Life Insurance Company, an Illinois life insurance company and indirect subsidiary of Federal Life Mutual, as of March 8, 2018, and to the directors and officers of Federal Life Mutual.

The subscription offering will end at noon, Central Time, on [•], 2018. Concurrently with the subscription offering and subject to the prior right of subscribers in the subscription offering, shares will be offered in a community offering to employees of Federal Life Mutual and its subsidiaries (who may purchase through their 401-K Plan accounts), to a limited number of persons identified by Federal Life Insurance Company as possible strategic partners, and to Insurance Capital Group, LLC, or ICG, which has agreed to act as a standby purchaser pursuant to a standby stock purchase agreement dated March 8, 2018. This phase of the stock offering is referred to as the community offering. We refer to the subscription offering and the community offering as the offerings. The aggregate number of shares that employees, officers, directors, and strategic investors can purchase in the offerings cannot exceed 700,000 shares.

Our ability to complete this offering is subject to two conditions. First, a minimum of 3,400,000 shares of common stock must be sold to complete this offering. Second, Federal Life Mutual's plan of conversion must be approved by the affirmative vote of at least two-thirds of the votes cast at the special meeting of members to be held on [•], 2018. Until such time as these conditions are satisfied, all funds submitted to purchase shares will be held in escrow with Computershare Trust Company, N.A. If the offering is terminated, purchasers will have their funds promptly returned without interest.

ICG has agreed to purchase in the community offering any shares not subscribed for in the offerings up to the offering minimum of 3,400,000 shares. If all of the conditions to ICG's obligations to purchase shares in the offering are satisfied, the sale of the minimum number of shares is guaranteed. See "The Conversion and the Offering — Description of Standby Stock Purchase Agreement." Accordingly, the number of shares purchased by eligible members of Federal Life and other purchasers will not impact the condition to closing that at least 3,400,000 shares must be sold in the offering. The sale of sufficient shares to meet the offering minimum of 3,400,000 shares does not indicate that sales have been made to investors who have no financial or other interest in the offering, and the sale of 3,400,000 shares in the offering should not be viewed as an indication of the merits of the offering.

Shares purchased by ICG and by directors and officers of Federal Life Mutual will be counted toward satisfaction of the minimum amount needed to complete this offering. If more orders are received than shares offered, shares will be allocated in the manner and priority described in this prospectus. The standby purchaser has the right and may purchase additional shares in the community offering up to the offering maximum of 4,600,000 shares. It is likely that ICG, as the standby purchaser, will own a majority of our outstanding shares after the offering.

The minimum number of shares that a person may subscribe to purchase is 50 shares. Except for the standby purchaser and the directors and officers of Federal Life Mutual and its subsidiaries, the maximum number of shares that a person may purchase in the offering is 50,000 shares.

Griffin Financial Group LLC will act as our placement agent and will use its best efforts to assist us in selling our common stock in this offering, but Griffin Financial is not obligated to purchase any shares of common stock that are being offered for sale. Purchasers will not pay any commission to purchase shares of common stock in this offering.

There is currently no public market for our common stock. We intend to apply for the listing of our common stock on the NASDAQ Capital Market under the symbol "FLF." **People considering purchasing shares in the offerings should note that our management and the standby purchaser are likely to seek to delist our shares from trading on the NASDAQ Capital Market. This would materially and adversely affect the liquidity of our stock.** See "Risk Factors — Our management and the standby purchaser are likely to seek to delist our shares from trading on the NASDAQ Stock Market and end our reporting obligations under the Securities Exchange Act of 1934."

**We are an "emerging growth company" under applicable Securities and Exchange Commission rules and will be eligible for reduced public company reporting requirements. See "Prospectus Summary — Implications of Being an Emerging Growth Company."**

Investing in our common stock involves risks. For a discussion of the material risks that you should consider, see "Risk Factors" beginning on page 15 of this prospectus.

### OFFERING SUMMARY Price: \$10.00 per share

	Minimum	Maximum
Number of shares offered	3,400,000	4,600,000
Gross offering proceeds	\$34,000,000	\$ 46,000,000
Estimated offering expenses	\$ 1,000,000	\$ 1,000,000
Commissions <sup>(1)(2)</sup>	\$ 1,895,000	\$ 2,135,000
Net proceeds	\$31,105,000	\$42,965,000
Net proceeds per share	\$ 9.15	\$ 9.32

(1) Represents the amount to be paid to Griffin Financial, based on 2.0% of the proceeds from shares sold in the subscription and community offerings and 6.5% of the proceeds from the shares sold to the standby purchaser. See "The Conversion and Offering — Marketing Arrangements" for a description of the placement agent compensation.

(2) Assumes (x) at the offering minimum, 700,000 shares are sold in the subscription and community offerings to persons other than the standby purchaser and 2,700,000 shares are sold to the standby purchaser; and (y) at the offering maximum, 1,900,000 shares are sold in the subscription and community offerings to persons other than the standby purchaser and 2,700,000 shares are sold to the standby purchaser.

**None of the Securities and Exchange Commission, the Illinois Department of Insurance or any state securities commission has approved or disapproved of these securities or determined if this prospectus is accurate or complete. Any representation to the contrary is a criminal offense.**

For assistance, please call the Stock Information Center at [1-8- ].

## Griffin Financial Group LLC

The date of this Prospectus is [•], 2018

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## CERTAIN IMPORTANT INFORMATION

### This Prospectus

You should rely only on the information contained in this prospectus. We have not, and Griffin Financial has not, authorized any other person to provide information that is different from that contained in this prospectus. If anyone provides you with different or inconsistent information, you should not rely on it. We and Griffin Financial are offering to sell and seeking offers to buy our common stock only in jurisdictions where such offers and sales are permitted. You should assume that the information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of our common stock. Our business, financial condition, results of operations, and prospects may have changed since that date. Information contained on our website, or any other website operated by us, is not part of this prospectus.

### Frequently Used Terms

Unless the context otherwise requires, as used in this prospectus:

- “Federal Life Mutual” refers to Federal Life Mutual Holding Company and its consolidated subsidiaries;
- “the stock holding company” refers to Federal Life Group, Inc., a Pennsylvania corporation formed to be the holding company for Federal Life Mutual upon its conversion from mutual to stock form;
- “Federal Life” refers to Federal Life Insurance Company, an Illinois life insurance company and an indirect subsidiary of Federal Life Mutual;
- “the Company,” “we,” “us,” and “our” refer to Federal Life Mutual and its consolidated subsidiaries prior to the conversion as described in this prospectus, and to Federal Life Group, Inc. and its consolidated subsidiaries after the conversion;
- “conversion” refers to a series of transactions by which Federal Life Mutual will convert from mutual to stock form and become a subsidiary of Federal Life Group, Inc. under the terms of the plan of conversion adopted by the board of directors of Federal Life Mutual;
- “Department” means the Illinois Insurance Department;
- “exchangeable note” means the \$2,000,000 promissory note issued by Federal Life Mutual to the standby purchaser upon the signing of the standby stock purchase agreement. The standby purchaser has agreed to loan up to \$2,000,000 to Federal Life Mutual to fund costs incurred by Federal Life Mutual in connection with the conversion and the offerings. The outstanding principal balance of the exchangeable note will automatically convert to shares of the Company’s common stock upon the completion of the conversion and the offerings at a price of \$10.00 per share. Shares issued in connection with the exchangeable note will count towards the minimum number of shares that must be sold in the offerings;
- “fixed index annuity” means a contract issued and guaranteed by an insurance company that provides for a return on the amount invested that is typically tied to a specified stock index (such as the S&P 500 index) while guaranteeing no loss of the amount originally invested, and which in some cases can be converted to a guaranteed level of lifetime income;
- “variable annuity” means a contract issued and guaranteed by an insurance company that provides the holder with future payments based on the performance of the contract’s underlying securities. The insurer guarantees a minimum payment during the payout phase, but the rate of return on the underlying securities may vary. The performance of these securities, usually mutual funds, dictates the size of the eventual annuity payment;
- “mutual form” refers to an insurance company or its holding company organized as a mutual company, which is a form of organization in which the policyholders or members have certain membership rights in the mutual company, such as the right to vote with respect to the election of

directors and approval of certain fundamental transactions, including the conversion from mutual to stock form; however, unlike shares held by stockholders, membership rights are not transferable and do not exist separately from the related insurance policy;

- “stock form” is a form of organization in which the only rights that policyholders have are contractual rights under their insurance policies and in which voting rights reside with stockholders under state corporate law;
- “subscription offering” refers to this offering of up to 4,600,000 shares of our common stock under the plan of conversion to eligible members and directors and officers of Federal Life Mutual;
- “community offering” refers to this offering of up to 4,600,000 shares of our common stock under the plan of conversion to employees of Federal Life Mutual and its subsidiaries (who may purchase shares through their 401-K plan accounts), a limited number of persons identified by Federal Life as possible strategic partners, and the standby purchaser;
- “offerings” refers to the subscription offering and the community offering;
- “standby purchaser” refers to Insurance Capital Group, LLC, which has agreed to stand by and purchase any shares not subscribed for in the subscription and community offerings up to the offering minimum of 3,400,000 shares, and which has the right to purchase additional shares up to the offering maximum of 4,600,000 shares, upon the terms and conditions set forth in the standby stock purchase agreement;
- “standby stock purchase agreement” refers to the standby stock purchase agreement dated March 8, 2018, by and among Federal Life Mutual, Federal Life Group, Inc., Federal Life, and Insurance Capital Group, LLC;
- “eligible member” refers to a person who was an owner of a policy issued by Federal Life and in-force on March 8, 2018, the date the plan of conversion was adopted by the board of directors of Federal Life Mutual;
- “policy” includes a life insurance policy, an annuity, or an accident and health policy;
- “member” refers to a person who is the owner of an in-force policy, or the holder of a certificate under a group policy, issued by Federal Life;
- “accidental death coverage” refers to insurance coverage for a cause of death that does not include illness, suicide in most circumstances, or natural causes;
- “affinity partner” refers to a company with whom we have a marketing relationship to provide insurance or annuity product services to that company’s customers or members under its brand or Federal Life’s brand;
- “term life insurance” refers to a type of life insurance that is pure life insurance that ordinarily does not build cash value over time. Term life insurance coverage generally lasts for a specified time, generally 5, 10, 15, or 20 years or more, with level premiums over the period;
- “whole life insurance” refers to a type of life insurance that builds cash value over time;
- “universal insurance” refers to a type of flexible permanent life insurance that offers lower cost protection similar to term life insurance as well as a savings element similar to whole life insurance that builds cash value over time; and
- “final expense protection” means a permanent life insurance policy designed to cover immediate expenses related to an insured’s death, such as funeral, burial, and medical bills. These policies typically never expire and provide for level premiums.

**Market And Industry Data**

Market data and other statistical information used throughout this prospectus are based on independent industry publications, government publications, publicly available information, reports by market research firms, or other published independent sources. Independent industry publications, government publications, and other published independent sources generally indicate that the information included therein was obtained from sources believed to be reliable. Some data are based upon good faith estimates derived from our management's review of the independent sources referenced herein and from experience with partners, licensees, and other contacts in the markets in which the Company operates.

## PROSPECTUS SUMMARY

*This summary highlights information contained elsewhere in this prospectus. Before making a decision to purchase our common stock, you should read the entire prospectus carefully, including the “Risk Factors” and “Forward-Looking Statements” sections and our consolidated financial statements and the notes to those financial statements.*

### Overview

We provide life insurance and annuity products targeted to the middle American market. Industry data indicates there is a substantial unmet need for life insurance and investment and retirement products, particularly among domestic households with annual incomes of between \$60,000 and \$250,000, a market we refer to as the Middle Market. We believe that approximately 45 million households comprise our target market — households with identified need for life insurance and guaranteed retirement income products and the financial means to address that need. We strive to deliver to this market affordable, easy to understand life insurance and annuity products through knowledgeable independent agents.

We have not been profitable in recent years due to the prolonged low interest rate environment, which has depressed interest income, insufficient size to absorb our fixed costs, a lack of distribution partners and an A.M. Best rating needed to generate sales of insurance and annuity products, and insufficient capital to support a larger book of business. To address these shortcomings, we have identified variable and fixed annuities, and certain life and supplemental health products, as niche markets that have also attracted the interest of distribution partners and, in the case of fixed annuities, shown strong sales growth. We have also implemented significant expense reductions that have successfully offset the decline in our investment income.

For the year ended December 31, 2017, we had total consolidated revenue of \$23.0 million, insurance revenues of \$12.1 million, and a net loss of \$1.9 million. As of December 31, 2017, we had over 26,000 policyholders and group certificate holders, almost 2,000 annuity holders, total assets of \$257.1 million, and equity of \$31.4 million. For the six months ended June 30, 2018, we had total consolidated revenue of \$10.9 million, insurance revenues of \$6.3 million and a net loss of \$2.0 million.

We conduct our business through our primary operating subsidiary, Federal Life Insurance Company or Federal Life, an Illinois-domiciled life insurance company that was incorporated in 1899. Federal Life distributes its life insurance and annuity products through independent agents and is licensed in the District of Columbia and every state except Maine, Massachusetts, New Hampshire, New York, and Vermont. Federal Life is not rated by A.M. Best. Federal Life is located in Riverwoods, Illinois.

### Our Market and Opportunities

#### *Market for Life Insurance Products*

We believe that the conditions for increasing sales of life insurance in the Middle Market are favorable. Recent reports from LIMRA, a worldwide research, learning, and development organization serving the financial services industry, indicate that significant unmet demand exists in this market, with less than half of Middle Market consumers having individual life insurance coverage. We believe that the financial implications for Middle Market households are profound and that consumers are aware of the need for coverage.

The three largest living generations, often referred to as Baby Boomers, Generation X, and Millennials, are at a life stage that aligns well with mortality protection products. According to LIMRA, 33% of Millennials are very likely or extremely likely to buy life insurance within the next year — compared to just 17% of the total population. Meanwhile, members of Generation X view life insurance as a method to protect their families’ standard of living and to provide for their children’s college expenses in the event of a parent’s unexpected death. Additionally, as Baby Boomers enter retirement age, they become prospects for life insurance products for estate planning and for final expense protection. According to the Pew Research Center, approximately 10,000 Americans turn age 65 every day — a trend that is projected to continue until 2030. We believe that significant growth potential exists for life insurance sales by companies that position themselves to satisfy the unmet need among this large, growing segment of the U.S. population.

### *Market for Annuity Products*

Our target market includes the group of individuals who are seeking to accumulate tax deferred savings or create guaranteed lifetime income. We believe that significant growth opportunities exist for annuity products because of favorable demographic and economic trends. According to the U.S. Census Bureau, there were approximately 39 million Americans age 65 and older in 2010, representing 13% of the U.S. population, and this group had grown to 44.7 million in 2013. By 2030, this sector of the population is expected to increase to 20% of the total population. Our fixed index and fixed rate annuity products are particularly attractive to this group due to their principal protection, competitive rates of credited interest, tax deferred growth, guaranteed lifetime income, and alternative payout options. Our competitive fixed index and fixed rate annuity products have enjoyed favorable growth in recent years.

According to Wink's Sales and Market Report published by Wink, Inc., total industry sales of fixed index annuities increased 19.8% to \$44.9 billion for the first three quarters of 2016 from \$37.5 billion for the first three quarters of 2015. Total industry sales of fixed index annuities have increased 64% over the five year period from 2010 to 2015, which we believe is attributable to more Americans reaching retirement age and seeking products that will provide principal protection and guaranteed lifetime income.

We intend to introduce a variable annuity product to our group of annuity product offerings upon completion of the offering. Federal Life was a pioneer in the variable annuity market and introduced one of the first variable annuity products in 1975. The additional capital from the offering will provide the capital needed to support our growing index annuity business and allow us to re-enter the variable annuity market.

### **Our Competitive Strengths**

We believe that we are strategically positioned to take advantage of the following competitive strengths:

- ***Long Tenured and Experienced Management Team.*** Our management team, led by Joseph D. Austin, has an average of 40 years of experience in the life insurance business. Our management team has experience in adapting to significant changes in the life insurance industry over several decades and in developing innovative products such as fixed index annuity products and variable annuities in response to changes in the industry.
- ***Rich History and Strong Reputation for Service.*** We have been in business since 1900 and are widely recognized in the life insurance industry for our customer service and strong agency relationships.
- ***Experience in Product Development.*** We were one of the first insurance companies in the country to develop and offer a variable annuity product, which we first introduced in 1975. Recently, we have developed and offered fixed index annuity products to complement the fixed rate annuity products that we have traditionally offered. These products typically are offered only by much larger companies.
- ***Scalable Platform.*** We believe that we can significantly increase our volume without a significant increase in expense. We have the administrative capacity to process and service additional policy volumes without a significant increase in personnel or additional technology or infrastructure expenditures.

### **Our Growth Strategies**

We intend to use our competitive strengths and the capital from this offering to grow our business through the following strategies:

- ***Enter into Strategic Partnerships to Expand our Sales and Distribution.*** We currently distribute our life insurance and annuity products through approximately 1,000 independent agents. We intend to expand our distribution platform by entering into strategic partnerships with companies that can broaden our distribution channels. We have recently executed an agreement with a leading exchange traded fund provider that will enable us to co-brand and use its ETF products as



the investment options in our variable rate annuity product upon its introduction. We believe the standby purchaser can provide assistance in expanding our distribution network. We continue to strive to provide all of our distribution partners with the highest quality service possible.

- ***Pursue Acquisitions of Life Companies and Related Businesses.*** We intend to use the additional capital provided by this offering to explore possible acquisitions of other life insurance companies to grow our business and leverage our existing available administrative capacity. We will also explore opportunities to acquire related businesses, such as insurance agencies, that can expand our distribution network.
- ***Continue to Introduce Innovative and Competitive Products.*** We intend to be at the forefront of the fixed index and fixed rate annuity industry in developing and introducing innovative and competitive products. We offer a fixed index annuity that allows a choice among interest crediting strategies including both equity indexes as well as a traditional fixed rate strategy. We include a lifetime income benefit rider with our fixed index annuities and have a lifetime income benefit rider with gender-based income payments. After the closing of the offerings, we intend to introduce a variable annuity product. We believe that our continued focus on anticipating and being responsive to the product needs of the ever-growing population of retirees will lead to increased customer loyalty, revenues, and profitability.
- ***Focus on Profitability and Improve Operating Efficiency.*** We are committed to improving our profitability by advancing the scope and sophistication of our investment management and spread capabilities and continuously seeking efficiencies within our operations. The expanded use of technological resources will continue to allow us to improve our processes, scalability, and response times.
- ***Take Advantage of the Growing Popularity of Index Products.*** Fixed index and single premium annuities have been profitable for us in both the short-term and long-term and impose minimal or no strain on our statutory surplus. We believe that the growing popularity of fixed index annuity products that allow equity and bond market participation without the risk of loss of the premium deposit presents an attractive opportunity to grow our business. The popularity of fixed index annuity products has increased in recent years with the availability of lifetime income benefit riders that provide an attractive alternative for converting accumulated retirement savings into lifetime income. We believe that there is a significant market for these products as the Baby Boomer generation continues to reach retirement age. We intend to capitalize on our reputation as a provider of fixed index annuities in this expanding segment of the annuity market.
- ***Target Niche Markets for Our Products.*** We intend to focus on niche markets for our products, such as the Hispanic market, the direct-to-consumer market, and the senior and retirement planning markets. Federal Life currently has a presence in the Hispanic market and maintains an entirely separate Spanish-language website that features content and themes unique to that target market. Federal Life is also committing substantial resources to upgrade its digital platform and intends to leverage these new digital distribution and service applications to meet the needs of today's consumers by promoting ease of access to information and efficient sales and customer service. We intend to target the senior and retirement planning markets with our existing fixed index annuity, flexible premium deferred annuity, and final expense plan insurance products.
- ***Focus on High Quality Service to Agents and Policyholders.*** We have maintained high quality personal service as one of our highest priorities since the inception of our company and continue to strive for an unprecedented level of timely and accurate service to both our agents and policyholders. We believe high quality service is one of our strongest competitive advantages.
- ***Target Direct to Consumer Sales.*** We are committing substantial resources to upgrade our digital platform to provide digital distribution and sales applications to meet the demands of today's consumers by promoting ease of access to information and efficiency between sales and customer service. This permits us to generate more business from new and existing customers. We intend to provide access to our single premium deferred annuity, flexible premium deferred annuity, and single premium whole life products through the online platform that we are currently upgrading.

## **Our Challenges and Risks**

Our company and our business are subject to numerous risks as more fully described in the section of this prospectus entitled “Risk Factors.” As part of your evaluation of our business, you should consider the challenges and risks we face in implementing our business strategies:

- *Low Interest Rate Environment.* Although the Federal Reserve has raised key short term interest rates multiple times since the end of 2015, medium and long-term interest rates remain historically low. The prolonged period of low interest rates that began in 2008 has significantly reduced the returns on our investment portfolio and decreased demand for fixed rate annuity products.
- *History of Losses.* We have experienced losses for the past several years primarily due to our lack of size and scale. Our lack of an A.M. Best rating also limits our ability to grow our business, which impairs our ability to leverage our operating expenses over a larger premium base.
- *Lack of Marketing Resources.* We are small in relation to many of the life insurance companies with which we compete. Larger life insurance companies have a substantial advantage with respect to the resources that they can devote to advertising, marketing, and agent recruitment. In addition, their larger surplus permits them to maintain a larger book of business and spread their administrative expenses over a larger revenue base.
- *Lack of Multiple Distribution Channels.* We rely primarily on independent agents to distribute our life insurance and annuity products. As a result, access to talented independent agents is very important to our plan to grow our business and product offerings. Much of the competition for talent involves agent recruitment. If our competitors are rated, provide the agents with better technology, pay higher commissions, or provide access to products that are perceived to be better than those we can provide, our ability to attract and retain agents may be reduced, which could have a material and adverse effect on our business, financial condition, results of operations, and prospects.
- *Intense Competition for Policyholders.* We face intense competition for policyholders and compete with much larger life insurance companies, many of which seek to sell life insurance and annuity products to the same demographic markets that we target. Most of these companies devote substantial resources to advertising and marketing to potential policyholders and to agent recruitment. Many of these companies have multiple distribution channels for their products and some employ in-house agents, which reduces their commission expense. In addition, several of these companies have well established Internet sales capabilities.

## **Business Segment**

We manage our business through one segment. Our insurance segment operates through Federal Life. Federal Life engages in the principal business lines of life insurance and annuities. Federal Life offers primarily term life insurance products, whole and universal life products, and to a lesser extent accidental death and final expenses products. In addition, we currently offer both fixed interest and fixed index annuity contracts.

## **Implications of Being an Emerging Growth Company**

As a company with less than \$1.0 billion in revenue during our last fiscal year, we qualify as an “emerging growth company” as defined in the Jumpstart Our Business Startups Act of 2012, commonly known as the JOBS Act. An emerging growth company may take advantage of specified reduced reporting requirements and reduction of other obligations that are otherwise generally applicable to public companies. These provisions include:

- a requirement to include in this prospectus only two years of audited financial statements, two years of selected financial information, and two years of related Management Discussion & Analysis;
- exemption from the auditor attestation requirement on the effectiveness of our internal control over financial reporting;

- reduced disclosure about our executive compensation arrangements; and
- no stockholder non-binding advisory votes on executive compensation or golden parachute arrangements.

We may take advantage of these provisions until the earlier of five years or such time as we are no longer an emerging growth company. We would cease to be an emerging growth company if we have more than \$1.0 billion in annual revenues, have more than \$700 million in market value of our capital stock held by non-affiliates, or issue more than \$1.0 billion of non-convertible debt over a three-year period. We may choose to take advantage of some but not all of these reduced compliance obligations.

Section 107 of the JOBS Act also provides that an “emerging growth company” can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act for complying with new or revised accounting standards. We will take advantage of the extended transition period, and as a result we will not be required to comply with new or revised accounting standards on the relevant dates on which adoption of such standards is required for publicly reporting companies that are not emerging growth companies.

### **Our Companies**

Federal Life Group, Inc. is a newly created Pennsylvania corporation organized to be the stock holding company for Federal Life Mutual following the conversion. We formed Federal Life Group, Inc. so that it could acquire all of the capital stock of Federal Life Mutual as part of the conversion. Prior to the conversion, Federal Life Group, Inc. has not engaged and will not engage in any significant operations and does not have any assets or liabilities. After the conversion, our primary assets will be the outstanding capital stock of Federal Life Mutual and a portion of the net proceeds of the offerings. Federal Life Group, Inc. is a direct, wholly-owned subsidiary of Federal Life Mutual. Following the conversion, we intend to reorganize our corporate structure so that Federal Life Mutual is a direct, wholly owned subsidiary of Federal Life Group, Inc.

In 2016, Federal Life completed a reorganization in which it converted from a mutual to a stock insurance company within a newly created mutual holding company structure. As part of the reorganization, Federal Life Mutual was formed as an Illinois mutual insurance holding company and Federal Life continued its existence as an Illinois stock life insurance company. All of the shares of Federal Life were issued to FEDHO Holding Company (“FEDHO”), an intermediate holding company that, in turn, was a wholly-owned subsidiary of Federal Life Mutual. In the reorganization, policyholders’ membership interests in Federal Life automatically became membership interests in Federal Life Mutual, but policyholders’ contractual rights remained with Federal Life. Since the effective date of the reorganization, each person who has become a Federal Life individual or group policyholder has automatically become a member of Federal Life Mutual and has retained that membership interest as long as the Federal Life policy owned by the member remains in force.

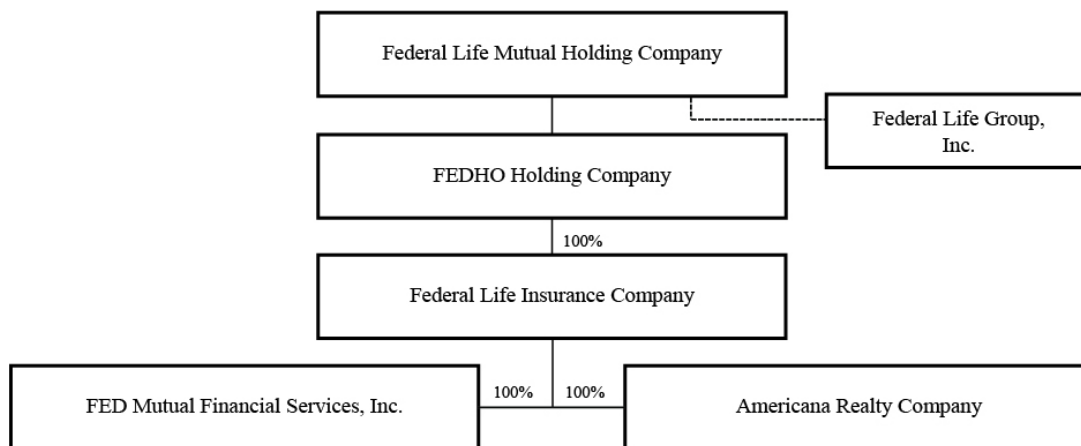
FED Mutual Financial Services, Inc. is a Finra licensed broker-dealer and a wholly owned subsidiary of Federal Life. We plan to offer and sell Federal Life variable annuity products directly to customers through FED Mutual. FED Mutual is currently inactive.

Americana Realty Company is a wholly owned subsidiary that owns mineral rights that Federal Life acquired in the 1930s and 1940s and which it leases to oil and gas producers. Americana Realty has no other assets and does not engage in any business other than collecting royalty payments and occasional sales of some of its oil and gas interests. For the years ended December 31, 2017 and 2016, Americana Realty had total bonus and royalty revenues of \$657,000 and \$448,000, respectively.

Our executive offices are located at 3750 West Deerfield Road, Riverwoods, Illinois, 60015, and our phone number is (847) 520-1900. Our website address is [www.Federallife.com](http://www.Federallife.com). Information contained on our website is not incorporated by reference into this prospectus, and such information should not be considered to be part of this prospectus.

**Our Structure Prior to the Conversion**

Since Federal Life converted from mutual to stock form in 2016, we have operated under a mutual holding company structure. Our current corporate structure is shown in the following chart:

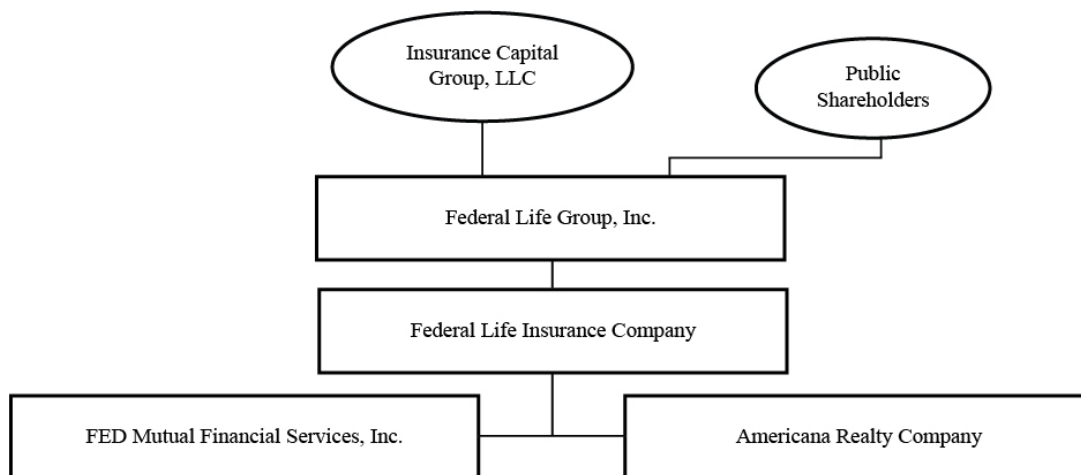


Prior to the conversion, Federal Life Group has not engaged in any significant operations and does not have any assets or liabilities.

**Our Structure Following the Conversion**

Immediately upon the conversion of Federal Life Mutual, all of the authorized capital stock of the converted Federal Life Mutual will be issued to the Company, and the common stock of the Company held by the converted Federal Life Mutual will be cancelled, such that, upon completion of these series of actions, the issued and outstanding shares of our common stock will consist of the shares of common stock sold in the offerings and any shares of our common stock that become subject to restricted stock awards granted under our stock-based incentive plan.

Upon completion of the conversion, we intend to merge Federal Life Mutual and FEDHO with and into the Company, with the Company as the surviving entity. Following the completion of these actions, our corporate structure will be as shown in the following chart:



It is likely that ICG will own a majority of our outstanding shares and that our directors and executive officers will own approximately 9% of our shares after completion of the offering.

**The Conversion of Federal Life Mutual from Mutual to Stock Form**

Federal Life Mutual is an Illinois domiciled mutual insurance holding company. As a mutual company, it has no stockholders but it does have members. A member of Federal Life Mutual is either the owner of an in-force individual policy issued by Federal Life or the holder of a certificate under a group master policy issued by Federal Life.

Like stockholders, the members have certain rights with respect to Federal Life Mutual such as voting rights with respect to the election of directors and approval of certain fundamental transactions, including the conversion of Federal Life Mutual from mutual to stock form. However, unlike shares held by stockholders, the memberships in Federal Life Mutual are not transferable and do not exist separately from the related insurance policy issued by Federal Life. Therefore, these membership rights are extinguished when a member's policy with Federal Life is terminated by surrender, death, lapse, or cancellation. Those membership interests will also be extinguished upon conversion of Federal Life Mutual from mutual to stock form in accordance with Illinois law and the plan of conversion.

The board of directors of Federal Life Mutual adopted a plan of conversion on March 8, 2018, under which Federal Life Mutual will convert from a mutual insurance holding company to a stock company. Following the conversion, Federal Life Mutual will become a wholly-owned subsidiary of Federal Life Group, Inc. A special meeting of the members of Federal Life Mutual eligible to vote (those persons who were members of Federal Life as of the close of business on March 8, 2018) will be held on [•], 2018 (special meeting date), to approve the plan of conversion. To become effective, the plan must be approved by the affirmative vote of at least two-thirds of the votes cast at the special meeting.

As part of the conversion, we are offering for sale in a subscription offering between 3,400,000 shares and 4,600,000 shares of our common stock at a purchase price of \$10.00 per share on a priority basis to eligible members and to the directors and officers of Federal Life Mutual. If less than 3,400,000 shares are subscribed for in the subscription offering, we will offer shares in a community offering to employees of Federal Life Mutual and its subsidiaries (who may purchase shares through their 401-K plan accounts), to a limited number of investors who we anticipate may become strategic partners of Federal Life, and to the standby purchaser. Subject to satisfaction of all conditions in the standby stock purchase agreement, the standby purchaser has agreed to purchase at least such number of shares as is necessary for the offering minimum of 3,400,000 shares to be sold in the offerings and may purchase any shares remaining up to the 4,600,000 share maximum. The standby purchaser currently expects to purchase approximately 2,700,000 shares in the community offering if such shares are available. All purchasers of our common stock in the offerings will pay the same price per share. It is likely that ICG, as the standby purchaser, will own a majority of our outstanding shares after the offering.

The sale of sufficient shares to meet the offering minimum of 3,400,000 shares does not indicate that sales have been made to investors who have no financial or other interest in the offering, and the sale of 3,400,000 shares in the offering should not be viewed as an indication of the merits of the offering.

In connection with entering into the standby stock purchase agreement, the standby purchaser agreed to loan up to \$2,000,000 to Federal Life Mutual to cover costs incurred by the Company in connection with the conversion and the offerings. Any outstanding principal balance of such loan will automatically convert into shares of our common stock at a price of \$10.00 per share upon completion of the conversion and the offerings. Such shares will be counted toward satisfaction of the minimum amount needed to complete this offering and will be included in any shares purchased by the standby purchaser in the community offering.

**The Subscription Offering**

We are offering shares of our common stock in a subscription offering. The subscription offering will end at noon, Central Time, on [•], 2018 [expiration date]. In the subscription offering, 4,600,000 shares of common stock are being offered in the following order of priority: first, to the policyholders and holders of annuities of Federal Life as of the close of business on March 8, 2018, who we refer to as eligible members, and second, to the directors and officers of Federal Life Mutual.

The number of shares of common stock issued in the offerings will not exceed 4,600,000 shares. Shares purchased by the directors and officers of Federal Life Mutual will be purchased for investment and not for resale and will be counted toward satisfaction of the minimum amount needed to complete this offering.

**The Community Offering**

If less than 3,400,000 shares are subscribed for in the subscription offering, we will offer the remaining shares to employees of Federal Life Mutual and its subsidiaries (who may purchase through their 401-K plan accounts), to a limited number of investors who we anticipate may become strategic partners of Federal Life, and to the standby purchaser. The community offering will end at noon, Central Time, on [•], 2018 [expiration date].

If less than 3,400,000 shares are subscribed for in the subscription and community offerings by other purchasers, the standby purchaser has agreed to purchase any shares not subscribed for in the subscription offering up to the offering minimum of 3,400,000 shares. The standby purchaser currently expects to purchase approximately 2,700,000 shares in the community offering if such shares are available. Shares purchased by the standby purchaser are purchased for investment and not for resale and will count toward the completion of this offering.

**The Standby Stock Purchase Agreement**

On March 8, 2018, the Company entered into the standby stock purchase agreement with ICG. Subject to the terms and conditions of the standby stock purchase agreement, ICG has agreed to purchase from the Company at a price of \$10.00 per share such number of shares as is necessary for the minimum of 3,400,000 shares to be sold as required under the plan of conversion. ICG, however, has the right to purchase additional shares from the Company up the offering maximum of 4,600,000 shares. ICG currently expects to purchase approximately 2,700,000 shares in the community offering if such shares are available. Accordingly, if all of the conditions to ICG's obligation to purchase shares in the offering are satisfied, the sale of the minimum number of shares is guaranteed. We anticipate that ICG will own approximately 80% of our outstanding shares after completion of the offering.

ICG has agreed to loan up to \$2,000,000 to Federal Mutual Life to fund expenses incurred by Federal Mutual Life in connection with the conversion and the offerings. Federal Mutual Life issued an exchangeable note to ICG in connection with such credit facility. The outstanding principal balance of the exchangeable note will automatically convert into shares of our common stock at a price of \$10.00 per share upon completion of the offerings. The shares issued upon the conversion of the exchangeable note will count towards the minimum number of shares that must be sold in the offerings. See "The Conversion and Offering — Description of Standby Stock Purchase Agreement."

In connection with closing under the standby stock purchase agreement, we will appoint Matthew T. Popoli and Craig A. Huff, the founders of ICG, to the Company's board of directors. So long as ICG beneficially owns more than 5.0% of the outstanding shares of our common stock and a standstill termination event has not occurred, we and Federal Life will nominate, recommend, and support Mr. Popoli and Mr. Huff, or any replacement director selected by ICG and acceptable to the Company, for election to the boards of directors of the Company and Federal Life.

The standby purchaser agreed to certain post-closing standstill and voting covenants and restrictions on its ability to sell shares for three years following the closing of the offerings and additional limitations for up to five years following the closing of the offerings. In addition, so long as ICG beneficially owns 5.0% or more of the shares of our common stock and a standstill termination event has not occurred, ICG shall generally vote all shares of common stock beneficially owned by ICG (a) for persons nominated and recommended by the Company's board of directors for election as directors of the Company and against any person nominated for election as a director by any other person, and (b) as directed or recommended by the Company's board of directors with respect to any proposal presented at any meeting of the Company's shareholders.

ICG will be entitled to preemptive rights that would allow it to maintain its percentage ownership in certain subsequent offerings of our common stock or securities convertible into our common stock. This right will not apply to, and shall terminate upon the earlier of (a) the first date upon which ICG no longer beneficially owns more than five percent (5%) of the outstanding shares of our common stock, (b) the date of any breach by ICG of any obligation under the standby stock purchase agreement that remains uncured after 15 days' notice thereof, or (c) a standstill termination event.

So long as ICG owns 25% or more of the outstanding shares of our common stock, without the affirmative vote or written approval of ICG, none of the Company, Federal Life, or Federal Life Mutual shall cause or permit, take or decide, or agree or commit to take any of the following actions, and ICG will have the right to vote its shares (or provide or withhold its written approval) with respect to such actions in its sole and absolute discretion:

- making use of the net proceeds of the offering (including the contribution or loan of such net proceeds to Federal Life or Federal Life Mutual); other than a contribution of least \$12,500,000 of such net proceeds, which shall be contributed to Federal Life immediately after the closing;
- the merger or consolidation of the Company or Federal Life with any person or the sale, lease, or other transfer of all or substantially all of the Company's or Federal Life's assets to any person, or entry into any agreement to do any of the foregoing; and
- the entry into any material transaction with any affiliate of the Company, Federal Life Mutual, or Federal Life.

For more information regarding the provisions of the standby stock purchase agreement, see "The Conversion and Offering — Description of Standby Stock Purchase Agreement" and "Risk Factors — Risks Relating to Ownership of Our Common Stock — There will not be an active, liquid trading market for our common stock."

Conflicts of interest may arise between ICG and the Company, and ICG and its representatives on our board of directors may at times take actions that are not in the best interests of our other shareholders. See "Risk Factors — Risks Relating to Ownership of Our Common Stock — The standby purchaser may obtain control over us and may not always exercise its control in a way that benefits our public shareholders.

### **Insurance Capital Group LLC**

One of the reasons that we entered into the standby stock purchase agreement with the standby purchaser is that we expect to benefit from the standby purchaser's knowledge and experience in the life insurance industry and its ability to provide resources to us that may enable us to further develop our distribution strategy and grow our business in our target Middle Market.

ICG is a holding company that was organized on January 8, 2018, for the purpose of acquiring and making investments in businesses across targeted sectors, with a focus on sponsored insurance company demutualizations and other complex conversion transactions. ICG currently owns an interest in Capital Insurance Company, a Pennsylvania non-standard auto insurance company that ICG acquired in the second quarter of 2018.

ICG is controlled by its managing members, Craig Huff and Matt Popoli. ICG's board of directors has extensive experience in investing in and operating insurance businesses, including two directors who were formerly Commissioners of Insurance in Illinois, Connecticut and Texas. We expect that the investment, corporate governance and regulatory expertise developed by ICG's management and board of directors will benefit us as we seek to expand our life insurance business in the middle market, including ICG's experience in identifying, acquiring and improving the operations and financial performance of insurance companies.

We believe that ICG may be able to provide significant resources to help us further develop our distribution strategy and grow our business in the middle market for the following reasons:

- The members of the ICG Board have extensive life insurance and distribution relationships that may be of benefit to us. Messrs. Huff and Popoli and another ICG director previously sat on the board of directors of one of the largest independently owned life insurance, annuity and Medicare supplement distribution businesses. Mr. Popoli is currently assisting us with exploring a possible new distribution agreement for this entity to sell our insurance products;
- The relationships of the members of the ICG Board may provide us with attractive investment opportunities that would not be otherwise available to us because ICG Board members from time to time identify small acquisition targets of both insurance companies and insurance agencies, and these opportunities could be referred to Federal Life;

- The members of the ICG Board have experience improving operations, expanding distribution, supplementing investment portfolios, and growing premiums as a result of their involvement in Prosperity Life Insurance Company (“Prosperity”), a life insurance carrier formed from the combination of SBLI USA Life Insurance Company and Shenandoah Life Insurance Company, and we believe such experience may be of value to improvement of operations at Federal Life. Specifically, at the time of acquisition, Prosperity was not rated and writing a minimal amount of new business. Under the leadership of the members of the ICG Board, Prosperity Life experienced a material increase in premium growth over the next several years and achieved an A- rating from A. M Best in 2016:
- The experience of members of ICG’s board of directors may be helpful in providing direction in our new product development; and
- The members of the ICG Board and ICG management have significant investment management experience, which may be of value in improving the risk-adjusted net yield of our invested assets.

#### **Conditions to Completion of the Conversion and this Offering**

Before we can complete this offering and issue our common stock, the members of Federal Life Mutual eligible to vote must approve the plan of conversion and we must sell at least the minimum number of shares offered in the offerings. If all of the conditions to ICG’s obligations to purchase shares in the offering are satisfied, the sale of the minimum number of shares is guaranteed. See “The Conversion and the Offering — Description of Standby Stock Purchase Agreement.” No funds will be released from the escrow account until all of these conditions have been satisfied. The acquisition by ICG of a controlling interest in our stock is subject to approval by the Illinois Insurance Department (the “Department”), which was received on [•], 2018.

#### **Termination of this Offering**

We have the right to cancel this offering at any time. In addition, the completion of this offering is subject to market conditions and other factors beyond our control. If this offering is not completed, all funds received will be promptly returned to purchasers without interest.

#### **Stock Pricing and Number of Shares to be Issued**

The plan of conversion requires that the range of the value of the total number of shares to be issued in connection with the conversion must be based on a valuation of our estimated consolidated pro forma market value. Under the plan of conversion, the valuation must be in the form of a range consisting of a midpoint valuation, a valuation fifteen percent (15%) above the midpoint valuation, and a valuation fifteen percent (15%) below the midpoint valuation. We retained RP Financial, LC (“RP Financial”) to determine the valuation range for this offering. RP Financial has determined that, as of December 22, 2017, the estimated consolidated pro forma market value of Federal Life Mutual is \$40,000,000 at the midpoint, and the range of value of the total number of shares of common stock to be issued in the offering is between a minimum value of \$34,000,000 and a maximum value of \$46,000,000. We plan to issue between 3,400,000 and 4,600,000 shares of our common stock in this offering. This range was determined by dividing the \$10.00 price per share into the range of RP Financial’s valuation. Shares purchased by the standby purchaser and the directors and officers of Federal Life will be purchased for investment and not for resale and will be counted toward satisfaction of the minimum amount needed to complete this offering.

We determined to offer the common stock in the subscription offering at the price of \$10.00 per share to ensure a sufficient number of shares are available for purchase by eligible members. In addition, Griffin Financial advised us that the \$10.00 per share offering price is commonly used in mutual-to-stock conversions of other insurance companies and savings banks and savings associations that use the subscription rights conversion model. These were the only factors considered by our board of directors in determining to offer shares of common stock at \$10.00 per share.



### **How Do I Buy Stock in this Offering?**

If you wish to purchase shares of common stock in the subscription offering, you must sign and complete the stock order form that accompanies this prospectus and send it to us with your payment such that your order is received before the offering deadline. You may submit your order to us by overnight delivery to the address indicated for this purpose on the top of the stock order form or by mail using the stock order reply envelope provided. Payment by check or money order must accompany the stock order form. No cash or third party checks will be accepted. All checks or money orders must be made payable to "Computershare Trust Company, N.A., escrow agent, on behalf of Federal Life Group, Inc." We may permit certain persons who submit orders in the community offering to make payment by a wire transfer to the escrow agent of the purchase price for any shares that they seek to purchase.

The completed stock order form and payment in full for the shares ordered must be received (not postmarked) no later than noon, Central Time, on [•, 2018] [expiration date]. Once submitted, your order is irrevocable without our consent unless we terminate this offering. Our consent to any modification or withdrawal request may or may not be given in our sole discretion. We may reject a stock order form if it is incomplete, improperly completed, or not timely received.

### **Offering Deadline**

All subscription rights will expire at noon, Central Time, on [•, 2018] [expiration date]. Subscription rights not exercised prior to the termination date of this offering will be void, whether or not we have been able to locate each person entitled to receive subscription rights.

### **Limits on Your Purchase of Common Stock**

The plan of conversion and Illinois law establish the following minimum and maximum purchase limitations for participants (including such participants' associates or a group acting in concert) in the subscription offering:

- No person may subscribe for fewer than 50 shares in this offering.
- No person other than the standby purchaser and the directors and officers of Federal Life may purchase more than 50,000 shares.
- Subject to the prior rights of eligible members to subscribe for up to 4,600,000 shares in this offering, in no event may any director or officer purchase more than 5% of the total number of shares sold in the subscription and community offerings and in no event may the directors and officers of Federal Life, in their capacities as such, their affiliates and associates, together with employees of Federal Life and any investors identified by Federal Life as potential strategic partners, as a group, purchase more than 700,000 shares.
- The standby purchaser has agreed to purchase such number of shares of common stock as will result in the minimum number of shares being sold in the offerings. The standby purchaser currently expects to purchase approximately 2,700,000 shares in the community offering if there are sufficient shares remaining after the subscriptions of eligible members and directors and officers of Federal Life.
- In addition to the limitations set forth above, no person (other than the standby purchaser) may acquire, directly or indirectly, in this offering or any public offering, more than 5% of the capital stock of the Company for a period of five years from the effective date of the conversion without the approval of the Department.

For purposes of the limitations described above, an associate of a person includes:

- any relative or spouse of such person, or any relative of such person's spouse, who shares the same home as such person;
- any corporation or other organization (other than the Company or a majority-owned subsidiary of the Company) of which such person is an officer, director, or partner, or of which such person is, directly or indirectly, a beneficial owner of 10% or more of any class of equity securities;

- any trust or other estate in which such person has a substantial beneficial interest or as to which such person serves as trustee or in a similar fiduciary capacity (exclusive of any employee stock benefit plan of the Company); and
- any person acting in concert with any of the persons or entities listed above.

The subscription of any eligible member who subscribes for more than 50,000 shares will be reduced to 50,000 shares.

We have the right in our absolute discretion and without liability to any participant in the subscription offering or to any other person to determine which persons and which subscriptions and orders in this offering meet the criteria provided in the plan of conversion for eligibility to purchase shares of common stock and the number of shares eligible for purchase by any person. Our determination of these matters will be final and binding on all parties and all persons.

#### **Oversubscription**

If you are an eligible member and we receive subscriptions in the subscription offering for more than 4,600,000 shares, your requested subscription for shares may be reduced.

If eligible members subscribe for more than 4,600,000 shares, the shares of common stock will be allocated so as to permit each subscribing eligible member to purchase up to the lesser of the number of shares subscribed for or 1,000 shares. Any remaining shares will be allocated among the eligible members whose subscriptions remain unsatisfied in the proportion in which the aggregate number of shares as to which each such eligible member's subscription remains unsatisfied bears to the aggregate number of shares as to which all such eligible members' subscriptions remain unsatisfied.

#### **Management Purchases of Stock**

The plan of conversion limits the number of shares that directors and officers of Federal Life and their affiliates, together with employees of Federal Life and any investors identified by Federal Life as potential strategic partners, as a group, may purchase in the offering to no more than 700,000 shares. If the eligible members subscribe for less than the maximum number of shares, the directors and officers of Federal Life, together with their affiliates and associates, have indicated their intention to purchase approximately 372,000 shares of common stock in the subscription offering. This amount includes any shares of common stock purchased by the officers as participants in the Federal Life 401-K plan. The directors and officers of Federal Life and their affiliates and associates are not obligated to purchase this number of shares, and in the aggregate they may purchase a greater or smaller number of shares. See "The Conversion and Offering — Proposed Management Purchases."

If there are insufficient shares remaining after the subscriptions of eligible members to satisfy in full all of the subscriptions of directors and officers of Federal Life, the available shares of common stock will be allocated among the subscribing management participants in the proportion in which the aggregate number of shares as to which each such management participant's subscription bears to the aggregate number of shares remaining.

#### **Undersubscription**

If less than 3,400,000 shares are subscribed for in the subscription and community offerings by other purchasers, the standby purchaser has agreed to purchase any shares not subscribed for up to the offering minimum of 3,400,000 shares. The standby purchaser currently expects to purchase approximately 2,700,000 shares in the community offering. See "— The Community Offering."

#### **Benefits to Management**

Our board of directors has also adopted a stock based incentive plan for the benefit of our directors, executive officers, and other eligible employees. Under the stock based incentive plan, we may award options to purchase common stock or award shares of restricted stock to directors, executive officer, and other eligible employees. The exercise price of stock options will be the fair market value of our common

stock on the date of the option award. All awards under the stock based incentive plan will be subject to such vesting, performance criteria, or other conditions as the compensation committee of our board of directors may establish. Options to purchase 340,000 shares and 140,000 shares of restricted stock may be awarded under the stock based incentive plan.

As discussed in more detail under “Executive Compensation,” we expect that grants of stock options or restricted stock will be made to our executive officers, directors, and certain employees relating to a total of 355,000 shares of our common stock, subject to completion of this offering.

The following table presents information regarding the participants in each benefit plan, and the total amount, the percentage, and the dollar value of the stock that we intend to set aside for the stock-based incentive plan. The table assumes the following:

- That 3,400,000 shares will be sold in the offerings; and
- that the value of the stock in the table is \$10.00 per share.

Options are assigned no value because their exercise price will be equal to the fair market value of the stock on the day the options are awarded or, in the case of options granted at the time of this offering, the price at which stock is sold in this offering. As a result, anyone who receives an option will benefit from the option only if the price of the stock rises above the exercise price and the option is exercised.

Stock Based Incentive Plan	Individuals Eligible to Receive Awards	Number of Shares	Percentage of shares issued in the offering	Value of shares Based on \$10.00 Share Price
Shares available for restricted stock awards	Selected officers	140,000	4.12%	\$ 1,400,000
Shares available for stock options	Directors and selected officers	340,000	10.0%	(1)

(1) Stock options will be granted with a per share exercise price at least equal to the market price of our common stock on the date of the grant. The value of a stock option will depend upon increases, if any, in the price of our common stock during the term of the option

A minimum of 3,400,000 shares and a maximum of 4,600,000 shares of our common stock will be issued in the subscription and community offerings, excluding any shares that may be issued under our stock-based incentive plan.

#### Use of Proceeds

We estimate the net proceeds from the offerings will be between \$31.1 million at the minimum of the offering range and \$43.0 million at the maximum of the offering range. See the “Offering Summary” on the front cover of the prospectus for the assumptions used to arrive at these amounts. The amount of net proceeds from the sale of common stock in the offerings will depend on the total number of shares actually sold in the subscription and community offerings and number of shares sold to the standby purchaser.

We plan to contribute at least \$12,500,000 of the net proceeds from the offerings to Federal Life, which will be used to (i) support organic growth of our life insurance business and annuity business; (ii) fund acquisitions of other life insurance and related businesses; (iii) fund new product launches, including variable annuities; and (iv) selectively deploy new capital to retain, acquire, and bolster talent in key areas.

We expect to retain any remaining net proceeds from the offering at Federal Life Group, Inc., to be used for general corporate purposes, which may include acquisitions of other life insurance companies or related businesses, stock repurchases or cash dividends. On a short term basis, the proceeds retained at Federal Life Group, Inc. will be invested primarily in securities consistent with our investment strategy until utilized. We have no other current specific plans for use of the net proceeds of the offering. See “Use of Proceeds.”

**Dividend Policy**

Following completion of this offering, our board of directors will have the authority to declare dividends on our shares of common stock, subject to statutory and regulatory requirements. Any decision to pay a dividend will depend on many factors, including our financial condition and results of operations, liquidity requirements, market opportunities, capital requirements of our subsidiaries, legal requirements, regulatory constraints, intercompany dividends from our subsidiaries, and other factors as the board of directors deems relevant. For additional information regarding restrictions on our ability to pay dividends, see “Dividend Policy.”

**Market for Common Stock**

We intend to apply for the listing of our common stock on the NASDAQ Capital Market under the symbol “FLF.” **People considering purchasing shares in the offerings should note that our management and the standby purchaser are likely to seek to delist our shares from trading on the NASDAQ Capital Market.** This would materially and adversely affect the liquidity of our stock. See “Risk Factors — Our management and the standby purchaser are likely to seek to delist our shares from trading on the NASDAQ Stock Market and end our reporting obligations under the Securities Exchange Act of 1934.”

**How You May Obtain Additional Information Regarding this Offering**

If you have any questions regarding the stock offering, please call the Stock Information Center at 1- , Monday through Friday between 10:00 a.m. and 4:00 p.m., Central Time.

## RISK FACTORS

*An investment in our common stock involves a number of risks. Before making a decision to purchase our common stock, you should carefully consider the following information about these risks, together with the other information contained in this prospectus. Many factors, including the risks described below, could result in a significant or material adverse effect on our business, financial condition, and results of operations. If this were to happen, the price of our common stock could decline significantly and you could lose all or part of your investment.*

### **Risks Relating to Our Business**

#### ***We have incurred both statutory and GAAP net losses in recent years.***

We have incurred both statutory and GAAP net losses in recent years, resulting in an aggregate of \$3.9 million in GAAP net losses in 2016 and 2017. Our losses are due principally to operating expenses and corporate overhead exceeding revenues of our annuity and life insurance business and returns on our investment portfolio. We need to increase the sales of our life insurance and annuity products in order to achieve the size and scale necessary to become profitable.

#### ***If we cannot expand our distribution network and resulting sales of our products, our losses may continue.***

Our ability to increase sales of our life insurance and annuity products will depend on our success in expanding our distribution network. We depend on our network of independent insurance agents to generate almost all of the sales of our life insurance and annuity products. If we are unable to increase direct sales to customers through our website or by establishing relationships with other distribution partners, it is unlikely that we will be able to increase sales of our products to the level necessary to become profitable.

#### ***Our results of operations have been adversely affected by the current low interest rate environment and will continue to be adversely affected if interest rates remain low or if interest rates should rapidly increase.***

Although the Federal Reserve moved to marginally increase short-term interest rates since 2015, medium and long-term interest rates have remained at historically low levels. During a period of decreasing interest rates or a prolonged period of low interest rates, our investment earnings may decrease because the interest earnings on our recently purchased fixed income investments will likely have declined in parallel with market interest rates. In addition, callable fixed income securities in our investment portfolio will be more likely to be prepaid or redeemed as borrowers seek to borrow at lower interest rates. Consequently, we may be required to reinvest the proceeds in securities bearing lower interest rates. In addition, during periods of declining interest rates, our financial performance may suffer as a result of a decrease in the spread between interest rates credited to our annuity contract holders and returns on our investment portfolio. An extended period of declining or prolonged low interest rates may also cause us to change our assumptions of the interest rates that we can earn on our investments and the long-term interest rate that we assume in our calculation of insurance assets and liabilities under GAAP. This revision would result in increased reserves, accelerated amortization of deferred acquisition costs ("DAC"), and other unfavorable consequences. In addition, certain statutory capital and reserve requirements are based on formulas or models that consider interest rates, and an extended period of low interest rates may increase the statutory capital we are required to hold and the amount of assets we must maintain to support statutory reserves.

Conversely, an increase in market interest rates could also have a material adverse effect on the value of our investment portfolio by, for example, decreasing the estimated fair values of the fixed income securities within our investment portfolio. In addition, in periods of rapidly increasing interest rates, withdrawals or surrenders under our annuity contracts may increase as policyholders choose to seek higher investment returns. Obtaining cash to satisfy these obligations may require us to liquidate fixed income investments at a time when market prices for those assets are depressed because of increases in interest rates. This may result in realized investment losses. Also, certain statutory reserve requirements are based on formulas or models that consider forward interest rates and an increase in forward interest rates may increase the statutory reserves we are required to hold thereby reducing statutory capital.

***The lack of a rating from A.M. Best limits our ability to attract agents and to sell rating sensitive products.***

Federal Life is not rated by A.M. Best. Our lack of a rating adversely affects our ability to attract agents and sell our products because ratings assigned by A.M. Best are an important factor influencing the competitive position of insurance companies. Financial strength ratings are used by producers and customers as a means of assessing the financial strength and quality of insurers. A.M. Best ratings, which are reviewed at least annually, represent independent opinions of financial strength and ability to meet obligations to policyholders and are not directed toward the protection of investors. Federal Life does not intend to request the assignment of a financial strength rating from A.M. Best immediately after completion of the conversion. Moreover, the assignment of an unfavorable rating to Federal Life by A.M. Best could impair our ability to grow our business. If we obtain a rating from A.M. Best, any future downgrade could negatively affect our ability to implement our strategy. See “Business — Competition and Ratings.”

***Our operations are dependent on access to key technology tools; if we lose access to these tools, our ability to conduct business could be significantly impaired.***

In the event of a disaster such as a natural catastrophe, an epidemic, an industrial accident, a blackout, a computer virus, a terrorist attack, a cyber-attack, or a war that causes our data processing system to not function, unanticipated problems with our disaster recovery systems would have an adverse impact on our ability to conduct business and on our results of operations and financial position, particularly if those problems affect our internet access, computer-based data processing, transmission, storage and retrieval systems or destroy valuable data. Despite our implementation of security measures, disaster recovery plans, system backup plans, and offsite arrangements to reduce the risk of a loss of access to these critical systems, there is no assurance that these security measures and backup plans will work when needed or would protect the company in all circumstances that could arise. An interruption in our business because of our inability to access our key technology tools could result in the loss of revenue and damage to our reputation, and could have a material and adverse effect on our business, financial condition, results of operations, and prospects.

***If we are unable to protect sensitive consumer information, our reputation could be damaged and we could be subject to fines or litigation.***

Our products and services involve the use, collection, and storage of confidential information of consumers and the transmission of this information. This information is used in the underwriting process. For example, we collect names, addresses, personal identity and financial information, and information regarding the medical history of consumers in connection with their applications for life insurance. We continue to maintain detailed information on our policyholders, including sensitive, non-public personal information.

While we take commercially reasonable measures to keep our systems and data secure, it is difficult or impossible to defend against all risks being posed by changing technologies as well as criminals intent on committing cybercrime. Increasing sophistication of cyber criminals and terrorists make keeping up with new threats difficult and could result in a breach. As a result, we may be unable to anticipate the type or manner of attempts to breach our security or to implement adequate preventative measures against these attempts. We may be required to expend significant capital and other resources to protect our technology infrastructure from attack or to alleviate problems caused by security breaches.

Changes in legislation relating to information security or changes in industry best practices may impose new requirements on us relating to data security and may present significant implementation costs and challenges. Changing our processes could be time consuming and expensive, and failure to timely implement required changes could result in our inability to sell certain insurance and annuity products in a particular jurisdiction, which could damage our business and adversely affect our results of operations and financial condition.

Any breach or perceived breach of our security could damage our reputation and our relationship with our policyholders and agents. Reputational damage of this kind could significantly harm our business. For example, consumers and agents may be less likely to use our products following a breach because of a

perceived weakness in our information security measures. Additionally, we could be subject to significant liability as well as regulatory action, which would have a material and adverse effect on our business, financial condition, results of operations, and prospects.

***In the ordinary course of our business we can face coverage disputes and lawsuits that are expensive and time consuming and may include claims for extra-contractual damages, which, if resolved adversely, could harm our business, financial condition, or results of operations.***

From time to time, we are involved in coverage and other types of lawsuits in the ordinary course of our business. Defending these claims is costly and can impose a significant burden on our management and employees. We utilize reinsurance to limit our exposure on any one life under the insurance policies we issue. However, our reinsurance arrangements generally do not cover extra-contractual damages that we may incur in connection with coverage disputes. Accordingly, were we to be found liable for extra-contractual damages, we would be responsible for the full amount of extra-contractual damages. If we are found to be liable for significant extra-contractual damages in future cases, there could be a material and adverse effect on our business, financial condition, results of operations, and prospects.

***Legal and regulatory investigations and actions are increasingly common in the life insurance business and may result in financial losses and harm our reputation.***

We face a risk of litigation and regulatory investigations and actions in the ordinary course of operating our businesses, including the risk of class action lawsuits. Federal Life may become subject to class actions and regulatory actions or may become subject to individual lawsuits relating, among other things, to sales or underwriting practices, payment of contingent or other sales commissions, claims payments and procedures, product design, disclosure, administration, additional premium charges for premiums paid on a periodic basis, interest crediting practices, denial or delay of benefits, and breaches of fiduciary or other duties to customers. Plaintiffs in class action and other lawsuits against Federal Life may seek very large or indeterminate amounts, including punitive and treble damages, which may remain unknown for substantial periods of time.

From time to time, Federal Life is subject to regulatory review and examination by state treasurers relating to our escheat practices for unclaimed life insurance death benefits. While we believe our practices comply with applicable law, these practices have come under increased scrutiny by state regulatory bodies. State insurance regulators, treasurers, and comptrollers are requesting life insurance companies to report on their escheat practices and procedures for tracking and identifying claims that became payable by death or other insured events but were not paid because no claim was presented to the company for payment. As a result of these investigations, regulators are routinely looking to adopt regulations that would require insurance companies to perform regular checks against the Social Security Death Master File, which we currently conduct, or review equivalent sources, as well as require insurance companies to collect more information needed to track policyholders, account holders, and beneficiaries. It is possible that these requests by the state regulators may result in payment to beneficiaries, escheatment of funds deemed abandoned under state laws, and changes to our escheat practices and procedures.

Federal Life is also subject to various regulatory inquiries, such as information requests, subpoenas, market conduct exams, and books and record examinations, from state and federal regulators and other authorities, which may result in fines, recommendations for corrective action or other regulatory actions. Current or future investigations, proceedings, or regulatory actions could have an adverse effect on our business, results of operations, and financial condition. Moreover, even if we ultimately prevail in the investigation, proceeding, or regulatory action, we could suffer significant reputational harm, which could have an adverse effect on our business. Increased regulatory scrutiny and any resulting investigations or proceedings could result in new legal actions or precedents and industry-wide regulations or practices that could have a material and adverse effect on our business, financial condition, results of operations, and prospects.

***We rely on the leadership of the members of our executive management team. The loss of any of these executives could have an adverse impact on our business and our ability to implement our business strategy.***

The success of our business is dependent, to a large extent, on our ability to attract and retain key employees including the following members of our executive management team: Joseph D. Austin,

Chairman and Chief Executive Officer; William S. Austin, President and Chief Operating Officer; Anders Raaum, Chief Financial Officer; and Michael S. Austin, Executive Vice President and Chief Marketing Officer. Our executive management team has extensive experience in the life insurance business. Were we to lose any of these employees, it may be challenging for us to attract a replacement employee with comparable skills and experience in our market niches. We have employment agreements with our executive officers, which are described under “Executive Compensation — Employment Agreements.” We do not currently maintain key man life insurance policies with respect to any member of our senior management team.

***We may be required to establish an additional valuation allowance against deferred income tax assets if our business does not generate sufficient taxable income or if our tax planning strategies are modified, which could have a material adverse effect on our results of operations and financial condition.***

Deferred income tax represents the tax effect of the differences between the financial accounting and tax basis of assets and liabilities. Deferred tax assets represent the tax benefit of future deductible temporary differences, operating loss carryforwards, and tax credit carryforwards. We periodically evaluate and test our ability to realize our deferred tax assets. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence, it is more likely than not that some portion, or all, of the deferred tax assets will not be realized. In assessing the more likely than not criteria, we consider future taxable income as well as prudent tax planning strategies. Future facts, circumstances, tax law changes, and financial accounting or GAAP developments may result in an increase in the valuation allowance. An increase in the valuation allowance could have a material adverse effect on the Company’s results of operations and financial condition.

As of December 31, 2017, we had recorded net deferred tax assets of \$4.4 million and a valuation allowance of \$4.0 million. To the extent we are required to establish an additional valuation allowance against deferred income tax assets, the amount of such valuation allowance would be charged against our net income for the period in which that valuation allowance is established, which could have a material and adverse effect on our business, financial condition, results of operations, and prospects.

***We operate in a heavily state regulated industry, and the prospect exists for further federal involvement in the regulation of insurance companies.***

Our business is regulated by government agencies in the states in which we do business, and we must comply with a number of state and federal laws and regulations. Most insurance regulations are intended to protect the interests of current and potential policyholders and customers rather than those of stockholders and other investors in insurance services companies.

State laws and regulations that apply to us include those governing the financial condition of insurers, including standards of solvency, risk-based capital requirements, types, quality and concentration of investments, establishment and maintenance of reserves, required methods of accounting, reinsurance and requirements of capital adequacy, and those governing the business conduct of insurers, including transactions with affiliates, sales and marketing practices, claim procedures and practices, and policy form content. In addition, state insurance laws require licensing of insurers and their agents. State insurance regulators have the power to grant, suspend, and revoke licenses to transact business and to impose substantial fines and other penalties.

We may be unable to comply fully with the wide variety of applicable laws and regulations that are frequently undergoing revision. In addition, we follow practices based on our interpretations of laws and regulations that we believe are generally followed by the insurance industry. These practices may be different from interpretations of insurance regulatory agencies. Moreover, in order to enforce applicable laws and regulations or to protect policyholders, insurance regulatory agencies have relatively broad discretion to impose a variety of sanctions, including examinations, corrective orders, suspension, revocation or denial of licenses, and the takeover of insurance companies. As a result, if we fail to comply with these laws and regulations, state insurance departments can exercise a range of remedies from the imposition of fines to being placed in rehabilitation or liquidation. State insurance departments also conduct periodic examinations of the affairs of insurance companies and require the filing of annual and other reports relating to financial condition, holding company issues and other matters. These regulatory requirements



may adversely affect or inhibit our ability to achieve some or all of our business objectives. Changes in the level of regulation of the insurance industry or changes in laws or regulations or interpretations of laws and regulations by regulatory authorities could adversely affect our ability to operate our business.

We are subject to various accounting and financial requirements established by the National Association of Insurance Commissioners (“NAIC”) as adopted by the states in which we operate. In addition, state regulators and the NAIC continually re-examine existing laws and regulations, with an emphasis on insurance company solvency issues and fair treatment of policyholders. Insurance laws and regulations could change or additional restrictions could be imposed that are more burdensome. Because these laws and regulations are for the protection of policyholders, any changes may not be in your best interest as a shareholder.

Currently, the U.S. federal government does not directly regulate the insurance business. However, the Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank Act”) established a Federal Insurance Office (“FIO”) within the Department of the Treasury. The FIO initially is charged with monitoring all aspects of the insurance industry (other than health insurance, certain long-term care insurance, and crop insurance), gathering data, and conducting a study on methods to modernize and improve the insurance regulatory system in the United States. On December 12, 2013, the FIO issued a report entitled “How to Modernize and Improve the System of Insurance Regulation in the United States” (the “Report”), which stated that, given the “uneven” progress the states have made with several near-term state reforms, should the states fail to accomplish the necessary modernization reforms in the near term, “Congress should strongly consider direct federal involvement.” The FIO continues to support the current state-based regulatory regime, but will consider federal regulation should the states fail to take steps to greater uniformity (e.g., federal licensing of insurers). Each year the FIO also releases an annual report on the insurance industry (“Annual Report”), with its latest Annual Report released in September 2017. The Annual Report provided a set of recommendations along with providing an overview of the financial performance and condition of the U.S. insurance industry and outlining a number of insurance industry and regulatory developments from the past year. We cannot predict what impact, if any, this guidance or any new legislation would have on our business, financial condition, and results of operations.

In addition, federal legislation and administrative policies in several areas can significantly and adversely affect the insurance industry. These areas include financial services regulation, securities regulation, pension regulation, privacy, and taxation. Compliance with applicable laws and regulations is time-consuming and personnel-intensive, and changes in these laws and regulations may materially impact our business and increase our direct and indirect compliance and other expenses of doing business, thus having a material and adverse effect on our business, financial condition, results of operations, and prospects.

***The life insurance industry in which we operate is highly competitive, which may limit our ability to maintain and increase our share of our target market.***

Our competition includes companies that are almost all larger and which have significantly more resources at their disposal. Competition in the life insurance industry is based on many factors. These factors include the perceived financial strength of the insurer, premiums charged, policy terms and conditions, services provided, reputation, financial ratings assigned by independent rating agencies, and the experience of the insurer in the line of insurance to be written.

Certain of the insurance companies we compete against have substantially greater financial, technical, and operating resources than we have. Many of the lines of insurance we write are subject to significant price competition. If our competitors price their products aggressively, our ability to grow or renew our business may be adversely affected. We pay producers on a commission basis to produce business. Some of our competitors may offer higher commissions or offer insurance products at lower premium rates. Increased competition could adversely affect our ability to attract and retain business and thereby adversely affect our business, financial condition, or results of operations.

We also compete for access to talented independent agents. Much of the competition for talent involves agent recruitment. If our competitors provide the agents with better technology, pay higher commissions, or provide access to products that are perceived to be better than those we can provide, our ability to attract and retain agents may be reduced, which could have a material and adverse effect on our business, financial condition, results of operations, and prospects.

***We expect that our ability to use beneficial U.S. tax attributes will be subject to limitations.***

Section 382 of the U.S. Internal Revenue Code of 1986, as amended (the “Code”), operates as an anti-abuse rule, the general purpose of which is to prevent trafficking in tax losses, but which can apply without regard to whether a “loss trafficking” transaction occurs or is intended. Similar rules apply to capital loss carryforwards. These rules are triggered when an “ownership change”—generally defined as when the ownership of a company, or its parent, changes by more than 50% (measured by value) on a cumulative basis in any three year period—occurs and the company is a “loss” corporation. A company is a loss corporation if, at the date of the ownership change, the company has a tax loss carryforward which may be used in a tax year after the ownership change. When triggered, the amount of the taxable income for any post-change year which may be offset by a pre-change loss is subject to an annual limitation. An annual limitation not used in one year may be carried over to a subsequent year. Generally speaking, the annual limitation is derived by multiplying the fair market value of the stock of the taxpayer immediately before the date of the ownership change by the applicable federal long-term tax-exempt rate. In addition, to the extent that a company has a net unrealized built-in loss or deduction at the time of an ownership change, Section 382 of the Code limits the utilization of any such loss or deduction which is realized and recognized during the 5-year period following the ownership change.

The Tax Cut and Jobs Act enacted in December 2017 limits the deduction for net operating losses to 80% of current year taxable income and eliminates the deduction for net operating loss carrybacks. Following the completion of this offering, we expect that these limitations will apply, which could substantially limit our ability to utilize our net operating loss carryforwards.

**Risks Relating to our Insurance Business*****The actual experience of our insurance products can differ from the assumptions used to develop and price our insurance products, which can cause us to experience losses from these products.***

To develop our insurance products we make assumptions regarding policy persistency, mortality, and other benefit experience, the level of investment income that will be earned from investing the product cash flows, and our expenses to underwrite, sell, and service the policies. Additionally, we make assumptions about the characteristics of our insureds, including age, sex, underwriting class, and coverage amounts purchased. These assumptions, along with our anticipated profit levels, are used to develop the premiums that we will charge customers for our products. In many cases, these premium rates are level and cannot be raised during the initial term of the policy. Our operating results may be materially adversely impacted by variances between our pricing assumptions and our actual experience.

Our key product pricing assumptions are based on a combination of industry studies and other third party data as well as our own experience. We regularly monitor our experience and can adjust premium rates on new business sales should the actual results indicate trends or results that we believe need to be reflected. If the actual product experience for any of these areas varies adversely from the assumptions used to price our products, it could have a material and adverse effect on our business, financial condition, results of operations, and prospects.

***Because our acquisition costs for writing a policy exceed the premiums we receive in the first policy year, the early lapse or termination of a policy may cause us to suffer a loss on that policy.***

The amount of commission, underwriting, and issue costs payable upon the sale of a life insurance policy typically exceed the amount of premiums receivable during the first policy year or longer. As a result, the sale of new policies in our industry generally results in higher first year costs as compared to the corresponding first year revenues. Because of high front loaded commissions and other expenses, it can take several years for new policies to become profitable. If a policy terminates or lapses before we are able to recover our costs for producing that policy, we will incur a loss on that policy. For example, we have in the past experienced higher lapse rates than expected on certain products, which caused us to incur losses on the policies that lapsed. If we experience higher than expected lapse rates, there could be a material and adverse effect on our business, financial condition, results of operations, and prospects.

***We perform annual testing for premium deficiencies on our blocks of business, the results of which could require us to write down deferred acquisition cost balances or increase reserves.***

For our traditional life business, a premium deficiency can exist if the discounted present value of future premiums plus the current reserve, reduced by unamortized acquisition expenses, is not sufficient to cover the present value of anticipated future claims and related settlement and maintenance costs. For our interest sensitive products, the test is whether estimated future gross profits are large enough to cover the current deferred acquisition cost. When a premium deficiency is indicated we will write down any deferred acquisition cost balance to the point where the premium deficiency is eliminated. If the deferred acquisition cost is fully written down but the premium deficiency is not eliminated, we will record additional reserves on that block of policies.

***Our investment performance may suffer as a result of adverse capital market developments, which may adversely affect our financial results and ability to conduct business.***

We allocate a portion of the insurance premiums we receive from policyholders to fund reserves, which are invested until these amounts are needed to pay insured claims. We invest in various securities to earn incremental income. As of December 31, 2017, we held fixed income and equity securities with an estimated fair value of \$194.7 million. For the year ended December 31, 2017, we had net investment income of \$8.5 million.

Our investments are subject to a variety of risks that are outside of our control, including risks relating to general economic conditions, market volatility, the extended low interest environment that currently exists, interest rate fluctuations, liquidity risk, and credit risk. For example, an unexpected increase in the number or level of benefits incurred with claims may force us to liquidate securities in order to pay such claims. If the duration of our investments does not match our need for liquidity, we may be forced to liquidate investments prior to maturity at a significant loss to cover such payments. Investment losses could significantly decrease our asset base and capital position, thereby adversely affecting our ability to conduct business.

In the current economic environment, we are experiencing historically low interest rates across all fixed income investment markets. The effective yield or rate of our fixed income investments has declined as currently available interest rates on investments purchased are lower than the rates on our maturing investments. Low current interest rates have resulted in unrealized holding gains recorded as Other Comprehensive Income. However, if interest rates were to rise, it is possible that the market value of the securities and other investments we hold may decline, negatively affecting our earnings and capital level through realized and unrealized investment losses. In that event we could experience increased surrender of annuities, which we would have to fund through the sales of securities, possibly at a loss. If market interest rates remain at historically low levels our investment returns will continue to decline and our investment earnings will be reduced. This could have a material and adverse effect on our business, financial condition, results of operations, and prospects.

***Some of our investments are relatively illiquid and are in asset classes that have been experiencing significant market valuation fluctuations.***

We hold certain assets that lack liquidity, such as privately placed fixed income securities, policy loans, and oil and natural gas interests, and other illiquid assets. These asset classes represented a small percentage of the carrying value of our total cash and invested assets as of December 31, 2017. If we require significant amounts of cash on short notice in excess of normal cash requirements, we may have difficulty selling these investments in a timely manner, be forced to sell them for less than we otherwise would have been able to realize, or both.

The reported fair values of our relatively illiquid types of investments do not necessarily reflect the current market price for the asset. If we were forced to sell certain of our assets in the current market, there can be no assurance that we would be able to sell them for the prices at which we have recorded them and we might be forced to sell them at significantly lower prices.

***If we are unable to enter into reinsurance transactions on a cost-effective basis, we will be less profitable and subject to greater risk and we may be unable to expand our business because of capital limitations.***

We rely on the availability of reinsurance to manage the risks of our insurance products and to manage the level of capital required to write new business. Reinsurance is the practice of transferring part of an

insurance company's liability under an insurance policy and the premium associated with that insurance policy to another insurance company. We enter into reinsurance contracts to limit and manage the amount of risk we retain relating to the insurance policies we issue. This reduction in risk is intended to reduce volatility in year-to-year operating results. For example, we generally limit our retention of exposure on any one life under any insurance policy or policies we issue to a maximum of \$250,000. Our ability to write policies in excess of this amount is therefore typically dependent on the availability of reinsurance for the excess amount of the issued policy at commercially reasonable rates. We also use reinsurance to manage the level of capital required to write new business.

The availability and cost of reinsurance are subject to current market conditions and our experience and may vary significantly over time. Any decrease in the amount of reinsurance available will increase the amount of loss that we retain and could decrease our regulatory capital position. We currently rely on our reinsurance arrangement with Optimum Re to continue to write our new business. Should either or both of those reinsurers cease to reinsure our business, or should we be unable to obtain replacement reinsurance or otherwise be unable to obtain reinsurance coverage in desired amounts, our inability to obtain such reinsurance could increase the amount of risk that we retain, expose our financial results to more year-to-year variability, and limit the amount of new business that we can write. If the cost of reinsurance coverage increases, we may charge higher premiums and that could reduce future sales. Alternatively, we may decide to absorb all or a part of the increased reinsurance costs, which could have a material and adverse effect on our business, financial condition, results of operations, and prospects. See also "—A significant decline in Federal Life's risk-based capital could limit its ability to write new business."

***Should any of our reinsurers fail to meet their contractual commitments to us, our financial condition and results of operations could be adversely affected.***

The reinsurance contracts that we enter into to help manage our risks require us to pay premiums to the reinsurance carriers who will in turn reimburse us for a portion of covered policy claims. In many cases, a reinsurer will be called upon to reimburse us for policy claims many years after we paid insurance premiums to the insurer. We remain liable to each of our policyholders for their claims, and we rely on our reinsurers to reimburse us for that portion of a claim for which it is responsible. Accordingly, we are subject to loss and credit risk if our reinsurers are not capable of fulfilling their financial obligations to us. We purchase reinsurance coverage from a number of reinsurers. We have not entered into reinsurance agreements with companies that have an A.M. Best financial rating lower than "A-" (Excellent), which is the fourth highest of fifteen ratings.

The reinsurance contracts covering our life insurance policies are long-term contracts mirroring the term of the underlying life insurance contracts. During the contract term, the financial position of our reinsurers can deteriorate and our reinsurers could become insolvent or otherwise unable to reimburse us for ceded claims. Should the financial condition of a reinsurer to which we have ceded premiums deteriorate, it may be unable to reimburse us for losses under its contractual obligations to us. This could materially adversely affect our results of operations and financial condition.

***A significant decline in Federal Life's risk-based capital could limit its ability to write new business.***

Illinois imposes the risk-based capital requirements developed by the National Association of Insurance Commissioners ("NAIC") that require insurance companies to calculate and report information under a risk-based capital formula. These risk-based capital requirements attempt to measure statutory capital and surplus needs based on the risks in an insurance company's mix of products and investment portfolio.

Until statutory surplus rose modestly in 2017, Federal Life's statutory surplus has declined as a result of losses in each of the previous nine years. Because the amount of commission, underwriting, and issue costs payable upon the sale of a life insurance policy typically exceed the amount of premiums receivable during the first policy year, it can take several years for new policies to become profitable. In addition, mandated statutory policy reserve methods require that we increase our reserves over the first several years of the policy term. Should statutory capital and surplus continue to decline relative to risk-based capital, we may have to slow the rate of new sales or enter into additional reinsurance arrangements, both steps that could reduce our ability to generate future profits.

The failure of Federal Life to meet its applicable risk-based capital requirements or minimum capital and surplus requirements could also subject it to further examination or corrective action imposed by insurance regulators, including limitations on its ability to write additional business, supervision by regulators, or seizure or liquidation. Any corrective action imposed could have a material adverse effect on our business, results of operations, and financial condition. A decline in risk-based capital ratios could also limit the ability of Federal Life to make dividends or distributions to us. See “Business — Regulation — Risk-Based Capital (RBC) Requirements.”

### **Risks Relating to this Offering**

***The Internal Revenue Service may disagree with our position that the subscription rights have no value, and therefore eligible members may be deemed to have taxable income as a result of their receipt of the subscription rights.***

Generally, the federal income tax consequences of the receipt, exercise, and expiration of subscription rights are uncertain. We intend to take the position that, for U.S. federal income tax purposes, eligible members will be treated as transferring their membership interests in Federal Life Mutual Holding Company in exchange for subscription rights to purchase Federal Life Group, Inc. common stock. Any gain realized by an eligible member as a result of the receipt of a subscription right that is determined to have ascertainable fair market value on the date of the deemed exchange must be recognized and included in the eligible member’s gross income for federal income tax purposes, whether or not the subscription right is exercised.

RP Financial, which we have engaged to provide us with a valuation of the consolidated pro forma market value of Federal Life Mutual, has advised us that it believes the subscription rights will not have any fair market value. RP Financial has based its view on the fact that the subscription rights are acquired by recipients without cost, are nontransferable, nonnegotiable, and of short duration, and will provide the recipient with the right only to purchase shares of our common stock at a price that is equal to the estimated pro forma market value of the Company, which will be the same price at which any unsubscribed shares will be sold to the standby purchaser. Nevertheless, RP Financial cannot assure us that the Internal Revenue Service will not challenge its determination that the subscription rights will not have any fair market value or that such challenge, if made, would not be successful. You should consult your tax advisors with respect to the potential tax consequences to you of the receipt, exercise, and expiration of subscription rights. For more information see “Federal Income Tax Considerations — Tax Consequences of Subscription Rights to Eligible Members.”

***The broad valuation range of the subscription offering and the rights of the standby purchaser make your percentage ownership of Federal Life Group, Inc. uncertain.***

The number of shares offered in the subscription offering is based on RP Financial’s valuation of the consolidated pro forma market value of Federal Life Mutual. RP Financial has determined that, as of December 22, 2017, the estimated consolidated pro forma market value of Federal Life Mutual is \$40.0 million, and the range of value of the total number of shares of Federal Life Group, Inc. common stock to be issued in the offerings is between \$34.0 million and \$46.0 million. Shares issued to the standby purchaser upon the automatic conversion of the outstanding principal balance of the \$2,000,000 exchangeable note issued to the standby purchaser when the standby stock purchase agreement was signed will be counted towards satisfaction of the minimum number of shares that must be sold in the offerings.

There is a difference of approximately \$12.0 million between the minimum and maximum of the estimated valuation range. The aggregate dollar value of the shares sold in the subscription offering must be within this estimated valuation range. As a result, the percentage interest in Federal Life Group, Inc. that a subscriber acquires can vary based on the number of shares sold in the subscription offering. A subscriber for a fixed number of shares of our common stock will have approximately a 26% smaller ownership at the adjusted maximum level of the range than at the minimum level. See “The Conversion and Offering — Description of Standby Stock Purchase Agreement.”

***The amount of the net proceeds from the offerings is uncertain, and we will have broad discretion over the use of the net proceeds from the offerings.***

The amount of proceeds from the sale of common stock in the offerings will depend on the total number of shares actually sold in the subscription and community offerings, including shares sold to the

standby purchaser, for which a higher commission percentage is applicable. As a result, the net proceeds from the sale of common stock cannot be determined until this offering is completed. See “Use of Proceeds.”

Although we expect to use the net proceeds of the offerings to support the growth of our business and potentially to make open market purchases of our shares for our stock-based incentive plan, our management will have broad discretion with respect to the use of net proceeds from these offerings. Except as specified above, we expect to use the net proceeds for general corporate purposes, which may include, among other things, purchasing investment securities.

### **Risks Relating to Ownership of Our Common Stock**

***Our management and the standby purchaser are likely to seek to delist our shares from trading on the NASDAQ Stock Market and end our reporting obligations under the Securities Exchange Act of 1934.***

After the offering, we will be obligated for approximately one year to file with the Securities and Exchange Commission, or SEC, annual and quarterly information and other reports that are specified in Section 13 of the Securities Exchange Act of 1934, as amended, or the Exchange Act. We will also be required to prepare financial statements that are fully compliant with all SEC reporting requirements on a timely basis. This will require a significant commitment of additional expense and management resources. As result, our management and the standby purchaser are likely to seek to reduce the number of our shareholders of record to less than 300 by purchasing shares in the open market or directly from shareholders. This will permit the Company to cease filing annual and quarterly reports with the SEC after complying with our initial filing requirements. If the Company is no longer filing such reports with the SEC, we will not be eligible for listing on the NASDAQ Stock Market. This will substantially reduce the liquidity of our stock for any remaining shareholders.

***The sale of sufficient shares to meet the minimum number of shares required to complete the conversion and the offering does not indicate that sales have been made to investors who have no financial or other interest in the offering, and the sale of the minimum number of shares should not be viewed as an indication of the merits of the offering.***

ICG, as the standby purchaser, has agreed to purchase such number of shares in the offering as will result in at least the minimum number of shares being sold in the offering. Accordingly, you should not consider the sale of the minimum number of shares in the offering to be an indication of either the merits of the offering or that a significant number of the other purchasers in the offering have no financial or other interest in the success of the offering.

***We are an “emerging growth company,” and we intend to take advantage of reduced disclosure and governance requirements applicable to emerging growth companies, which could result in our common stock being less attractive to investors.***

We are an “emerging growth company,” as defined in the Jumpstart Our Business Startups Act of 2012, which we refer to as the JOBS Act, and we intend to take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not emerging growth companies. For example:

- We will not be required to comply with the auditor attestation requirement on the effectiveness of our internal control over financial reporting contained in Section 404(b) of the Sarbanes-Oxley Act;
- We will be subject to reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements;
- We will not be required to hold a non-binding advisory vote on executive compensation and golden parachute arrangements not previously approved;
- We will be exempt from certain audit requirements of the Public Company Accounting Oversight Board, unless the SEC determines otherwise; and

- We will take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act for complying with new or revised accounting standards.

We cannot predict if investors will find our common stock less attractive if we rely on these exemptions. If some investors find our common stock less attractive as a result, there may be a less active trading market for our common stock and our stock price may be more volatile. We may take advantage of these reporting exemptions until we are no longer an emerging growth company, which in certain circumstances could be for up to five years. See “Prospectus Summary — Implications of Being an Emerging Growth Company.”

***The stock-based incentive plan will increase our costs, which will reduce our net income.***

We have adopted a stock-based incentive plan under which we may award participants restricted shares of our common stock or options to purchase shares of our common stock. Restricted stock awards will be made at no cost to the participants. The number of shares of common stock that may be issued pursuant to restricted stock awards or upon exercise of stock option awards under the stock-based incentive plan may not exceed 140,000 and 340,000, respectively.

The costs associated with the grant of restricted stock awarded under the stock-based incentive plan will be recognized and expensed over their vesting period at the fair market value of the shares on the date they are awarded. We intend to issue 140,000 shares of restricted stock to our directors and officers upon the closing of the conversion from our authorized but unissued shares of common stock.

Finally, accounting rules require companies to recognize as compensation expense the award-date fair value of stock options. This compensation expense will be recognized over the appropriate vesting period. When we record an expense for the award of options using the fair value method, we will incur significant compensation and benefits expense, which will reduce our net income.

***The implementation of the stock-based incentive plan may dilute your percentage ownership interest and may also result in downward pressure on the price of our stock.***

The proposed stock-based incentive plan will be funded from the issuance of authorized but unissued shares and possibly in part through open market purchases. In the event that authorized but unissued shares are used to fund restricted stock awards and the exercise of stock option awards under the plan in an amount equal to 140,000 and 340,000, respectively, shareholders would experience a reduction in ownership interest of approximately 12.4%. In addition, the number of shares of common stock available for issuance pursuant to restricted stock awards and upon exercise of stock option awards may be perceived by the market as having a dilutive effect, which could lead to a decrease in the price of our common stock.

***The valuation of our common stock in this offering is not necessarily indicative of the future price of our common stock, and the price of our common stock may decline after this offering.***

There can be no assurance that shares of our common stock will be able to be sold in the market at or above the \$10.00 per share initial offering price in the future. The final aggregate purchase price of our common stock sold in this offering will be based upon an independent appraisal. The appraisal is not intended, and should not be construed, as a recommendation of any kind as to the advisability of purchasing shares of common stock. The valuation is based on estimates and projections of a number of matters, all of which are subject to change from time to time. See “The Conversion and Offering — The Appraisal” for the factors considered by RP Financial in determining the appraised value.

The trading price of our common stock may be volatile and subject to wide price fluctuations in response to various factors, including:

- market conditions in the broader stock market in general;
- actual or anticipated fluctuations in our quarterly financial and operating results;
- changes in interest rates;
- departure of key executives;

- possible delisting of our stock from NASDAQ;
- introduction of new services or announcements of significant contracts, acquisitions, or capital commitments by us or our competitors;
- regulatory or political developments;
- issuance of new or changed securities analysts' reports or recommendations, or our failure to obtain an A.M. Best rating or any negative change in such rating;
- availability of capital;
- litigation and government investigations;
- legislative and regulatory developments;
- future sales of our common stock;
- investor perceptions of us and the life insurance industry; and
- economic conditions.

These and other factors may cause the market price of our common stock to fluctuate substantially, which may limit or prevent investors from readily selling their shares of common stock and may otherwise negatively affect the liquidity of our common stock.

In addition, the stock market has in the past experienced substantial price and volume fluctuations that sometimes have been unrelated or disproportionate to the operating performance of companies. As a result, the trading price of shares of our common stock may be below the initial public offering price, and you may not be able to sell your shares at or above the price you pay to purchase them.

***Anti-takeover provisions contained in our articles of incorporation, which we refer to as our articles, and our amended and restated bylaws, which we refer to as our bylaws, as they will be in effect upon completion of this offering, as well as provisions of Illinois law, may render more difficult or discourage takeover attempts on the Company that you may believe are in your best interests or that might result in a substantial profit to you.***

The Illinois Insurance Code requires prior approval by the Illinois Department of Insurance for a change of control of an insurance holding company. Under Illinois law, the acquisition of 10% or more of the outstanding voting stock of an insurer or its holding company is presumed to be a change in control. Approval by the Illinois Department of Insurance may be withheld even if the transaction would be in the shareholders' best interest if the Illinois Department of Insurance determines that the transaction would be detrimental to policyholders. In addition, for 5 years following the effective date of the conversion, no person may acquire more than 5% of the capital stock of the Company in this offering or any other public offering without the approval of the Illinois Department of Insurance. The standby purchaser's commitment to purchase shares of our stock in the standby offering was approved by the Illinois Director of Insurance on [•], 2018.

Additionally, our articles and bylaws contain provisions that could have the effect of rendering more difficult or discouraging a change in control. These provisions:

- Prior to the end of the standstill period under the standby stock purchase agreement, create a classified board of directors, which permits the election of only one-third of the directors at each annual meeting of our shareholders;
- contain advance notice procedures with which shareholders must generally comply to nominate candidates to our board or to propose matters to be acted upon at a meeting of shareholders, which may discourage or deter a potential acquiror from conducting a solicitation of proxies to elect the acquiror's own slate of directors or otherwise attempting to obtain control of us; and
- authorize our board of directors, without shareholder approval, to amend our bylaws, which may allow our board of directors to take additional actions to prevent an unsolicited takeover and inhibit the ability of an acquiror to amend the bylaws to facilitate an unsolicited takeover attempt.



These provisions of our articles and bylaws, alone or together with certain provisions of Illinois and Pennsylvania law, could serve to entrench management and may discourage a takeover attempt that you may consider to be in your best interest or in which you would receive a substantial premium over the current market price. These provisions may make it extremely difficult for any one person, entity, or group of affiliated persons or entities to acquire voting control of the Company, with the result that it may be extremely difficult to bring about a change in the board of directors or management. Some of these provisions also may perpetuate present management because of the additional time required to cause a change in the control of the board of directors.

***The standby purchaser may obtain control over us and may not always exercise its control in a way that benefits our public shareholders.***

Upon completion of the offering, ICG will likely own a majority of our outstanding shares. Subject to the provisions of the standby stock purchase agreement, so long as ICG continues to beneficially own more than 50% of our outstanding stock, ICG generally will be able to determine the outcome of corporate actions requiring shareholder approval. In addition, the standby stock purchase agreement provides that for so long as ICG owns 25% or more of our outstanding shares, we may not take certain actions and ICG may vote its shares against such action, including any merger or consolidation involving the Company or Federal Life or the sale or other transfer of all or substantially all of Federal Life's assets or the contribution of more than \$12,500,000 of the net proceeds of the offering to Federal Life. As a result, we may be unable to take advantage of certain opportunities that may be in our best interest or the best interest of the other shareholders.

***We may not be able to realize the expected benefits from our relationship with the standby purchaser.***

One of the reasons that we entered into the standby purchase agreement with the standby purchaser is that we expect to benefit from the standby purchaser's knowledge and experience in the life insurance industry and its ability to provide resources to us to enable us to further develop our distribution strategy and grow our business in our target Middle Market. Our failure to successfully realize these benefits may negatively impact our plans for growing our business and may prevent us from obtaining some of the anticipated benefits of our relationship with the standby purchaser.

***Our ability to pay dividends will be limited.***

Upon completion of this offering, the Company will be a holding company with no operations of its own. The Company's primary assets will be its equity interest in Federal Life and any net proceeds of the offerings that are not contributed to Federal Life. Thus, the ability of the Company to pay dividends to our shareholders depends upon the cash and liquid investments held at the holding company and our subsidiaries ability to pay dividends to the Company. Federal Life's ability to pay dividends to the Company is subject to limitations under Illinois insurance laws and regulations. See "Dividend Policy."

***There will not be an active, liquid trading market for our common stock.***

Prior to the subscription offering, there has been no public market for our common stock. We cannot predict the extent to which an active trading market with adequate liquidity will develop, but we believe that development of such a market is unlikely. The liquidity of our common stock will be impacted by the fact that the shares purchased by the standby purchaser and directors and officers of Federal Life Mutual will be purchased for investment and not for resale. The shares purchased by directors and officers will be subject to lockup periods for up to one year, and the shares purchased by the standby purchaser will be restricted securities and subject to trading limitations under the standby stock purchase agreement and under applicable law. If an active trading market does not develop, you may have difficulty selling any of our common stock that you purchase and the value of your shares may be impaired.

***As a public company, we will become subject to additional financial and other reporting and corporate governance requirements, which will require additional expense and management resources.***

We have historically operated our business as a private company. After the offering, we will become obligated to file with the Securities and Exchange Commission, or SEC, annual and quarterly information and other reports that are specified in Section 13 of the Exchange Act. We will also be required to prepare financial statements that are fully compliant with all SEC reporting requirements on a timely basis. Unless an exemption is available to us as an “emerging growth company,” we will also become subject to other reporting and corporate governance requirements, including the requirements of NASDAQ and certain provisions of the Sarbanes-Oxley Act of 2002 and the regulations promulgated thereunder, which will impose significant compliance obligations upon us. As a public company, we will be required to:

- prepare and distribute periodic public reports and other shareholder communications in compliance with our obligations under the federal securities laws and the NASDAQ Marketplace Rules;
- create or expand the roles and duties of our board of directors and committees of the board;
- institute more comprehensive financial reporting and disclosure compliance functions;
- involve and retain to a greater degree outside counsel and accountants in the activities listed above;
- create or enhance our investor relations function;
- establish new internal policies, including those relating to disclosure controls and procedures; and
- comply with certain requirements of the Sarbanes-Oxley Act of 2002, in particular Section 404 and Section 302.

These changes will require a significant commitment of additional expense and other resources, and these expenses may increase after we are no longer an “emerging growth company” as defined in the JOBS Act. We may not be successful in implementing these requirements and implementing them could adversely affect our business or operating results. In addition, if we fail to implement the requirements with respect to our internal accounting and audit functions, our ability to report our operating results on a timely and accurate basis could be impaired. Our management and the standby purchaser are likely to seek to delist our stock from the NASDAQ Stock Market in order to avoid these additional expenses. “See — Our management and the standby purchaser are likely to seek to delist our shares from trading on the NASDAQ Stock Market and end our reporting obligations under the Securities Exchange Act of 1934.”

***Our internal control over financial reporting may not meet the standards required by Section 404 of the Sarbanes-Oxley Act of 2002, and failure to achieve and maintain effective internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act could have a material adverse effect on our business and stock price.***

As a privately held company, we have not been required to maintain internal control over financial reporting in a manner that meets the standards of publicly traded companies required by Section 404 of the Sarbanes-Oxley Act. If we do not de-register our shares, these standards will be required to be met in the course of preparing our consolidated financial statements as of and for the year ending December 31, 2023, except for the auditor attestation requirements exempted under the JOBS Act. Although we have documentation of our internal controls and document and test our compliance with these controls on a periodic basis, our internal control design and effectiveness may not be consistent with the requirements of Section 404 of the Sarbanes-Oxley Act.

If, as a public company, we are not able to implement the requirements of Section 404(b) by the time that the exemption provided under the JOBS Act expires, or with adequate compliance, our independent registered public accounting firm may not be able to attest to the adequacy of our internal control over financial reporting. If we are unable to maintain adequate internal control over financial reporting, we may be unable to report our financial information on a timely basis, may suffer adverse regulatory consequences, or may violate applicable stock exchange listing rules. There could also be a negative reaction in the financial markets due to a loss of investor confidence in us and the reliability of our financial statements.

Confidence in our financial statements is also likely to suffer if we or our independent registered public accounting firm report a material weakness in our internal control over financial reporting. In addition, we will incur incremental costs in order to improve our internal control over financial reporting and comply with Section 404, including increased auditing and legal fees and costs associated with hiring additional accounting and administrative staff. For as long as we remain an “emerging growth company,” we intend to take advantage of the JOBS Act exemption from being required to comply with the independent registered public accounting firm attestation requirement.

“See — Our management and the standby purchaser are likely to seek to delist our shares from trading on the NASDAQ Stock Market and end our reporting obligations under the Securities Exchange Act of 1934.”

## FORWARD-LOOKING STATEMENTS

This prospectus contains “forward-looking” statements that are intended to enhance the reader’s ability to assess our future financial and business performance. Forward-looking statements include, but are not limited to, statements that represent our beliefs concerning future operations, strategies, financial results or other developments, and contain words and phrases such as “may,” “expects,” “should,” “believes,” “anticipates,” “estimates,” “intends” or similar expressions. In addition, statements that refer to our future financial performance, anticipated growth, trends in our business and in our industry, and other characterizations of future events or circumstances are forward-looking statements. Because these forward-looking statements are based on estimates and assumptions that are subject to significant business, economic, and competitive uncertainties, many of which are beyond our control or are subject to change, actual results could be materially different.

Consequently, such forward-looking statements should be regarded solely as our current plans, estimates, and beliefs with respect to, among other things, future events and financial performance. Except as required under the federal securities laws, we do not intend, and do not undertake, any obligation to update any forward-looking statements to reflect future events or circumstances after the date of such statements.

The forward-looking statements include, among other things, the factors discussed under “Risk Factors” and those listed below:

- future economic conditions in the markets in which we compete that could be less favorable than expected and could have impacts on demand for our products and services;
- our ability to grow and develop our insurance business and successfully develop and market new products and new distribution channels;
- our inability to maintain or grow our strategic partnerships or our inability to realize synergies from our relationship with the standby purchaser;
- our inability to manage future growth and integration of any businesses that we may acquire;
- our ability to enter new markets successfully and capitalize on growth opportunities either through acquisitions or organically;
- financial market conditions, including, but not limited to, changes in interest rates and the level and trends of stock market prices causing a reduction of investment income or realized losses and reduction in the value of our investment portfolios;
- increased competition in our business, including the potential impacts of aggressive price competition by other insurance companies, payment of higher commissions to agents that could affect demand for our insurance products and impact the ability to grow and retain agents, and the entry of new competitors and the development of new products by new or existing competitors, resulting in a reduction in the demand for our products and services;
- the effect of legislative, judicial, economic, demographic and regulatory events in the jurisdictions where we do business;
- costs, availability and collectability of reinsurance;
- the potential impact on our reported net income that could result from the adoption of future accounting standards issued by the Public Company Accounting Oversight Board or the Financial Accounting Standards Board or other standard-setting bodies; and
- changes in industry trends and financial strength ratings assigned by nationally recognized rating organizations.

You should review carefully the section captioned “Risk Factors” in this prospectus for a complete discussion of the material risks of an investment in our common stock.

### SELECTED FINANCIAL AND OTHER DATA

The following table sets forth selected consolidated financial and other data for Federal Life Mutual prior to this offering. You should read this data in conjunction with our financial statements and accompanying notes, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and other financial information included elsewhere in this prospectus. The balance sheet data as of December 31, 2017 and 2016, and the statement of operations data for each of the years in the two-year period ended December 31, 2017 are derived from our audited financial statements that are included elsewhere in this prospectus. The balance sheet data as of June 30, 2018 and 2017, and the statement of operations data for the six months ended June 30, 2018 and 2017 are derived from the unaudited condensed consolidated financial statements that are included elsewhere in this prospectus.

These historical results are not necessarily indicative of future results.

(dollars in thousands)	Six Months Ended June 30,		Years Ended December 31,	
	2018	2017	2017	2016
<b>Statement of Operations Data:</b>				
Premiums written	\$ 7,593	\$ 7,564	\$ 14,133	\$ 16,299
Ceded premiums	(1,335)	(968)	(2,075)	(1,872)
Insurance revenues	6,258	6,596	\$ 12,058	\$ 14,427
Net investment income	4,218	4,292	8,523	8,821
Net realized investment gains	324	904	2,228	1,783
Other revenues	97	85	194	173
Total revenues	10,897	11,877	23,003	25,204
<b>Benefits and expenses</b>				
Policyholder benefits	7,018	7,215	13,712	16,069
Interest credit to policyholder balances	207	114	386	315
Operating costs and expenses	4,331	3,994	7,889	8,099
Amortization of deferred policy acquisition and sales inducement costs	897	1,124	2,108	1,876
Taxes, licenses and fees	398	392	716	722
Dividends to policyholders	31	31	66	86
Total benefits and expenses	12,882	12,870	24,877	27,167
Net loss before taxes	(1,985)	(993)	(1,874)	(1,963)
Tax expense	9	14	34	34
Net loss	\$ (1,994)	\$ (1,007)	\$ (1,908)	\$ (1,997)

(dollars in thousands)	June 30,	Years Ended December 31,	
	2018	2017	2016
<b>Balance Sheet Data:</b>			
Total investments, cash and cash equivalents	\$203,640	\$208,993	\$201,314
Deferred policy acquisition costs, net	13,320	12,179	11,940
Deferred sales inducement costs, net	1,076	867	315
Reinsurance recoverables	3,622	3,727	2,107
Accrued investment income	1,929	1,886	1,832
Accounts receivable	2,417	538	575
Prepaid reinsurance premiums	1,379	1,358	924
Deferred tax asset, net	495	458	664
Other assets	296	202	254
Separate account asset	23,690	24,779	21,513
Real estate, property and equipment	2,166	2,151	2,297
<b>Total Assets</b>	<b>\$254,030</b>	<b>\$257,138</b>	<b>\$243,735</b>
Future life policy benefits	\$ 72,608	\$ 71,927	\$ 73,097
Policyholder account balance	113,654	109,823	99,440
Future accident and health policy benefits	343	386	351
Reserve for deposit type contracts	11,222	10,850	10,529
Other policyholder funds	2,733	1,970	1,889
Separate account liability	23,690	24,779	21,513
Unearned revenue	1,357	1,387	1,396
Deferred reinsurance settlements	2,826	2,949	1,512
Other liabilities	2,080	1,710	1,146
<b>Total Liabilities</b>	<b>\$230,513</b>	<b>\$225,781</b>	<b>\$210,873</b>
Retained earnings	\$ 24,606	\$ 26,600	\$ 29,313
Accumulated other comprehensive income	(1,089)	4,757	3,549
<b>Total equity</b>	<b>\$ 23,517</b>	<b>\$ 31,357</b>	<b>\$ 32,862</b>

## USE OF PROCEEDS

We estimate the net proceeds from the offerings will be between \$31.1 million at the minimum of the offering range and \$43.0 million at the adjusted maximum of the offering range. See the “Offering Summary” on the front cover of the prospectus for the assumptions used to arrive at these amounts. The amount of net proceeds from the sale of common stock in the offerings will depend on the total number of shares actually sold in the subscription and community offerings, including the shares sold to the standby purchaser. A higher sales commission applies to shares sold to the standby purchaser. In the event shares are sold to the standby purchaser, our commission expense will be higher with respect to those shares, and therefore our net proceeds from the offerings will be correspondingly lower. As a result, the net proceeds from the sale of common stock cannot be determined until the offerings are completed.

The standby purchaser has agreed to loan up to \$2,000,000 to Federal Mutual Life to fund expenses incurred by Federal Mutual Life in connection with the conversion and the offerings. In connection with that credit facility, Federal Life Mutual issued a \$2,000,000 exchangeable note to the standby purchaser in connection with the signing of the standby stock purchase agreement. The outstanding principal balance of the exchangeable note will automatically convert into shares of our common stock at a price of \$10.00 per share upon completion of the conversion. See “The Conversion and Offering — Description of Standby Stock Purchase Agreement.” Shares issued in connection with the exchangeable note will be counted towards satisfaction of the minimum number of shares that must be sold in the offerings.

We plan to use the net proceeds from the offerings to support our insurance business and possibly to acquire other life insurance companies and related businesses. We may also use a portion of the net proceeds for stock repurchases or cash dividends. At least \$12,500,000 will be contributed to Federal Life to (i) support organic growth of our life insurance business and annuity business; (ii) fund acquisitions of other life insurance and related businesses; (iii) fund new product launches, including variable rate annuities; and (iv) selectively deploy new capital to retain, acquire, and bolster talent in key areas. We have no other current specific plans for the use of the net proceeds of the offering. The principal reason for the offering was to raise additional capital for Federal Life Insurance Company to support its growth and new product offerings.

Under the Illinois mutual-to-stock conversion statute, the plan of conversion must provide that the total price of the stock to be issued in the conversion offering is equal to the estimated pro forma market value of the converted insurance company. Accordingly, the amount of the offering is established by the independent valuation required by the conversion statute, and we cannot sell shares at an aggregate price less than the minimum of the range established by such valuation.

We expect to retain any remaining net proceeds from the offering at Federal Life Group, Inc., to be used for general corporate purposes, including possible acquisitions of other life insurance companies and related businesses. On a short-term basis, the proceeds retained at the holding company will be invested primarily in U.S. government securities, other federal agency securities, and other securities consistent with our investment policy until utilized.

## MARKET FOR THE COMMON STOCK

We intend to apply for the listing of our common stock on the NASDAQ Capital Market under the symbol “FLF.”

We have never issued any capital stock to the public. Consequently, there is no established market for our common stock. The development of a public market having the desirable characteristics of depth, liquidity, and orderliness depends upon the presence in the marketplace of a sufficient number of willing buyers and sellers at any given time. Neither we nor any market maker has any control over the development of such a public market. Although we have applied to have our stock listed on the NASDAQ Capital Market, an active trading market is unlikely to develop. This is due, in part, to the fact that a majority of our stock will likely be held by the standby purchaser and our management. One of the requirements for initial listing of our common stock on the NASDAQ Capital Market is that there are at least three market makers for the common stock. Griffin Financial has indicated that it intends to become a market maker in our common stock following this offering, but is under no obligation to do so. We cannot assure you that there will be three or more market makers for our common stock. Furthermore, we cannot assure you that you will be able to sell your shares of common stock for a price at or above \$10.00 per share, or that approval for listing on the NASDAQ Capital Market will be available as contemplated.

**Our management and the standby purchaser are likely to seek to delist our shares from trading on the NASDAQ Stock Market. This would greatly reduce the market for our common stock.** See “Risk Factors — Our management and the standby purchaser are likely to seek to delist our shares from trading on the NASDAQ Stock Market and end our reporting obligations under the Securities Exchange Act of 1934.”

## DIVIDEND POLICY

Following completion of this offering, our board of directors will have the authority to declare dividends on our shares of common stock, subject to statutory and regulatory requirements. Any decision to pay a dividend will depend on many factors, including our financial condition and results of operations, liquidity requirements, market opportunities, capital requirements of our subsidiaries, legal requirements, regulatory constraints, dividends from our subsidiaries, and other factors as the board of directors deems relevant.

The Company initially will have no significant source of cash flow other than intercompany dividends from Federal Life, if any, and the investment earnings on any net proceeds of the offerings not contributed to Federal Life. Therefore, the payment of dividends by us to shareholders would depend significantly upon our receipt of dividends from Federal Life and the amount of net proceeds of the offerings retained by the Company that may be available for the declaration of dividends.

Federal Life’s ability to pay dividends is subject to restrictions contained in the insurance laws of Illinois, which require that ordinary dividends be reported to the Illinois Department of Insurance prior to payment of the dividend and that extraordinary dividends be submitted for prior approval. An extraordinary dividend is generally defined as a dividend that, together with all other dividends made within the past 12 months, exceeds the greater of 10% of its statutory policyholders’ surplus as of the preceding year end or the statutory net income of the company for the preceding year. Statutory policyholders’ surplus, as determined under statutory accounting principles, or SAP, is the amount remaining after all liabilities, including loss and loss adjustment expenses, are subtracted from all admitted assets. Admitted assets are assets of an insurer prescribed or permitted by a state insurance regulator to be recognized on the statutory balance sheet. Insurance regulators have broad powers to prevent the reduction of statutory surplus to inadequate levels, and there is no assurance that extraordinary dividend payments will be permitted. During the year ending December 31, 2018, Federal Life would be able to pay dividends in the aggregate amount of \$1.49 million without prior approval from the Illinois Department of Insurance.



## CAPITALIZATION

The following table displays information regarding the consolidated historical capitalization of Federal Life Mutual and its subsidiaries as of June 30, 2018. The table also displays the pro forma consolidated capitalization of the Company. The pro forma information gives effect to the sale of common stock at the minimum of the estimated valuation range of our consolidated pro forma market value, as determined by the independent evaluation of RP Financial, and the maximum of the estimated valuation range. The various capital positions are displayed based upon the assumptions set forth under “Use of Proceeds.” For additional financial information regarding Federal Life Mutual, see our consolidated financial statements and related notes beginning on page [F-1](#) of this prospectus. The total number of shares to be issued in the conversion will range from 3,400,000 shares to 4,600,000 shares. See “Use of Proceeds” and the subsection entitled “The Conversion and Offering — Stock Pricing and Number of Shares to be Issued.”

	Historical Consolidated Capitalization of FLMHC at June 30, 2017	Pro Forma Capitalization of Federal Life Group, Inc. as of June 30, 2018 <sup>(2)</sup>	
		Minimum	Maximum
<b>Shareholders' equity<sup>(1)</sup>:</b>			
Common Stock, par value \$0.01 per share; authorized 10,000,000 shares; shares to be outstanding – as shown <sup>(2)(3)</sup>	\$ —	\$ 34	\$ 46
Additional paid-in capital <sup>(2)(3)</sup>	\$ —	\$ 31,071	\$ 42,965
Retained earnings	24,606	24,606	24,606
Accumulated other comprehensive income (loss), net of tax	\$ (1,089)	\$ (1,089)	\$ (1,089)
Total shareholders' equity	<u>\$ 23,517</u>	<u>\$ 54,622</u>	<u>\$ 66,528</u>

Capitalization table footnotes (in thousands except share and per share data)

- (1) Pro forma shareholders' equity is not intended to represent the fair market value of the common stock or the net fair market value of the Company's assets and liabilities. The amounts indicated also are not intended to represent what would be available for distribution to shareholders, if any, in the event of liquidation. The pro forma data may be materially affected by a change in the number of shares sold in the conversion and by other factors.
- (2) These pro forma amounts include the estimated net proceeds from the conversion.
- (3) Does not reflect additional shares of common stock that could be issued pursuant to our stock-based incentive plan. The aggregate amount of common stock issuable under this plan is equal to 480,000 shares. We expect that grants of stock options and restricted stock will be made to our executive officers, directors, and certain employees relating to a total of 355,000 shares of our common stock under the stock-based incentive plan subject to completion of this offering. An undetermined portion of the remaining shares available for issuance under the stock-based incentive plan may be issued from any treasury shares purchased by the Company in the open market. Each of these methods and amounts would have different and varying effects on our shareholders' equity. Your ownership percentage would decrease by approximately 12.4% if the remaining available shares were issued from our authorized but unissued shares upon the grant of all potential restricted stock awards and the exercise of all potential stock options, assuming 3,400,000 shares were sold in the offerings. No decrease in your ownership percentage will occur if such shares are purchased for the plan on the open market, but shareholders equity will be reduced. See “Unaudited Pro Forma Financial Information — Additional Pro Forma Data” and “Executive Compensation — Equity Compensation in Connection With This Offering — Stock-Based Incentive Plan.”

## UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following unaudited pro forma condensed balance sheet as of December 31, 2017 gives effect to the conversion and completion of this offering, as if it had occurred as of December 31, 2017. The data is based on the assumption that 3,400,000 shares of common stock (the minimum number of shares required to be sold in this offering) are sold to eligible members of Federal Life Mutual, the directors and officers of Federal Life Mutual, and the standby purchaser. For information on the impact of transaction sizes above the minimum level, see “Additional Pro Forma Data” beginning on page 40.

The following unaudited pro forma condensed statements of operations for the year ended December 31, 2017, and for the six months ended June 30, 2018, present our operating results as if this offering was completed as of January 1, 2017 and 2018, respectively.

Completion of this offering is contingent on the sale of a minimum of 3,400,000 shares of common stock in this offering. If less than 3,400,000 shares are subscribed for in the subscription offering, the standby purchaser has agreed to purchase any shares not subscribed for in the offerings up to 3,400,000 shares. The standby purchaser currently intends to purchase approximately 2,800,000 shares in the community offering.

The unaudited pro forma information does not claim to represent what our financial position or results of operations would have been had this offering occurred on the dates indicated. This information is not intended to project our financial position or results of operations for any future date or period. The pro forma adjustments are based on available information and certain assumptions that we believe are factually supportable and reasonable under the circumstances. The unaudited pro forma financial information should be read in conjunction with our financial statements, the accompanying notes, and the other financial information included elsewhere in this prospectus.

The pro forma adjustments and pro forma amounts are provided for informational purposes only. Our financial statements will reflect the effects of this offering only from the date it is completed.

### Unaudited Pro Forma Financial Information — Balance Sheet<sup>(1)</sup> December 31, 2017 (in thousands)

	FLMHC Historical Consolidated	Pro Forma Adjustments	Federal Life Group, Inc. Pro Forma Consolidated
<b>Assets</b>			
Cash and investments	\$208,993	\$ 31,105	\$240,098
Deferred policy acquisition costs, net	12,179	—	12,179
Deferred sales inducement costs, net	867	—	867
Accrued investment income	1,886	—	1,886
Accounts receivable	538	—	538
Prepaid reinsurance premiums	1,358	—	1,358
Real estate, property and equipment	2,151	—	2,151
Reinsurance recoverables	3,727	—	3,727
Separate account asset	24,779	—	24,779
Deferred tax asset, net	458	—	458
Other assets	202	—	202
<b>Total assets</b>	<b>\$257,138</b>	<b>\$ 31,105</b>	<b>\$288,243</b>

	FLMHC Historical Consolidated	Pro Forma Adjustments	Federal Life Group, Inc. Pro Forma Consolidated
<b>Liabilities</b>			
Policyholder account balance	\$109,823	—	\$109,823
Separate account liability	24,779	—	24,779
Future policy benefits	72,313	—	72,313
Reserve for deposit accounts	10,850	—	10,850
Other policyholder funds	1,970	—	1,970
Deferred reinsurance settlements	2,949	—	2,949
Unearned revenue	1,387	—	1,387
Other liabilities	1,710	—	1,710
Total liabilities	<u>\$225,781</u>	<u>—</u>	<u>\$225,781</u>
Common stock	—	34 <sup>(2)(3)</sup>	\$ 34
Additional paid in capital	—	31,071	31,071
Retained earnings	\$ 26,600	—	26,600
Accumulated other comprehensive income	4,757	—	4,757
Total equity	<u>31,357</u>	<u>31,105</u>	<u>62,462</u>
Total liabilities and equity	<u>\$257,138</u>	<u>\$ 31,105</u>	<u>\$288,243</u>

Balance Sheet Footnotes (in thousands, except share and per share data):

- (1) The unaudited pro forma condensed balance sheet, as prepared, gives effect to the sale of the common stock at the minimum of the estimated range of our consolidated pro forma market value, as determined by the independent valuation of RP Financial. The unaudited pro forma condensed balance sheet is based on the assumptions set forth under "Use of Proceeds."
- (2) Pro forma additional paid in capital includes the net proceeds from the conversion as follows:

Sale of 3,400,000 shares at \$10 per share	\$34,000,000
Conversion and offering expenses	1,000,000
Commissions	1,895,000
Total	<u>\$31,105,000</u>
Common stock	\$ 34,000
Additional paid in capital	\$31,071,000
Total	<u>\$31,105,000</u>
- (3) No effect has been given to any issuances of additional shares in connection with the grant of options or awards of stock under the stock-based incentive plan that we have adopted. Under the stock-based incentive plan, we may issue 480,000 shares of our common stock. Of this, 140,000 shares may be granted as restricted stock awards and 340,000 shares may be used to award stock options under the stock-based incentive plan. The issuance of authorized but unissued shares of our common stock upon the exercise of stock options or for purposes of making restricted stock awards under the stock-based incentive plan instead of open market purchases would dilute the voting interests of existing shareholders by approximately 12.4% at the minimum of the offering.

**Unaudited Pro Forma Financial Information — Statement of Operations**  
**Year Ended December 31, 2017**

(dollars in thousands)	FLMHC Historical Consolidated	Pro Forma Adjustments	Federal Life Group, Inc. Pro Forma Consolidated
<b>Revenues</b>			
Insurance revenues	\$12,058	\$ —	\$ 12,058
Net investment income	8,523	— <sup>(1)</sup>	8,523
Net realized investment gains	2,228	— <sup>(1)</sup>	2,228
Other revenues	194	—	194
<b>Total revenues</b>	<u>\$23,003</u>	<u>\$ —</u>	<u>\$ 23,003</u>
<b>Benefits and Expenses</b>			
Policyholder benefits	13,712	—	13,712
Interest credit to policyholders	386	—	386
Operating costs and expenses	7,889	350 <sup>(2)</sup>	8,239
Amortization of deferred policy acquisition and sales inducement costs	2,108	—	2,108
Taxes, licenses and fees	716	—	716
Dividends to policyholders	66	—	66
<b>Total benefits and expenses</b>	<u>24,877</u>	<u>350</u>	<u>25,227</u>
<b>Loss before income taxes</b>	<u>(1,874)</u>	<u>(350)</u>	<u>(2,224)</u>
Tax expense (benefit)	34	<sup>(3)</sup>	34
<b>Net loss</b>	<u>\$ (1,908)</u>	<u>\$ (350)</u>	<u>\$ (2,258)</u>
Earnings per share data			
Basic and diluted earnings per common share			\$ (0.66)
Weighted average basic and diluted shares outstanding			3,435,000 <sup>(4)</sup>

**Unaudited Pro Forma Financial Information — Statement of Operations**  
**For the Six Months Ended June 30, 2018**

(dollars in thousands)	FLMHC Historical Consolidated	Pro Forma Adjustments	Federal Life Group, Inc. Pro Forma Consolidated
<b>Revenues</b>			
Insurance revenues	\$ 6,258	\$ —	\$ 6,258
Net investment income	4,218	— <sup>(1)</sup>	4,218
Net realized investment gains	324	— <sup>(1)</sup>	324
Other revenues	97	—	97
<b>Total revenues</b>	<u>\$10,897</u>	<u>\$ —</u>	<u>\$ 10,897</u>
<b>Benefits and Expenses</b>			
Policyholder benefits	7,018	—	7,018
Interest credit to policyholders	207	—	207
Operating costs and expenses	4,331	350 <sup>(2)</sup>	4,681
Amortization of deferred policy acquisition and sales inducement costs	897	—	897
Taxes, licenses and fees	398	—	398
Dividends to policyholders	31	—	31
<b>Total benefits and expenses</b>	<u>12,882</u>	<u>350</u>	<u>13,232</u>
<b>Loss before income taxes</b>	<u>(1,985)</u>	<u>(350)</u>	<u>(2,335)</u>
Tax expense (benefit)	9	— <sup>(3)</sup>	9
<b>Net loss</b>	<u>\$ (1,994)</u>	<u>\$ (350)</u>	<u>\$ (2,344)</u>
Loss per share data			
Basic loss per common share			\$ (0.59) <sup>(4)</sup>
Diluted loss per common share			(0.68)
Weighted average basic shares outstanding			3,400,000
Weighted average diluted shares outstanding			3,540,000

Statement of Operations Footnotes (dollars in thousands, except share and per share data):

- (1) We anticipate that we would earn approximately \$1,015,000 and \$501,500 of investment income, respectively, assuming the net proceeds were received and available for investment as of January 1, 2017 and January 1, 2018, respectively, and that they were invested with an average annual pre-tax rate of return of 3.23%. This income is not included as it is not “factually supportable” as that term is used in the Securities and Exchange Commission’s rules and regulations and therefore no pro forma Adjustment of investment income or realized investment gains is reflected.
- (2) Includes \$350,000 of compensation expense in connection with the granting of 140,000 shares of restricted stock to the Company’s executive officers upon the closing of the offerings, one fourth of which will vest at the end of each year after the date of grant. No pro forma adjustment of general operating expenses has been made to reflect additional costs that we could incur operating as a public company as such amount would not be “factually supportable.” We expect to incur higher operating costs as a public company.
- (3) No adjustment has been made to reflect any federal income tax effects of note (2) above because the Company has pro forma net loss before income taxes.

- (4) Includes 140,000 shares expected to be granted as restricted stock awards to the Company's executive officers at the closing of the offerings. No effect has been given to any issuances of additional shares in connection with the grant of options or awards of stock under the stock-based incentive plan that we have adopted. Under the stock-based incentive plan, we may issue 480,000 shares of our common stock. Of this, 140,000 shares may be granted as restricted stock awards and 340,000 shares may be used to award stock options under the stock-based incentive plan. The issuance of authorized but unissued shares of our common stock upon the exercise of stock options or for purposes of making restricted stock awards under the stock-based incentive plan instead of open market purchases would dilute the voting interests of existing shareholders by approximately 12.4% at the minimum of the offering.

#### **Additional Pro Forma Data**

The actual net proceeds from the sale of our common stock in the offering cannot be determined until the offering is completed. However, the offering net proceeds are currently estimated to be between \$31.1 million and \$43.0 million, based on the following assumptions:

- Expenses of the conversion and the offering will be \$1.0 million; and
- Placement agent commissions will equal \$1.960 million.

We have prepared the following table which sets forth our historical net loss and retained earnings prior to the offering and pro forma net loss and shareholders' equity following the offering. In preparing this table and in calculating the pro forma data, the following assumptions have been made:

- Pro forma earnings have been calculated assuming the stock had been sold at the beginning of the period; and
- Pro forma shareholders' equity amounts have been calculated as if our common stock had been sold in the offering on June 30, 2018, and, accordingly, no effect has been given to the assumed earning effect of the net proceeds from the offering.

The following pro forma information may not be representative of the financial effects of the offering at the date on which the offering actually occurs and should not be taken as indicative of future results of operations. The pro forma shareholders' equity is not intended to represent the fair market value of the common stock and may be different from amounts that would be available for distribution to shareholders in the event of liquidation.

The following table summarizes historical data and our pro forma data at June 30, 2018, based on the assumptions set forth above and in the table and should not be used as a basis for projection of the market value of the common stock following the completion of the offering.

	At or for the Year Ended June 30, 2018		
	3,400,000 Shares Sold at \$10.00 per Share (Minimum of Range)	4,000,000 Shares Sold at \$10.00 per Share (Midpoint of Range)	4,600,000 Shares Sold at \$10.00 per Share (Maximum of Range)
	(dollars in thousands, except share and per share data)		
<b>Pro forma offering proceeds</b>			
Gross proceeds of public offering	\$ 34,000	\$ 40,000	\$ 46,000
Less offering expenses and commissions	\$ 2,895	\$ 3,060	\$ 3,135
Net Proceeds	<u>\$ 31,105</u>	<u>\$ 36,940</u>	<u>\$ 42,965</u>
<b>Pro forma shareholders' equity</b>			
Historical Equity	\$ 23,517	\$ 23,517	\$ 23,517
Net proceeds	<u>\$ 31,105</u>	<u>\$ 36,940</u>	<u>\$ 43,011</u>
Pro forma shareholders' equity <sup>(1)</sup>	<u>\$ 54,622</u>	<u>\$ 60,457</u>	<u>\$ 66,528</u>
<b>Pro forma per share data</b>			
Total shares outstanding after the offering	3,400,000	4,000,000	4,600,000
Pro forma book value per share	\$ 16.06	\$ 15.11	\$ 14.63
Pro forma price-to-book value per share	62.3%	66.2%	68.4%
<b>Pro forma net income</b>			
Historical net loss	(1,994)	\$ (1,994)	\$ (1,994)
Pro forma loss	<u>\$ (2,344)</u>	<u>\$ (2,344)</u>	<u>\$ (2,344)</u>
Weighted average shares outstanding <sup>(2)</sup>	3,435,000	4,035,000	4,635,000
Pro forma loss per share	<u>\$ (0.68)</u>	<u>\$ (0.58)</u>	<u>\$ (0.51)</u>

- (1) No effect has been given to any issuances of additional shares in connection with the grant of options or awards of stock under the stock-based incentive plan that we have adopted. Under the stock-based incentive plan, we may issue 480,000 shares of our common stock. Of this, 140,000 shares may be granted as restricted stock awards and 340,000 shares may be used to award stock options under the stock-based incentive plan. The issuance of authorized but unissued shares of our common stock upon the exercise of stock options or for purposes of making restricted stock awards under the stock-based incentive plan instead of open market purchases would dilute the voting interests of existing shareholders by approximately 12.4% at the minimum of the offering.
- (2) Includes 35,000 shares that would vest after one year under the grant of 140,000 shares of restricted stock immediately after the closing of the offerings.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the financial statements and accompanying notes included elsewhere in this prospectus. Some of the information contained in this discussion and analysis and set forth elsewhere in this prospectus constitutes forward-looking information that involves risks and uncertainties. Please see "Forward Looking Statements" and "Risk Factors" for more information. You should review "Risk Factors" for a discussion of important factors that could cause actual results to differ materially from the results described, or implied by, the forward-looking statements contained herein.

### **Overview**

We provide life insurance protection targeted to middle class America. Industry data indicates there is a substantial unmet need for life insurance, particularly among domestic households with annual incomes of between \$40,000 and \$125,000, a market we refer to as the Middle Market. We also offer fixed interest and fixed index annuities, and we intend to introduce variable rate annuity products after completion of the conversion.

We conduct our business through our insurance company subsidiary, Federal Life Insurance Company, an Illinois-domiciled life insurance company. Federal Life sells its life insurance and annuity products through independent agents.

### **Insurance Business**

Our business primarily consists of the operations of Federal Life. Federal Life underwrites primarily life insurance and annuity products through approximately 1,000 independent insurance agents.

Our revenues consist of insurance premiums, spreads on annuity contracts, net investment income, and net realized gains/(losses) on investments. Our distributors consist of the independent insurance agencies that we contract with to sell our insurance products to the ultimate customers (policyholders) who buy our insurance policies. We recognize premium revenue from our policyholders. We purchase reinsurance coverage to help manage the risk on our insurance policies by paying, or ceding, a portion of the policyholder premiums to the reinsurance company. Our net insurance premiums reflect amounts collected from policyholders, plus premiums assumed under reinsurance agreements, less premiums ceded to reinsurance companies. Net investment income represents primarily interest income earned on fixed maturity security investments and dividends from equity securities that we purchase with cash flows from our premium revenues and royalties from oil and gas interests that we acquired in the 1930s and 1940s. These investments support our liability for policy reserves and provide the capital required to operate our insurance business. Capital requirements are primarily established by regulatory authorities. See "— Investments" and "Business — Regulation" and "Business — Risk-Based Capital (RBC) Requirements."

Expenses consist of benefits paid to policyholders or their beneficiaries under life insurance policies and distributions on annuity contracts. Benefit expenses also include additions to the reserve for future policyholder and annuity holder benefits to recognize our estimated future obligations under the policies and annuity contracts. Insurance benefit expenses are shown net of amounts ceded under our reinsurance contracts. We also incur policy acquisition costs that consist of commissions paid to agents, policy underwriting and issue costs, and variable sales costs. A portion of these policy acquisition costs are deferred and expensed over the life of the insurance policies acquired during the period. Our insurance operations also incur overhead costs for functional and administrative staff to support insurance operations, financial reporting, and information technology. We recognize income (loss) on operations to the extent that premium revenues, net investment income, and realized gains (losses) exceed (are less than) benefit expenses and general operating expenses for the period.



### **Strategic Goals**

We have identified the following strategic goals to grow our business and achieve the size and scale necessary to return to profitability:

- *Enter into Strategic Partnerships to Expand our Sales and Distribution.* We currently distribute our life insurance and annuity products through approximately 1,000 independent agents. We intend to expand our distribution platform by entering into strategic partnerships with companies that can broaden our distribution channels. We are currently working on establishing an agreement with a leading exchange-traded fund provider that will enable us to introduce and distribute our variable rate annuity product upon its introduction. We believe the standby purchaser can provide assistance in expanding our distribution network. We continue to strive to provide all of our distribution partners with the highest quality service possible.
- *Pursue Acquisitions of Life Companies and Related Businesses.* We intend to use the additional capital provided by this offering to explore possible acquisitions of other life insurance companies to grow our business and leverage our existing available administrative capacity. We will also explore opportunities to acquire related businesses, such as insurance agencies, that can expand our distribution network.
- *Continue to Introduce Innovative and Competitive Products.* We intend to be at the forefront of the fixed index and fixed rate annuity industry in developing and introducing innovative and competitive products. We offer a fixed index annuity that allows a choice among interest crediting strategies including both equity indexes as well as a traditional fixed rate strategy. We include a lifetime income benefit rider with our fixed index annuities and have a lifetime income benefit rider with gender-based income payments. After the closing of the offerings, we intend to introduce a variable annuity product. We believe that our continued focus on anticipating and being responsive to the product needs of the ever-growing population of retirees will lead to increased customer loyalty, revenues, and profitability.
- *Take Advantage of the Growing Popularity of Index Products.* Fixed index and single premium annuities have been profitable for us in both the short-term and long-term and impose minimal or no strain on our statutory surplus. We believe that the growing popularity of fixed index annuity products that allow equity and bond market participation without the risk of loss of the premium deposit presents an attractive opportunity to grow our business. The popularity of fixed index annuity products has increased in recent years with the availability of lifetime income benefit riders that provide an attractive alternative for converting accumulated retirement savings into lifetime income. We believe that there is a significant market for these products as the Baby Boomer generation continues to reach retirement age. We intend to capitalize on our reputation as a provider of fixed index annuities in this expanding segment of the annuity market.
- *Target Niche Markets for Our Products.* We intend to focus on niche markets for our products, such as the Hispanic market, the direct-to-consumer market, and the senior and retirement planning markets. Federal Life currently has a presence in the Hispanic market and maintains an entirely separate Spanish-language website that features content and themes unique to that target market. Federal Life is also committing substantial resources to upgrade its digital platform and intends to leverage these new digital distribution and service applications to meet the needs of today's consumers by promoting ease of access to information and efficient sales and customer service. We intend to target the senior and retirement planning markets with our existing fixed index annuity, flexible premium deferred annuity, and final expense plan insurance products.
- *Focus on High Quality Service to Agents and Policyholders.* We have maintained high quality personal service as one of our highest priorities since the inception of our company and continue to strive for an unprecedented level of timely and accurate service to both our agents and policyholders. We believe high quality service is one of our strongest competitive advantages.

- *Target Direct-to-Consumer Sales.* We are committing substantial resources to upgrade our digital platform to provide digital distribution and sales applications to meet the demands of today’s consumers by promoting ease of access to information and efficiency between sales and customer service. This permits us to generate more business from new and existing customers. We intend to provide access to our single premium deferred annuity, flexible premium deferred annuity, and single premium whole life products through the online platform that we are currently upgrading.

## Factors Affecting Our Results

### Accuracy of Our Pricing Assumptions

In order for our life insurance operations to be profitable, we must achieve product experience consistent with our pricing assumptions. We price our products using a number of assumptions that are designed to support the desired level of profitability. The key assumptions made are investment return (the investment income that we will earn on the funds held to support reserves and capital requirements), persistency (the number of lapsed policies that we expect by each policy year), mortality (our future claims experience), and operating expenses, which includes the commission rate that we pay to the agents that market our insurance products. Additionally, we make assumptions about the characteristics of our insureds including age, sex, underwriting class, and coverage amounts purchased. Our operating results will be affected by variances between our pricing assumptions and our actual experience.

### Investment Returns

We invest our free cash flow and funds that support our regulatory capital, surplus requirements, and policy reserves in investment securities that are included in our insurance and corporate segments. We earn income on these investments in the form of interest on fixed maturity securities (bonds and mortgage-backed securities) and dividends (equity holdings). Investment income is recorded net of investment related expenses as revenue. The amount of net investment income that we recognize will vary depending on the amount of invested assets that we own, the types of investments we own, the interest rates earned, and amount of dividends received on our investments.

Gains and losses on sales of investments and fair value changes in investments accounted for by the equity method are classified as “realized investment gains (losses)” and recorded as revenue. Capital appreciation and depreciation caused by changes in the market value of investments classified as “available for sale” is recorded in accumulated other comprehensive income. The amount of investment gains and losses that we recognize depends on the amount of and the types of invested assets we own and the market conditions related to those investments. Our cash needs can vary from time to time and could require that we sell invested assets to fund cash needs.

The low interest rate environment has resulted in our current reinvestment yields being lower than the overall portfolio yield, primarily for our investments in fixed maturity securities. Although the Federal Reserve has raised key short-term interest rates multiple times since the end of 2015, medium and long-term interest rates continue near historic lows. If medium and long-term interest rates remain at their current level, our portfolio yields can be expected to continue to decline in future periods. With the additional capital provided by the offering, we may rebalance our investment portfolio to seek higher yields on our securities investments. Higher yielding investments usually are associated with higher investment risks, which may result in us recognizing higher other than temporary impairments.

For our fixed maturity securities available for sale as of December 31, 2017, the annual scheduled payments through 2020, along with the average interest rate, are shown in the following schedule:

Year	Expected Cash Flows	
	From Maturities	Average Interest rate
2018	\$ 2,300,000	6.73%
2019	\$ 7,500,000	5.21%
2020	\$11,700,000	4.84%

As these assets mature, or are pre-paid, the current average book yield on fixed maturity securities available for sale of 3.98% at December 31, 2017 is expected to decline due to reinvesting in a lower interest rate environment. The average book yield that we would expect to receive on reinvesting in similar types and similarly rated securities was 3.23% as of December 31, 2017, which is equivalent to the market yield on our investment portfolio as of December 31, 2017.

As of December 31, 2017, we had \$219.7 million of insurance liabilities and policyholder and annuity account balances. Of this amount, \$81.3 million represents contracts with guaranteed minimum crediting rates that are at the guaranteed minimum rate, as shown in the following schedule:

<b>Guaranteed Minimum Crediting Rates December 31, 2017</b>	<b>(dollars in thousands)</b>
	<b>Account Value at Minimum Guaranteed Rate</b>
Policyholder account balances <sup>(1)</sup>	
Greater than 0% to 1%	\$ —
Greater than 1% to 3%	17,375
Greater than 3% to 4%	42,808
Greater than 4%	21,163
	<u>\$81,346</u>

(1) The table above is not adjusted for policy loans

The reinvestment of scheduled payments and pre-payments at rates below the current average book yield will impact future operating results to the extent we are unable to reinvest at a rate at least equal to the crediting rate. For the year ended December 31, 2017, we also had \$98.6 million of insurance liabilities representing participating contracts. The policyholder dividends for these contracts are determined annually, based on, among other factors, the experience, including investment experience, of the policies.

Assuming the investment rate is our average rate of 3.23%, as of December 31, 2017, for the period from January 1, 2018 through December 31, 2018, and credit spreads remain unchanged from levels as of December 31, 2017, we estimate that the unfavorable impact to net interest margins compared to the average interest rate of securities maturing and prepaying would be \$100,000 in 2018.

#### ***Persistency Experience***

We use our historical experience to develop our assumptions as to the amount and timing of future policy lapses. If actual policy lapse rates exceed the lapse rates assumed in pricing our products, we will experience a faster write-off of our deferred acquisition costs and lower premium revenues. If a policy lapses within a few years after issuance, we may not receive enough premium to cover all of our acquisition costs for the policy.

#### ***Mortality Experience***

We use our historical experience combined with industry experience to develop our assumptions for the level, frequency, and pattern of future claims experience. If our actual experience differs from historical industry experience, we may incur claims in excess of the reserves that we have established.

#### ***Operating Expenses***

Our level of operating expenses affects our reported net income (loss). Our general operating expenses include expenses that vary based on the growth in our revenues. Policy acquisition costs vary with the amount of first year premium each period, and variable policy administration costs increase as our number of insurance policies in force increase. We also incur other expenses for projects and initiatives designed to increase growth or improve operational efficiency. Our expenses also include amounts spent on general and administrative expenses required to support our business operations, such as financial reporting, rent, information technology, and other costs. These expenses are fixed costs that do not vary directly with business growth.

### ***Income Taxes***

We record federal income tax expense on our operating results. We file a consolidated federal income tax return.

### ***Critical Accounting Policies***

Our critical accounting policies are described in Note 2 — Basis of Presentation and Summary of Significant Accounting Policies to our consolidated financial statements included elsewhere in this prospectus. The accounting policies discussed in this section are those that we consider to be the most critical to an understanding of our financial statements. The preparation of the consolidated financial statements in conformity with GAAP requires management to use judgment in making estimates and assumptions that affect reported amounts of assets, liabilities, revenues, expenses, and related disclosures. We regularly evaluate our estimates and judgments based on historical experience, market indicators, and other relevant factors and circumstances. Actual results may differ from these estimates under different assumptions or conditions and may affect our financial position and results of operations.

### ***Valuation of Fixed Maturity Securities and Equity Securities***

Our fixed maturity securities are classified as “available-for-sale” securities which are carried at fair value on the balance sheet. Fair value represents the price that would be received to sell an asset in an orderly transaction between market participants on the measurement date. For investments that are not actively traded, the determination of fair value requires us to make a significant number of assumptions and judgments. Fair value determinations include consideration of both observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect our view of market assumptions in the absence of observable market information. Security pricing is applied using a hierarchy approach.

*Level 1* — Unadjusted quoted prices for identical assets in active markets the Company can access.

*Level 2* — This Level includes fixed maturity securities priced principally by independent pricing services using observable inputs other than Level 1 prices, such as quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments on inactive markets; and model-derived valuations for which all significant inputs are observable market data. Level 2 instruments include most corporate debt securities and U.S. government and agency mortgage-backed securities that are valued by models using inputs that are derived principally from or corroborated by observable market data.

*Level 3* — Fair values are derived from valuation techniques in which one or more significant inputs are unobservable. Level 3 instruments include less liquid securities for which significant inputs are unobservable in the market, such as structured securities and private placement bonds that require significant management assumptions or estimation in the fair value measurement. Level 3 hierarchy requires the use of observable market data when available. Level 3 instruments also include a private placement equity fund.

At December 31, 2017, the estimated fair value of our investments by fair value hierarchy was as follows:

**Fair Value of Investments as of December 31, 2017**  
(dollars in thousands)

<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total Fair Value</b>
\$37,448	\$184,290	\$2,182	\$223,920
16.72%	82.30%	0.98%	100.0%

Level 1 securities include principally U.S. Treasury bonds and exchange-traded funds that are valued based on quoted market prices for identical assets.

All of the fair values of our fixed maturity and equity securities within Level 2 are based on prices obtained from independent pricing services. For fixed maturity securities that do not trade on a daily basis, the pricing services prepare estimates of fair value measurements using their pricing applications which

incorporate a variety of inputs including, but not limited to, benchmark yields, reported trades, broker/dealer quotes, issuer spreads, and U.S. Treasury curves. Specifically for asset-backed securities, key inputs include prepayment and default projections based on past performance of the underlying collateral and current market data. Securities with validated quotes from pricing services are reflected within Level 2 of the fair value hierarchy, as they generally are based on observable pricing for similar assets or other market significant observable inputs.

Level 3 fair value classification consists primarily of investments in commercial real estate funds where the fair value of the security is determined by the asset manager based on an independent appraisal.

If we believe the pricing information received from third party pricing services is not reflective of market activity or other inputs observable in the market, we may challenge the price through a formal process with the pricing service. Historically, we have not challenged or updated the prices provided by third-party pricing services. However, any such updates by a pricing service to be more consistent with the presented market observations, or any adjustments made by us to prices provided by third-party pricing services, would be reflected in the balance sheet for the current period.

When the inputs used to measure fair value fall within different levels of the hierarchy, the Level within which the fair value measurement is categorized is based on the lowest Level input that is significant to the fair value measurement in its entirety. Thus, a Level 3 fair value measurement may include inputs that are observable (Level 1 or Level 2) and unobservable (Level 3).

#### ***Other-Than-Temporary Impairments on Available-For-Sale Securities***

Securities that are classified as available-for-sale are subject to market declines below amortized cost (a gross unrealized loss position). When a gross unrealized loss position occurs the security is considered impaired. Quarterly or more frequently when necessary, we review each impaired security to identify whether the impairment may be other-than-temporary (“OTTI”) and require the recognition of an impairment loss in the current period earnings. Indication of OTTI includes potential credit deterioration whether due to ratings downgrades, unexpected price variances, and/or other company or industry specific concerns. A number of factors are considered in determining whether or not a decline in a specific security is other-than-temporary, including our current intention or need to sell the security or an indication that a credit loss exists. An impairment loss will be recorded if our intention is to sell an impaired security or it is considered to be more likely than not we will be required to sell the security. An impairment loss will be recorded to the extent that we determine that the impaired security will experience a credit loss.

Our review of our available-for-sale securities for impairment includes an analysis of impaired securities in terms of severity and/or age of the gross unrealized loss. Additionally, we consider a wide range of factors about the security issuer and use our best judgment in evaluating the cause of the decline in the estimated fair value of the security and in assessing the likelihood of near-term recovery. Inherent in our evaluation of the security are assumptions and estimates about the operations of the issuer and its future earnings potential that includes the evaluation of the financial condition and expected near-term and long-term prospects of the issuer, collateral position, the relevant industry conditions and trends, and whether expected cash flows will be sufficient to recover the entire amortized cost basis of the security.

The credit loss component of fixed maturity security impairment is calculated as the difference between amortized cost of the security and the present value of the expected cash flows of the security. The present value is determined using the best estimate of cash flows discounted at the effective rate implicit to the security at the date of purchase or prior impairment. The methodology and assumptions for estimating the cash flows vary depending on the type of security. For mortgage-backed and asset-backed securities, cash flow estimates, including prepayment assumptions, are based on data from widely accepted third-party sources or internal estimates. In addition to prepayment assumptions, cash flow estimates vary based on assumptions regarding the underlying collateral characteristics, expectations of delinquency and default rates, and structural support, including subordination and guarantees. If the present value of the modeled expected cash flows equals or exceeds the amortized cost of a security, no credit loss exists and the security is considered to be temporarily impaired. If the present value of the expected cash flows is less than amortized cost, the security may be determined to be other-than-temporarily impaired for credit reasons

and recognized as an OTTI loss in earnings. The portion of the OTTI that is not considered a credit loss is recognized as OTTI in accumulated comprehensive income.

We had no other-than-temporarily impaired securities at December 31, 2017 or 2016.

### ***Deferred Policy Acquisition Costs (DAC)***

For our insurance and annuity business, the costs of acquiring new business are deferred to the extent that they are directly related to the successful acquisition of insurance or annuity contracts. Deferred acquisition costs include commissions paid in the first policy year that are in excess of the ultimate renewal commissions payable on the policy. We also defer costs associated with policy underwriting and issuance related to the successful acquisition of insurance contracts. Non-deferred first year acquisition costs that are expensed as incurred include expenses that do not meet the definition of a deferrable cost, which includes the acquisition costs incurred on insurance applications that do not result in an in-force policy (unsuccessful efforts).

The amortization of DAC for traditional life insurance products is determined as a level proportion of premiums based on actuarial methods and assumptions about mortality, morbidity, lapse rates, expenses, and future yield on related investments, established by us at the time the policy is issued. GAAP requires that assumptions for these types of products not be modified while the policy is outstanding. Amortization is adjusted each period to reflect policy lapse or termination rates compared to anticipated experience. Accordingly, acceleration of DAC amortization could occur if policies terminate earlier than originally assumed. We establish the assumptions used to determine DAC amortization based on estimates using company experience and other relevant information that is used to price the products. We monitor our actual experience and will update the actuarial factors applied to future policy issues if warranted. The selection of actuarial assumptions requires considerable judgment and has inherent uncertainty. Should actual policy lapse experience be higher than that assumed during a reporting period, we will amortize our DAC balance faster and report lower net income.

We evaluate the recoverability of our DAC asset as part of our premium deficiency testing. If a premium deficiency exists, we reduce DAC by the amount of the deficiency through a charge to current period earnings (loss). If the deficiency is more than the recognized DAC balance, we reduce the DAC balance to zero and increase the reserve for future policy benefits by the excess with a corresponding charge to current period earnings (loss). See "Future Policy Benefit Reserves" below for more information on premium deficiency testing.

For annuity products, DAC is amortized generally in proportion to expected gross profits from investment spreads, including the cost of hedging the fixed indexed annuity obligations, and, to a lesser extent, from product charges net of expected excess payments for lifetime income benefit riders, and mortality and expense margins. Current and future period gross profits/margins for fixed index annuities also include the impact of amounts recorded for the change in fair value of derivatives and the change in fair value of embedded derivatives. That amortization is adjusted retrospectively through an unlocking process when estimates of current or future gross profits/margins (including the impact of net realized gains on investments and net OTTI losses recognized in operations) to be realized from a group of products are revised. Deferred policy acquisition costs and deferred sales inducements are also adjusted for the change in amortization that would have occurred if available-for-sale fixed maturity securities and equity securities had been sold at their aggregate fair value at the end of the reporting period and the proceeds reinvested at current yields. The impact of this adjustment is included in accumulated other comprehensive income within consolidated stockholders' equity, net of applicable taxes. See Note 2 to our audited financial statements at page F-1 for more information on deferred policy acquisition costs and deferred sales inducements.

### ***Future Policy Benefit Reserves***

We calculate and maintain reserves for estimated future claims payments to policyholders using actuarial assumptions in accordance with industry practice and GAAP. Many factors affect these reserves, including mortality trends, policy persistency, and investment returns. We establish our reserves based on estimates, assumptions, and our analysis of historical experience.

The calculation of future policy reserves requires the use of significant judgment and is inherently uncertain. If our actual experience differs from the experience assumed in establishing our reserves, the impact of these differences is reflected in the results of operations in each period. If actual claims are higher than assumed claims experience, our reported income (loss) will be reduced (increased) for the periods in which this experience occurs. If actual policy lapses are higher than that assumed, our future policy benefit reserves will be reduced for the period in which this experience occurs.

The primary reserve method that is used in calculation of our future policy benefit reserves is the net level premium method. The net level premium method requires that the future policy benefit reserves are accrued as a level proportion of the premium paid by the policyholder. In applying this method, we use a number of actuarial assumptions that represent management's best estimate at the time the contract was issued with the addition of a margin for adverse deviation. Actuarial assumptions include estimates of morbidity, mortality, policy persistency, discount rates, and expenses over the life of the contracts.

A premium deficiency can exist if the discounted present value of future net premiums is not sufficient to cover anticipated future claims and future DAC amortization. To assess the adequacy of our benefit reserves, we annually perform premium deficiency testing for each of our product groups. In performing our premium deficiency testing we compute our reserves using best estimate assumptions as of the date of the test without provision for adverse deviation. We then compare the results of the recomputed reserves to the recorded reserves net of the DAC asset. If reserves determined using best estimate assumptions are lower than the recorded net GAAP liability, no premium deficiency exists and no adjustments are recorded. If reserves determined based on management's current best estimate assumptions are greater than the existing reserves net of the deferred acquisition costs asset, we first reduce the amount of recorded DAC to eliminate the premium deficiency. If DAC is reduced to zero but the premium deficiency has not been eliminated, reserves are increased to eliminate the premium deficiency. Recording a premium deficiency will reduce our reported net income, or increase our reported loss, for the period.

In connection with our premium deficiency testing on our most significant business lines, we performed sensitivity analyses on our life and annuities business lines to capture the effect that certain key assumptions have on expected future cash flows and the impact of those assumptions on the adequacy of DAC balances and GAAP benefit reserves. The sensitivity tests are performed independently, without consideration for any correlation among the key assumptions.

We performed the following sensitivity tests as of December 31, 2017:

- future lapse assumptions increased by a multiplicative factor of 1.10,
- future mortality increased by a multiplicative factor of 1.10 for all blocks except direct annuities; for direct annuities, mortality was decreased by multiplying baseline mortality by a multiplicative factor of 0.90, and
- future investment yield assumptions were lowered by 10 basis points.

Under all tests described above, the DAC was still recoverable on the life and the annuity lines. Additionally, the benefit reserve under these tests was demonstrated to be adequate.

### ***Income Taxes***

We record federal income tax expense in our consolidated statements of earnings based on pre-tax income as determined using GAAP accounting. The timing of the recognition of certain income and expense items for GAAP accounting can differ from the timing of recognition of the same income and expense items in our federal tax returns. The timing of recognition in the federal tax return is based on tax laws and regulations. As a result, the annual tax expense reflected in our consolidated statements of earnings is different than that reported in the tax returns. We account for income taxes under the asset and liability method, which requires the recognition of deferred taxes for temporary differences between the financial statement and tax return basis of assets and liabilities. Deferred tax assets generally represent items that can be used as a tax deduction or credit in future years for which we have already recorded the tax benefit in our income statement. Deferred tax liabilities generally represent tax expense recognized in our financial statements for which payment has been deferred, or expenditures for which we have already taken a deduction in our tax return but have not yet been recognized in our financial statements. Under

GAAP we are required to evaluate the recoverability of our deferred tax assets and establish a valuation allowance if necessary to reduce our deferred tax assets to an amount that is more likely than not to be realized. Significant judgment is required in determining whether valuation allowances should be established, as well as the amount of such allowances.

We establish or adjust valuation allowances for deferred tax assets when we estimate that it is more likely than not that future taxable income will be insufficient to fully use a deduction or credit. In assessing the need for the recognition of a valuation allowance for deferred tax assets, we consider whether it is more likely than not that some portion, or all, of the deferred tax assets will not be realized and adjust the valuation allowance accordingly. We evaluate all significant available positive and negative evidence as part of our analysis. Negative evidence includes the existence of losses in recent years. Positive evidence includes the forecast of future taxable income, tax-planning strategies that would result in the realization of deferred tax assets, and the presence of taxable income in prior carryback years. The underlying assumptions we use in forecasting future taxable income require significant judgment and take into account our recent performance. The ultimate realization of deferred tax assets depends on the generation of future taxable income during the periods in which temporary differences are deductible or creditable. If actual experience differs from these estimates and assumptions, the recorded deferred tax asset may not be fully realized, resulting in an increase to income tax expense in our results of operations.

Deferred Tax Liability (in thousands)	December 31, 2017	December 31, 2016
Total deferred tax assets	\$ 9,139	\$13,939
Total deferred tax liabilities	(4,668)	(7,127)
Deferred tax asset (liability) before valuation allowance	4,471	6,812
Valuation allowance	(4,013)	(6,148)
Deferred income tax liability	<u>\$ 458</u>	<u>\$ 664</u>

With the current valuation allowance, the current tax benefit is limited.

The calculation of benefit reserves and of the DAC amortization requires us to make assumptions as to mortality, persistency, expense, and interest rates, and to use such assumptions to project the blocks of business into the future. If experience were to deviate adversely from these assumptions on a sustained basis, we may find it necessary to either strengthen the benefit reserves or to write-off the DAC earlier than anticipated. We conduct recoverability and loss recognition tests on a periodic basis; the results of which indicate that our assumptions are reasonable, and that the net liabilities are sufficient to meet all future obligations. In terms of DAC Recoverability, the aggregate K-Factors as of December 31, 2017 were as follows:

- FAS60 Life Products — 20%
- FAS97 Life Products — 57%
- FAS97 Annuity Products — 49%

Recoverability becomes an issue when these percentages approach or exceed 100%. There is a significant margin in these K-Factors, and this is not expected to change into the foreseeable future.

Our most recent loss recognition testing, as of December 31, 2017, for the SFAS 60 life products demonstrated that there is a 30% excess margin in the reported GAAP Benefit Reserve over the minimum required gross premium valuation reserve. We regard a margin of this magnitude to be significant. Based on our analysis, we expect the DAC to be recoverable and the benefit reserves to be adequate into the foreseeable future.

Changes in balance sheet items and in profitability will affect the deferred tax asset calculation and assessment. The valuation allowance is reviewed periodically and will change with the outlook for profitability and recoverability of loss carryforward amounts. We have used reasonable assumptions in the past and do not expect any significant future changes in the assumptions or methodology applied. Estimates for recoverability of the deferred tax asset will depend on expected future profitability that will be influenced by external economic factors and will also be sensitive to changes in future corporate tax rates.



## **Principal Revenue and Expense Items**

### ***Revenues***

Our primary revenue sources are life insurance premiums, net spreads on annuity contract deposits, net investment income, realized investment gains and losses, and other income.

### ***Net Premiums***

Net premiums consist of direct life insurance premiums due and collected from our policyholders on in-force insurance policies, less reinsurance premiums paid to reinsurers. Direct premiums are recorded in our insurance segment and classified as first year premiums when they relate to the first calendar year coverage period. Premiums for policies outside their first calendar year are called renewal premiums.

### ***Net Spreads on Annuity Contract Deposits***

We recognize income on the difference between the crediting rate on annuity contracts that we have issued and the return on the investments underlying the annuity contract, less the cost of hedging the return on such investments in the case of index annuities.

### ***Net Investment Income***

Investment income consists of income generated from our investment portfolio and is recorded net of related expenses incurred to manage our investments. Investment income primarily consists of interest income earned on fixed maturity investments and dividends earned on our equity holdings, net of related expenses incurred to manage our investments, and royalties received with respect to oil and gas rights that we hold.

### ***Net Realized Investment Gains (Losses)***

Net realized investment gains (losses) result from sales of investment securities and OTTI for estimated credit losses of fixed income investments.

### ***Other Revenue***

Other revenue consists of fee income from the separate account business.

### ***Benefits and Expenses***

This category consists of benefits to policyholders, which include policyholder dividends and policyholder dividend obligations (PDO), interest credited to policyholder and contract holder balances, general operating expenses and amortization of DAC.

- *Life Insurance Benefits*

Benefit expenses include claims paid or payable on in-force insurance policies, as well as the change in our reserves for future policy benefits during the period. Benefit expenses are reduced by amounts ceded to reinsurance companies with whom we contract to share policy risks.

- *Interest Credited to Policyholder and Contractholder Account Balances*

The interest credited primarily relates to amounts that contractholders earn on any contractholder deposits from our annuity contracts and other amounts left on deposit with us. Our universal life policies and annuity contracts require Federal Life to periodically establish the crediting rate to be paid on policyholder and contractholder deposits.

### ***Operating Costs and Expenses***

Operating expenses include policy acquisition costs in excess of amounts that qualify for deferral, ceding commissions received on ceded reinsurance in excess of amounts deferred, variable policy administration costs, general overhead and administration costs, and insurance premium taxes and assessments paid to various states. Overhead and administrative expenses include employee costs (salaries, bonuses, and benefits), information technology, and costs of third party administrators and other contractors.

**Amortization of DAC**

DAC amortization represents the actuarially determined reduction in the DAC asset for the period. The amount of acquisition cost amortization recognized each period is based on actual factors established when the insurance contracts were written.

**Amortization of Sales Inducement Costs**

Sales inducements such as bonuses on index annuity products are capitalized and amortized over the expected term of the product.

**Results of Operations**

The major components of operating revenues, benefits and expenses, and net (loss) income are as follows (in thousands):

**FLMHC Consolidated Results of Operations**  
(dollars in thousands)

	Six Months Ended June 30,		Year Ended December 31,	
	2018	2017	2017	2016
<b>REVENUES</b>				
Net insurance revenues	\$ 6,258	\$ 6,596	\$ 12,058	\$ 14,427
Net investment income	4,218	4,292	8,523	8,821
Net realized investment gains	324	904	2,228	1,783
Other income	97	85	194	173
Total revenues	<u>10,897</u>	<u>11,877</u>	<u>23,003</u>	<u>25,204</u>
<b>BENEFITS AND EXPENSES</b>				
Policyholder benefits	7,018	7,215	13,712	16,069
Interest credit to policyholders	207	114	386	315
Operating costs and expenses	4,331	3,994	7,889	8,099
Amortization of deferred policy acquisition and sales inducement costs	897	1,124	2,108	1,876
Taxes, licenses and fees	398	392	716	722
Dividends to policyholders	31	31	66	86
Total benefits and expenses	<u>12,882</u>	<u>12,870</u>	<u>24,877</u>	<u>27,167</u>
Loss before income taxes	(1,985)	(993)	(1,874)	(1,963)
Tax expense	9	14	34	34
<b>NET LOSS</b>	<u>\$ (1,994)</u>	<u>\$ (1,007)</u>	<u>\$ (1,908)</u>	<u>\$ (1,997)</u>

**Revenues**

For the year ended December 31, 2017, revenues were \$23.0 million compared to \$25.2 million for the year ended December 31, 2016. This decrease of \$2.2 million (8.7%) results primarily from decreases in net insurance premiums and net investment income, which was partially offset by an increase in realized investment gains. Net insurance premiums decreased by \$2.4 million primarily due to lower sales of the Company's life insurance products and more ceded premium, and net investment income decreased by \$298,000 as a result of an overall decrease in the effective yield due to investment asset base mix. Realized investment gains increased by \$445,000 primarily due to the increased sales of mineral rights by Americana Realty Company.

**Benefits and Expenses**

For the year ended December 31, 2017, total benefits and expenses were \$24.9 million compared to \$27.2 million for the year ended December 31, 2016. This decrease of \$2.3 million (8.5%) was due primarily to a decrease in life claims of \$700,000 and lower annuity surrenders of \$500,000 and lower operating costs of \$200,000.

**Net Loss Before Taxes**

For the year ended December 31, 2017, we had a loss before taxes of \$1.9 million, which was an improvement of \$89,000 from 2016.

**Tax Expense**

Our income tax expense was \$34,000 for both 2017 and for 2016.

**Insurance Revenues**

For the year ended December 31, 2017, net insurance premiums were \$12.1 million compared to \$14.4 million for the year ended December 31, 2016. This decrease of \$2.3 million (16.4%) was attributable mainly to a \$2.3 million decrease in life net premiums (16.4%). The decrease in life net premium revenue was due primarily to a \$1.1 million decrease in premiums from our single premium whole life product and higher ceded premiums of \$656,000 as a result of a new reinsurance treaty.

**Net Investment Income**

For the year ended December 31, 2017, net investment income was \$8.5 million compared to \$8.8 million for the year ended December 31, 2016. This decrease of \$300,000 (3.4%) is due to lower yields on invested assets as maturing investments were reinvested at lower interest rates.

**Net Realized Investment Gains**

For the year ended December 31, 2017, realized investment gains were \$2.2 million compared with realized investment gains of \$1.8 million for the year ended December 31, 2016. This increase of \$445,000 (24.7%) was mainly due to larger gains from sales of mineral rights, partially offset by lower gains on equity securities.

**Other Revenues**

For the year ended December 31, 2017, other revenues were \$194,000 compared with \$173,000 for the year ended December 31, 2016. This increase of \$21,000 (12.1%) is primarily due to higher fee income from our separate account business in 2017.

**Policyholder Benefits**

For the year ended December 31, 2017, policyholder benefits were \$13.7 million compared with \$16.1 million for the year ended December 31, 2016. This decrease of \$2.4 million (14.7%) resulted mainly from reduced claim benefits of \$687,000 (6.7%) and a \$1.1 million (1.5%) decrease in life benefit reserves due to ceding more business under our reinsurance treaty. The decrease in incurred claims benefits were due to lower life claims.

**Interest Credit to Policyholders**

For the year ended December 31, 2017, interest credited was \$386,000 compared to \$315,000 for the year ended December 31, 2016. This increase of \$71,000 (22.5%) is due to lower account balances in 2016.

**Operating Costs and Expenses**

For the year ended December 31, 2017, operating costs and expenses were \$7.9 million compared to \$8.1 million for the year ended December 31, 2016. This decrease of \$210,000 (2.6%) was mainly due to an increase in deferrable expenses.

**Amortization of Deferred Acquisition and Sales Inducement Costs**

For the year ended December 31, 2017, amortization of deferred acquisition and sales inducement costs was \$2.1 million compared to \$1.9 million for the year ended December 31, 2016. This increase of \$232,000 (12.4%) resulted primarily from amortization of a higher deferred acquisition balance at the end of 2016 than at the end of 2015.

**Change in fair value of derivatives**

Our derivatives consist of call options and call option spreads purchased to fund annual index credits on fixed index annuities. The components of change in fair value of derivatives are as follows:

	<b>Year Ended December 31,</b>	
	<b>2017</b>	<b>2016</b>
	<b>(dollars in thousands)</b>	
Call options:		
Gain (loss) on option expiration	\$ 94	\$ 0
Change in unrealized gains (losses)	140	—

The differences between the change in fair value of derivatives between years for call options are primarily due to the performance of the indices upon which our call options are based. A substantial portion of our call options are based upon the S&P 500 Index. The range of index appreciation (after applicable caps and participation rates) for options expiring during these years is as follows:

	<b>Year Ended December 31,</b>	
	<b>2017</b>	<b>2016</b>
S&P 500 Index	16.04 – 18.50%	12.59 – 12.59%
Annual point-to-point strategy		
Cap	3.00 – 3.75%	3.50 – 3.50%
Participation Rate	30.0 – 35.0%	30.0 – 30.0%

The change in fair value of derivatives is also influenced by the aggregate cost of options purchased. The aggregate cost of options has increased primarily due to an increased amount of fixed index annuities in force. The aggregate cost of options is also influenced by the amount of policyholder funds allocated to the various indices and market volatility which affects option pricing. See Note 5 to our audited financial statements at page [F-18](#) “Derivative Instruments”

**Annuity product charges**

Annuity product charges (surrender charges assessed against policy withdrawals and fees deducted from policyholder account balances for lifetime income benefit riders) increased 340% to \$102,584 in 2017 from \$23,308 in 2016. The components of annuity product charges are set forth in the table that follows:

	<b>Year Ended December 31,</b>	
	<b>2017</b>	<b>2016</b>
	<b>(dollars in thousands)</b>	
Surrender charges	\$ 69	\$ 22
Lifetime income benefit riders (LIBR) fees	\$ 34	\$ 1
	<u>\$ 103</u>	<u>\$ 23</u>
Withdrawals from annuity policies subject to surrender charges	\$1,091	\$ 624
Average surrender charge collected on withdrawals subject to surrender charges	6.32%	3.60%
Fund values on policies subject to LIBR fees	\$4,496	\$ 114
Weighted average per policy LIBR fee	0.75%	0.76%

The increases in annuity product charges were primarily attributable to growth and aging of the business attributable to higher volume of business on which lifetime income benefit rider charges were assessed and increased surrenders for which surrender charges were imposed. See “— *Interest sensitive and index benefit products*” below for corresponding expense recognized on lifetime income benefit riders. Surrender charges increased in 2017 and 2016 due to an increase in withdrawals from annuity policies subject to surrender charges as compared to prior years.

**Interest sensitive and index product benefits**

Account values for interest sensitive and index benefit products increased 10.4% to \$109.8 million in 2017 from \$99.4 million in 2016. The components of interest sensitive and index benefit products are summarized as follows:

	<b>Year Ended December 31,</b>	
	<b>2017</b>	<b>2016</b>
	<b>(dollars in thousands)</b>	
Index credits on index policies	\$ 145	\$ 5
Interest credited (including interest credited on fixed allocation for fixed index annuities)	\$4,209	\$3,927
Lifetime income benefit riders	(34)	(1)
	<u>\$4,320</u>	<u>\$3,931</u>

The changes in index credits were attributable to changes in the level of appreciation of the underlying indices (see discussion above under “— *Change in fair value of derivatives*”) and the amount of funds allocated by policyholders to the respective index options. Total net proceeds received upon expiration of the call options purchased to fund the annual index credits were \$154,000 for the year ended December 31, 2017, while there were no net proceeds received in 2016. The increase in interest credited in 2017 was primarily due to an increase in the amount of annuity liabilities outstanding receiving a fixed rate of interest. The average amount of annuity liabilities outstanding (net of annuity liabilities ceded under coinsurance agreements) increased 11.7% to \$63.7 million in 2017 from \$57.0 million in 2016. See “— *Annuity product charges.*”

**Net loss**

For the year ended December 31, 2017, the net loss was \$1.9 million compared to a net loss of \$2.0 million for the year ended December 31, 2016. Lower insurance revenues and investment income in 2017 were mostly offset by higher realized gains on investments and lower policyholder benefits expense from a reduction in the reserve for future benefit claims.

**Six Months Ended June 30, 2018 Compared to Six Months Ended June 30, 2017****Revenues**

For the six months ended June 30, 2018, revenues were \$10.9 million compared to \$11.9 million for the six months ended June 30, 2017. This decrease of \$980,000 (8.3%) resulted from lower net insurance premiums and lower realized gains on investments. Net insurance revenues decreased by \$338,000 primarily due to increased ceded premiums in the Company’s life insurance products. Net investment income decreased by \$74,000 as a result of lower yields on invested assets. Realized investment gains decreased by \$580,000 due to nonrecurring redemptions and sales of securities.

**Benefits and Expenses**

Total benefits and expenses for the six months ended June 30, 2018, were unchanged from the \$12.9 million for the six months ended June 30, 2017. Policyholder benefits decreased by \$197,000 (2.7%) and amortization of DAC and deferred sales inducement costs decreased by \$227,000 (20.2%), offset by an increase in interest credited to policyholders of \$93,000 (81.6%) and an increase of \$337,000 (8.4%) in operating costs and expenses due to higher reorganization expenses.

**Loss Before Income Taxes**

For the six months ended June 30, 2018, we had a loss before taxes of \$2.0 million compared to a loss before taxes of \$1.0 million for the six months ended June 30, 2017. This increase of \$1.0 million (98%) in loss before taxes was primarily due to lower insurance revenues and reduced realized investment gains, and the increase in operating costs and expenses due to higher reorganization expenses.

**Tax Expense**

For the six months ended June 30, 2018, income tax expense was \$9,000 compared to an income tax expense of \$14,000 for the six months ended June 30, 2017. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies — Income Taxes.”

**Insurance Revenues**

For the six months ended June 30, 2018, insurance revenues were \$6.3 million compared to \$6.6 million for the six months ended June 30, 2017. This decrease of \$338,000 (5.1%) was due to higher ceded premiums as a result of a new reinsurance treaty that became effective in October 2017.

**Net Investment Income**

For the six months ended June 30, 2018, net investment income was \$4.2 million compared to \$ 4.3 million for the six months ended June 30, 2017. This decrease of \$74,000 (1.7%) is mainly due to lower yields on invested assets due to lower interest rates.

**Net Realized Investment Gains**

For the six months ended June 30, 2018, realized investment gains were \$324,000 compared with realized investment gains of \$904,000 for the six months ended June 30, 2017. This decrease of \$580,000 million (64.2%) was due mainly to lower realized gains on equity securities.

**Other Revenues**

For the six months ended June 30, 2018, other revenues were \$97,000 compared with \$85,000 for the six months ended June 30, 2017. This increase of \$12,000 (14.1%) is primarily due to higher fee income from our separate account business in 2018.

**Policyholder Benefits**

For the six months ended June 30, 2018, policyholder benefits were \$ 7.0 million compared with \$7.2 million for the six months ended June 30, 2017. This decrease of \$200,000 (2.9 %) resulted from lower death benefits partially offset by ordinary reserve increases.

**Interest Credit to Policyholders**

For the six months ended June 30, 2018, interest credited was \$207,000 compared to \$114,000 for the six months ended June 30, 2017. This increase of \$93,000 (81.6%) is mainly due to new business.

**Operating Costs and Expenses**

For the six months ended June 30, 2018, operating costs and expenses were \$4.3 million compared to \$4.0 million for the six months ended June 30, 2017. This increase of \$337,000 (8.4%) was mainly a result of higher reorganizational costs, partially offset by lower general insurance expenses.

**Amortization of deferred acquisition and sales inducement costs**

For the six months ended June 30, 2018, amortization of deferred acquisition costs was \$0.9 million compared to \$1.1 million for the six months ended June 30, 2017. This decrease of \$200,000 (20.2%) resulted primarily from better experience in certain plans.

**Change in fair value of derivatives**

Our derivatives consist of call options and call option spreads purchased to fund annual index credits on fixed index annuities. The components of change in fair value of derivatives are as follows:

	Six Months Ended June 30,	
	2018	2017
(dollars in thousands)		
Call options:		
Gain (loss) on option expiration	\$ 116	\$ 2
Change in unrealized gains/losses	\$(108)	\$51

The differences between the change in fair value of derivatives between years for call options are primarily due to the performance of the indices upon which our call options are based. A substantial portion of our call options are based upon the S&P 500 Index. The range of index appreciation (after applicable caps and participation rates) for options expiring during these periods is as follows:

	Six Months Ended June 30,	
	2018	2017
S&P 500 Index	14.24 – 15.72%	16.04 – 17.47%
Annual point-to-point strategy		
Cap	3.50 – 3.50%	3.50 – 3.75%
Participation rate	35.0 – 35.0%	33.0 – 35.0%

The change in fair value of derivatives is also influenced by the aggregate costs of options purchased. The aggregate cost of options has increased primarily due to an increased amount of fixed index annuities in force. The aggregate cost of options is also influenced by the amount of policyholder funds allocated to the various indices and market volatility which affects option pricing. See Note 5 to our audited financial statements at page [F-18](#) “Derivative Instruments.”

**Annuity product charges**

Annuity product charges (surrender charges assessed against policy withdrawals and fees deducted from policyholder account balances for lifetime income benefit riders) increased 240% to \$56,346 in 2018 from \$16,595 in 2017. The components of annuity product charges are set forth in the table that follows:

	Six Months Ended June 30,	
	2018	2017
(dollars in thousands)		
Surrender charges	\$ 21	\$ 5
Lifetime income benefit riders (LIBR) fees	\$ 36	\$ 12
	<u>\$ 57</u>	<u>\$ 17</u>
Withdrawals from annuity policies subject to surrender charges	\$ 346	\$ 343
Average surrender charge collected on withdrawals subject to surrender charges	6.03%	1.36%
Fund values on policies subject to LIBR fees	\$4,734	\$1,571
Weighted average per policy LIBR fee	0.75%	0.75%

The increases in annuity product charges were primarily attributable to increases in fees assessed for lifetime income benefit riders due to a larger volume of business in force subject to the fee and an increase in the average fees being charged due to higher fees on new products as compared to prior periods. See “— *Interest sensitive and index product benefits*” below for corresponding expense recognized on lifetime income benefit riders. Surrender charges increased in 2018 and 2017 due to an increase in withdrawals from annuity policies subject to surrender charges as compared to prior years.

**Interest sensitive and index product benefits**

Account values for interest sensitive and index benefit products increased 3.5% to \$113.7 million at June 30, 2018 from \$109.8 at December 31, 2017. The components of interest sensitive and index product benefits are summarized as follows:

	Six Months Ended June 30,	
	2018	2017
	(Dollars in thousands)	
Index credits on index policies	\$ 187	\$ 5
Interest credited (including interest credited on fixed allocation for fixed index annuities)	\$2,027	\$2,583
Lifetime income benefit riders	(36)	(12)
	<u>\$2,178</u>	<u>\$2,576</u>

The changes in index credits were attributable to changes in the level of appreciation of the underlying indices (see discussion above under “— *Change in fair value of derivatives*”) and the amount of funds allocated by policyholders to the respective index options. Total net proceeds received upon expiration of the call options purchased to fund the annual index credits were \$206,000 and \$3,000 for the six months ended June 30, 2018 and 2017, respectively. The decrease in interest credited in 2018 was primarily due to a decrease in the average rate credited to the annuity liabilities outstanding receiving a fixed rate of interest. The average amount of annuity liabilities outstanding (net of annuity liabilities ceded under coinsurance agreements) increased 6.0% to \$67.5 million in 2018 from \$63.7 million in 2017. The decrease in benefits recognized for lifetime income benefit riders in 2018 was due to the impact of revisions to assumptions used in determining reserves held for lifetime income benefit riders being less in 2018 than it was in 2017 which was partially offset by an increase in the number of policies with lifetime income benefit riders which correlates to the increase in fees discussed in “— *Annuity product charges*.”

**Net (loss) income**

For the six months ended June 30, 2018, the net loss was \$2.0 million compared to a net loss of \$1.0 million for the six months ended June 30, 2017. The increase in the net loss of \$1.0 million (100%) resulted primarily from lower realized gains on investments, an increase in premiums ceded, and higher reorganizational expenses.

**Investments****Investment Guidelines**

Our investment strategy and guidelines are developed by management and approved by our board of directors. Our investment strategy is designed to maintain a well-diversified, high quality fixed income portfolio that will provide adequate levels of net investment income and liquidity to meet our policyholder obligations under our life insurance policies and our annuity deposits. To help maintain liquidity we establish the duration of invested assets within a tolerance to the policy liability duration. The investments are managed with an emphasis on current income within quality and diversification constraints. The focus is on book yield of the fixed income portfolio as the anticipated portfolio yield is a key element used in pricing our insurance products and establishing policyholder crediting rates on our annuity contracts. We also maintain a small equity portfolio consisting of investments in exchange-traded funds. With the additional capital provided by the offering, we may rebalance our investment portfolio to seek higher yields on our securities investments. Higher yielding investments usually are associated with higher investment risks, which may result in us recognizing higher other-than-temporary impairments.



We apply our overall investment strategy and guidelines on a consolidated basis for purposes of monitoring compliance with our overall guidelines. All of our investments are owned by Federal Life and are maintained in compliance with insurance regulations. Critical guidelines of our investment plan include:

- Asset concentration guidelines that limit the amount that we hold in any one issuer of securities;
- Asset quality guidelines applied on a portfolio basis and for individual issues that establish a minimum asset quality standard for portfolios and establish minimum asset quality standards for investment purchases and investment holding;
- Liquidity guidelines that limit the amount of illiquid assets that can be held at any time; and
- Diversification guidelines that limit the exposure of the total portfolio to investment sectors.

Our investment portfolios are managed by our internal investment staff. We contract with an investment management firm to provide overall assistance with certain types of investment products. This investment management firm reports to our Chief Financial Officer and to Federal Life's Board of Directors. On a quarterly basis, or more frequently if circumstances require, we review the performance of all portfolios with the Federal Life Board of Directors.

The following table shows the distribution of the fixed maturity securities by quality rating using the rating assigned by Standard & Poor's, a nationally recognized statistical rating organization. Over the periods presented, we have maintained a consistent weighted average bond quality rating of "A." Ratings assigned by Moody's have been used for securities not rated by Standard & Poor's.

(dollars in thousands) S&P Rating	Estimated Fair Value					
	June 30, 2018		December 31, 2017		December 31, 2016	
AAA	\$ 7,151	3.9%	\$ 7,176	3.8%	\$ 9,669	5.5%
AA	74,402	40.6%	77,195	41.0%	64,354	36.8%
A	32,496	17.7%	35,668	18.9%	36,714	21.0%
BBB	60,055	32.8%	58,921	31.3%	54,538	31.2%
Total investment grade	<u>\$174,104</u>	<u>95.0%</u>	<u>\$178,960</u>	<u>95.0%</u>	<u>\$165,275</u>	<u>94.5%</u>
BB	\$ 6,750	3.7%	\$ 6,575	3.8%	\$ 5,919	3.4%
B	1,918	1.1%	2,381	1.3%	2,649	1.5%
CCC	408	0.2%	459	0.2%	1,030	0.6%
CC	0	0.0%	0	0.0%	0	0.0%
C	69	0.0%	77	0.0%	3	0.0%
D	0	0.0%	0	0.0%	4	0.0%
Total below investment grade	<u>9,145</u>	<u>5.0%</u>	<u>9,492</u>	<u>5.0%</u>	<u>9,605</u>	<u>5.5%</u>
Not rated	<u>0</u>	<u>0.0%</u>	<u>0</u>	<u>0.0%</u>	<u>0</u>	<u>0.0%</u>
Total	<u>\$183,249</u>	<u>100.0%</u>	<u>\$188,452</u>	<u>100.0%</u>	<u>\$174,880</u>	<u>100.0%</u>

The following table sets forth the maturity profile of our debt securities at June 30, 2018, and December 31, 2017 and 2016. Expected maturities could differ from contractual maturities because borrowers may have the right to call or prepay obligations, with or without penalty.

(dollars in thousands)

(dollars in thousands)	June 30, 2018				December 31, 2017				December 31, 2016			
	Amortized Cost	%	Fair Value	%	Amortized Cost	%	Fair Value	%	Amortized Cost	%	Fair Value	%
Due in one year or less	\$ 3,499	1.9%	\$ 3,554	1.9%	\$ 2,247	1.2%	\$ 2,288	1.2%	\$ 5,038	3.0%	\$ 5,161	3.0%
Due after one year through five years	\$ 41,230	22.3%	\$ 41,801	22.8%	\$ 40,926	22.3%	\$ 42,809	22.7%	\$ 34,101	20.0%	\$ 36,605	20.9%
Due after five years through ten years	\$ 68,467	37.0%	\$ 66,976	36.6%	\$ 66,739	36.4%	\$ 68,151	36.2%	\$ 66,029	38.7%	\$ 66,648	38.1%
Due after ten years	\$ 26,216	14.1%	\$ 25,576	14.0%	\$ 27,492	15.0%	\$ 27,923	14.8%	\$ 20,244	11.9%	\$ 20,089	11.5%
Mortgage-backed securities	\$ 45,835	24.7%	\$ 45,342	24.7%	\$ 46,028	25.1%	\$ 47,281	25.1%	\$ 45,103	26.4%	\$ 46,377	26.5%
Total debt securities	<u>\$ 185,247</u>	<u>100.0%</u>	<u>\$183,249</u>	<u>100.0%</u>	<u>\$ 183,432</u>	<u>100.0%</u>	<u>\$188,452</u>	<u>100.0%</u>	<u>\$ 170,515</u>	<u>100%</u>	<u>\$174,880</u>	<u>100%</u>

Every quarter we review all investments where the market value is less than the carrying value to ascertain if the impairment of the security's value is other-than-temporary ("OTTI"). The quarterly review is targeted to focus on securities with larger impairments and that have been in an impaired status for longer periods of time. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies — Other-Than-Temporary Impairments on Available-for-Sale Securities."

### Net Investment Income

One key measure of our investment income is the book yield on our holdings of fixed maturity securities, which totaled \$183.4 million and 3.97% of our invested assets as of June 30, 2018. Book yield is the effective interest rate, before investment expenses, that we earn on these investments. Although short-term market interest rates have increased in the last three years, intermediate and long-term rates remain at near historically low levels. As a consequence our book yield has been impacted as shown by the following table:

	Six Months Ended June 30,		Year Ended December 31,	
	2018	2017	2017	2016
Book yield on fixed maturity securities available for sale <sup>(1)</sup>	3.97%	4.14%	3.98%	4.35%

(1) Book yield is calculated as the percent of net investment income to the average amortized cost of the underlying investments for the period.

### Interest Credit to Policyholders

Included with the future policy benefits is the liability for contractholder deposits on deferred annuity contracts and certain other policy funds left on deposit with the Company. The aggregate liability for deposits is as follows:

(dollars in thousands)	As of June 30, 2018		
	Ending Balance	Year to Date Interest Credited	Average Crediting Rate
Annuity Contract Holder Deposits	\$50,078	\$823	1.65%
Dividends Left on Deposit	6,898	85	1.22%
Other	620	11	1.79%
	<u>\$57,596</u>	<u>\$919</u>	

(dollars in thousands)	December 31, 2017			December 31, 2016		
	Ending Balance	Year to Date Interest Credit	Average Crediting Rate	Ending Balance	Year to Date Interest Credit	Average Crediting Rate
Annuity Contract Holder Deposits	\$50,728	\$ 1,763	3.47%	\$52,528	\$ 1,820	3.45%
Dividends Left on Deposit	7,067	171	2.40%	7,405	184	2.47%
Other	570	18	3.50%	461	21	4.66%
	<u>\$58,365</u>	<u>\$ 1,952</u>		<u>\$60,394</u>	<u>\$ 2,025</u>	

The liability for deferred annuity deposits represents the contractholder account balances. Due to the declines in market interest rates and the book yield on our investment portfolio, we credit interest on all contractholder deposit liabilities at contractual rates allowed by the contract or by state regulations.

We realize operating profit on our fixed rate annuity products from the excess of our book yield realized on fixed maturity securities that support our contractholder deposits over the amount of interest that we credit to the contractholder. We refer to this operating profit as the “spread” we earn on contractholder deposits. Our book yields on fixed maturity investments have declined in recent periods due to current market conditions. If book yields continue to decline, the amount of spread between the interest earned and credited will be reduced.

#### **Net Realized Investment Gains (Losses)**

Realized investment gains and losses are subject to general economic trends and in particular correlate generally with movements in the major equity market indexes and interest rates. The amounts classified as realized gains and losses in our statement of operations include amounts realized from sales of investments, mark-to-market adjustments on equity holdings, and other-than-temporary impairments of individual securities related to credit impairments.

The period to period changes in the investments reflect the impact of market volatility on our reported results, as can be seen from the following table.

Net Realized Investment Gains (Losses) (dollars in thousands)	As of June 30,		Years Ended December 31,	
	2018	2017	2017	2016
<b>Sales of Investments:</b>				
Fixed maturity securities, available for sale	\$ 36	124	\$ 177	\$ 130
Equity securities	0	420	897	1,073
Oil and gas interests	261	358	1,060	580
Real estate	—	—	0	0
Derivatives	116	2	94	0
Other-than-temporary impairment losses on fixed maturity securities, available for sale-net	(89)	0	0	0
<b>Trading securities-gains and losses:</b>				
Fixed maturity securities	—	—	0	0
Equity securities	0	0	0	0
Investment expenses	—	—	—	—
Mortgage loans impairments	0	0	0	0
<b>Total net realized investment gains (losses)</b>	<u>324</u>	<u>904</u>	<u>\$2,228</u>	<u>\$1,783</u>

**Unrealized Holding Gains**

We also record capital appreciation/depreciation on our available for sale fixed maturity securities. The following table shows the change in equity from mark-to-market adjustments on our available for sale fixed maturity securities. These adjustments result from the low current market interest rates which cause the market value of our holdings, which overall carry higher interest rates than available in the market, to increase.

Accumulated Other Comprehensive Income (dollars in thousands)	Six Months Ended June 30,		Years Ended December 31,	
	2018	2017	2017	2016
Unrealized holding gains (losses) from changes in the market value of securities, including the related impact to future policy benefit liabilities, the policyholder dividend obligation, and deferred policy acquisition cost balances	\$(5,884)	\$1,273	\$ 611	\$(539)
Income tax effect	38	(433)	(208)	183
Cumulative effect of adoption of new accounting principle	0	0	805	0
Net increase in accumulated other comprehensive income	<u>\$(5,846)</u>	<u>\$ 840</u>	<u>\$1,208</u>	<u>\$(356)</u>

At June 30, 2018, we have accumulated other comprehensive loss from mark-to-market adjustment of our available for sale fixed income securities totaling \$1.1 million (net of federal income taxes and DAC effects), respectively.

**Financial Position****December 31, 2017**

At December 31, 2017, we had total assets of \$257.1 million compared to total assets at December 31, 2016 of \$243.7 million. The increase in total assets primarily resulted from a \$11.9 million increase in invested assets as a result of indexed annuity sales.

At December 31, 2017, we had total liabilities of \$225.8 million compared to total liabilities of \$210.9 million at December 31, 2016. The increase is primarily due to a \$10.4 million increase in policyholder account balances. The increase in policyholder account balances was primarily due to sales of new annuity contracts.

Total equity decreased from \$32.9 million at December 31, 2016 to \$31.4 million at December 31, 2017. This decrease in equity of \$1.5 million (4.6%) was due to a total comprehensive loss of \$1.5 million comprised of a net loss of \$1.9 million and other comprehensive income of \$403,000. The other comprehensive income for the period was due to a higher amount of unrealized net gains on our fixed maturity available for sale securities portfolio. This increase was caused by a decrease in market interest rates at quarter end when compared to market interest rates at year end 2016.

**June 30, 2018**

At June 30, 2018, we had total assets of \$254.0 million compared to total assets at December 31, 2017 of \$257.1 million. The decrease in total assets primarily results from lower fair values on fixed maturity securities of \$5.2 million due to higher interest rates, partially offset by an increase in deferred acquisition costs of \$1.1 million and accounts receivable of \$1.9 million. The separate account asset decreased by \$1.1 million.

At June 30, 2018, we had total liabilities of \$230.5 million compared to total liabilities of \$225.8 million at December 31, 2017. This increase of \$4.7 million was primarily due to an increase of \$3.8 million in policyholder account balances as a result of index annuity sales. The life policy reserve rose \$0.7 million and other policyholder funds increased by \$0.8 million. The separate account liability decreased by \$1.1 million.

Total equity decreased from \$31.3 million at December 31, 2017 to \$23.5 million as of June 30, 2018. This decrease in equity of \$7.8 million (25.0%) was due to a total comprehensive loss of \$7.8 million comprised of a net loss of \$2.0 million and other comprehensive loss of \$5.8 million. The other comprehensive loss for the period was mostly due to the reversal of unrealized gains on our fixed maturity securities available for sale.

### **Effect of Offering on Future Financial Conditions and Results of Operations**

Our future financial condition and results of operations will be affected by this offering. Upon completion of this offering, our pro forma shareholders' equity is expected to be between \$62.4 million and \$74.3 million, an increase of approximately 98.7% to 136.6% over our equity base at December 31, 2017. See "Use of Proceeds," "Capitalization," and "Unaudited Pro Forma Financial Information." This increased capitalization should permit us to support the growth of our business.

### **Stock-Based Incentive Plan**

Concurrent with this offering, our Board of Directors will adopt a long-term incentive plan to provide stock-based awards to participants under the plan. Under the stock-based incentive plan we may issue 480,000 shares of our common stock. Of this, 140,000 shares may be granted as restricted stock awards and 340,000 shares may be used to award stock options under the stock-based incentive plan. The grant date fair value of any common stock used for restricted stock awards will represent unearned compensation. We accrue compensation expense as the shares of restricted stock vest, which will reduce the unearned compensation balance. We will also compute compensation expense at the time that the stock options are granted based on the fair value of the options on the date they are granted. This compensation expense will be recognized over the appropriate service period. See "Executive Compensation — Equity Compensation in Connection With This Offering — Stock-Based Incentive Plan."

### **Liquidity and Capital Resources**

Our principal sources of funds are from premium revenues, investment income, and proceeds from the sale and maturity of investments. The Company's primary uses of funds are for payment of life policy benefits, contractholder withdrawals on annuity contracts, new business acquisition costs for our insurance operations (commissions, underwriting, and issue costs), general operating expenses, and purchases of investments. Our investment portfolio is structured to provide funds periodically over time, through investment income and maturities, to provide for the payment of policy benefits and contractholder withdrawals.

We expect to use a significant portion of the net proceeds of this offering to support the growth of our business. Based on our current business plan, we expect that projected cash flows from operations, as well as the net proceeds from this offering, will provide us with sufficient liquidity to fund our anticipated growth for at least the next several years. However, if our growth exceeds our expectations or we have unanticipated capital requirements to support our growth, we may have to raise additional capital or take other steps to support our premium writings, including obtaining additional reinsurance. If we cannot obtain adequate capital or reinsurance on favorable terms or at all, we may be unable to support future growth or operating requirements and, as a result, our business, financial condition, and results of operations could be adversely affected.

We are members of the Federal Home Loan Bank of Chicago ("FHLBC"). As a member we are able to borrow on a collateralized basis from the FHLBC. We own FHLBC common stock with a book value of \$10,000, which allows us to borrow from the FHLBC. Interest on borrowed funds is charged at variable or fixed rates established from time to time by the FHLBC based on the interest rate option selected at the time of the borrowing. There have been no borrowings from FHLBC during 2017 and 2016.

Federal Life's ability to pay dividends to the Company is limited by the insurance laws of the State of Illinois. All shareholder dividends are subject to notice filings with the Illinois Insurance Director. The maximum amount of dividends that can be paid by Illinois life insurance companies to shareholders without 30 days prior notice to the director of the Illinois Department of Insurance is the greater of (i) statutory net income for the preceding year or (ii) 10% of statutory surplus as of the preceding year-end.

However, under Illinois insurance statutes, dividends may be paid only from surplus, excluding unrealized appreciation in value of investments, without prior approval. Dividends in excess of these amounts require advance approval of the Illinois Department of Insurance. There are no limitations on the amount of dividends that Federal Life's subsidiaries can pay to Federal Life.

Federal Life is a party to service and cost sharing agreements with Americana Realty Company and FED Mutual Financial Services, Inc. pursuant to which certain costs and expenses incurred by Federal Life on behalf of Americana Realty Company and FED Mutual Financial Services, Inc. are allocated to such entities and paid to Federal Life. During 2017, Americana Realty Company paid \$50,000 and FED Mutual Financial Services, Inc. paid \$6,000 to Federal Life for such services.

Federal Life is also required to hold minimum levels of statutory capital and surplus to satisfy regulatory requirements. The minimum statutory capital and surplus required by the Compiled Statutes of Illinois was \$2.0 million at December 31, 2017. Federal Life's statutory capital and surplus at December 31, 2017 was \$14.9 million. In addition to the minimum statutory requirement, Federal Life is subject to risk-based capital ("RBC") requirements adopted by state insurance regulators. A company's "authorized control level RBC" is a measure of the amount of capital appropriate for an insurance company to support its overall business operations in light of its size, growth, and risk profile. RBC standards are used by regulators to determine appropriate regulatory actions for insurers that show signs of weak or deteriorating conditions. Companies that do not maintain total adjusted capital ("TAC") in excess of the company's "company action level RBC," which is two times its "authorized control level RBC," may be required to take specific actions at the direction of state insurance regulators. Federal Life's TAC at December 31, 2017 significantly exceeded its "company action level RBC," which was \$17.6 million at December 31, 2017. See "— Risk-Based Capital."

As an Illinois domiciled mutual holding company, Federal Life Mutual is subject to the same minimum statutory capital and surplus levels as Federal Life. However, Federal Life Mutual is not authorized to transact insurance business and cannot issue or reinsure insurance policies. Accordingly, the level of statutory capital and surplus at Federal Life Mutual has no material effect on the ability of Federal Life to write insurance or on the Company's consolidated results of operations, financial position, or liquidity. Although Federal Life Mutual is subject to minimum capital and surplus requirements, it is not subject to RBC requirements. Our other operating subsidiaries are not subject to regulatory capital requirements or RBC.

Over the periods presented we have experienced net positive cash flows. We expect this trend to continue for the near term due to growth in sales of annuity contract products.

Cash uses in our business result in negative cash flows related to sales of new insurance policies because:

- Policy acquisition costs (consisting of agent commission, policy underwriting, and issue costs)
- exceed the amount of first year premium received from the policyholder;
- Depending on the product sold, a portion or all of the agent's commission may be paid as a cash advance to the agent and most of the underwriting and policy issue costs are paid at the time the initial policy is issued, whereas the premiums may be paid throughout the policy year; and
- Amounts due from reinsurers to reimburse claims paid are usually paid at some date after the claim has been paid.

The resulting negative first year cash flow from sales of new policies is partially offset by positive cash flows from insurance policy renewals. The continued sales growth in our insurance operations has resulted in a net cash decrease. Cash flows from reinsurance collections will vary from period to period based on claims activity.

Cash flow from investing includes our fixed maturity securities and equity holdings that are classified as available for sale securities. Period to period the cash flows associated with the changes in these portfolios will vary between cash sources and cash uses depending on portfolio trading due to investment market conditions and other factors.

Cash flow from financing activities primarily consists of the annuity contractholder deposits. The annuity liabilities are increasing each period due to cash deposits by contractholders exceeding withdrawals. Cash from financing activities will continue to be positive as cash deposits on annuity products will exceed cash withdrawals.

Cash flow from investing activities represents our primary source of cash. We use cash flows from investments to fund the withdrawals from the annuity deposits and to fund the negative cash flows from operating activities.

### Cash Flows

Consolidated Summary of Cash Flow (in thousands)	Six Months Ended		Year Ended December 31,	
	June 30, 2018	June 30, 2017	2017	2016
Cash flows provided by (used for) operating activities	\$(3,883)	\$(1,362)	\$ (5,779)	\$(5,056)
Cash flows from investing activities	(493)	(4,461)	(9,228)	1,653
Cash flows provided by (used for) financing activities	4,204	4,615	10,703	5,239
Net increase (decrease) in cash	<u>(172)</u>	<u>\$(1,208)</u>	<u>\$ (4,304)</u>	<u>\$ 1,836</u>

For the six months ended June 30, 2018, we had a net decrease in cash of \$172,000 compared with a net decrease of \$1.2 million for the six months ended June 30, 2017. The increase of \$1.0 million was due to a decrease in cash used in investing of \$4.0 million mainly due to lower repurchases of fixed maturity securities. Net cash used in operating activities was \$3.9 million, an increase of \$2.6 million, due to a higher net loss and a larger increase in deferred acquisition costs.

For the twelve months ended December 31, 2017, the net decrease in cash was \$4.3 million compared to an increase in cash of \$1.8 million for the year ended December 31, 2016. This decrease in cash flow of \$6.1 million was primarily due to lower proceeds from investments that sold or matured and higher repurchases of fixed maturity securities. Cash used for investing activities was lower in 2017 due primarily to higher purchases of fixed maturity securities resulting from lower cash from operations available for reinvestment. Cash provided by financing activities was higher due to higher policyholder deposits and lower policyholder withdrawals.

### Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, revenues or expenses, results of operations, liquidity, or capital expenditures.

### Quantitative and Qualitative Information about Market Risk

We own a diversified portfolio of investments including cash, bonds, and common stock. Each of these investments is subject, in varying degree, to market risk that can affect their return and their fair value. Bonds are the majority of our investments and include debt issues of corporations, residential and commercial mortgage-backed securities or other asset-backed securities, U.S. Treasury securities, or obligations of U.S. Government Sponsored Enterprises and are classified as fixed maturity investments in our financial statements. Our investment portfolios are subject to market risk.

Market risk is the risk that we will incur losses due to adverse changes in market rates and prices on the fair value of the investment securities that we own. We have exposure to market risk through our investment activities, including interest rate risk, credit risk, and equity risk. We have not and do not plan to enter into any derivative financial instruments for trading or speculative purposes.

### Interest Rate Risk

Interest rate risk arises from the price sensitivity of investments to changes in interest rates. The changes in the fair value of our fixed maturity investments are inversely related to changes in market interest rates. As market interest rates fall the fixed income streams of fixed maturity investments held

become more valuable and market values rise. As market interest rates rise, the opposite effect occurs, which can negatively impact our other comprehensive income. Interest rate risk can also arise if market rates fall, which can result in lower interest spreads on our assumed annuity deposits, which are our primary interest rate sensitive liability.

We review the interest rate sensitivity of our available for sale fixed maturity securities by calculating the impact on the market value of our holdings that would result from a hypothetical instantaneous shift in market interest rates across all maturities, which we consider to be reasonably possible. The impact of such a parallel shift upward in the yield curve of 200 basis points would reduce the market value of our fixed maturity security portfolio by approximately \$23.8 million (12.8%). This value is as of December 31, 2017. The estimated market value changes assume all other factors are held constant, and we do not attempt to estimate any offsetting change in the value of our liabilities.

With regard to our annuity deposits, we are subject to risk from contractholder behavior resulting from changes in interest rates. The annuity contracts have surrender charges that could be assessed against withdrawals, but those surrender charges decrease over time. When market interest rates exceed the amount that we are crediting on deposits, we are subject to higher contractholder withdrawals or an increase in contract loans, both of which could force the company to sell assets prematurely and could lead to the realization of capital losses on such sales. We manage our exposure to rising interest rates through our ability to increase the contract crediting rate. Our ability to increase our crediting rate is constrained by our portfolio yield at the time of the decision to increase rates. Increases in the contract crediting rates could reduce our income unless we are able to maintain a constant interest spread on our assets.

### **Credit Risk**

Credit risk is risk of loss due to adverse change in the financial condition of a specific debt issuer or, in the case of a securitized investment, adverse change in the assets being securitized. We address credit risk by establishing minimum rating standards for investments that our portfolio managers can acquire and, in the case of a downgrade, continue to hold the investment. For our core fixed income portfolio, which composes approximately 91% of our invested assets, only securities with a minimum credit rating of BB- as established by Standard & Poor's or a comparable nationally recognized statistical rating organization can be purchased and an overall credit rating for the portfolio of at least A- must be maintained. Through our portfolio managers we monitor the financial condition of all the issues of securities that we own. As an additional step to reduce our exposure to credit risk, we have established diversification guidelines limiting the total amount of holding by issuer and by investment sector. With the additional capital provided by the offering, we may rebalance our investment portfolio to seek higher yields on our securities investments. Higher yielding investments usually are associated with higher investment risks, which may result in us recognizing higher other — than-temporary impairments.

### **Equity Market Risk**

Equity market risk is the risk that we will incur economic losses due to adverse changes in equity prices. Adverse changes in equity prices can arise from both the movements of broad markets based on investor behavior or other general economic factors and also from adverse changes in an individual company's stock price. We manage our equity market risk primarily by limiting our exposure to individual issuers and by maintaining liquid holdings such that we are able to find a ready market should we want to lower our exposure to equity markets. Our individual stock holdings are managed by a specialty manager with portfolio guidelines that include limits on the size of investments in individual issuers. As of December 31, 2017, we had \$6.2 million of exposure to equity market risk through holdings of exchange-traded funds and a commercial real estate fund. We may use a portion of the additional capital raised in this offering to make additional investments in equity related investments.

### **Recent Accounting Pronouncements**

In August 2018, the Financial Accounting Standards Board ("FASB") adopted Accounting Standards Update No. 2018-12, "Targeted Improvements to the Accounting for Long-Duration Contracts." The amendments require insurance companies to review and update the assumptions used for measuring the liability under long-duration contracts, such as life insurance, disability income, and annuities, at least



annually. The amendments are effective for fiscal years, and interim periods within those fiscal years, beginning after December 31, 2020. Early adoption of ASU 2018-12 is permitted. We are currently in the process of evaluating the impact of the adoption of this amendment on our financial statements; however, the adoption of ASU 2018-12 will impact the income statement because the effect of any update to the assumptions we used at the inception of the contracts will be recorded in net income.

All other recently adopted accounting pronouncements have been reflected in our unaudited condensed consolidated financial statements as of and for the six months ended June 30, 2018 and in our consolidated financial statements as of and for the year ended December 31, 2017.

### Future Contractual Obligation Payments

The following table shows the expected payout periods for cumulative future obligations at December 31, 2017:

Contractual Cash Obligations (dollars in thousands)	Total	Less than 1 year	1 – 3 years	3 – 5 years	More than 5 years
Future policy benefits and claims <sup>(1)</sup>	\$159,093	\$ 7,075	\$14,145	\$20,949	\$116,924
Policyholder account balances <sup>(2)</sup>	162,087	9,086	16,875	21,767	114,359
Other policyholder liabilities <sup>(3)</sup>	—	—	—	—	—
Commissions <sup>(4)</sup>	6,023	680	958	1,148	3,237
Reinsurance liabilities and payables <sup>(5)</sup>	5,162	173	487	863	3,369
Total contractual obligations	<u>\$332,365</u>	<u>\$ 17,014</u>	<u>\$32,465</u>	<u>\$44,727</u>	<u>\$238,159</u>

- (1) Our liability balance for future policy benefits and claims was \$72.3 million as of December 31, 2017. This liability represents the present value of estimated future policy benefits to be paid, less the present value of estimated future net premiums to be collected. Net premiums represent the portion of gross premiums required to provide for all benefits and associated expenses. These benefit payments are contingent on policyholders continuing to renew their policies and making their premium payments except for single premium or flexible premium plans. Our contractual obligations table discloses the impact of benefit payments that will be due assuming the underlying policy renewals and premium payments continue as expected in our actuarial models. The future policy benefits represented in the table are presented on an undiscounted basis, gross of any amounts recoverable through reinsurance agreements and gross of any premiums to be collected. We expect to fully fund the obligations for future policy benefits from cash flows from invested assets and from future premiums. These estimates are based on mortality and lapse assumptions comparable to our historical experience. Due to the significance of the assumptions used, the amounts presented could materially differ from actual results. These benefits are payable contingent on the policyholders continuing to make their premium payments.
- (2) Our liability for policyholder account balances include the liability for deferred annuity contractholder and universal life contractholder deposits and the liability for death benefits on life insurance contracts that have been left on deposit with the Company. These liabilities represent the account value of the policyholder, which includes the accumulation of deposits, plus interest credited, less withdrawals but with no offset for repayment of policy loans. Our contractual obligations table discloses the impact of future withdrawal payments that will be due assuming the withdrawals continue as expected in our actuarial models. See “Cash Flows” for further discussion. We expect to fully fund the obligations for policyholder account balances from cash flows from invested assets.
- (3) Other policyholder liabilities primarily include policy claims and benefits currently owed to policyholders and filed claims that are in the process of review.
- (4) Commissions represent gross, undiscounted commissions that we expect to incur, which are contingent on the policyholders continuing to renew their policies and making their premium payments as noted in footnote (1) above.
- (5) Reinsurance liabilities and payables represent amounts currently owed to other insurance companies for premiums on business where we have ceded a portion of the risk to another insurance company and for the payment of claims to another insurance company where we have assumed a portion of their risk.

## BUSINESS

### Our History

We formed Federal Life Group, Inc. so that it could acquire all of the capital stock of Federal Life Mutual as part of the conversion. Prior to the conversion, Federal Life Group, Inc. has not engaged and will not engage in any significant operations and does not have any assets or liabilities. After the conversion, our primary assets will be the outstanding capital stock of Federal Life Mutual and a portion of the net proceeds of the offerings. FEDHO Holdings is currently a wholly-owned subsidiary of Federal Life Mutual and the intermediate holding company for Federal Life. Following the conversion, we intend to reorganize our corporate structure to eliminate Federal Life Mutual and FEDHO Holdings so that Federal Life is a direct, wholly-owned subsidiary of Federal Life Group, Inc.

In 2016, Federal Life completed a reorganization in which it converted from a mutual to a stock insurance company within a newly created mutual holding company structure. As part of the reorganization, Federal Life Mutual was formed as an Illinois mutual insurance holding company and Federal Life continued its existence as an Illinois stock life insurance company. All of the shares of Federal Life were issued to FEDHO Holdings, an intermediate holding company that, in turn, was a wholly-owned subsidiary of Federal Life Mutual. In the reorganization, policyholders' membership interests in Federal Life automatically became membership interests in Federal Life Mutual, but policyholders' contractual rights remained with Federal Life. Since the effective date of the reorganization, each person who has become a Federal Life policyholder has automatically become a member of Federal Life Mutual and has retained that membership interest as long as the Federal Life policy owned by the member remains in force.

Our executive offices are located at 3750 West Deerfield Road, Riverwoods, Illinois, 60015, and our phone number is 847-520-1900. Our website address is [www.Federallife.com](http://www.Federallife.com). Information contained on our website is not incorporated by reference into this prospectus, and such information should not be considered to be part of this prospectus.

### Our Business

Federal Life was incorporated in the State of Illinois on September 8, 1899, and has operated independently since then. Federal Life is licensed to sell its life insurance and annuity products in 45 states and the District of Columbia and experienced in the development and sale of fixed index and fixed rate annuity products.

We have one business segment, which represents our core business comprised of the sale of life insurance and fixed index and fixed rate annuities. Our business strategy is focused on growing our policyholder funds and earning predictable returns by managing investment spreads and investment risk.

The following table sets forth the net life premium revenues and annuity deposits for the years ended 2017 and 2016 and the six months ended June 30, 2018 and 2017:

(dollars in thousands)	Net Premium Revenue and Annuity Deposits			
	Six Months Ended June 30,		Years Ended December 31,	
	2018	2017	2017	2016
Life	\$ 6,258	\$ 6,596	\$ 12,058	\$ 14,427
Annuity deposits	5,206	6,184	12,969	8,107
<b>Total</b>	<b>\$11,464</b>	<b>\$12,780</b>	<b>\$25,027</b>	<b>\$22,534</b>

### Strategy

Key elements of executing our strategy include the following:

- *Enter into Strategic Partnerships to Expand our Sales and Distribution.* We currently distribute our life insurance and annuity products through approximately 1,000 independent agents. We intend to expand our distribution platform by entering into strategic partnerships with companies that can broaden our distribution channels. We are currently working on establishing an

agreement with a leading exchange traded fund provider that will enable us to introduce and distribute our variable rate annuity product upon its introduction. We believe the standby purchaser can provide assistance in expanding our distribution network. We continue to strive to provide all of our distribution partners with the highest quality service possible.

- *Pursue Acquisitions of Life Companies and Related Businesses.* We intend to use the additional capital provided by this offering to explore possible acquisitions of other life insurance companies to grow our business and leverage our existing available administrative capacity. We will also explore opportunities to acquire related businesses, such as insurance agencies, that can expand our distribution network.
- *Continue to Introduce Innovative and Competitive Products.* We intend to be at the forefront of the fixed index and fixed rate annuity industry in developing and introducing innovative and competitive products. We offer a fixed index annuity that allows a choice among interest crediting strategies including both equity indexes as well as a traditional fixed rate strategy. We include a lifetime income benefit rider with our fixed index annuities and have a lifetime income benefit rider with gender based income payments. After the closing of the offerings, we intend to introduce a variable annuity product. We believe that our continued focus on anticipating and being responsive to the product needs of the ever growing population of retirees will lead to increased customer loyalty, revenues, and profitability.
- *Take Advantage of the Growing Popularity of Index Products.* Fixed index and single premium annuities have been profitable for us in both the short-term and long-term and impose minimal or no strain on our statutory surplus. We believe that the growing popularity of fixed index annuity products that allow equity and bond market participation without the risk of loss of the premium deposit presents an attractive opportunity to grow our business. The popularity of fixed index annuity products has increased in recent years with the availability of lifetime income benefit riders that provide an attractive alternative for converting accumulated retirement savings into lifetime income. We believe that there is a significant market for these products as the Baby Boomer generation continues to reach retirement age. We intend to capitalize on our reputation as a provider of fixed index annuities in this expanding segment of the annuity market.
- *Target Niche Markets for Our Products.* We intend to focus on niche markets for our products, such as the Hispanic market, the direct-to-consumer market, and the senior and retirement planning markets. Federal Life currently has a presence in the Hispanic market and maintains an entirely separate Spanish-language website that features content and themes unique to that target market. Federal Life is also committing substantial resources to upgrade its digital platform and intends to leverage these new digital distribution and service applications to meet the needs of today's consumers by promoting ease of access to information and efficient sales and customer service. We intend to target the senior and retirement planning markets with our existing fixed index annuity, flexible premium deferred annuity, and final expense plan insurance products.
- *Focus on High Quality Service to Agents and Policyholders.* We have maintained high quality personal service as one of our highest priorities since the inception of our company and continue to strive for an unprecedented level of timely and accurate service to both our agents and policyholders. We believe high quality service is one of our strongest competitive advantages.
- *Target Direct-to-Consumer Sales.* We are committing substantial resources to upgrade our digital platform to provide digital distribution and sales applications to meet the demands of today's consumers by promoting ease of access to information and efficiency between sales and customer service. This permits us to generate more business from new and existing customers. We intend to provide access to our single premium deferred annuity, flexible premium deferred annuity, and single premium whole life products through the online platform that we are currently upgrading.

## Life Insurance Business

### Products

The various life insurance products that we offer are briefly described below:

- **Single Premium — Whole Life** we offer single premium whole life policies, which require payment of a single premium of at least \$5,000 and provide cash surrender values based on the contractual rate of interest. These policies may be surrendered for their cash surrender value at any time. Single premium policies are mainly issued in connection with the insured's estate planning and the insured must be between the ages of 40 and 85 at the time the policy is issued.
- **Interest Sensitive Life** — we offer interest sensitive life policies, which are a hybrid of whole life and universal life. Interest sensitive policies have fixed premiums, death benefits, and minimum cash surrender values, but also have an account value to which net premiums and interest are added, and from which insurance and expense charges and surrender charges are deducted, which may result in a higher cash surrender value. The credited interest rate is declared by us and may be changed at any time, but is subject to a minimum rate. The insured must be no older than age 70 when the policy is issued and the minimum policy amount is \$5,000.
- **Term Life** — we currently offer term life insurance policies with fixed premiums for 10, 15, 20, or 30 years. The minimum policy amount is \$50,000, and the insured may not exceed 70 years of age at the date the policy is issued.
- **Universal Life** — we offer a universal life policy that permits the amount of the coverage and related premium amount under the policy to be adjusted from time to time by the holder. Under a universal life policy, interest earned on the policy is credited to the policy's cash surrender value at a rate we declare, which may not be below the minimum guaranteed rate. Universal life policies may be surrendered for their cash surrender value at any time. For universal life policies, the minimum policy amount is \$25,000 and the insured may not exceed 70 years of age at the date the policy is issued.
- **Final Expense Benefit** — we offer two types of final expense benefit life insurance policies. Under the fixed benefit policy, the beneficiary receives a fixed amount upon the insured's death. Under the graded life policy, the amount paid to the beneficiary upon the insured's death depends on the period of time between the date the policy is issued and the date of the insured's death. If the insured dies within the first year after the policy is issued, the beneficiary receives 120% of the amount of the premium paid. If the insured dies in the second year after the policy is issued, the beneficiary receives 140% of the amount of the premium paid. Policies are available from \$2,500 to \$25,000 in death benefits, and the insured may not exceed 80 years of age at the date the policy is issued.

### Annuity Business

Our target market includes the group of individuals who are seeking to accumulate tax deferred savings or create guaranteed lifetime income. We believe that significant growth opportunities exist for life insurance and annuity products because of favorable demographic and economic trends. According to the U.S. Census Bureau, there were approximately 39 million Americans age 65 and older in 2010, representing 13% of the U.S. population, and this group had grown to 44.7 million in 2013. By 2030, this sector of the population is expected to increase to 20% of the total population. Our fixed index and fixed rate annuity products are particularly attractive to this group due to their principal protection, competitive rates of credited interest, tax deferred growth, guaranteed lifetime income, and alternative payout options. Our competitive fixed index and fixed rate annuity products have enjoyed favorable growth in recent years.

According to Wink's Sales and Market Report published by Wink, Inc., total industry sales of fixed index annuities increased 19.8% to \$44.9 billion for the first three quarters of 2016 from \$37.5 billion for the first three quarters of 2015. Total industry sales of fixed index annuities have increased 64% over the

five year period from 2010 to 2015 (data provided in the following table according to Wink's Sales and Market Report published by Wink, Inc.), which we believe is attributable to more Americans reaching retirement age and seeking products that will provide principal protection and guaranteed lifetime income.

	For the Year Ended December 31,				
	2015	2014	2013	2012	2011
	(Dollars in thousands)				
Total industry sales of fixed index annuities	\$53,069,850	\$46,896,350	\$38,646,864	\$33,975,442	\$32,387,045
Increase from prior year	6,173,500	8,249,486	4,671,422	1,588,397	41,481
Increase from prior year	13.2%	21.3%	13.7%	4.9%	0.1%

### Products

Annuities offer our policyholders a tax deferred means of accumulating retirement savings, as well as a reliable source of income during the payout period. When our policyholders deposit cash to annuities, we account for these receipts as policy benefit reserves in the liability section of our consolidated balance sheet. The annuity deposits collected, by product type, during the three most recent fiscal years are as follows:

Product Type	Year Ended December 31,					
	2017		2016		2015	
	Deposits Collected	Deposits as a % of Total	Deposits Collected	Deposits as a % of Total	Deposits Collected	Deposits as a % of Total
	(Dollars in thousands)					
Fixed index annuities	\$11,349	87%	\$5,788	71%	\$ 250	7.0%
Single premium fixed rate annuities	231	2%	161	2%	1,015	31%
Flexible premium fixed rate annuities	716	6%	1,428	18%	1,650	50%
Single premium immediate annuities	672	5%	731	9%	401	12%
	<u>\$12,969</u>	<u>100%</u>	<u>\$8,107</u>	<u>100%</u>	<u>\$3,316</u>	<u>100%</u>

### Fixed Index Annuities

Fixed index annuities allow contractholders to earn index credits based on the performance of a particular index, such as the S&P 500 index, without the risk of loss of their principal. Most of these products allow contractholders to transfer funds once a year among several different crediting strategies, including one or more index based strategies and a traditional fixed rate strategy. Our fixed index policy includes a "premium bonus" that increases the initial annuity deposit at issuance by a specified percentage, ranging from 1% to 12%. Generally, the surrender charge and bonus vesting provisions of our policies are structured such that we have comparable protection from early termination between bonus and non-bonus products.

The annuity contract value is equal to the single premium paid, the premium bonus, and interest credited, adjusted for any partial surrenders. "Interest credited" includes index credits for funds allocated to an index based strategy, which either applies a percentage limit (or "cap") to the annual index increase, or uses a percentage ("participation rate") of the index increase when calculating the interest rate to be applied to indexed funds. Caps and participation rates limit the amount of annual interest the policyholder may earn in any one index period and may be adjusted by us each index period subject to certain limits. The cap may not be less than 1% and the participation rate can range from 10% to 75%. Minimum guaranteed surrender values are equal to no less than 87.5% of the single premium less an annual contract charge of \$50 plus interest credited at an annual rate ranging from 1% to 3%.

We manage the index based risk component of our fixed index annuities by purchasing call options on the applicable indices to fund the annual index credits on these annuities and by adjusting the caps, participation rates, and asset fees on annuity anniversary dates to reflect the change in the cost of such options, which varies based on market conditions. All options are purchased on the respective entry dates on which customers can purchase a fixed index annuity.

### Fixed Rate Annuities

Fixed rate deferred annuities include annual and multi-year rate guaranteed products. After the first policy year, we have the discretionary ability to change the crediting rate once at any time to any rate at or above a guaranteed minimum rate. Our flexible premium deferred annuities allow us to change the interest rate credited at our discretion to any rate at or above a guaranteed minimum rate. Our multi-year rate guaranteed annuities guarantee the initial crediting rate for up to 7 years before we can change the rate credited at our discretion. Customers can purchase a fixed rate annuity at any time.

The initial crediting rate is largely a function of the interest rate we can earn on invested assets acquired with new annuity deposits and the rates offered on similar products by our competitors. For subsequent adjustments to crediting rates, we take into account the yield on our investment portfolio, annuity surrender and withdrawal assumptions, and crediting rate history for particular groups of annuity policies with similar characteristics. As of December 31, 2017, crediting rates on our outstanding fixed rate deferred annuities generally ranged from 1.35% to 6.00%. The average crediting rates on our outstanding guaranteed fixed rate deferred annuities at December 31, 2017 were 3.29% and 3.39%, respectively.

We also sell single premium immediate annuities (“SPIAs”). Our SPIAs are designed to provide a series of periodic payments for a fixed period of time or for life, according to the policyholder’s choice at the time of issue. The amounts, frequency and length of time of the payments are fixed at the outset of the annuity contract. SPIAs are often purchased by persons at or near retirement age who desire a steady stream of payments over a future period of years. The implicit interest rate on SPIAs is based on market conditions when the policy is issued. The implicit interest rate on our outstanding SPIAs averaged 2.59% at December 31, 2017.

### Withdrawal Options — Fixed Index and Fixed Rate Annuities

Policyholders are typically permitted penalty free withdrawals up to 10% of the contract value in each year after the first year, subject to limitations. Withdrawals in excess of allowable penalty-free amounts are assessed a surrender charge during a penalty period which ranges from 1 to 10 years for fixed index annuities and 5 to 15 years for fixed rate annuities from the date the policy is issued. This surrender charge initially ranges from 0.9% to 9% for fixed index annuities and 1% to 7% for fixed rate annuities of the contract value and generally decreases by approximately one half to two percentage points per year during the surrender charge period. For certain policies, the premium bonus is considered in the establishment of the surrender charge percentages. For other policies, there is a vesting schedule ranging from 10 to 14 years that applies to the premium bonus and any interest earned on that premium bonus. Surrender charges and bonus vesting are set at levels aimed at protecting us from loss on early terminations and reducing the likelihood of policyholders terminating their policies during periods of increasing interest rates. This practice enhances our ability to maintain profitability on such policies. Policyholders may elect to take the proceeds of the annuity either in a single payment or in a series of payments for life, for a fixed number of years or a combination of these payment options. Information on surrender charge protection and net account values is as follows:

	For the Year Ended December 31,		
	2017	2016	2015
	(dollars in thousands)		
Annuity Surrender Charges:	\$ 2,666	\$ 1,295	\$ 603
Average years at issue	8	7	7
Average years remaining	4	2	1
Average surrender charge percentage remaining	4.42%	2.59%	1.32%
Annuity Account Value (net of coinsurance)	\$60,257	\$49,931	\$45,498

Beginning in 2015, 51% of our fixed index annuity policies were issued with a lifetime income benefit rider. This rider provides an additional liquidity option to policyholders. With the lifetime income benefit rider, a policyholder can elect to receive guaranteed payments for life from his contract without requiring the policyholder to annuitize the contract value. The amount of the living income benefit available is determined by the growth in the policy’s income account value as defined in the rider (3.0% to 8.0%), which

is selected by the policyholder at the time of purchase, and the policyholder's age at the time the policyholder elects to begin receiving living income benefit payments. Lifetime income benefit payments may be stopped and restarted at the election of the policyholder. Rider fees range from 0.75% to 0.95% of the policy's income account value.

#### *Variable Annuities*

A variable deferred annuity is a financial product designed for long term investment purposes, such as retirement. This annuity is a contractual agreement between the contract owner and the company that stipulates the company will pay an income to the contract owner in the future in exchange for an upfront premium payment.

As a deferred annuity, the contract is comprised of two phases: the accumulation phase and the income phase. The accumulation phase begins upon purchase. During this phase, the single premium or multiple premium payments earn interest on a tax deferred basis. As a variable annuity, the contractholder selects how the premium will be allocated to the various investment choices made available by the contract. Interest credited during the accumulation phase will depend on the portfolio performance of the selected investment allocation(s). Additionally, a death benefit is provided to the contract beneficiary during this phase.

When the contract owner decides to annuitize the contract (i.e. begin receiving income payments), the income phase begins. There are several payment methods available, including fixed and variable. Fixed payments will remain level, while variable payments will fluctuate depending on the investment performance of the portfolios selected.

#### **Investments/Spread Management**

Investment activities are an integral part of our business, and net investment income is a significant component of our total revenues. Profitability of our annuity products is significantly affected by spreads between interest yields on investments, the cost of options to fund the annual index credits on our fixed index annuities, and rates credited on our fixed rate annuities, and the fixed rate strategy in our fixed index annuities. We manage the index based risk component of our fixed index annuities by purchasing call options and call option spreads on the applicable indices to fund the annual index credits on these annuities and by adjusting the caps and participation rates on index dates to reflect the change in the cost of such options, which varies based on market conditions. All options are purchased on the respective anniversary dates in which the earnings from the annuity contract are determined based on the chosen index, and new options are purchased on each of the anniversary dates to fund the next annual index credits. All credited rates on annual reset fixed rate deferred annuities and the fixed rate strategy in fixed index annuities may be changed annually, subject to minimum guarantees. Changes in caps, participation rates, and crediting rates on fixed rate and fixed index annuities may not be sufficient to maintain targeted investment spreads in all economic and market environments. In addition, competition and other factors, including the potential for increases in surrenders and withdrawals, may limit our ability to adjust or to maintain caps, participation rates, asset fees, and crediting rates at levels necessary to avoid narrowing of spreads under certain market conditions.

For additional information regarding the composition of our investment portfolio and our interest rate risk management, see "Management's Discussion and Analysis of Financial Condition and Results of Operations — Financial Condition" "— Investments, Quantitative and Qualitative Disclosures About Market Risk" and Note 4 to our audited consolidated financial statements.

#### **Marketing/Distribution**

We market our products through a network of independent agents located in the 45 states in which we are licensed to issue insurance. We emphasize high quality service to our agents and policyholders along with the prompt payment of commissions to our agents. We believe this has been significant in building excellent relationships with our distribution network.

Our independent agents and agencies range in profile from national sales organizations to personal producing general agents. We actively recruit new agents and terminate those agents who have not produced business for us in recent periods and are unlikely to sell our products in the future. In our recruitment efforts, we emphasize that agents have direct access to our executive officers, giving us an edge in recruiting

over larger and foreign owned competitors. We also emphasize our products and service and our focused fixed rate and fixed index annuity expertise.

The independent agent distribution system is comprised of insurance brokers and agents. We are pursuing a strategy to increase the efficiency of our independent agent distribution network by strengthening our relationships with our existing agents while we remain alert for opportunities to establish relationships with organizations not presently associated with us. We generally do not enter into exclusive arrangements with our agents.

Six agents contracted with us each accounted for more than 5.0% of the annuity deposits and insurance premiums collected during 2017 by Federal Life. The states with the largest share of direct premium collected during 2017 were: Illinois (43%), Michigan (9%), Ohio (9%), California (8%), and Florida (6%).

We will seek to expand distribution of our products by establishing relationships with additional distribution partners and through direct sales to customers through our website.

#### *Underwriting and Risk Selection*

Federal Life employs a staff of two full time employee underwriters who have an average of 23 years of underwriting experience.

#### *Product Pricing*

We regularly review claim results for each of our products, comparing actual experience to the assumptions used to design and price the products. The review process is performed by our actuarial and finance teams with assistance from the underwriting and operations team, product development team, and marketing. Variances in our expectations for particular products are examined for implications on product performance and used to evaluate product prices and underwriting assumptions. Product experience is also reviewed by our reinsurance partners.

Key elements of our product pricing include assumptions regarding future mortality (amount and timing of future benefit payments), persistency experience (number and timing of policyholder discontinuations or coverage lapses), and investment returns (interest we will earn on investment of free cash flows and reserves).

#### **Competition and Ratings**

We operate in a highly competitive industry. Our annuity products compete with fixed index, fixed rate, and variable annuities sold by other insurance companies and also with mutual fund products, traditional bank products and other investment and retirement funding alternatives offered by asset managers, banks, and broker/dealers. Our insurance products compete with products of other insurance companies, financial intermediaries, and other institutions based on a number of features, including crediting rates, index options, policy terms and conditions, service provided to distribution channels and policyholders, ratings, reputation, and distributor compensation.

Financial strength ratings generally involve quantitative and qualitative evaluations by rating agencies of a company's financial condition and operating performance. Generally, rating agencies base their ratings upon information furnished to them by the insurer and upon their own investigations, studies and assumptions. Ratings are based upon factors of concern to policyholders, agents, and intermediaries, are not directed toward the protection of investors, and are not recommendations to buy, sell, or hold securities.

A.M. Best Company ratings currently range from "A++" (Superior) to "F" (In Liquidation) and include 16 separate ratings categories. Within these categories, "A++" (Superior) and "A+" (Superior) are the highest, followed by "A" (Excellent) and "A-" (Excellent) then followed by "B++" (Good) and "B+" (Good). Publications of A.M. Best Company indicate that the "A-" rating is assigned to those companies that, in A.M. Best Company's opinion, have demonstrated an excellent ability to meet their ongoing obligations to policyholders.



A.M. Best Company reviews its ratings of insurance companies from time to time. There can be no assurance that any particular rating will continue for any given period of time or that it will not be changed or withdrawn entirely if, in their judgment, circumstances so warrant. If Federal Life does not obtain a rating from A.M. Best, we may experience difficulty in expanding the sales of our products and the persistency of our existing business.

Agents selling life insurance and annuity products use the ratings assigned to an insurer by independent rating agencies as one factor in determining which insurer's products to offer to a customer. Federal Life has not sought a rating from A.M. Best Company since 1993, and does not intend to seek a rating immediately after completion of the offering, but may seek a rating from a nationally recognized statistical rating organization in future years. The degree to which the lack of a rating has affected and will affect Federal Life's sales and persistency is unknown.

In addition to the financial strength ratings, rating agencies use an "outlook statement" to indicate a medium or long term trend which, if continued, may lead to a rating change. A positive outlook indicates a rating may be raised and a negative outlook indicates a rating may be lowered. A stable outlook is assigned when ratings are not likely to be changed. Outlook statements should not be confused with expected stability of the insurer's financial or economic performance. A rating may have a "stable" outlook to indicate that the rating is not expected to change, but a "stable" outlook does not preclude a rating agency from changing a rating at any time without notice.

In December 2016, A.M. Best changed its rating outlook on the U.S. life/annuity sector from stable to negative citing increased volatility across economic and regulatory fronts, which includes continuing interest rate pressures. In January 2016, Standard & Poor's affirmed its outlook on the U.S. life insurance sector as stable. The rating agencies have heightened the level of scrutiny they apply to insurance companies, increased the frequency and scope of their credit reviews, and may adjust upward the capital and other requirements employed in the rating agency models for maintenance of certain ratings levels.

### **IT Applications**

Our business, including the marketing, sales, and administration of our insurance and annuity products, relies on our technology infrastructure. Our policy issue and administration system, CyberLife, handles the issuance and administration of our life insurance policies and annuity contracts and generates related policy accounting. In connection with the CyberLife system, insurance documents are prepared through our document automation platform, and the information is communicated to the company's independent agents through our agent portal, ViLink.

Our information systems department creates new systems and modifies existing systems as requested by our various departments. Through a strategic partnership with an outside technology vendor, we are implementing a full suite of digital distribution and service business applications that we expect to complete in December 2018. This initiative will significantly increase the speed with which new products are released and existing products are updated and will eliminate many time consuming, manual processes and enable our employees and agents to focus on higher priority tasks.

Our technology consists of an IBM zBC12 mainframe system running the IBM z/OS operating system and a local area network system with several Dell hardware servers running the VMware operating system with Windows 2012 application servers. The mainframe contains our CyberLife administration system running on the IBM CICS (Customer Information Control System) platform. The local area network contains all the other applications running on the Dell VMware servers.

All the mainframe files whether they are production or test are backed up daily. We keep 100 days of the daily backups onsite and rotate four days offsite with our offsite tape storage vendor Iron Mountain. The software used for the backups is the IBM DFSMSdss product and Innovations FDR FDRCRYPT.

The local area network virtual servers are initially backed up to a disk attached to the backup server. On completion of these disk backups the data locations are then backed up to tape. The tapes are then sent offsite on a daily basis to our offsite storage vendor's location. Some select backup jobs are supplemented on external disks that are also sent offsite. These disk drives provide a faster means of recovering some of the environment prior to using the tapes to bring everything current. All month end backups are retained indefinitely. Mid-month tapes are retained for at least one year. On the direct disk backups of the virtual servers a 14-day retention is used.

Our disaster recovery contract provides a facility for us to test the recovery process twice per year. The recovery media is shipped from our storage vendor Iron Mountain to the recovery location where this is used to recover the mainframe and servers. Some application testing is performed using the provided workstations after the appropriate software installs have been completed. Our vendor has multiple recovery locations throughout the United States in the event of an actual disaster declaration.

## Reinsurance

We follow the industry practice of reinsuring a portion of our life insurance and annuity risks with unaffiliated reinsurers. Our reinsurance agreements play a part in managing our regulatory capital.

Consistent with the general practice of the life insurance industry, Federal Life enters into agreements of indemnity reinsurance with other insurance companies in order to reinsure portions of the coverage provided by its annuity and life insurance products. Indemnity reinsurance agreements are intended to limit a life insurer's maximum loss on a large or unusually hazardous risk or to diversify its risks. Indemnity reinsurance does not discharge the original insurer's primary liability to the insured.

We reinsure 80% of our term and flexible premium coverage net amount at risk. Accordingly, the maximum loss retained by us on any one life is \$250,000 as of December 31, 2017. All of Federal Life's new business is reinsured under a life reinsurance agreement with Optimum Re.

Even though we reinsure certain of our liabilities to third party reinsurance carriers, Federal Life remains directly liable to policyholders for the benefit payments associated with these policies. Our reinsurance carriers have a contractual relationship with Federal Life to reimburse us for policy claims, but are not under any contractual obligation to our policyholders. Because Federal Life remains directly liable to policyholders for the full amount of the death benefits payable under its policies, Federal Life bears credit risk relating to its reinsurers under its reinsurance contracts. As a result, Federal Life will only enter into a reinsurance agreement with reinsurers that have stable operating performance, including a minimum A.M. Best financial strength rating of "A-" (Excellent). We believe the assuming companies will be able to honor all contractual commitments, based on our periodic review of their financial statements, insurance industry reports and reports filed with state insurance departments.

The following table sets forth our reinsurance recoverables as of December 31, 2017, and the A.M. Best ratings of those reinsurers as of that date:

	As of December 31, 2017			
	2017 A.M. Best's Rating	Ceded Future Policy Benefits	Claims and Other Amounts Recoverable	Total Reinsurance Recoverables
	(in thousands)			
Reinsurer				
Optimum Re Insurance Company	A-	\$3,275	\$ 77	\$ 3,352
SCOR Global Life Americas Reins Co	A+	444	—	444
Prudential Insurance Co of America	A+	3	—	3
Swiss Re Life & Health America Inc.	A+	5	2	7
		<u>\$3,727</u>	<u>\$ 79</u>	<u>\$ 3,806</u>

For more information regarding reinsurance, see Note 9 to our audited consolidated financial statements. For risks involving reinsurance see "Risk Factors — Risks Relating to Our Insurance Business" — Our reinsurance program involves risks because we remain liable with respect to the liabilities ceded to reinsurers if the reinsurers fail to meet the obligations assumed by them."

## Investments

We had total cash and investment assets of \$209.0 million as of December 31, 2017. All invested assets are managed pursuant to an investment plan developed by our executive management team and approved by and reviewed annually with our board of directors. All changes to the investment plan are approved by the board of directors.

We have contracted with a third party investment advisory firm to provide portfolio management and consulting services to assist our chief financial officer with the oversight of various portfolios. Our investment advisor meets periodically, but not less frequently than quarterly, with our president and chief operating officer and our chief financial officer to review portfolio results and discuss portfolio strategies.

Our investment strategy is to diversify among asset classes and individual issuers to achieve appropriate matching of assets with insurance liabilities, sufficient liquidity, and predictability of income. The composition of our investment portfolio is primarily investment grade fixed income investments and is managed with primary emphasis on current earnings.

The following table shows the allocation of our invested assets as of December 31, 2017:

Fixed maturities, available for sale, at fair value	\$188,452
Equity securities, available for sale, at fair value	6,209
Policy loans	9,852
Derivative instruments	395
Total Investments	204,908
Cash and cash equivalents	4,085
Total Cash and Investments	<u>\$208,993</u>

### Enterprise Risk Management

The review and assessment of enterprise risks is the responsibility of our executive management team with oversight provided by the board of directors through its audit committee. We have established risk management policies and procedures throughout our organization. To supervise the implementation of these risk management policies and procedures, we have engaged outside consultants on this topic and have established a risk management committee that consists of members of our senior management team.

We have launched a multi-phase risk assessment project focused on formalizing our enterprise risk management process covering our operations and all corporate activities. Project goals include defining key risks and risk events, establishing corporate risk tolerances, and documenting the accountability for the risk management processes. Work is in process to formalize and in some cases develop additional measurements related to enterprise level risks for management and board reporting. The risk assessment project will continue to evolve with the business over the near term and result in the development of more formalized enterprise risk management capabilities.

To limit its exposure in the event of a lawsuit, Federal Life maintains a full line of insurance coverages, including errors and omissions, directors and officers liability, and cyber liability insurance.

### Legal Proceedings

We are, from time to time, involved in various legal proceedings in the ordinary course of business. While it is not possible to forecast the outcome of such legal proceedings, in light of existing insurance, reinsurance, and established reserves, we believe that there is no individual case pending that is likely to have a material adverse effect on our financial condition or results of operations.

### Properties

We own the 69,000 square foot office building in which our headquarters are located at 3750 West Deerfield Road, Riverwoods, Illinois. We currently lease approximately 9,600 square feet of the building to an outside tenant. The building is located on a 10 acre tract of land in a suburb northwest of Chicago. Approximately 9,600 square feet of office space remains available for lease or to accommodate any increase in our workforce.

### Employees

As of December 31, 2017, Federal Life had 61 employees. We provide health, dental, disability, vision, and life insurance to our full time employees who have completed 90 days of full time employment. Full time employees are also eligible for paid vacation and to participate in the Federal Life 401 K plan, which

features a 50% company match of each employee's voluntary contribution to the plan up to 6% of the employee's compensation. We have the option to make an additional profit sharing contribution of up to 3% of the employee's compensation to the plan. None of our employees are covered by a collective bargaining agreement. We believe that relations with our employees are good.

### **Federal Income Tax**

The annuity and life insurance products that we market generally provide the policyholder with a federal income tax advantage, as compared to certain other savings investments such as certificates of deposit and taxable bonds, in that federal income taxation on any increases in the contract values (i.e., the "inside build up") of these products is deferred until it is received by the policyholder. With other savings investments, the increase in value is generally taxed each year as it is realized. Additionally, life insurance death benefits are generally exempt from income tax.

From time to time, various tax law changes have been proposed that could have an adverse effect on our business, including the elimination of all or a portion of the income tax advantage described above for annuities and life insurance. If legislation were enacted to eliminate the tax deferral for annuities, such a change would have an adverse effect on our ability to sell non-qualified annuities. Non-qualified annuities are annuities that are not sold to an individual retirement account or other qualified retirement plan.

Since 2013, distributions from non-qualified annuity policies are considered "investment income" for purposes of the Medicare tax on investment income contained in the Health Care and Education Reconciliation Act of 2010. As a result, in certain circumstances a 3.8% tax ("Medicare Tax") may be applied to some or the entire taxable portion of distributions from non-qualified annuities to individuals whose income exceeds certain threshold amounts. This tax may have an adverse effect on our ability to sell non-qualified annuities to individuals whose income exceeds these threshold amounts.

### **Regulation**

Our businesses are subject to a number of federal and state laws and regulations. These laws and regulations cover Federal Life's operations as a life insurance company and FED Mutual Financial Services, Inc.'s operations as a FINRA licensed broker dealer. Our operations are subject to extensive laws and governmental regulations, including administrative determinations, court decisions, and similar constraints. The purpose of the laws and regulations affecting our operations is primarily to protect our policyholders and not our shareholders. Many of the laws and regulations to which we are subject are regularly re-examined, and existing or future laws and regulations may become more restrictive or otherwise adversely affect our operations. State insurance laws regulate most aspects of our insurance business, and we are regulated by the insurance departments of the states in which we sell insurance policies. The NAIC assists the various state insurance regulators in the development, review, and implementation of a wide range of financial and other regulations over the insurance industry.

### **Insurance Regulation**

Federal Life is licensed to transact business in all states and jurisdictions in which it conducts an insurance business. Federal Life is an Illinois domiciled life insurance company licensed to transact business in 45 states and the District of Columbia. Federal Life is not licensed to transact business in New York, Maine, Massachusetts, New Hampshire, or Vermont. State insurance laws regulate many aspects of our business. Such regulation is vested primarily in state agencies having broad administrative and in some instances discretionary power dealing with many aspects of our business, which may include, among other things, required reserve liability levels, permitted classes of investments, transactions among affiliates, marketing practices, advertising, privacy, policy forms, reinsurance reserve requirements, acquisitions, mergers, and capital adequacy, and is concerned primarily with the protection of policyholders and other consumers rather than shareholders. We are subject to financial and market conduct examinations by insurance regulators from our domiciliary states and from other states in which we do business.

State laws and regulations governing the financial condition of insurers apply to Federal Life, including standards of solvency, risk based capital requirements, types, quality and concentration of investments, establishment and maintenance of reserves, required methods of accounting, reinsurance and minimum

capital and surplus requirements, and the business conduct of insurers, including sales and marketing practices, claim procedures and practices, and policy form content. In addition, state insurance laws require licensing of insurers and their agents. State insurance regulators have the power to grant, suspend, and revoke licenses to transact business and to impose substantial fines and other penalties.

### ***Agent Licensing***

Federal Life sells its insurance products through independent distributors. The states in which insurance agents operate require agents to obtain and maintain licenses to sell insurance products. In order to sell insurance products, the agents must be licensed by their resident state and by any other state in which they do business and must comply with regulations regarding licensing, sales and marketing practices, premium collection and safeguarding, and other market conduct practices. In addition, in most states, Federal Life must appoint the agents and agencies that sell our insurance products, and the agents must be appointed by all carriers for which they sell.

Consistent with various federal and state legal requirements, we monitor our agents that sell for Federal Life, and we monitor the agencies with which the independent distributors and independent agents work in order to understand and evaluate the agencies' training and general supervision programs relevant to regulatory compliance.

### ***Financial Review***

Federal Life is required to file detailed annual and quarterly financial reports with the insurance departments in the states in which we do business, and its business and accounts are subject to examination by such agencies at any time. These examinations generally are conducted under NAIC guidelines. Under the rules of these jurisdictions, insurance companies are examined periodically (generally every three to five years) by one or more of the supervisory agencies on behalf of the states in which they do business.

### ***Market Conduct Regulation***

The laws and regulations governing our insurance businesses include numerous provisions governing the marketplace activities of insurers, such as Federal Life, including regulations governing the form and content of disclosures to consumers, advertising, product replacement, sales and underwriting practices, complaint handling, and claims handling. State insurance regulators enforce compliance, in part, through periodic market conduct examinations.

### ***Insurance Holding Company Regulation***

All states in which Federal Life conducts insurance business have enacted legislation that requires each insurance company in a holding company system to register with the insurance regulatory authority of its state of domicile and to furnish that regulatory authority financial and other information concerning the operations of, and the interrelationships and transactions among, companies within its holding company system that may materially affect the operations, management, or financial condition of the insurers within the system. These laws and regulations also regulate transactions between insurance companies and their parents and affiliates. Generally, these laws and regulations require that all transactions within a holding company system between an insurer and its affiliates be fair and reasonable and that the insurer's statutory surplus following any transaction with an affiliate be both reasonable in relation to its outstanding liabilities and adequate to its financial needs. Statutory surplus is the excess of admitted assets over statutory liabilities. For certain types of agreements and transactions between an insurer and its affiliates, these laws and regulations require prior notification to, and non-disapproval or approval by, the insurance regulatory authority of the insurer's state of domicile. These laws and regulations also require the holding company system to file an annual report identifying certain risks ("enterprise risks") that, if not remedied, are likely to have a material adverse effect upon the financial condition of the insurer or its holding company system as a whole.

### ***Dividend Limitations***

As a holding company with no significant business operations of its own, Federal Life Group, Inc. will depend on intercompany dividends or other distributions from its subsidiaries as the principal source of

cash to meet its obligations. The ability of Federal Life to pay dividends to its corporate parent is limited under Illinois law. Such dividends may only be paid out of earned surplus (excluding unrealized capital gains), and no dividend may be paid that would reduce Federal Life's statutory surplus to less than the amount required to be maintained by Illinois law for the types of business transacted by Federal Life. All intercompany dividends must be reported to the Illinois Department of Insurance prior to payment. In addition, Federal Life may not pay an "extraordinary" dividend or distribution until 30 days after the Illinois Director of Insurance has received sufficient notice of the intended payment and has not objected or has approved the payment within the 30-day period. An "extraordinary" dividend or distribution is defined under Illinois law as a dividend or distribution that, together with other dividends and distributions made within the preceding 12 months, exceeds the greater of:

- 10% of the insurer's statutory surplus as of the immediately prior year end; or
- the statutory basis net income of the insurer for the prior year.

Federal Life could pay ordinary dividends of \$1.49 million during 2018.

### ***Change of Control***

Illinois law requires advance approval by the Director of Insurance of any direct or indirect change of control of an Illinois domiciled insurer, such as Federal Life. In considering an application to acquire control of an insurer, the Director generally will consider such factors as experience, competence, and the financial strength of the applicant, the integrity of the applicant's board of directors and officers, the acquirer's plans for the management and operation of the insurer, and any anti-competitive effects that may result from the acquisition. Under Illinois law, there exists a presumption of "control" when an acquiring party acquires 10% or more of the voting securities of an insurance company or of a company which itself controls an insurance company. Therefore, any person acquiring, directly or indirectly, 10% or more of our common stock would need the prior approval of the Illinois Director of Insurance, or a determination from the Director that "control" has not been acquired. Under Section 59.1(6)(i) of the Illinois Insurance Code, no person, together with such purchaser's associates or a group acting in concert, may acquire, directly or indirectly, in this offering or any public offering, more than 5% of the capital stock of Federal Life Group, Inc. for a period of five years from the effective date of the conversion without the approval of the Illinois Director of Insurance.

In addition, a person seeking to acquire, directly or indirectly, control of an insurance company is required in some states to make filings prior to completing an acquisition if the acquirer and the target insurance company and their affiliates have sufficiently large market shares in particular lines of insurance in those states. Approval of an acquisition may not be required in these states, but the state insurance departments could take action to impose conditions on an acquisition that could delay or prevent its consummation.

### ***Policy and Contract Reserve Sufficiency***

Federal Life is required under Illinois law to conduct annual analyses of the sufficiency of its life insurance and annuity statutory reserves. In addition, other states in which Federal Life is licensed may have certain reserve requirements that differ from those of Illinois. In each case, a qualified actuary must submit an opinion each year that states that the aggregate statutory reserves, when considered in light of the assets held with respect to such reserves, make good and sufficient provision for the associated contractual obligations and related expenses of the insurer. If such an opinion cannot be provided, the affected insurer must set up additional reserves by moving funds from surplus. Federal Life submitted these opinions without qualification as of December 31, 2017 to applicable insurance regulatory authorities.

### ***Risk Based Capital (RBC) Requirements***

The NAIC has established a standard for assessing the solvency of insurance companies using a formula for determining each insurer's RBC. The RBC model act provides that life insurance companies must submit an annual RBC report to state regulators reporting their RBC based upon four categories of risk: asset risk, insurance risk, interest rate risk, and business risk. For each category, the capital requirement is determined by applying factors to various asset, premium, and reserve items, with the factor

being higher for those items with greater underlying risk and lower for less risky items. The formula is intended to be used by insurance regulators as an early warning tool to identify possible weakly capitalized companies for purposes of initiating further regulatory action. If an insurer's Total Adjusted Capital ("TAC") falls below specified levels in relation to its RBC, the insurer would be subject to different degrees of regulatory action depending upon the relationship of its TAC to its RBC. These actions range from requiring the insurer to propose actions to correct the capital deficiency to placing the insurer under regulatory control. For example, if Federal Life's TAC is equal to or less than its "company action level RBC," then Federal Life could be subject to a wide range of regulatory oversight, including a requirement to submit a written plan for capital strengthening to the Illinois Director of Insurance. A company's "company action level RBC" is equal to two times its "authorized control level RBC," which is the product of the RBC formula as described above. Federal Life's "authorized control level RBC" was \$2.8 million, which results in a "company action level RBC" of \$5.6 million. At December 31, 2017, Federal Life's TAC was significantly in excess of its "company action level RBC" by \$17.6 million. Our other operating subsidiaries and Federal Life Mutual are not subject to RBC requirements.

The NAIC expects the 2017 Tax Cuts and Jobs Act to have a significant impact on the life insurance industry's risk based capital requirements. An NAIC working group is currently working on proposed adjustments to the RBC requirements for life insurance companies. The NAIC stated that although the working group is trying to complete its work in 2018, implementation of any changes may be delayed to 2019. The American Council of Life Insurers has announced that it expects RBC ratios to drop for all life insurance companies.

### ***NAIC Ratios***

The NAIC is a voluntary association of state insurance commissioners formed to discuss issues and formulate policy with respect to regulation, reporting, and accounting of insurance companies. Although the NAIC has no legislative authority and insurance companies are at all times subject to the laws of their respective domiciliary states, and to a lesser extent, other states in which they conduct business, the NAIC is influential in determining the form in which such laws are enacted. Model insurance laws, regulations, and guidelines have been promulgated by the NAIC as minimum standards by which state regulatory systems and regulations are measured.

The NAIC also has established a set of 13 financial ratios to assess the financial strength of insurance companies. The key financial ratios of the NAIC's Insurance Regulatory Information System, or IRIS, which were developed to assist insurance departments in overseeing the financial condition of insurance companies, are reviewed by experienced financial examiners of the NAIC and state insurance departments to select those companies that merit highest priority in the allocation of the regulators' resources. IRIS identifies these key financial ratios and specifies a range of "unusual values" for each ratio. The NAIC suggests that insurance companies that fall outside the "usual" range in four or more financial ratios are those most likely to require analysis by state regulators. However, according to the NAIC, it may not be unusual for a financially sound company to have several ratios outside the "usual" range. For the year ended December 31, 2017, Federal Life was within the "usual" range for all but one ratio. The only ratio outside of the "usual" range was principally as a result of a dividend and paid in capital transaction, which had no net effect on surplus.

### ***Statutory Accounting Principles (SAP)***

SAP is a basis of accounting developed by U.S. insurance regulators to monitor and regulate the solvency of insurance companies. In developing SAP, insurance regulators were primarily concerned with evaluating an insurer's ability to pay all its current and future obligations to policyholders. As a result, statutory accounting focuses on conservatively valuing the assets and liabilities of insurers, generally in accordance with standards specified by the insurer's domiciliary jurisdiction. Uniform statutory accounting practices are established by the NAIC and generally adopted by regulators in the various U.S. jurisdictions. These accounting principles differ somewhat from GAAP, which are designed to measure a business on a going concern basis. GAAP gives consideration to matching of revenue and expenses and, as a result, certain insurer expenses are capitalized when incurred and then amortized over the life of the associated policies. The valuation of assets and liabilities under GAAP is based in part upon best estimate assumptions

made by the insurer. Shareholders' equity under GAAP represents both amounts currently available and amounts expected to emerge over the life of the business. As a result, the values for assets, liabilities, and equity reflected in financial statements prepared in accordance with GAAP may be different from those reflected in financial statements prepared under SAP.

State insurance laws and regulations require Federal Life to file with state insurance departments publicly available quarterly and annual financial statements, prepared in accordance with statutory guidelines that generally follow NAIC uniform standards. State insurance laws require that the annual statutory financial statements be audited by an independent public accountant and that the audited statements be filed with the insurance departments in states where the insurer transacts business.

#### ***State Insurance Guaranty Funds Laws***

In most states, there is a requirement that life insurers doing business within the state participate in a guaranty association, which is organized to pay contractual benefits owed pursuant to insurance policies issued by impaired, insolvent, or failed insurers. These associations levy assessments, up to prescribed limits, on all member insurers in a particular state on the basis of the proportionate share of the written premium in the state by member insurers in the lines of business in which the impaired, insolvent, or failed insurer is engaged. Some states permit member insurers to recover such paid assessments through full or partial premium tax offsets.

Life insurance company insolvencies or failures may result in additional guaranty association assessments against Federal Life in the future. At this time, we are not aware of any material liabilities for guaranty fund assessments that apply to Federal Life with respect to impaired or insolvent insurers that are currently subject to insolvency proceedings.

#### ***Regulation of Investments***

Federal Life is subject to state laws and regulations that require diversification of its investment portfolios and limit the amount of investments in certain asset categories, such as below investment grade fixed income securities, equity real estate, mortgages, other equity investments, foreign investments, and derivatives. Failure to comply with these laws and regulations would cause investments exceeding regulatory limitations to be treated as non-admitted assets for purposes of measuring statutory surplus, and, in most instances, require divestiture.

#### ***Federal and State Legislative and Regulatory Changes***

From time to time, various regulatory and legislative changes have been proposed for the insurance industry. Among the proposals that have in the past been or are at present being considered are the possible introduction of federal regulation in addition to, or in lieu of, the current system of state regulation of insurers and proposals in various state legislatures (some of which proposals have been enacted) to conform portions of their insurance laws and regulations to various model acts adopted by the NAIC. We are unable to predict whether any of these proposed laws and regulations will be adopted, the form in which any such laws and regulations would be adopted or the effect, if any, these developments would have on our business, financial condition, and results of operations.

#### ***Other Laws and Regulations***

##### ***USA Patriot Act and Similar Regulations***

The USA Patriot Act of 2001, enacted in response to the terrorist attacks on September 11, 2001, contains anti money laundering and financial transparency laws and mandates the implementation of various regulations applicable to broker dealers and other financial services companies, including insurance companies. The Patriot Act seeks to promote cooperation among financial institutions, regulators, and law enforcement entities in identifying parties that may be involved in terrorism or money laundering. The increased obligations of financial institutions to identify their customers, watch for and report suspicious transactions, respond to requests for information by regulatory authorities and law enforcement agencies, and share information with other financial institutions, require the implementation and maintenance of internal practices, procedures, and controls.



***Privacy of Consumer Information***

U.S. federal and state laws and regulations require financial institutions, including insurance companies, to protect the security and confidentiality of consumer financial information and to notify consumers about their policies and practices relating to their collection and disclosure of consumer information and their policies relating to protecting the security and confidentiality of that information. Similarly, federal and state laws and regulations also govern the disclosure and security of consumer health information. In particular, regulations promulgated by the U.S. Department of Health and Human Services regulate the disclosure and use of protected health information by health insurers and others (including life insurers), the physical and procedural safeguards employed to protect the security of that information, and the electronic transmission of such information.

## THE CONVERSION AND OFFERING

### General

As a mutual holding company, Federal Life Mutual does not have shareholders. It has members. The members of Federal Life Mutual are the owners of the in-force policies of insurance of Federal Life. With respect to in-force group insurance coverage issued by Federal Life, the members are the holders of the certificates of insurance under the master insurance policies. In accordance with Illinois law and the articles of incorporation and bylaws of Federal Life Mutual, the members of Federal Life Mutual are entitled to certain membership rights, including the right to elect directors and to approve this conversion, provided that the holders of certificates of insurance under a master policy have no right to vote on any matters. In an insurance company organized as a stock company, policyholders have no governance rights, which reside with shareholders, and instead have only contractual rights under their insurance policies.

### Background and Reasons for the Conversion

In 2014, the board of directors of Federal Life (then a mutual life insurance company), approved a plan of conversion under Section 59.2 of the Illinois Insurance Code pursuant to which Federal Life was converted from mutual to stock form (the “Federal Life MHC Conversion Plan”). Pursuant to the Federal Life MHC Conversion Plan, Federal Life Mutual was formed as an Illinois mutual insurance holding company and Federal Life was reorganized and continued its existence as an Illinois stock life insurance company. All of the shares of Federal Life were issued to FEDHO Holding Company, an intermediate holding company formed for that purpose, which, in turn, was a wholly-owned subsidiary of Federal Life Mutual Holding Company. The Federal Life MHC Conversion Plan became effective on June 23, 2016.

Federal Life Mutual believes that the state of the life insurance business in the United States currently presents it with the opportunity to extend its reach into its target market and provide affordable, accessible life insurance solutions and annuity products to this market. Federal Life Mutual has examined various alternatives ranging from maintenance of the status quo, expansion or acquisition of other lines of business or companies, and various forms of demutualization of Federal Life Mutual permitted by Illinois law. After careful study and consideration, Federal Life Mutual has concluded that the subscription rights method of demutualization, backstopped by a standby purchaser that will commit to purchase at least enough unsubscribed shares in the subscription offering to ensure the successful completion of the conversion offering, best suits Federal Life Mutual’s circumstances. Federal Life Mutual considered among other things that a subscription rights demutualization backstopped by a standby purchaser would:

- permit Federal Life Mutual to undertake a substantial capital raising transaction;
- with additional capital from the conversion, enable Federal Life Mutual to seek to achieve scale and position it to execute its Middle Market strategy;
- substantially mitigate the risk of an unsuccessful offering because of the standby purchaser’s commitment;
- provide for a more traditional corporate governance structure;
- enhance corporate flexibility for future strategic options;
- afford members an opportunity to participate in the success of Federal Life Mutual through the purchase of stock;
- permit Federal Life Mutual to adopt stock incentive plans to enhance its ability to attract and retain highly qualified employees, executives, and directors;
- improve the visibility of the Federal Life brand;
- enable Federal Life Mutual to have stock for use as acquisition currency;
- provide access to the strategic assistance of the standby purchaser; and
- create possible operational synergies with the standby purchaser or its current or former affiliates.

We believe that capital raised in a subscription rights demutualization transaction could be used, among other initiatives, (i) to allocate capital to Federal Life in support of our risk-based capital as needed to support ongoing new business growth; (ii) to grow our business through the acquisition of other life insurance companies; (iii) to make investments to strengthen our infrastructure, including our IT platforms; and (iv) to selectively deploy new capital to acquire and bolster talent in key areas of competency linked to competitive advantage.

Accordingly, on March 8, 2018, the board of directors of Federal Life Mutual unanimously adopted the plan of conversion, subject to the approval of the Illinois Director of Insurance and the eligible members of Federal Life Mutual. The Illinois Insurance Code requires that we obtain the approval of the Illinois Director of Insurance prior to effecting a conversion of Federal Life Mutual, which we received on [ • , 2018]. The standby purchaser's commitment to purchase shares of our stock in the community offering was approved by the Illinois Director of Insurance on [ • , 2018]. Approval by the Illinois Director of Insurance is not a recommendation or endorsement of this offering. The plan of conversion is also subject to the approval of the eligible members of Federal Life Mutual as of March 8, 2018, at a special meeting to be held on [ • , 2018] [special meeting date]. To be effective, the plan must be approved by the affirmative vote of at least two-thirds of the votes cast at the special meeting.

The plan of conversion provides that we will offer shares of our common stock for sale in a subscription offering to eligible members of Federal Life and the directors and officers of Federal Life Mutual and its subsidiaries. If less than 3,400,000 shares are subscribed for in the subscription offering, the standby purchaser has agreed to purchase any shares not subscribed for in the subscription offering up to the offering minimum of 3,400,000. See “— Subscription Offering and Subscription Rights” and “— Description of Standby Stock Purchase Agreement”

Following the adoption of the plan of conversion and the amended and restated articles of incorporation of Federal Life Mutual (that will, among other things, create and authorize the shares of capital stock of converted Federal Life Mutual) by the eligible members at the special meeting, the conversion will be accomplished by:

- filing with the Illinois Director of Insurance the minutes of the special meeting at which the plan of conversion is adopted along with the amended and restated articles of incorporation and bylaws of converted Federal Life Mutual;
- issuance of all of the shares of capital stock of converted Federal Life Mutual to the Company; and
- issuance of the shares of common stock sold in the offerings, including any shares purchased by the standby purchaser.

The conversion will be effected only if subscriptions and orders are received for at least 3,400,000 shares of common stock, including shares purchased by the standby purchaser, and the plan of conversion and amended and restated articles of incorporation of Federal Life Mutual are approved by at least two-thirds of the votes cast by members of Federal Life Mutual eligible to vote at a special meeting to be held on [ • , 2018] [special meeting date].

If the conversion fails to be completed for any reason, Federal Life Mutual will continue as the mutual holding company for FEDHO Holding Company and its subsidiaries. In that event, the members of Federal Life Mutual will retain the membership rights described above.

A copy of the plan of conversion is available by contacting Federal Life's principal executive offices located at 3750 West Deerfield Road, Riverwoods, Illinois, 60015, attention: President. A summary of the plan also was sent to each eligible policyholder along with the notice of the special meeting. The plan also is filed as an exhibit to the registration statement of which this prospectus is a part. Copies of the registration statement and the exhibits may be obtained from the SEC. See “Additional Information.”

### **Effect of Conversion on Federal Life Mutual and its Members**

In the conversion, Federal Life Mutual will be converted into stock form pursuant to Section 59.1 of the Illinois Insurance Code. In accordance with Section 59.1 of the Illinois Insurance Code, the corporate existence of Federal Life Mutual will be continued in converted Federal Life Mutual. As part of the

conversion, all property of every type will be vested in converted Federal Life Mutual and converted Federal Life Mutual will assume all the obligations and liabilities of Federal Life Mutual.

Upon completion of the conversion and the issuance of all its capital stock to the Company, Federal Life Mutual will be a stock holding company and wholly owned subsidiary of the Company. Pursuant to the plan of conversion, all membership interests in Federal Life Mutual held by the members of Federal Life will terminate as a result of the conversion. However, the conversion will have no effect on the contractual rights of the policyholders or annuity holders of Federal Life.

The conversion will be accounted for as a simultaneous reorganization, recapitalization, and share offering that will not change the historical accounting basis of Federal Life Mutual's consolidated financial statements.

### **Continuity of Insurance Coverage and Business Operations**

This conversion will not change the insurance protection or premiums under insurance policies issued by Federal Life or the contractual rights of holders of annuities issued by Federal Life. During and after the conversion, the normal business of issuing insurance policies and annuity contracts will continue without change or interruption. After the conversion, we will continue to provide services to policyholders under current policies. Each member of the board of directors of Federal Life Mutual is a member of the board of directors of the Company and is expected to continue to serve on such board of directors after the conversion. See "Management — Directors and Executive Officers." All of our officers at the time of this offering will retain their same positions after the conversion.

### **Voting Rights**

After the conversion, the policyholders and annuity holders of Federal Life will no longer be members of Federal Life Mutual and will no longer have the right to elect the directors of Federal Life Mutual or approve transactions involving Federal Life Mutual. Instead, voting rights in Federal Life Mutual will be held by the Company, which will own all of the outstanding capital stock of Federal Life Mutual. Voting rights in the Company will be held by the shareholders of the Company, subject to the terms of the articles of incorporation and bylaws of the Company and to the provisions of the PBCL and federal law. See "Description of Capital Stock — Common Stock" for a description of our common stock.

### **Subscription Offering and Subscription Rights**

We are offering shares of our common stock in a subscription offering to policyholders of Federal Life as of the close of business on March 8, 2018, who we refer to as eligible members, and to the directors and officers of Federal Life Mutual. The subscription offering will end at noon, Central Time, on [ • , 2018] [expiration date]. In the subscription offering we are offering 4,600,000 shares of common stock in the following order of priority:

*Priority 1: Eligible Members.* Each eligible member of Federal Life Mutual will receive, without payment, nontransferable subscription rights to purchase shares, subject to the purchase limitations and all the other terms and conditions of the plan of conversion. See "— Limitations on Purchases of Common Stock."

If eligible members subscribe for more than 4,600,000 shares, the shares of common stock will be allocated so as to permit each subscribing eligible member to purchase up to the lesser of the number of shares subscribed for or 1,000 shares. Any remaining shares will be allocated among the eligible members whose subscriptions remain unsatisfied in the proportion in which the aggregate number of shares as to which each such eligible member's subscription remains unsatisfied bears to the aggregate number of shares as to which all such eligible members' subscriptions remain unsatisfied.

*Priority 2: Directors and Officers.* Each director and officer of Federal Life Mutual will receive, without payment, non-transferable subscription rights to purchase shares, subject to the purchase limitations and all other terms and conditions of the plan of conversion. See "— Limitations on Purchases of Common Stock." Shares purchased by the directors and officers of Federal Life Mutual will be purchased for investment and not for resale and will be counted toward satisfaction of the minimum amount needed to complete this offering.

If there are insufficient shares remaining after the subscriptions of eligible members to satisfy in full all of the subscriptions of directors and officers of Federal Life Mutual, the available shares of common stock will be allocated among the subscribing management participants in the proportion in which the aggregate number of shares as to which each such management participant's subscription bears to the aggregate number of shares remaining.

All subscriptions received will be subject to the maximum and minimum purchase limitations set forth in the plan of conversion and as described below under “— Limitations on Purchases of Common Stock.”

If less than 3,400,000 shares are subscribed for in the subscription offering, the standby purchaser has agreed to purchase any shares not subscribed for in the subscription offering up to the offering minimum of 3,400,000 shares. The standby purchaser currently intends to purchase 2,800,000 shares in the offering. Shares purchased by the standby purchaser are purchased for investment and not for resale and shall count toward the completion of this offering.

### **Description of Standby Stock Purchase Agreement**

*General.* On March 8, 2018, we entered into a standby stock purchase agreement with Insurance Capital Group, LLC, pursuant to which the standby purchaser agreed, subject to certain conditions, to acquire from the Company, at the subscription price of \$10.00 per share, such number of shares of our common stock as would cause at least the minimum number of shares to be sold in connection with the conversion. If the conversion is completed, the standby purchaser will also acquire shares of our common stock upon the conversion of the exchangeable note described below. Any shares issued in connection with the exchangeable note will be counted towards satisfaction of the minimum number of shares that must be sold in the offerings. See “— *Exchangeable Note*”. The standby purchaser currently intends to purchase approximately 2,800,000 shares, which includes the shares issuable upon conversion of the exchangeable note.

*Exchangeable Note.* In connection with entering into the standby stock purchase agreement, Federal Life Mutual issued a \$2,000,000 exchangeable note to the standby purchaser. The outstanding principal balance of the exchangeable note will automatically convert into shares of common stock of the Company at a price of \$10.00 per share upon completion of the conversion. If the conversion is not completed, the outstanding principal balance and all unpaid, accrued interest under the exchangeable note will become due and payable. Federal Life Mutual may borrow under the exchangeable note from time to time, provided that the outstanding principal balance cannot exceed \$2,000,000 at any time. The proceeds of the exchangeable note may be used by Federal Life Mutual to pay the costs that it has and will incur in connection with the conversion and the offerings. The exchangeable note is due and payable on June 29, 2020, but the standby purchaser can accelerate the maturity of the exchangeable note if Federal Life Mutual's board of directors decides to abandon the conversion or upon any event of bankruptcy or insolvency of Federal Life Mutual or Federal Life.

*Termination.* The standby stock purchase agreement provides that it may be terminated by the standby purchaser only upon the occurrence of the following events:

- a material breach of the agreement by us that has not been cured within fifteen days after written notice by the standby purchaser;
- if, by action by Federal Life Mutual's board of directors, Federal Life Mutual shall have decided to abandon the plan of conversion;
- if the plan of conversion shall have failed to receive the requisite approval of the Department or the requisite vote for approval and adoption by the members eligible to vote;
- if any governmental entity, including the Department, shall have issued an order, decree, or ruling or taken any other action permanently restraining, enjoining, or otherwise prohibiting the transactions contemplated by the standby stock purchase agreement and such order, decree, ruling, or other action shall have become final and nonappealable or if the removal or reversal of such order, decree, ruling or other action would result in a “burdensome condition” as defined in the standby stock purchase agreement; or

- the conversion is not completed by December 31, 2018, unless the standby purchaser has failed to perform its obligations under the standby stock purchase agreement and such failure is the primary cause of the failure of the conversion to be completed by December 31, 2018, and provided that either the Company or the standby purchaser may extend such date for up to six months if any approvals necessary to proceed with or complete the conversion or the offerings have not been received by December 1, 2018.

*Conditions to Closing.* The standby stock purchase agreement contains customary representations and warranties of the Company, Federal Life Mutual, and Federal Life, on the one hand, and the standby purchaser, on the other hand. The conditions to the standby purchaser's closing obligations include, among other things:

- the representations and warranties of the Company, Federal Life Mutual, and Federal Life are true and correct as of the date of the standby stock purchase agreement and as of the date of the closing of the conversion as if made on that date, except where the failure to be true and correct (without regard to any materiality or material adverse effect qualifications contained in such representations) would not reasonably be expected to have, individually or in the aggregate, a material adverse effect (as defined in the standby stock purchase agreement), and provided that certain representations and warranties have to be true and correct in all respects;
- the Company, Federal Life Mutual, and Federal Life shall have performed in all material respects all of their respective obligations under the standby stock purchase agreement that are required to be performed prior to the closing;
- as of the closing date none of the following shall be in effect: (a) trading in the Company's common stock shall have been suspended by the SEC or trading in securities generally on the New York Stock Exchange or the NASDAQ Stock Market shall have been suspended or limited or minimum prices shall have been established on either such exchange, (b) a banking moratorium shall have been declared either by United States or New York state authorities, or (c) there shall have occurred any material outbreak or material escalation of hostilities, declaration by the United States of a national emergency or war, or other calamity or crisis which has a material adverse effect on the United States financial markets;
- the gross proceeds from the offering, including the purchases by the standby purchaser, are equal to or greater than \$34.0 million;
- since the date of the standby stock purchase agreement, a material adverse effect shall not have occurred with respect to Federal Life and the Company and no change or event shall have occurred that would reasonably be expected to have, individually or in the aggregate, a material adverse effect with respect to Federal Life or the Company; and
- The Executive Chairman, the Chief Executive Officer, the President, the Chief Financial Officer, and any Executive Vice President of the Company or Federal Life shall have agreed to be bound by transfer restrictions on shares of common stock of the Company held by them which are no less restrictive than those applicable to the standby purchaser, subject to certain limited exceptions, and to other provisions of the standby stock purchase agreement.

The conditions to the Company's closing obligations include, among other things:

- the representations and warranties of the standby purchaser are true and correct as of the date of the standby stock purchase agreement and as of the date of the closing of the conversion as if made on that date (except for representations and warranties made as of a specified date, which shall be true and correct as of that specified date); and
- the standby purchaser shall have performed in all material respects all of its obligations under the standby stock purchase agreement that are required to be performed prior to the closing.

The obligation of both the Company and the standby purchaser to consummate the transactions contemplated by the standby stock purchase agreement are subject to the following conditions:

- no judgment, injunction, decree, or other legal restraint shall be outstanding, nor shall any action,

suit, claim, investigation, or other legal proceeding be pending that would reasonably be expected to prohibit, or have the effect of rendering unachievable, the consummation of the offerings or the transactions contemplated by the standby stock purchase agreement;

- the registration statement of which this prospectus is a part shall have been declared effective by the SEC and no stop order suspending the effectiveness of such registration statement or any part thereof shall have been issued and no proceeding for that purpose shall have been initiated or threatened by the SEC, and any request of the SEC with respect to such registration statement shall have been complied with;
- at least two-thirds of the votes cast by the members voting at the meeting of the members called for such purpose shall have voted to adopt and approve the plan of conversion and the transactions contemplated thereunder;
- all consents and approvals of the Department and any other regulatory body or agency necessary to consummate the transactions contemplated by the standby stock purchase agreement shall have been obtained and all notice and waiting periods required by law to pass after receipt of such approvals or consents shall have passed; and
- our shares of common stock shall have been authorized for listing on the NASDAQ Capital Market.

*Post-Closing Covenants of Standby Purchaser.* For three years following the closing of the conversion, the standby purchaser is generally prohibited from selling any shares of our common stock except (a) a sale pursuant to a tender or exchange offer to a person seeking to acquire 100% of the outstanding common stock of the Company that has been approved by the Company's board of directors prior to such sale, (b) a sale to one or more members or affiliates of the standby purchaser, provided that such member or affiliate enters into an agreement to be bound by the terms and conditions of the standby stock purchase agreement in a form reasonably satisfactory to the Company, and (c) a sale occurring after the occurrence of a standstill termination event (as defined below). Beginning on the third anniversary of the closing date, subject to our right to purchase such shares as described below, the standby purchaser can sell no more than six and one-quarter percent (6- $\frac{1}{4}$ %) of the number of shares purchased at the closing of the offering every ninety days. The restrictions described above terminate in the event that our common stock is trading on any stock exchange at a price in excess of \$25.00 per share.

Between the third anniversary and the earliest of (a) the fifth anniversary of the closing of the offering, (b) the first date upon which the standby purchaser no longer beneficially owns shares representing more than five percent (5%) of the issued and outstanding shares of our common stock, or (c) the occurrence of a standstill termination event (as defined below), prior to any sale of shares of our common stock to any third party, other than sales described in the preceding paragraph, the standby purchaser shall provide the Company with notice and the right for the Company to purchase all or any portion of such shares to be offered by the standby purchaser at a price per share equal to the greater of (i) the average of the daily volume weighted average price of a share of our common stock on the NASDAQ Stock Market for the 20 trading days immediately preceding the date of the sale notice, and (ii) 95% of the Company's then book value as calculated in accordance with GAAP (determined without regard to its accumulated other comprehensive income) for the most recent quarter preceding the date of such notice by at least forty-five days.

If the Company fails (A) to exercise the foregoing right with respect to such shares offered by the standby purchaser within fifteen business days after receipt of such notice, or (B) to complete the purchase of such shares offered by the standby purchaser within ten business days of receipt of any required regulatory approvals, the standby purchaser may sell such shares offered by the standby purchaser in the market subject to the ninety day volume limit discussed above. Any repurchase by the Company is subject to the prior approval of the Department, to the extent required under applicable Illinois law governing mutual-to-stock conversions or distributions by Federal Life.

If and for so long as the standby purchaser beneficially owns 5.0% or more of the issued and outstanding shares of our common stock and a "standstill termination event," which is defined below, has not occurred, the standby purchaser agrees that, without the prior written consent of the Company' board

of directors as specifically expressed in a resolution adopted by a majority of its entire membership (other than designees of the standby purchaser), the standby purchaser, its affiliates and associates, and any person or entity acting at their direction or on their behalf will be subject to a standstill provision, which includes, among other things, prohibiting the standby purchaser from:

- with respect to us and our common stock, making, engaging or in any way participating in, directly or indirectly, any solicitation of proxies or consents;
- seeking to advise, encourage, or influence any person or entity with respect to the voting our common stock;
- taking any action to cause the Company or any of its subsidiaries to be merged with or into or otherwise acquired (including any purchase of all of the stock or substantially all of the assets of the Company or any of its subsidiaries or any loss portfolio transfer involving any subsidiary of the Company) by Prosperity Life Insurance Company or any other insurance company or affiliate of an insurance company owned or controlled by the standby purchaser or an affiliate of the standby purchaser;
- seeking, proposing, or making any statement with respect to any merger, consolidation, business combination, tender or exchange offer, sale or purchase of assets, sale or purchase of securities, dissolution, liquidation, restructuring, recapitalization, or similar transaction involving the Company or any of its affiliates or associates;
- except as otherwise permitted by the standby stock purchase agreement, acquiring, offering or proposing to acquire, or agreeing to acquire (except by way of stock dividends, stock splits, reverse stock splits, or other distributions or offerings made available to holders of any shares of our common stock generally), directly or indirectly, whether by purchase, tender or exchange offer, through the acquisition of control of another person or entity, by joining a partnership, limited partnership, syndicate or other “group” (within the meaning of Section 13(d)(3) of the Exchange Act) or otherwise, any shares of our common stock, equity securities, or any loans, debt securities, or assets of the Company or any of its subsidiaries, or rights or options to acquire interests in any of the loans, debt securities, equity securities or assets of the Company or any of its subsidiaries;
- forming, joining, or in any way participating in a “group” (within the meaning of Section 13(d)(3) of the Exchange Act) with respect to any shares of our common stock;
- depositing any shares of our common stock in any voting trust or subjecting any shares of our common stock to any arrangement or agreement with respect to the voting of any shares of our common stock;
- acting alone or in concert with others to control or seek to control, or influence or seek to influence, the management, our board of directors, or policies of the Company;
- making any demand or request for any shareholder list, or any related material, or for the books and records of the Company or its affiliates;
- seeking, alone or in concert with others, the election or appointment to or representation on, or to nominate or, except as otherwise permitted by the standby stock purchase agreement, propose the nomination of any candidate to, our board of directors, or seeking the removal of any member of our board of directors, in a manner inconsistent with the standby stock purchase agreement;
- having any discussions or communications, or enter into any arrangements, understanding, or agreements (whether written or oral) with, or knowingly instigate, advise, finance, assist or encourage, any other person or entity in connection with any of the foregoing (including by granting any waiver to any legal, financial, public relations, proxy solicitation or other firm that represented or was engaged by the standby purchaser, its affiliates, associates, or any of their legal counsel with respect to the Company, which waiver would permit any such firm to represent any person or entity in connection with matters relating to the Company), or make any investment in or enter into any arrangement with any other person or entity that engages, or offers or proposes to engage, in any of the foregoing;



- making or disclosing any statement regarding any intent, purpose, plan, or proposal with respect to our board of directors, the Company, our management, policies or affairs, or any of our securities or assets or the standby stock purchase agreement that is inconsistent with the provisions of the standby stock purchase agreement, including any intent, purpose, plan, or proposal that is conditioned on, or would require waiver, amendment, nullification, or invalidation of, any provision of the standby stock purchase agreement or take any action that could require the Company to make any public disclosure relating to any such intent, purpose, plan, proposal, or condition; or
- otherwise taking, soliciting, causing or encouraging others to take, any action inconsistent with any of the foregoing.

The standby purchaser can, however, request that the Company's board of directors consider any of the foregoing acts in preparation of delisting the Company's stock from NASDAQ.

For purposes of the standby stock purchase agreement, a "standstill termination event" means the earliest of (a) the fifth anniversary of the closing of the offering, (b) the failure of either Joseph D. Austin or William S. Austin to serve as the Chief Executive Officer of the Company unless a new Chief Executive Officer acceptable to the standby purchaser is appointed by the Company's board of directors within a reasonable period of time, or (c) in any fiscal quarter, the Company's consolidated GAAP financial statements for such fiscal quarter includes an adjusted shareholders' equity that is less than 85% of the Company's adjusted shareholders' equity as of the closing of the conversion (as shown in the Company's consolidated GAAP financial statements for the most recent fiscal quarter as of closing of the conversion).

If and for so long as the standby purchaser beneficially owns 5.0% or more of the shares of our common stock and a standstill termination event has not occurred, the standby purchaser shall generally vote and cause to be voted all shares of common stock beneficially owned by the standby purchaser (a) for persons nominated and recommended by the Company's board of directors for election as directors of the Company's board of directors and against any person nominated for election as a director by any other person or entity, and (b) as directed or recommended by the Company's board of directors with respect to any proposal presented at any meeting of the Company's shareholders, including, but not limited to (i) the entire slate of directors recommended for election by the Company's board of directors to the shareholders of the Company at any meeting of the Company's shareholders at which any directors are elected, (ii) any shareholder proposal submitted for a vote at any meeting of the Company's shareholders, and (iii) any proposal submitted by the Company for a vote at any meeting of the Company's shareholders relating (A) to the appointment of the Company's accountants, or (B) an equity compensation plan of the Company and/or any material revisions thereto.

*Standby Purchaser's Board Designees.* In connection with closing under the standby stock purchase agreement, we will appoint Matthew T. Popoli and Craig A. Huff to the Company's board of directors, which is also a closing condition under the standby stock purchase agreement. If and for so long as the standby purchaser beneficially owns more than 5.0% of the issued and outstanding shares of our common stock and a standstill termination event has not occurred, the nominating and governance committees and boards of directors of the Company and Federal Life will nominate, recommend, and support Mr. Popoli and Mr. Huff, or any replacement director selected by the standby purchaser and acceptable to the Company, for election to the boards of directors of the Company and Federal Life.

*Preemptive Rights.* The standby purchaser will be entitled to preemptive rights that would allow it to maintain its percentage ownership in certain subsequent offerings of our common stock or securities convertible into our common stock. This right will not apply to, and shall terminate upon the earlier of (a) the first date upon which the standby purchaser no longer beneficially owns shares of our common stock representing more than five percent (5%) of the issued and outstanding shares of our common stock immediately prior to a subsequent issuance of our common stock or securities convertible into our common stock, (b) the date of any breach by the standby purchaser of any obligation under the standby stock purchase agreement that remains uncured after 15 days' notice thereof, or (c) a standstill termination event.

*Registration Rights.* The Company has agreed that upon the earlier to occur of (a) the date that the Company is eligible to register shares for resale on SEC Form S-3 and (b) the occurrence of a standstill termination event, the Company will register for resale under the Securities Act all shares owned by the

standby purchaser and all shares owned by the Executive Chairman, the Chief Executive Officer, the President, the Chief Financial Officer, and any Executive Vice President of the Company or Federal Life. The Company will be responsible for all costs incurred in connection with the preparation and filing of the applicable registration statement with the SEC under the Securities Act.

*Drag Along Rights.* The standby stock purchase agreement provides that if, after the occurrence of a standstill termination event, the standby purchaser or any other shareholder who owns 51% or more of the outstanding shares of common stock of the Company receives a bona fide offer from an unaffiliated third party purchaser to consummate, in one transaction or a series of transactions, a change of control, such shareholder will have the right to require each other shareholder of the Company to participate in such transaction by transferring such shareholder's shares of common stock of the Company to the third party purchaser for the same consideration as will be received by the standby purchaser or other selling shareholder. No shareholder, however, will be required to participate in such transaction if the consideration to be received is other than cash or registered securities listed on an established United States securities exchange. Each shareholder will be required to vote in favor of the transaction and take all actions to waive any dissenters', appraisal or similar rights in connection with such transaction. For purposes of the standby stock purchase agreement, "change of control" means any transaction or series of transactions (as a result of a tender offer, merger, consolidation, or otherwise) that results in, or that is in connection with (a) any third party purchaser or "group" of third party purchasers acquiring beneficial ownership, directly or indirectly, of a majority of the outstanding shares of common stock of the Company, or (b) the sale, lease, exchange, or other transfer of all or substantially all of the property and assets of the Company and its subsidiaries, on a consolidated basis, to any third party purchaser or "group" of third party purchasers (including any liquidation, dissolution, or winding up of the Company, or any other distribution made in connection therewith).

*Tag Along Rights.* The standby stock purchase agreement provides that if, after the lapse of any restriction on transfer contained in the standby stock purchase agreement, except for transfers effected on a stock exchange, the Executive Chairman, the Chief Executive Officer, the President, the Chief Financial Officer, or any Executive Vice President of the Company or Federal Life, or any shareholder who owns 51% or more of the outstanding shares of common stock of the Company, proposes to transfer any shares of its common stock of the Company to a third party purchaser and the selling shareholder has not elected to exercise its drag along rights as described above, each other shareholder of the Company will be permitted to participate in such transfer on the same terms and conditions as the selling shareholder.

*Disagreement on Material Corporate Action.* If the standby purchaser disagrees with any material corporate action taken or proposed to be taken by the Company, then if the standby purchaser gives written notice thereof to the Company, the Company has 90 days to rescind or terminate such material corporate action, if such action is capable of being terminated or rescinded. In addition, if the Company or Federal Life fails to take any material corporate action proposed by the standby purchaser then if the standby purchaser gives written notice thereof to the Company, the Company has one year to take such material corporate action. If the Company fails to rescind or terminate such action or take any applicable action described in any such written notice from the standby purchaser within the applicable time period, then within six months after receipt by the Company of written notice from the standby purchaser after expiration of the applicable time period, the Company will either (a) purchase or cause another person to purchase all of the shares of common stock of the Company owned by the standby purchaser and its affiliates at a price per share equal to the greater of (i) the average of the daily volume weighted average price of a share of our common stock on the NASDAQ Stock Market for the 20 trading days immediately preceding the date of the sale notice, and (ii) 95% of the Company's then book value as calculated in accordance with GAAP (determined without regard to its accumulated other comprehensive income) for the most recent quarter preceding the date of such notice by at least forty-five (45) days, or (b) if such shares have not been previously registered, register under the Securities Act all shares of common stock of the Company owned by the standby purchaser and its affiliates for resale pursuant to the terms and conditions of the standby purchase agreement.

So long as the standby purchaser owns 25% or more of the outstanding shares of common stock of the Company, without the affirmative vote or written approval of the standby purchaser, none of the Company, Federal Life, or Federal Life Mutual shall cause or permit, take or decide, or agree or commit to take any of the following actions, and the standby purchaser shall have the right to vote its shares (or provide or withhold its written approval) with respect to such actions in its sole and absolute discretion:

- making use of the net proceeds of the offering (including the contribution or loan of such net proceeds to Federal Life or Federal Life Mutual); other than a contribution of least \$12,500,000 of such net proceeds, which shall be contributed to Federal Life immediately after the closing;
- the merger or consolidation of the Company or Federal Life with any person or the sale, lease, or other transfer of all or substantially all of the Company's or Federal Life's assets to any person, or entry into any agreement to do any of the foregoing; and
- the entry into any material transaction with any affiliate of the Company, Federal Life Mutual, or Federal Life.

### **Stock Pricing and Number of Shares to be Issued**

The plan of conversion requires that the range of the value of the total number of shares to be issued in this offering must be based on a valuation of our estimated consolidated pro forma market value. Under the plan of conversion, the valuation must be in the form of a range consisting of a midpoint valuation, a valuation fifteen percent (15%) above the midpoint valuation, and a valuation fifteen percent (15%) below the midpoint valuation. We retained RP Financial to determine the valuation range for this offering. RP Financial has determined that, as of December 22, 2017, the estimated consolidated pro forma market value of Federal Life Mutual is \$40.0 million at the midpoint, and the range of value of the total number of shares of common stock to be issued in the offering is between a minimum value of \$34.0 million and a maximum value of \$46.0 million. We plan to issue between 3,400,000 and 4,600,000 shares of our common stock in this offering. This range was determined by dividing the \$10.00 price per share into the range of RP Financial's valuation. Shares purchased by the standby purchaser and the directors and officers of Federal Life Mutual will be purchased for investment and not for resale and will be counted toward satisfaction of the minimum amount needed to complete this offering.

We determined to offer the common stock in the subscription offering at the price of \$10.00 per share to ensure a sufficient number of shares are available for purchase by eligible members. In addition, Griffin Financial advised us that the \$10.00 per share offering price is commonly used in mutual-to-stock conversions of other insurance companies and savings banks and savings associations that use the subscription rights conversion model. These were the only factors considered by our board of directors in determining to offer shares of common stock at \$10.00 per share.

There is a difference of approximately \$12.0 million between the low end and the high end of the estimated valuation range of RP Financial's valuation. As a result, the percentage interest in the Company that a subscriber for a fixed number of shares of common stock will have is approximately 26% smaller at the maximum level of the range than at the minimum level. In addition, assuming that the actual consolidated market value of Federal Life Mutual will be within the broad estimated valuation range, this consolidated market value may be materially more or less than the total amount of subscriptions and orders received. Therefore, purchasers, in total and on a per share basis, may pay more for the common stock than the actual market value.

We cannot assure you that the market price for the common stock immediately following this offering will equal or exceed \$10.00 per share. Also, you should be aware that, prior to the completion of this offering, you will not have available to you information concerning the final updated valuation.

### **If Subscriptions Received in the Subscription Offering Meet or Exceed the Maximum Number of Shares Offered**

The number of shares of common stock issued will not exceed 4,600,000. In the event of an oversubscription in the subscription offering by eligible members and the directors and officers of Federal Life Mutual, shares of common stock will be allocated among the subscribing participants as described above under "— Subscription Offering and Subscription Rights."

**If Subscriptions Received in the Subscription Offering Meet or Exceed the Required Minimum**

If the number of shares of common stock subscribed for by eligible members and the directors and officers of Federal Life Mutual in the subscription offering is equal to or greater than 3,400,000 shares but less than 4,600,000 shares, then this offering will be promptly completed. In this event, the standby purchaser and other purchasers in the community offering may also purchase any unsubscribed shares.

**If Subscriptions Received in the Subscription Offering Do Not Meet or Exceed the Minimum**

If less than 3,400,000 shares are subscribed for in the subscription offering, the standby purchaser has agreed to purchase any shares not subscribed for in the subscription offering up to the minimum number of shares that must be sold. As a result, at least the minimum number of shares will be sold in the offering. ICG has agreed to purchase in the community offering any shares not subscribed for in the offerings up to the offering minimum of 3,400,000 shares. Accordingly, if all of the conditions to ICG's obligations to purchase shares in the offering are satisfied, the sale of the minimum number of shares is guaranteed.

**Costs of the Conversion and Offering**

We expect to incur significant costs to complete the conversion and this offering, including among others legal, accounting, valuation and printing expenses, as well as filing fees, exchange listing costs, and commissions and expenses for the marketing and sale of the shares of our common stock. We expect the expenses of the conversion and this offering (excluding commissions) to be approximately \$1.0 million, or approximately 2.9% and 2.2% of the gross proceeds at the minimum and the maximum of the offering range, respectively, resulting in net proceeds to us of approximately \$31.1 million at the minimum and \$43.0 million at the maximum of the offering range. See "— Marketing Arrangements" for a description of the fees and commissions payable to Griffin Financial in the offerings.

**Offering Deadline**

All subscription rights will expire at noon, Central Time, on [ • , 2018] [expiration date]. Subscription rights not exercised prior to the termination date of this offering will be void, whether or not we have been able to locate each person entitled to receive subscription rights. We reserve the right in our sole discretion to terminate this offering at any time and for any reason, in which case we will cancel your order and return your payment without interest.

**Use of Order Forms in this Offering**

If you wish to purchase shares of common stock in this offering, you must sign and complete the stock order form that accompanies this prospectus and send it to us with your payment such that your order is received before the offering deadline. You may submit your order to us by overnight delivery to the address indicated for this purpose on the top of the stock order form or by mail using the stock order reply envelope provided. Payment by check or money order must accompany the stock order form. No cash or third party checks will be accepted. All checks or money orders must be made payable to "Computershare Trust Company, N.A., escrow agent, on behalf of Federal Life Group, Inc." We may permit certain persons who submit orders in the community offering to make payment by a wire transfer to the escrow agent of the purchase price for any shares that they seek to purchase.

The completed stock order form and payment in full for the shares ordered must be received (not postmarked) no later than noon, Central Time, on [ • , 2018] [expiration date]. Once submitted, your order is irrevocable without our consent, unless we terminate this offering. Our consent to any modification or withdrawal request may or may not be given in our sole discretion.

No prospectus will be mailed any later than five days prior to the expiration date of this offering, or hand delivered any later than two days prior to such date. This procedure is intended to ensure that each purchaser receives a prospectus at least 48 hours prior to the expiration of this offering in accordance with Rule 15c2-8 under the Securities Exchange Act of 1934. Execution of the stock order form will confirm receipt or delivery in accordance with Rule 15c2-8. Stock order forms will be distributed only with or preceded by a prospectus. We reserve the right to reject photocopies and facsimile copies of stock order forms.

A subscription right may be exercised only by the eligible participant or other participant to whom it is issued and only for such person's own account. The subscription rights granted under our plan of conversion are nontransferable. Each eligible member or other participant subscribing for shares of common stock is required to represent that such person is purchasing the shares for such person's own account. Each eligible participant also must represent that such participant has no agreement or understanding with any other person for the sale or transfer of the shares that would result in a violation of the purchase limitation applicable to this offering. We are not aware of any restrictions that would prohibit eligible members purchasing shares of common stock in the subscription offering who are not executive officers or directors of Federal Life Mutual from freely transferring shares after this offering. See "— Limitations on Resales."

We will have the absolute right, in our sole discretion, and without liability to any person, to reject any stock order form, including but not limited to a stock order form that is:

- not timely received;
- improperly completed or executed;
- not accompanied by payment in full for the shares of common stock subscribed for; or
- submitted by a person who we believe is making false representations or who we believe may be violating, evading, or circumventing the terms and conditions of the plan of conversion.

We may, but are not required to, waive any improperly completed or executed stock order form. We also may require the submission of a corrected stock order form or the remittance of full payment for the shares of common stock subscribed for by any date that we specify. Our interpretations of the terms and conditions of the plan of conversion and determinations concerning the acceptability of the stock order forms will be final, conclusive, and binding upon all persons. We (and our directors, officers, employees, and agents) will not be liable to any person in connection with any interpretation or determination.

#### **Payment for Shares**

When you submit a completed stock order form to us, you must include payment in full for all shares of common stock covered by such order form. Payment may be made by check or money order in U.S. dollars and must be made payable to "[escrow agent], as escrow agent, on behalf of Federal Life Group, Inc." We may permit certain persons who submit orders in the community offering to make payment by a wire transfer to the escrow agent of the purchase price for any shares that they seek to purchase. Payments will be placed in an escrow account at Computershare Trust Company, N.A., who will serve as the escrow agent. The escrow account will be administered by the escrow agent. An executed stock order form, once received by us, may not be modified or rescinded without our consent; provided, however, that no order form will be accepted until the Company's Registration Statement of which this prospectus is a part has been declared effective by the SEC, and any order form received prior to that time will be rejected and no sale of common stock will be made in respect thereof. Funds accompanying stock order forms will not be released to us by the escrow agent until this offering is completed. ICG has agreed to purchase in the community offering any shares not subscribed for in the offering up to the offering minimum of 3,400,000 shares. Accordingly, if all of the conditions to ICG's obligation to purchase shares in the offering are satisfied, the sale of the minimum number of shares is guaranteed.

#### **Delivery of Shares of Common Stock Purchased in the Subscription Offering**

All shares of common stock sold will be issued in book entry form. Stock certificates will not be issued. A statement reflecting ownership of shares of common stock issued in the subscription offering will be mailed by our transfer agent to the persons entitled thereto at the registration address noted by them on their stock order forms as soon as practicable following consummation of the conversion and offering. We expect trading in the stock to begin on the day of completion of the conversion and offering or the next business day. The conversion and offering are expected to be completed as soon as practicable following satisfaction of the conditions described below in "— Conditions to Completion of the Conversion and this Offering." Until a statement reflecting ownership of shares of common stock is available and delivered to

purchasers, purchasers may not be able to sell the shares of common stock which they ordered, even though the common stock will have begun trading. Your ability to sell the shares of common stock before receiving your statement will depend on arrangements you may make with a brokerage firm.

### **Stock Information Center**

If you have any questions regarding this offering, please call the Stock Information Center at 1-[      ], Monday through Friday from 10:00 a.m. to 4:00 p.m., Central Time. The Stock Information Center will be closed on weekends and holidays.

### **Persons Who Cannot Exercise Subscription Rights**

The Company will make reasonable efforts to comply with the securities laws of all states in the United States in which eligible members reside. However, the Company and Federal Life Mutual are not required to offer stock in the subscription offering to any person who resides in a foreign country or resides in a state or territory of the United States with respect to which the granting of subscription rights or the offer or sale of shares of common stock to such persons would require the Company, or its officers, trustees, or employees, under the laws of such jurisdiction, to register as a broker, dealer, salesman, or selling agent or to register or otherwise qualify its securities for sale in such jurisdiction or to qualify as a foreign corporation or file a consent to service of process in such jurisdiction.

### **Conditions to Completion of the Conversion and this Offering**

Before we can complete this offering and issue our common stock, the members of Federal Life Mutual entitled to vote must approve the plan of conversion, and we must sell at least the minimum number of shares offered, including shares purchased by the standby purchaser. If all of the conditions to ICG's obligation to purchase shares in the offering are satisfied, the sale of the minimum number of shares is guaranteed. No funds will be released from the escrow account until all of these conditions have been satisfied. If all of these conditions are not satisfied for any reason, we may elect to terminate this offering, in which case all funds delivered to us for the purchase of stock in this offering will be promptly returned to subscribers without interest.

### **Limitations on Purchases of Common Stock**

#### *Minimum Purchase Limitation*

The plan of conversion provides that no person may subscribe for fewer than 50 shares in this offering.

#### *Maximum Purchase Limitations*

Eligible Members. The plan of conversion provides that no eligible member, together with such person's associates or a group acting in concert, may directly or indirectly, subscribe for or purchase in this offering more than 50,000 shares.

In the event of an oversubscription in the subscription offering, shares of common stock will be allocated among the subscribing participants as described above under "— Subscription Offering and Subscription Rights."

Directors and Officers. Subject to the prior rights of eligible members to subscribe for shares in this offering, the plan of conversion provides that no director or officer of Federal Life Mutual, together with such person's associates or a group acting in concert, may directly or indirectly, subscribe for or purchase in this offering more than 5% of the total number of shares sold in the offering. A subscribing director or officer of Federal Life Mutual who is also an eligible member will be deemed to subscribe first in such person's capacity as an eligible member. The purchases of shares in the offering by directors and officers of Federal Life Mutual, in their capacities as such, together with their affiliates and associates, and purchases by a limited number of strategic investors cannot in the aggregate exceed 700,000 shares.

In the event that there are insufficient shares remaining after subscriptions by the eligible members to satisfy in full all of the subscriptions by directors and officers of Federal Life Mutual, the shares available will be allocated among the subscribing management participants as described above under "— Subscription Offering and Subscription Rights."

**Other Limitations.** In addition to the limitations set forth above, under Illinois law and the plan of conversion, no person, together with such person's associates or a group acting in concert, may acquire, directly or indirectly, in this offering or any public offering, more than 5% of the capital stock of the Company for a period of five years from the effective date of the conversion without the approval of the Illinois Director of Insurance.

*General Matters Regarding Purchase Limitations*

For purposes of the limitations described above, an associate of a person includes:

- any relative or spouse of such person, or any relative of such person's spouse, who shares the same home as such person;
- any corporation or other organization (other than the Company or a majority-owned subsidiary of the Company) of which such person is an officer, director, or partner, or of which such person is, directly or indirectly, a beneficial owner of 10% or more of any class of equity securities;
- any trust or other estate in which such person has a substantial beneficial interest or as to which such person serves as trustee or in a similar fiduciary capacity (exclusive of any employee stock benefit plan of the Company); and
- any person acting in concert with any of the persons or entities listed above.

The subscription of any person who subscribes for more shares than the person's maximum purchase limitation will be reduced to the person's maximum purchase limitation.

There were approximately 28,000 eligible members of Federal Life Mutual as of March 8, 2018, the date the plan of conversion was adopted by the board of directors of Federal Life Mutual. If subscriptions by eligible members for common stock exceed the maximum of the estimated valuation range set forth in RP Financial's valuation, we will be obligated to sell to eligible members the maximum number of shares offered. Except as set forth below under "— Proposed Management Purchases," we are unable to predict the number of eligible members that may participate in the subscription offering or the extent of any participation.

Shares of common stock to be purchased and held by any employee stock benefit plans will not be attributable to the individual trustees, beneficiaries, or participants of any such plan for purposes of determining compliance with the limitations discussed above. Shares of common stock purchased in this offering by any plan participant in a tax-qualified employee stock benefit plan using funds therein in his or her individual capacity will not be deemed to be purchases by any tax-qualified employee stock benefit plans for purposes of calculating the maximum amount of common stock that any tax-qualified employee stock benefit plans may purchase.

The directors and officers of Federal Life Mutual will not be deemed to be associates of one another or a group acting in concert with one another solely as a result of their capacities as such.

Each person purchasing common stock in this offering will be deemed to confirm that the purchase does not conflict with the purchase limitations under the plan of conversion or otherwise imposed by law. We have the right to take any action as we may, in our sole discretion, deem necessary, appropriate, or advisable in order to monitor and enforce the terms, conditions, limitations, and restrictions described above and in the plan of conversion and the terms, conditions and representations contained in the order form, including, but not limited to, our absolute right to reject, limit, or revoke acceptance of any order and to delay, terminate or refuse to consummate any sale of common stock which we believe might violate, or is designed to, or is any part of a plan to, evade or circumvent such terms, conditions, limitations, restrictions, and representations. Any such action will be final, conclusive, and binding on all persons, and we will be free from any liability to any person on account of any such action. To that end, if any person violates the purchase limitations, we will have the right to purchase from that person at the purchase price of \$10.00 per share, all shares acquired by the person in excess of the purchase limitation. If the person has sold these excess shares, we are entitled to receive the difference between the aggregate purchase price paid by the person for the excess shares and the proceeds received by the person from the sale of the excess shares. This right of Federal Life Group, Inc. to purchase excess shares is assignable.

We have the right in our absolute discretion and without liability to any subscriber, purchaser, underwriter, or any other person to determine which proposed persons and which subscriptions and orders in this offering meet the criteria provided in the plan of conversion for eligibility to purchase shares of common stock and the number of shares eligible for purchase by any person. Our determination of these matters will be final and binding on all parties and all persons.

### Marketing Arrangements

We have engaged Griffin as financial advisor to consult with and advise and assist us in connection with these offerings. Griffin is a broker-dealer registered with the Securities and Exchange Commission and is a member of the Financial Industry Regulatory Authority. In its role as financial advisor, Griffin will:

- meet with the Illinois Insurance Department, as necessary;
- make oral and written presentations to the Board of Directors of Federal Life as requested by the Board of Directors;
- appear at any meeting of policyholders called to consider or act upon the Conversion and answer appropriate questions of policyholders;
- assist in structuring the Offerings
- discuss the appraisal process and analyze the appraisal with the Board of Directors as needed;
- assist us in the review of the conversion application, proxy statement, or policyholder information statement, and this prospectus forming a part of the registration statement filed with the SEC;
- advise and assist us through the planning process and organization of the stock information center;
- assist us in developing a marketing plan for the Offerings;
- assist in the closing of the Offering; and
- provide other necessary consultation, advice, and services as needed consistent with its role as financial advisor with respect to the Offering.

We have agreed to pay Griffin Financial a commission equal to (i) 2% of the aggregate dollar amount of common stock purchased in the subscription and community offerings upon completion of the conversion to policyholders, directors, officers, and employees of the Company, participants in the Company's 401(k) plan, individuals identified in advance by the Company, and any investor in an exchangeable note, and (ii) 6.5% of the aggregate dollar amount of Federal Life stock offered and sold in any syndicated community offering. We have also agreed to reimburse Griffin Financial only for accountable, reasonable out-of-pocket expenses including legal fees, and expenses of underwriter's counsel. Griffin has elected to use its own general counsel as underwriter's counsel in this matter and therefore does not expect to incur any legal fees. Except for any legal and travel expenses, reimbursement for such expenses will not exceed \$15,000.

Stevens & Lee is an affiliate of Griffin Financial, and the legal fees paid to Stevens & Lee in connection with the offerings may be deemed an item of value for purposes of Finra Rule 5110(a)(6). Stevens & Lee estimates that the total legal fees that it will receive from the Company in connection with the offerings will not exceed \$175,000.

Pursuant to a separate engagement letter, we retained Griffin to identify and solicit one or more standby purchasers that would enter into an agreement in advance to purchase all the stock not purchased by policyholders, directors, officers, and employees, the Company's 401(k) plan and identified investors. This process led to the identification of Insurance Capital Group, LLC to act as the standby purchaser and the execution of the standby stock purchase agreement. Under applicable federal securities laws, the solicitation and execution of the standby stock purchase agreement constitutes a private placement. We have agreed to pay Griffin a private placement commission equal to 6.5% of the aggregate dollar amount of any common stock the standby purchaser purchases pursuant to the standby stock purchase agreement, including the dollar amount of any common stock issued upon the conversion of the standby purchaser's



exchangeable note. We have paid a retainer of \$50,000 to Griffin Financial in connection with the private placement, which will be credited against the private placement commission owed to Griffin Financial. Originally, we agreed to pay Griffin Financial an additional fee of \$50,000 for preparation of a confidential information memorandum to be used to solicit potential standby purchasers. The standby investor was identified by Griffin without a formal solicitation process. Accordingly, Griffin agreed to waive this fee. Instead, it will be paid 2% of the amount of any funds we borrow from the standby purchaser pursuant to the \$2 million exchangeable note. Any amount paid as a result of any such borrowing will be credited against the 6.5% private placement commission due to Griffin. We have also agreed to reimburse Griffin Financial for any accountable, reasonable out-of-pocket expenses and for any legal fees and expenses. Griffin also elected to use its own general counsel to represent it in connection with the private placement and therefore does not expect to incur any legal fees. Except for legal and travel expenses, reimbursement for such expenses under this separate engagement letter will not exceed \$15,000.

We have agreed to indemnify Griffin Financial, together with their respective officers, directors, shareholders, employees, agents, and controlling persons, from and against certain liabilities arising from its engagement with us.

**We have also engaged Computershare, Inc. to act as our subscription agent in connection with the plan of conversion. In its role as subscription agent Computershare, Inc. will provide the following services: (a) processing of Federal Life’s policyholder records for each record date required by the plan of conversion, consolidation of policyholder records by ownership, identification of subscription priorities, calculation of member votes, household sorting of customer records, and coordination with the Company’s financial printer for all required subscriber and member mailings; (b) processing of all stock orders received in the conversion, with daily status reporting to Company management; (c) allocation of shares to qualifying subscribers if the offering is oversubscribed; (d) coordination with the Company’s transfer agent for stock issuance, required refund check processing; and (e) provide member proxy tabulation and reporting services, target group identification and reporting for solicitation efforts, proxy reminder mailings; act as, or support as needed, the inspector of election for the special meeting of members.**

Our directors and officers may participate in the solicitation of offers to purchase common stock. These persons will be reimbursed for their reasonable out-of-pocket expenses incurred in connection with the solicitation. Other trained employees of Federal Life Mutual or its affiliates may assist in this offering in ministerial capacities, providing clerical work in effecting a sales transaction or answering questions of a ministerial nature. Questions of prospective purchasers will be directed to executive officers of Federal Life Mutual or registered representatives of Griffin Financial. Our other employees have been instructed not to solicit offers to purchase shares of common stock or provide advice regarding the purchase of common stock. We will rely on Rule 3a4-1 under the Exchange Act, and sales of common stock will be conducted within the requirements of Rule 3a4-1, so as to permit officers, directors and employees to participate in the sale of common stock. None of our officers, directors, or employees will be compensated in connection with their participation in this offering by the payment of commissions or other remuneration based either directly or indirectly on the transactions in the shares of common stock.

This offering will comply with the requirements of Rule 10b-9 under the Exchange Act.

#### **Proposed Management Purchases**

The following table lists the approximate number of shares of common stock that each of the directors and executive officers of Federal Life Mutual and their associates intend to purchase in this offering. The directors and executive officers listed below do not have any agreements or obligation to purchase the amounts shown below. Subject to the purchase limitations described above, each director or executive officer may elect to purchase an amount greater or less than those shown below. For purposes of the following table, we have assumed that sufficient shares will be available to satisfy subscriptions in all categories.

Name	% of Stock owned			
	Amount (\$)	Number of shares	Minimum	Adjusted Maximum
<b>Directors</b>				
Joseph D. Austin	\$1,700,000	170,000	5.0%	3.7%
William S. Austin	610,000	61,000	1.8%	1.3%
Michael Austin	500,000	50,000	1.5%	1.1%
Wayne R. Ebersberger	50,000	5,000	*	*
William H. Springer	50,000	5,000	*	*
James H. Stacke	50,000	5,000	*	*
Executive Officers (who are not also directors) Anders Raaum	100,000	10,000	*	*
<b>All Directors and Executive Officers as a Group (7 persons)</b>	<b>\$3,060,000</b>	<b>306,000</b>	<b>9.0%</b>	<b>6.7%</b>

\* Less than 1.0%

### Limitations on Resales

The common stock issued in this offering will be freely transferable under the Securities Act of 1933. However, the transfer of shares purchased by the directors and officers of Federal Life Mutual pursuant to subscription rights granted to them will be restricted for a period of one year from the effective date of the conversion pursuant to the plan of conversion and Section 59.1(7)(a)(iii) of the Illinois Insurance Code. The directors and executive officers of the Company also are subject to additional resale restrictions under Rule 144 of the Securities Act of 1933. Shares of common stock issued to directors and officers will bear a legend giving appropriate notice of these restrictions. We will give instructions to the transfer agent for the common stock regarding these transfer restrictions. Any shares issued to the directors and officers of the Company as a stock dividend, stock split, or otherwise with respect to restricted stock will be subject to the same restrictions. Shares acquired by the directors and executive officers after the completion of this offering will be subject to the requirements of Rule 144. See “Management — Directors and Executive Officers.”

### The Appraisal

The plan of conversion requires that the total number of shares of common stock to be issued in this offering must be based on the estimated consolidated pro forma market value of Federal Life Mutual as a subsidiary of the Company, as determined on the basis of an independent evaluation. This pro forma market value may be that value that is estimated to be necessary to attract full subscription for the shares, as indicated by the independent evaluation, which we refer to as the appraisal.

The plan of conversion requires that the appraisal be made by an independent appraiser experienced in the valuation of insurance companies. Under our plan of conversion, the valuation range means the range of the value of the total number of shares of common stock to be issued in this offering, based on the estimated consolidated pro forma market value of Federal Life Mutual as a subsidiary of the Company in accordance with Section 59.1(6)(f) of the Illinois Insurance Code. The plan of conversion requires that the aggregate purchase price of the common stock must be based on the appraised estimated consolidated pro forma market value of the common stock, as determined on the basis of an independent valuation. It also may be stated as a range of pro forma market values. The plan of conversion requires that the valuation be made by an independent appraiser experienced in the valuation of insurance companies and that the purchase price of our common stock be based on the appraised estimated consolidated pro forma market value of Federal Life Mutual as a subsidiary of the Company, as determined on the basis of such independent valuation. This pro forma market value may be that value that is estimated to be necessary to attract full subscription for the shares, as indicated by the valuation

On August 31, 2017, we retained RP Financial, LC. (“RP Financial”) to prepare this valuation. RP Financial is engaged regularly in the valuation of the equity securities issued by companies within the financial services industry, including insurance companies and federally-insured depository institutions. For

its services in preparing the valuation RP Financial will receive a fee of \$60,000, and will be reimbursed for its expenses up to \$3,000. We are not affiliated with RP Financial, and neither we nor RP Financial has an economic interest in, or is held in common with, the other. We have agreed to indemnify RP Financial and its employees and affiliates against specified losses, including any losses in connection with claims under the federal securities laws, arising out of its services as independent appraiser, except where such liability results from its negligence or bad faith.

In preparing the valuation, RP Financial reviewed the Plan of Conversion filed with the Department. In addition, RP Financial conducted a financial analysis of the Company that included a review of its financial information for fiscal years ended December 31, 2015 through 2016 and through September 30, 2017, all unaudited but prepared in accordance with generally accepted accounting principles (“GAAP”). RP Financial also conducted due diligence related discussions with the Company’s management and other parties engaged in the Conversion including Federal Life Mutual’s counsel and its financial and marketing advisor in connection with the stock offering. The independent valuation prepared by RP Financial also considered the following factors, among others:

- the operating results and financial condition of Federal Life Mutual and current economic conditions;
- certain historical, financial, and other information relating to Federal Life Mutual;
- a comparative evaluation of the operating and financial statistics of Federal Life Mutual with those of other similarly situated publicly traded insurance companies both regionally and nationally;
- the aggregate size of the offering of the common stock of Federal Life Mutual as determined by RP Financial;
- the impact of the conversion offering on our net worth and earnings potential as determined by RP Financial;
- the trading market for securities of comparable companies and general conditions in the market for such securities;
- the expected business plan of Federal Life Mutual on a post-transaction basis including the formation of strategic partnerships to improve Federal Life Mutual’s distribution capabilities, which will enable significant growth in products that Federal Life Mutual has identified as having unique market opportunities. Additionally, the standby purchaser, who has longstanding experience and relationships within the insurance industry, is expected to facilitate the expansion; and
- the value which RP Financial estimates to be necessary to attract a full subscription of our common stock.

In deriving the estimated consolidated pro forma market value of Federal Life Mutual as a subsidiary of the Company, RP Financial utilized the pro forma market value approach. The pro forma market valuation approach derives a value from the market pricing of a group of publicly-traded insurance companies sharing reasonably comparable characteristics. Since there are no publicly-traded companies that are exactly comparable to the Company, RP Financial selected a peer group of publicly-traded life insurance companies that potentially share similar operating and valuation characteristics with the Company based on a review of the price-to-book and price-to-revenue data for life insurance companies listed on U.S. stock exchanges and the OTC Bulletin Board as compiled from data obtained from S&P Global Market Intelligence, a leading provider of financial and market data. In general, RP Financial considered operating characteristics and marketability and liquidity factors to select the individual members of the Peer Group from the universe of publicly-traded life insurance companies (“Public Life Insurance Group”). The operating characteristics included financial variables such as profitability, capitalization, growth, risk exposure, liquidity, and other factors such as lines of business and management strategies. Marketability and liquidity factors included the relative ease and promptness with which a security may be sold when desired, the existence of buying interest as well as selling interest, trading volumes, and the spread between the bid and ask price for a security. RP Financial’s initial screen of the Public Life Insurance

Group produced a list of 24 life insurance companies with assets ranging from \$48 million to \$128 billion, equity ranging from \$2 million to \$57 billion, and total revenues from \$4 million to \$59 billion. RP Financial further refined this list to a group of nine companies (the “Peer Group”) with market capitalization of less than \$10 billion, with five of the group selected having market capitalizations of less than \$1 billion. RP Financial focused principally on companies whose primary market segment was listed as life insurance by SNL Financial, were not subject to acquisition, and had either modest earnings or losses on a trailing twelve month basis. While none of the companies in the Peer Group is an exactly comparable company from a valuation standpoint, RP Financial determined that the Peer Group on the whole provided a meaningful basis of financial comparison for its valuation purposes.

The following table sets forth the publicly-traded insurance companies used by RP Financial in its comparative market valuation approach and certain financial data reviewed by RP Financial regarding these companies and Federal Life Mutual as of or for the last twelve months (LTM) ended September 30, 2017 (unless otherwise noted).

Ticker	Company	Trailing 12 Months			As of 12/22/2017	
		Total Assets (\$Mil)	Policy Revenues (\$Mil)	Total Revenues (\$Mil)	Common Stock Price (\$)	Market Value (\$Mil)
	Federal Life Insurance Company <sup>(1)</sup>	\$ 258	\$ 13	\$ 24	NA	NA
AEL	American Equity Investment Life Holding Company	\$60,380	\$ 230	\$ 3,275	\$ 32.13	\$ 2,863
CIA	Citizens, Inc.	\$ 1,651	\$ 199	\$ 253	\$ 7.48	\$ 375
CNO	CNO Financial Group, Inc.	\$32,705	\$ 2,641	\$ 4,212	\$ 24.87	\$ 4,172
FFG	FBL Financial Group, Inc.	\$ 9,892	\$ 311	\$ 737	\$ 71.80	\$ 1,790
IHC	Independence Holding Company	\$ 1,039	\$ 278	\$ 317	\$ 27.95	\$ 415
KCLI	Kansas City Life Insurance Company	\$ 4,511	\$ 292	\$ 450	\$ 45.10	\$ 437
NWLI	National Western Life Group, Inc.	\$12,138	\$ 181	\$ 811	\$ 337.03	\$ 1,158
SNFCA	Security National Financial Corporation	\$ 1,008	\$ 69	\$ 288	\$ 5.40	\$ 82
UTGN	UTG, Inc.	\$ 405	\$ 6	\$ 21	\$ 25.00	\$ 83

(1) Revenues are annualized nine month results.

Source: S&P Global Market Intelligence and Federal Life’s internal financials, as of September 30, 2017 for Federal Life and all other Companies.

The independent valuation appraisal considered the pro forma impact of the offering. Consistent with key metrics evaluated by the investment community in pricing insurance company stocks, the appraisal applied three primary methodologies: the pro forma price-to-book value approach applied to both reported book value and tangible book value; the pro forma price-to-earnings approach; and the pro forma price-to-revenues approach, recognizing that the price-to-earnings approach was not meaningful due to Federal Life Mutual’s history of operating losses. The market value ratios applied in the remaining two methodologies were based upon the current market valuations of the peer group companies identified by RP Financial subject to valuation adjustments applied by RP Financial to account for differences between us and our peer group.

Based on the application of the pro forma valuation approaches described above, the estimated pro forma market value of Federal Life Mutual ranged from \$34.0 million to \$46.0 million, with a midpoint of the offering range of \$40.0 million. In developing the pro forma valuation estimate, RP Financial considered the potential for restoration of positive earnings within the first two or three years following the completion of the conversion transaction. In this regard, the major elements of the business plan to reverse the recent operating losses include:

1. undertake growth to expand revenues and achieve economies of scale.
2. maximize the use of the existing infrastructure capacity in growth plans to create a competitive advantage.

3. promote a performance oriented culture within the organization to ensure financial strength.
4. identify potential internal opportunities to increase regulatory surplus to support growth and risk levels.
5. complete the conversion to capitalize future growth and provide enhanced access to capital markets in the future to support growth and risk levels.
6. the realization of the foregoing elements of the strategic plan is expected to be facilitated by efforts of the Standby Purchaser to assist in the Company in implementing the foregoing elements of the Strategic Plan.

The following table sets forth for the publicly-traded insurance companies used by RP Financial certain market valuation data reviewed by RP Financial regarding the Peer Group companies based on closing market prices as of December 22, 2017. In arriving at its valuation conclusion, RP Financial indicated that while the price-to-earnings approach is historically the preferred valuation approach, Federal Life Mutual's recent history of operating losses renders the price-to-earnings approach to valuation less meaningful relative to price-to-tangible book value and price-to-revenue approaches. Based on its comparative analyses, RP Financial concluded that our estimated consolidated pro forma market value at the midpoint warranted a discount in the range of approximately 36% to 44% relative to the peer group average and median price-to-tangible book value ratios. At the same time, at the estimated midpoint value, Federal Life Mutual's pro forma price-to-revenues was at a premium to the peer group median and average ratios in a range of 5% to 22%.

Company Name	Market Prices As of 12/22/2017		Financial Data as of September 30, 2017				Key Pricing Ratios as of December 22, 2017			
	Closing Price (\$)	Market Value (\$Mil)	Assets (\$Mil)	Equity/ Assets (%)	ROAA (%)	ROAE (%)	Price/ Book (%)	Price/ Tangible Book (%)	Price/ TTM Earnings (x)	Price/ TTM Revenue (x)
<u>Federal Life Insurance Company</u>										
Maximum	\$10.00	\$ 46.00	\$ 300	26.10%	0.06%	-0.22%	58.8%	58.8%	NM	1.83x
Midpoint	\$10.00	\$ 40.00	\$ 294	24.69%	0.12%	-0.48%	55.1%	55.1%	NM	1.60x
Minimum	\$10.00	\$ 34.00	\$ 288	23.23%	0.18%	-0.78%	50.8%	50.8%	NM	1.37x
<u>Peer Group</u>										
Average	\$64.08	\$ 1,264.1	\$ 13,748	17.52%	0.88%	5.65%	93.9%	97.4%	19.56x	1.52x
Median	\$27.95	\$ 436.7	\$ 4,511	14.93%	0.62%	5.38%	85.8%	85.8%	14.16x	1.31x
<u>All Public Life Insurance Companies</u>										
Average	\$66.40	\$10,482.5	\$130,630	12.98%	0.42%	1.29%	112.3%	119.8%	17.51x	1.35x
Median	\$51.48	\$ 4,373.7	\$ 45,699	13.36%	0.59%	8.35%	98.6%	117.9%	12.81x	1.16x

(1) Financial information is on a pro forma basis for Federal Life. Peer Group data is as of September 30, 2017.

Source: S&P Global Market Intelligence for public companies and Federal Life's internal financial statements.

On the basis of the foregoing, RP Financial gave its opinion, dated December 22, 2017, that the estimated consolidated pro forma market value of Federal Life Mutual is \$40.0 million, representing a pro forma price-to-book ratio of 55%, and the value of the range of the total number of shares of common stock to be issued in the offering is between \$34.0 million and \$46.0 million. We determined that the common stock should be sold at \$10.00 per share, resulting in a range of 3,400,000 to 4,600,000 shares of common stock being offered in this offering. The offering range may be amended if required or if necessitated by subsequent developments in our financial condition or market conditions generally. In the event the offering range is updated to amend the midpoint value of the shares of common stock to be issued in the offering to below \$34.0 million or above \$46.0 million and we decide to proceed with the offering, the new appraisal will be filed with the SEC by post-effective amendment to the registration statement of which this prospectus is a part.

The appraisal report of RP Financial is an exhibit to the registration statement of which this prospectus is a part and is available for inspection in the manner set forth under “Additional Information.”

The Illinois Director of Insurance is required to review and approve the plan of conversion, including the appraisal prepared by RP Financial in connection with this offering.

**The preceding summary of the appraisal report summarizes the material analyses performed by RP Financial, but is not a complete description of all the analyses underlying RP Financial’s appraisal. The summary includes information presented in tabular and text format. In order to fully understand the financial analyses, the tables must be read together with the accompanying text and the entire appraisal report. These tables alone do not constitute a complete description of the financial analyses performed by RP Financial. The preceding summary is qualified in its entirety by the full appraisal report. Copies of the appraisal report are on file and available for inspection at our principal executive offices. Any subsequent updated appraisal report of RP Financial will be available for inspection.**

**The appraisal is not intended, and must not be construed, as a recommendation of any kind as to the advisability of purchasing common stock. In preparing the appraisal, RP Financial relied upon and assumed the accuracy and completeness of financial, statistical, and other information provided to it by Federal Life Mutual. RP Financial did not independently verify the financial statements and other information provided to it by Federal Life Mutual, nor did RP Financial value independently our assets and liabilities. The appraisal considers Federal Life Mutual only as a going concern and should not be considered as an indication of our liquidation value. The appraisal is necessarily based upon estimates and projections of a number of matters, all of which are subject to change from time to time. We cannot assure you that persons purchasing common stock will be able to sell such shares at or above the initial purchase price.**

## FEDERAL INCOME TAX CONSIDERATIONS

### General

The following summary includes a discussion of the material United States federal income tax considerations to:

- Federal Life Mutual upon the conversion of Federal Life Mutual from a mutual holding company to a stock holding company;
- eligible members that are U.S. Persons that hold their membership interests in Federal Life Mutual as a capital asset within the meaning of Section 1221 of the Internal Revenue Code of 1986, as amended (the “Code”), of the receipt, exercise and lapse of subscription rights to purchase shares of the common stock of the Company (which we refer to as our common stock) in the subscription offering; and
- other purchasers that are U.S. Persons that purchase Company common stock in the offering and hold the common stock as a capital asset within the meaning of Section 1221 of the Code.

The following discussion is based, primarily, on private letter rulings that have been issued by the Internal Revenue Service to certain corporations unrelated to Federal Life Mutual that have engaged in transactions that are analogous to the conversion. Under the Code, private letter rulings are directed only to the taxpayer that requested the rulings and they may not be used or cited as precedent by other taxpayers. In addition, some of the discussion below under “— Tax Consequences of Subscription Rights,” is outside the scope of the private letter rulings that have been issued by the Internal Revenue Service and is based on the Code, Treasury regulations promulgated under the Code, judicial authorities, published positions of the Internal Revenue Service and other applicable authorities, all as in effect on the date of this discussion and all of which are subject to change (possibly with retroactive effect) and to differing interpretations. No assurance can be given that the Internal Revenue Service would not assert, or that a court would not sustain, a position contrary to any part of the discussion under “— Tax Consequences of Subscription Rights,” below.

The following discussion is directed solely to eligible members of Federal Life Mutual that are U.S. Persons and hold membership interests in a qualifying policy as a capital asset within the meaning of Section 1221 of the Code and other purchasers in the offering who are U.S. Persons and acquire the common stock as a capital asset within the meaning of Section 1221 of the Code, and it does not purport to address all of the United States federal income tax consequences that may be applicable to Federal Life Mutual or to the individual circumstances of particular categories of eligible members of Federal Life Mutual or other purchasers, in light of their specific circumstances. For example, if a partnership holds membership interests in a qualifying policy, the tax treatment of a partner will generally depend on the status of the partner and the activities of the partnership. If you are a partner of a partnership that holds membership interests in a qualifying policy, you should consult your tax advisor. In addition, the following discussion does not address aspects of United States federal income taxation that may be applicable to eligible members of Federal Life Mutual or other purchasers subject to special treatment under the Code, such as financial institutions, insurance companies, pass-through entities, regulated investment companies, real estate investment trusts, financial asset securitization investment trusts, dealers or traders in securities, or tax-exempt organizations, or any aspect of the U.S. alternative minimum tax or state, local or foreign tax consequences of the proposed transactions.

For purposes of this discussion, the term “U.S. Person” means (a) a citizen or resident of the United States, (b) a corporation, or entity treated as a corporation for United States federal income tax purposes, created or organized in or under the laws of the United States or any political subdivision thereof, (c) an estate the income of which is subject to United States federal income taxation regardless of its source, or (d) a trust which (i) is subject to the primary supervision of a court within the United States and one or more U.S. persons have the authority to control all substantial decisions of the trust or (ii) has a valid election in effect under applicable Treasury Regulations to be treated as a U.S. Person.

**This discussion does not constitute tax advice and is not intended to be a substitute for careful tax planning. Each eligible member and other purchaser is urged to consult his own tax advisor with respect to the U.S. federal, state, local and non-U.S. income and other tax consequences of the receipt, exercise and lapse of**

**subscription rights to purchase shares of our common stock in the subscription offering. Each prospective purchaser of shares of our common stock is urged to consult his own tax advisor with respect to the U.S. federal, state, local and non-U.S. income and other tax consequences of the acquisition, ownership and disposition of shares of our common stock purchased pursuant to this offering.**

### **The Conversion**

For federal income tax purposes:

- the conversion of Federal Life Mutual from a mutual holding company to a stock holding company will be a reorganization within the meaning of Section 368(a)(1)(E) of the Code;
- Federal Life Mutual in its post-conversion stock form will constitute one and the same taxable entity as Federal Life Mutual in its pre-conversion mutual form;
- neither Federal Life Mutual in its pre-conversion mutual form nor Federal Life Mutual in its post-conversion stock form will recognize gain or loss as a result of the conversion; and
- the tax attributes of Federal Life Mutual in its pre-conversion mutual form will remain unchanged as tax attributes of Federal Life Mutual in its post-conversion stock form. Thus, Federal Life Mutual's basis in its assets, holding period for its assets, net operating loss carryovers, if any, capital loss carryovers, if any, earnings and profits and accounting methods will not be changed by reason of the conversion.

### **Tax Consequences of Subscription Rights to Eligible Members**

Generally, the federal income tax consequences of the receipt, exercise and lapse of subscription rights are uncertain. They present novel issues of tax law that are not adequately addressed by any direct authorities. Nevertheless, we believe, and we intend to take the position that, for U.S. federal income tax purposes:

- eligible members will be treated as transferring their membership interests in Federal Life Mutual to Federal Life Group, Inc. in exchange for subscription rights to purchase Federal Life Group, Inc. common stock;
- any gain realized by an eligible member as a result of the receipt of a subscription right with a fair market value must be recognized, whether or not such right is exercised;
- the amount of gain that must be recognized by an eligible member as a result of the receipt of a subscription right will equal the amount by which the fair market value of such subscription right exceeds such eligible member's basis in the exchanged membership interest (if any);
- any gain recognized by an eligible member as a result of the receipt of a subscription right with a fair market value should constitute a capital gain, which will be long-term capital gain if the eligible member has held its membership interest for more than one year; and
- if an eligible member is required to recognize gain on the receipt of a subscription right and does not exercise such subscription right, (i) the eligible member should recognize a corresponding loss upon the expiration or lapse of such member's unexercised subscription right, (ii) the amount of that loss should equal the sum of the gain previously recognized upon receipt of the unexercised subscription right plus such eligible member's basis in the exchanged membership interest (if any), and (iii) if the common stock that an eligible member would have received upon exercise of the lapsed subscription right would have constituted a capital asset in the hands of that eligible member, the resulting loss upon expiration of the subscription right should constitute a capital loss (and in all likelihood, a short-term loss).

*Tax Basis in Membership Interests.* The Internal Revenue Service ("IRS") has traditionally asserted that the basis of a taxpayer, such as an eligible member, in its membership interest in a mutual company such as Federal Life Mutual equals zero. The general view of the IRS in this regard is that the payment by a



policyholder of a mutual insurance company of the premiums called for by the underlying insurance policy represents payment for the cost of insurance, rather than for the membership interest aspect of the policyholder's interest. As a result, the policyholder's basis in the membership interest is deemed to be zero.

Recent Court decisions, however, have been split on the validity of this longstanding IRS position. During 2008, the United States Court of Federal Claims in the case of *Fisher v. United States*, 82 Fed. Cl. 780, 795 (Fed. Cl. 2008) (aff'd without opinion by *Fisher v. United States*, 333 Fed. Appx. 572 (Fed. Cir. 2009)), held that a policyholder of a mutual insurance company that, in the course of a demutualization that constituted a reorganization under the Code, (a) exchanged its membership interest in the insurer for shares of the common stock of a new holding company and (b) later sold such shares, did not realize any income for federal income tax purposes on the sale of such shares, because the amount realized by the policyholder on such sale was less than the policyholder's cost basis in its insurance policy as a whole. More recently, in December, 2015, the Ninth Circuit Court of Appeals in the case of *Dorrance v. The United States*, 808 F.3d 1210 (9<sup>th</sup> Cir. 2015) ruled that a taxpayer owning insurance policies in a mutual insurance company had a zero tax basis in the attendant membership rights which accompanied such policy ownership, affirming the position of the IRS. The Ninth Circuit in *Dorrance* overturned a taxpayer-friendly district court decision, which had held that the basis in the underlying policies should be equitably apportioned between the insurance aspect of the policy and the membership interest aspect of such policy. By rejecting the "open transaction" treatment provided for by the Fisher decision, the Ninth Circuit decision in *Dorrance* creates a conflict between appellate courts and the potential for an eventual determination by the United States Supreme Court. The plan of conversion and the law considered by the court in each of *Fisher* and *Dorrance* were in certain respects substantially different than Federal Life Mutual's plan of conversion and the corresponding law of Illinois. Nevertheless, if the principles articulated by the court in *Fisher*, rather than those articulated by the court in *Dorrance* (and traditionally by the IRS), were determined to be applicable to the subscription offering: eligible members would potentially be able to report a basis in their membership interests deemed exchanged for the subscription rights, and accordingly report less gain than would be required under the approach traditionally adopted by the IRS.

Eligible members should consult with their tax advisors regarding their ability to reflect a basis in their membership interests in calculating the amount of their gain or loss on the exchange of such interests for the subscription rights hereunder.

*Value of Subscription Rights.* RP Financial has advised us that it believes the subscription rights will not have any fair market value. RP Financial has noted that the subscription rights are acquired by recipients without cost, are nontransferable, nonnegotiable and of short duration, and will provide the recipient with the right only to purchase shares of our common stock at a price that is equal to the estimated pro forma market value of the Company, which will be the same price at which any unsubscribed shares will be sold to the standby purchaser. RP Financial cannot assure us, however, that the Internal Revenue Service will not challenge RP Financial's determination or that such challenge, if made, would not be successful. Nevertheless, eligible members are encouraged to consult with their tax advisors about the U.S. federal, state, local and non-U.S. income and other tax consequences of the receipt, exercise and lapse of subscription rights to purchase shares of our common stock in the subscription offering. See also "— Recent Tax Developments" below.

*Basis and Holding Period of Stock Acquired through Exercise of a Subscription Right.* The adjusted tax basis of a share of our common stock purchased by an eligible member pursuant to the exercise of a subscription right will equal the sum of the amount of cash paid for such share plus the basis, if any, of the subscription right that is exercised to purchase such share, taking into account the income and gain, if any, recognized by such eligible member on the receipt of such subscription right. The holding period of a share of our common stock purchased by an eligible member through the exercise of a subscription right will begin on the date on which the subscription right is exercised.

#### **Tax Consequences of Subscription Rights to Directors and Officers**

We believe, and intend to take the position, that the grant of subscription rights to the directors and officers of Federal Life Mutual does not constitute a taxable event for the recipients of such rights. Instead, we believe that the grant of such rights should be treated as the grant of an option to acquire our common stock pursuant to Section 83 of the Code, and that such option should not be treated at grant as having a

“readily ascertainable fair market value” within the meaning of this provision. As such, directors and officers of Federal Life Mutual that are entitled to subscription rights should be treated as realizing income upon the exercise of such rights, in an amount equal to the excess of the value of our shares received upon such exercise over the purchase price for such shares. Any income so realized should be treated as compensation income for federal income tax purposes. Directors and officers of Federal Life Mutual should consult with their tax advisors with respect to the potential tax consequences to them of the receipt and exercise or lapse of subscription rights based on their particular circumstances.

**Tax Consequences to Other Purchasers**

The adjusted tax basis of a share of our common stock purchased in the offering other than through exercise of a subscription right will equal the amount paid by such person for the common stock. The holding period of a share of our common stock purchased other than through the exercise of a subscription right will begin on the day after the purchase.

DUE TO THE INDIVIDUAL AND SOMETIMES UNCERTAIN NATURE OF THE FEDERAL INCOME TAX CONSEQUENCES ASSOCIATED WITH THE RECEIPT, EXERCISE, AND LAPSE OF THE SUBSCRIPTION RIGHTS HEREUNDER, EACH ELIGIBLE MEMBER AND EACH DIRECTOR AND OFFICER OF FEDERAL LIFE MUTUAL IN THIS OFFERING IS URGED TO CONSULT HIS OR HER TAX AND FINANCIAL ADVISOR REGARDING SUCH TAX CONSEQUENCES, AS WELL AS ANY STATE, LOCAL, OR OTHER NON-FEDERAL TAX CONSEQUENCES.

## MANAGEMENT

### Directors and Executive Officers

The table below provides information about the directors and executive officers of Federal Life Group, Inc. Executive officers serve at the request of our board of directors.

Name	Age <sup>(1)</sup>	Position
Joseph D. Austin	90	Director and Executive Chairman
William S. Austin	54	Director, President, and Chief Executive Officer
Anders Raaum	53	Chief Financial Officer
Michael Austin	60	Director, Executive Vice President, and Chief of Marketing Officer
Wayne R. Ebersberger	63	Director
William H. Springer	88	Director
James H. Stacke	79	Director

(1) Age is as of June 1, 2018

### Directors

We believe our board of directors should be composed of individuals with sophistication and experience in many substantive areas that impact our business. In this regard, we believe experience, qualifications or skills in the following areas are the most important: the life insurance industry; insurance company operations; financial reporting and investment expertise; legal/regulatory matters relating to life insurance companies; marketing; direct distribution and technology. We seek to select individuals who possess the personal and professional qualifications necessary for service on our board. Set forth below is biographical information for our directors:

**Joseph D. Austin** is the Executive Chairman of the Company. Mr. Austin joined Federal Life in 1972 and was elected as Chairman of the Board, President and Chief Executive Officer in June 1977. Mr. Austin holds a Bachelor of Arts degree from the University of Scranton and is a Fellow of the Society of Actuaries and a member of the American Academy of Actuaries. Prior to joining Federal Life, Mr. Austin served in actuarial, administrative and marketing positions and on the board of directors of several other life insurance companies and as an expert consultant to the U.S. Postal Service.

Mr. Austin was selected to serve on our board of directors because of his business, executive, operational and financial experience with life insurance companies.

**William S. Austin** is the President and Chief Executive Officer of the Company. Mr. Austin joined Federal Life in 1990 and served as President and Chief Operating Officer from 2002 to 2018, when he was elected as the President and Chief Executive Officer. Mr. Austin is a graduate of Marquette University and has an M.B.A. degree in finance, investments and banking from the University of Wisconsin-Madison. Mr. Austin is a Chartered Life Underwriter and a member of the Society of Financial Services Professionals.

Mr. Austin was selected to serve on our board of directors because of his business, executive and operational experience in the life insurance industry.

**Michael Austin** joined Federal Life in 1982 and has served as an Executive Vice President and the Chief Marketing Officer of Federal Life since 2000. Mr. Austin attended Western Illinois University and holds a FINRA Series 6 license and a broker-dealer agency license with FED Mutual Financial Services, Inc., a wholly owned subsidiary of the Company.

Mr. Austin was selected to serve on our board of directors because of his business and sales experience in the life insurance industry and his executive experience with Federal Life Mutual and Federal Life.

**Wayne R. Ebersberger** has been a member of the board of directors of Federal Life since 2015.

Mr. Ebersberger is a certified public accountant (retired) and has a bachelor of business administration degree from the University of Notre Dame. Mr. Ebersberger was a partner of Ernst & Young for over 25 years prior to his retirement in 2015. At Ernst & Young Mr. Ebersberger provided accounting and auditing services to numerous insurance companies, including publicly held companies, foreign companies, and large mutual and nonprofit organizations in the insurance industry.

Mr. Ebersberger was selected to serve on our board of directors because of his financial accounting experience in the insurance industry, including his experience as a certified public accountant auditing publicly traded insurance companies.

**William H. Springer** has served on the board of directors of Federal Life since 2005. Mr. Springer is a graduate of Grinnell College and has a master of science degree in Management from the Massachusetts Institute of Technology. Mr. Springer was Vice Chairman, Chief Financial and Administrative Officer of Ameritech Corp, a major telecommunications company from January 1, 1984 to July 31, 1991 and was Vice Chairman Finance of Ameritech from August 1, 1991 to July 31, 1992.

Mr. Springer was selected to serve on our board of directors because of his experience as the Chief Financial Officer of a large publicly traded corporation and his knowledge of financial accounting.

**James H. Stacke** has served on the board of directors of Federal Life since 2005. He is a graduate of Yale University and has an MBA from the University of Chicago. Mr. Stacke served as an officer in the U.S. Marine Corps from 1961 through 1964. Mr. Stacke joined the investment counsel firm Stein Roe and Farnham and its successor firms from 1968 until he retired in 2009. While there, he was named a Partner and Executive Vice President and manager of the Chicago office. He also served as chairman of the compensation committee. Mr. Stacke is a Chartered Financial Analyst and a Chartered Investment Counselor.

Mr. Stacke was selected to serve on our board of directors because of his experience in wealth and investment planning.

#### ***Post Conversion Directors***

We have agreed in the standby stock purchase agreement to elect Matthew T. Popoli and Craig A. Huff to the boards of directors of the Company and Federal Life. We have also agreed, so long as the standby purchaser owns at least 5% of the outstanding common stock of the Company, to nominate Mr. Popoli and Mr. Huff or other persons designated by the standby purchaser for election to the boards of directors of the Company and Federal Life. Mr. Popoli and Mr. Huff are officers of the standby purchaser. Mr. Huff and Mr. Popoli founded Insurance Capital Group on January 8, 2018. Set forth below is biographical information with respect to Mr. Popoli and Mr. Huff.

#### **Matthew T. Popoli**

Matthew T. Popoli is a Founder and Managing Partner of Insurance Capital Group, with 20 years of insurance industry experience with a specialized focused on sponsored demutualizations and similar complex conversion transactions. Prior to founding Insurance Capital Group, Mr. Popoli was a partner and Senior Managing Director at Reservoir Capital Group, which he joined in 2005, and led its financial services investing activities. Previously, Mr. Popoli was a Principal at Capital Z Partners and began his career as an investment banker in the insurance group at Morgan Stanley & Co. Mr. Popoli is a graduate of Amherst College, where he received a B.A. in Economics.

#### **Craig A. Huff**

Craig A. Huff is a Founder and Managing Partner of Insurance Capital Group and Co-Founder and Co-CEO of Reservoir Capital Group. Mr. Huff serves on the boards of many of Reservoir portfolio companies in industries such as energy, power, insurance, and aircraft leasing and was instrumental in the formation and development of a variety of hedge funds and private investment firms. Prior to founding Reservoir, Mr. Huff was a partner at Ziff Brothers Investments and, prior to business school, served in the U.S. Navy as a nuclear submarine officer and nuclear engineer. Mr. Huff is a graduate of Abilene Christian University and Harvard Business School.

***Executive Officers***

Set forth below is biographical information for our executive officers (except for Messrs. Joseph D. Austin, William S. Austin and Michael Austin, whose biographical information is set forth above):

**Anders Raaum** joined Federal Life in 1994 and has served as Chief Financial Officer of Federal Life since 2011. Mr. Raaum has a Bachelor of Arts degree in Business Administration from the University of Oregon and an M.B.A. in finance, investments and banking from the University of Wisconsin-Madison. Mr. Raaum is a holder of the Chartered Financial Analyst and Chartered Life Underwriter designations and a member of the CFA Institute and the CFA Society of Chicago. Mr. Raaum is also a registered FINRA general securities representative and general securities principal with FED Mutual Financial Services, Inc. and a licensed insurance producer.

**Corporate Governance*****Composition of the Board of Directors***

Our board of directors currently consists of six persons and after closing of the offering will consist of eight directors. Our board of directors is authorized to have up to fifteen members, and we expect to add new board members within six months upon completion of the offering. Prior to the occurrence of a standstill termination event, as defined in the standby stock purchase agreement, each of our directors will be assigned to one of three classes, with one class of directors being subject to election each year at the annual meeting of shareholders. After the occurrence of a standstill termination event, the board will no longer be classified and each director will be elected at the annual meeting of shareholders, with the directors being elected by a plurality of votes.

***Director Independence***

We have undertaken a review of the composition of our board of directors and considered whether any director has a relationship with us that could compromise that director's independent judgment in carrying out that director's responsibilities and all other facts and circumstances that the board of directors deemed relevant in determining their independence. We have affirmatively determined that each of the members of our board of directors, with the exception of Joseph D. Austin, William S. Austin and Michael Austin, is an independent director under NASDAQ Marketplace Rules.

Except for the Austins, there are no family relationships among any of our directors or executive officers.

***Board Leadership Structure***

Following this offering, Joseph D. Austin will be the Executive Chairman and William S. Austin will be the President and Chief Executive Officer. Upon completion of this offering, we will not have a lead independent director. The board of directors will continue to evaluate the suitability of establishing a lead independent director. As a general policy, our board of directors believes that separation of the positions of Chairman and Chief Executive Officer is not necessary to ensure the independence of the board of directors from management, create an environment that encourages objective oversight of management's performance, or enhance the effectiveness of the board of directors as a whole.

***Risk Oversight***

Our board of directors has an active role, as a whole and at the committee level, in overseeing the management of our risks. Our board of directors is responsible for overseeing our risk management process. Our board of directors focuses on our general risk management strategy. Our audit committee receives reports from our management relating to enterprise risk management and oversees the implementation of risk mitigation strategies by our management. Our compensation and nominating and governance committees are responsible for overseeing the management of risks relating to our executive compensation plans and arrangements and the risks associated with the independence of our board of directors and potential conflicts of interest. Our investment committee is responsible for monitoring risks

related to our investments and loan practices. While each committee is responsible for evaluating certain risks and overseeing the management of such risks, our entire board of directors is regularly informed through discussions from committee members about such risks. See “Business — Corporate — Enterprise Risk Management.”

### ***Committees of the Board of Directors***

The current standing committees of our board of directors, which will remain in place following the completion of this offering, are: the audit committee; the compensation committee; the investment committee; and the nominating and governance committee. Each of these committees will operate under a committee charter to be approved by our board of directors and available on our website at [www.federallife.com](http://www.federallife.com). The composition, duties and responsibilities of our committees are as set forth below:

#### *Audit Committee*

The audit committee is responsible for the oversight of the integrity of our consolidated financial statements, our systems of internal control over financial reporting, our risk management, the qualifications and independence of our independent registered public accounting firm, the performance of our internal auditor and independent auditor and our compliance with applicable legal and regulatory requirements. The audit committee has the sole authority and responsibility to select, determine the compensation for, evaluate and, when appropriate, replace our independent registered public accounting firm. All audit and non-audit services, other than *de minimis* non-audit services, to be provided to us by our independent registered public accounting firm must be approved in advance by our audit committee.

Our audit committee is composed of Mr. Wayne R. Ebersberger, as chair, and Messrs. Springer, Stacke, and Popoli. Our board of directors has determined that each of the members of the audit committee meets the definition of “independent director” for purposes of serving on the audit committee under Rule 10A-3 and the NASDAQ Marketplace Rules. In addition, the board of directors has determined that Mr. Ebersberger qualifies as an “audit committee financial expert” as such term is defined in Item 407(d)(5) under Regulation S-K. Mr. Popoli does not meet the definition of “independent director” under SEC Rule 10A-3, but qualifies for the exemption under paragraph (b)(iv) of Rule 10A-3.

#### *Compensation Committee*

The compensation committee is responsible for annually reviewing and approving the corporate goals and objectives relevant to the compensation of our Chief Executive Officer and evaluating our Chief Executive Officer’s performance in light of these goals; reviewing the compensation of our executive officers and other appropriate officers; reviewing and reporting to the board of directors on compensation of directors and board committee members; and administering our incentive and equity-based compensation plans.

The compensation committee is chaired by Mr. James H. Stacke. Mr. Ebersberger, Mr. Springer, and Mr. Popoli are also members of the compensation committee. Our board of directors has determined that each of the members of the compensation committee meets the definition of “independent director” under the NASDAQ Marketplace Rules and the Exchange Act.

#### *Compensation Committee Interlocks and Insider Participation*

None of our executive officers serves, or in the past three years has served, as a member of the board of directors or compensation committee, or other board committee performing an equivalent function, of any other entity that has one or more of its executive officers serving as a member of our board of directors or our compensation committee.

#### *Investment Committee*

The investment committee will support the board of directors in fulfilling its oversight responsibilities relating to: Federal Life’s investment practices; Federal Life’s technical investment and administrative capabilities and expertise; and compliance by Federal Life with legal and regulatory requirements with respect to investments. Additionally, the investment committee will approve investment guidelines and monitor the investments and investment practices of Federal Life for suitability with Federal Life’s liquidity, capital and surplus needs.

In addition to the statutory requirements related to the investment assets of Federal Life, the investment committee will have oversight and responsibility for the investment of the proceeds of the offerings that will not be contributed to our subsidiaries or otherwise deployed in our business. The investment committee will also advise the board of directors on dividend policy and other capital management issues.

The investment committee is chaired by Mr. William S. Austin. Mr. Joseph D. Austin, Mr. Ebersberger, Mr. Springer, Mr. Stacke, and Mr. Popoli are also members of the investment committee.

#### *Nominating and Governance Committee*

The nominating and governance committee will be responsible for identifying and recommending candidates for election to our board of directors and each committee of our board of directors, developing and recommending corporate governance guidelines to the board of directors and overseeing performance reviews of the board of directors, its committees and the individual members of the Board. Our board of directors has determined that each of the members of the nominating and governance committee meets the definition of “independent director” under the NASDAQ Marketplace Rules and the Exchange Act.

The nominating and corporate governance committee is chaired by Mr. Springer. Messrs. Ebersberger, Mr. Stacke, and Mr. Popoli are members of the nominating and governance committee.

#### *Code of Ethics*

We have adopted a code of business conduct and ethics applicable to our principal executive, financial and accounting officers and all persons performing similar functions. A copy of that code will be available on our website at [www.federallife.com](http://www.federallife.com). We intend to disclose future amendments to certain provisions of our code of business conduct and ethics, or waivers of such provisions, on our website to the extent required by applicable rules and exchange requirements. The inclusion of our website address anywhere in this prospectus does not incorporate by reference the information on or accessible through our website into this prospectus.

## Executive Compensation

### Summary Compensation Table

The following table shows the compensation information for our Chief Executive Officer, our President and Chief Operating Officer and our Chief Financial Officer based on compensation earned as an employee of Federal Life for the year ended December 31, 2017 (our “named executive officers”).

Name and Principal Position	Year	Salary (\$)	Non-Equity Incentive Plan Compensation (\$)	All Other Compensation (\$) <sup>(1)</sup>	Total (\$)
Joseph D. Austin	2017	\$418,140	—	\$25,333	\$443,473
Chairman and Chief Executive Officer	2016	404,000	—	23,713	427,713
William S. Austin	2017	265,000	—	33,184	298,184
President and Chief Operating Officer	2016	254,702	—	32,897	287,599
Anders Raaum	2017	194,953	—	5,813	200,766
Chief Financial Officer	2016	190,740	—	5,722	196,462
Michael Austin	2017	245,861	—	24,892	270,753
Executive Vice President and Chief Marketing Officer	2016	238,700	—	24,914	263,614

- (1) All other compensation consists of the following: (i) company portion of health, dental, life, disability and vision insurance premiums, (ii) 401(k) company matching contributions, and (iii) car allowances and club memberships for Joseph D. Austin, William Austin and Michael Austin.

### Equity Awards

Except for the equity awards to be granted in connection with this offering as described below, the Company has never awarded stock options or other equity awards to any of our named executive officers.

### Employment Agreements

We have entered into employment agreements with Joseph D. Austin, William S. Austin and Michael Austin. The employment agreements provide for a base salary to be determined each year by the Board of Directors. Pursuant to the employment agreements, the executives are eligible to participate in all employee benefit programs of the Company as then in effect. The employment agreements extend for continuous terms of three years (extending each day by an additional day unless notice of non-extension is given by the Board of Directors, which then sets the term at a fixed three years from the date of notice).

In the event Joseph D. Austin is terminated by the Company without just cause or terminates his employment voluntarily on account of changes in the board of directors of the Company or changes in his responsibilities as Chief Executive Officer, Joseph D. Austin shall be entitled to an annual amount of \$515,000 paid in monthly installments for a three year period. In the event of the death of Joseph D. Austin, his legal representative is entitled to \$515,000 paid in twelve monthly installments. In the event of Joseph D. Austin’s disability (as defined in the employment agreement), the Company shall continue his then current base salary for nine months and then 50% of such base salary for the remaining term of the agreement (offset for any payments under a disability plan of the Company).

In the event William S. Austin or Michael Austin is terminated by the Company without just cause or terminates his employment voluntarily due to materially diminished responsibilities, he will be entitled to continuation of his then current base salary (payable in monthly installments) for a three year period and continuation of medical benefits at the same cost as active employees for such three year period. In the event of the death of William S. Austin or Michael Austin, his legal representative is entitled to receive his current base salary paid through the end of the month of the date of his death. In the event of disability of



William S. Austin or Michael Austin (as defined in the employment agreement), the Company shall continue to pay his then current base salary for nine months and then 50% of such base salary for the remaining term of the agreement (offset for any payments under a disability plan of the Company).

Pursuant to the employment agreements, the executives are subject to noncompetition provisions during the term of employment and during any period that the executive is receiving severance payments as described above.

The employment agreements require the Company to cover and insure the executive under the insurance maintained to indemnify directors or officers of the Company. In the event of a dispute regarding a termination of employment and payment of severance, the Company shall pay reasonable costs, including attorney's fees, of the executive, providing the executive prevails in such action.

## **Equity Compensation in Connection With This Offering**

### ***Stock-Based Incentive Plan***

In connection with this offering, the Board of Directors of Federal Life Group, Inc. will adopt, its sole shareholder will approve, the Federal Life Group, Inc. 2018 Equity Incentive Plan (the "2018 Plan"). The following description of the Plan is qualified in its entirety by the full text of the Plan.

*Purposes.* The purposes of the stock-based incentive plan are to provide incentive compensation to enable the Company to attract and retain highly qualified individuals that will contribute to the Company's future success and to provide the participants with ownership interests in the Company to align the interests of management and directors with those of the Company's shareholders.

*Administration.* The 2018 Plan will be administered by the compensation committee. Each member of the compensation committee must be a disinterested director. In order to qualify as "disinterested," a director must qualify as each of the following: (i) a non-employee director under Rule 16b-3 promulgated by the SEC under the Securities Exchange Act of 1934; and (ii) an independent director under the rules and regulations of the NASDAQ Capital Market. Subject to the provisions of the 2018 Plan, the compensation committee will have authority to select employees and non-employee directors to receive awards, to determine the time or times of receipt, to determine the types of awards and the number of shares covered by the awards, and to establish the terms, conditions and provisions of such awards, including qualified performance-based awards.

The compensation committee is authorized to interpret the 2018 Plan, to establish, amend and rescind any rules and regulations relating to the 2018 Plan, to determine the terms and provisions of any award agreements and to make all other determinations that may be necessary or appropriate for the administration of the Plan.

*Eligibility.* Eligible participants include directors and employees of the Company and its affiliates. The compensation committee will determine the employees and non-employee directors who receive awards under the 2018 Plan.

*Duration of Plan.* The 2018 Plan has a term of ten years following its adoption, subject to earlier termination by our board of directors.

*Types of Awards.* Awards under the 2018 Plan may be in the form of stock options (including both incentive stock options that meet the requirements of Section 422 of the Code and non-qualified stock options that do not meet the requirements of Section 422 of the Code), and restricted stock.

*Authorized Shares Available for Awards Under the Plan.* Under the 2018 Plan, up to 480,000 shares of our common stock may be issued. Awards of stock options under the 2018 Plan cannot exceed 340,000 shares of common stock, and awards of restricted stock cannot exceed 140,000 shares of common stock. If any award under the 2018 Plan otherwise distributable in shares of common stock is surrendered, expires, terminates or is forfeited or canceled, or settled in cash pursuant to the terms of the 2018 Plan, such shares will again be available for award under the 2018 Plan. In addition, shares used to pay the exercise price for an option and shares used to satisfy the tax withholding requirements for any award shall become available for reissuance under the 2018 Plan. Stock options covering more than 250,000 shares of common stock may

not be granted to any individual in any calendar year. If there is a change in our outstanding common stock by reason of a stock dividend, split, spinoff, recapitalization, merger, consolidation, combination, extraordinary dividend, exchange of shares, other change affecting the outstanding shares of common stock as a class without the receipt of consideration, or an equity restructuring within the meaning of certain accounting rules, the aggregate number of shares with respect to which awards may be made under the 2018 Plan, the terms and number of shares outstanding under any award, the exercise or base price of a stock option, and the share limitations set forth above will be appropriately adjusted by the compensation committee. The compensation committee will also make appropriate adjustments as described in the event of any distribution of assets to shareholders other than a normal cash dividend.

*Stock Options.* The 2018 Plan authorizes the award of both non-qualified stock options and incentive stock options. Stock options awarded under the 2018 Plan will entitle the holder to purchase a specified number of shares of common stock at the exercise price stated in the agreement after a certain date and subject to other terms. Incentive stock options are options that meet the requirements of Section 422 of the Code. Non-statutory stock options are options that are not intended to or do not meet the requirements of Section 422 of the Code. Incentive stock options can only be issued to employees; such awards are not permitted to be provided to directors. The exercise price of any options awarded cannot be less than the fair market value of the common stock at the date of the grant (110% of fair market value in the case of an incentive stock option granted to a "10% owner" within the meaning of Section 422 of the Code). If our stock is traded on the NASDAQ Capital Market, as we expect, the fair market value will be the closing sales price on the date the option is awarded. If no such price is available for that day, the exercise price will be determined by reference to the closing sales price on the preceding day on which prices were quoted. The term during which an incentive stock option can be exercised will be determined by the compensation committee. In no case can a participant exercise an option more than ten years after the date of grant (five years in the case of an incentive stock option awarded to a 10% owner). Shares may be purchased under each stock option at any time after the date the option first becomes exercisable. The compensation committee shall determine the vesting schedule for all stock options. Unless otherwise determined by the compensation committee, these awards shall vest in equal annual installments over a three-year period. An optionee may pay the exercise price for options in cash, by actual or constructive delivery of stock certificates for previously-owned shares of our stock, or by means of a cashless exercise or net exercise. The 2018 Plan permits us to withhold a sufficient number of shares to cover the amount of taxes required to be withheld upon exercise of an option.

Incentive stock options do not result in taxable income to the option holder upon exercise of the option and do not result in tax deductions to the Company unless the option holder fails to comply with Section 422 of the Code. Assuming compliance with Section 422 of the Code, upon the sale of stock acquired through the exercise of an incentive stock option, the seller will recognize capital gains equal to the excess, if any, of the sale price over the exercise price. To comply with Section 422 of the Code, the option holder must hold any shares acquired under the option for a period of two years from the date of the stock option award and for more than one year from the date the shares are acquired through the exercise of the option. Upon the exercise of a nonqualified stock option, the option holder will recognize ordinary income equal to the excess of the fair market value of the stock on the exercise date over the exercise price.

*Restricted Stock.* The 2018 Plan authorizes the compensation committee to grant to employees and non-employee directors shares of restricted stock. Restricted stock awards are the award of shares of Company stock in which the recipient's ownership rights in the stock are restricted until the shares vest (or lapse in restrictions). The committee will determine the vesting period and any specific conditions or performance goals which must be satisfied prior to the vesting of all or a portion of the restricted shares. The grantee will have the right to vote the shares of restricted stock and, if provided for by the compensation committee, the right to receive dividend equivalents on the shares, either currently or on a deferred basis. The grantee may not sell or otherwise dispose of restricted stock until the conditions imposed by the committee have been satisfied. Once the vesting requirements are met, an individual owns the shares outright and may treat them as he/she would any other share of stock. The recipient is deemed to receive ordinary income equal to the fair market value of the underlying shares of restricted stock on the date the restrictions lapse. Generally, the Company will be entitled to a deduction for federal income tax purposes in connection with an award equal to the amount of any ordinary income the participant recognizes.

*Termination of Service Events.* The committee may specify in each award agreement the impact of termination of service of a participant upon outstanding awards under the 2018 Plan. Unless provided otherwise in the award agreement, the following provisions shall apply:

- **Death or Disability** — All awards immediately vest. Incentive stock options and non-statutory stock options become exercisable for a one-year period (except in the case of non-statutory stock options a three-year period if the participant is eligible for retirement at the time of death or disability), or, if sooner, the expiration of the option or right;
- **Retirement** — All awards with the exception of incentive stock options continue to vest. Incentive stock options shall immediately vest and are exercisable for a period of three months or the option expiration date if shorter. Non-statutory stock options, once vested, will be exercisable for one year, or the expiration date of the award if sooner, unless the participant enters into an agreement with the consent of the compensation committee that could extend the exercise period for five years. Such agreement will include non-disparagement, non-solicitation, non-competition and other restrictive provisions as the committee deems appropriate;
- **General Termination** — Vested incentive stock options and non-statutory stock options are immediately exercisable for a period of three months (incentive stock options) or two years (non-statutory stock options), or the expiration date of the options or awards, if sooner. All unvested awards are forfeited and immediately expire, unless terminated without cause;
- **Resignation or Termination for Cause** — Vested incentive stock options and non-statutory stock options are immediately exercisable for a period of 30 days, or the expiration date of the options or awards, if sooner. All unvested awards are forfeited and immediately expire; and
- **Termination for Cause** — All options and restricted shares are forfeited and immediately expire.

If an option will expire as a result of a participant's termination of service, and the participant is prohibited at that time from exercising the option under federal securities laws, the expiration date of the option or right is automatically extended for a period ending 30 days following the date that it first becomes exercisable (but not beyond the original expiration date of the award).

*Change of Control Events.* The compensation committee may, in connection with a change of control: (i) arrange for the cancellation of outstanding awards in consideration of a payment in cash, property, or both, with an aggregate value equal to each award; (ii) substitute other property, including cash or other securities of the Company or another entity, in exchange for our shares underlying outstanding awards; (iii) arrange for the assumption of outstanding awards by another entity or the replacement of awards with other awards for securities of another entity; and (iv) after providing notice to participants and an opportunity to exercise outstanding options and rights, provide that all unexercised options and rights will be cancelled upon the date of the change of control or such other date as specified by it. Unless provided otherwise in the applicable award agreement, in the event of a change of control, all awards under the 2018 Plan, other than awards subject to performance criteria, shall become fully exercisable and vested unless the successor company assumes the award (or issues a substitute award). Any award subject to performance criteria shall be vested on a *pro rata* basis based on performance to date. If the successor company assumes an award (or issues a substitute award) and the participant is terminated without cause within 12 months following the change in control, then: (i) all options held by the participant will be fully vested and may be exercised for two years after the termination, or, if sooner, until the expiration of the applicable award; and (ii) all restricted stock held by the participant shall be vested. The consummation of the transactions contemplated by the standby purchase agreement shall not constitute a change in control.

*Awards Granted in this Offering.* We expect that grants of 140,000 shares of restricted stock and options to purchase 215,000 shares will be made to our executive officers, our directors and certain employees, subject to completion of this offering. The following table sets forth the number of shares of restricted stock and options to purchase shares of our common stock that will be awarded upon the closing of the offerings:

Name	Title	Equity Award <sup>(1)(2)</sup>
Joseph D. Austin	Chairman	Options to purchase [•] shares and [•] shares of restricted stock
William S. Austin	President and Chief Operating Officer	Options to purchase [•] shares and [•] shares of restricted stock
Anders Raaum	Chief Financial Officer	Options to purchase [•] shares and [•] shares of restricted stock
Michael Austin	Executive Vice President and Chief Marketing Officer	Options to purchase [•] shares and [•] shares of restricted stock
Wayne R. Ebersberger	Director	Options to purchase [•] shares
William H. Springer	Director	Options to purchase [•] shares
James H. Stacke	Director	Options to purchase [•] shares

(1) These options will have an exercise price equal to the initial public offering price of our common stock in this offering and will vest in equal annual installments over a 4-year period.

(2) Restricted stock will vest in equal annual installments over a 4-year period.

#### **Director Compensation**

In 2017, each of our non-employee directors served as directors of Federal Life and received an annual retainer of \$4,000. In addition, each committee chair received a fee of \$700 per committee meeting. Each of our non-employee directors received a fee of \$5,750 for each board meeting attended and a fee of \$700 per committee meeting attended.

The table below summarizes the total compensation earned from Federal Life by our non-employee directors for the fiscal year ended December 31, 2017.

Name	Fees Earned or Paid in Cash	Non-Equity Incentive Plan Compensation <sup>(1)</sup>	Total
Wayne R. Ebersberger	\$38,350	\$-0-	\$38,350
William H. Springer	\$36,950	\$-0-	\$36,950
James H. Stacke	\$36,950	\$-0-	\$36,950

**CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS****Limitations of Liability and Indemnification Matters**

Our articles of incorporation and bylaws, as they will be in effect upon the closing of this offering, will limit the liability of our directors to the fullest extent permitted by the PBCL and provide that we will indemnify our officers and directors to the fullest extent permitted by the PBCL.

We are not required to provide indemnification under our indemnification agreements for certain matters, including (i) indemnification beyond that permitted by the PBCL, (ii) indemnification in connection with certain proceedings or claims initiated by the person seeking indemnification, (iii) indemnification related to an accounting of profits under Section 16(b) of the Exchange Act, (iv) indemnification for liabilities for which the indemnified person has received payment under any insurance policy as may exist for such person's benefit, or other indemnity provision, or (v) indemnification where a final decision by a court having jurisdiction in the matter shall determine that such indemnification is not lawful.

We also maintain director and officer liability insurance.

**Related Party Transaction Approval Policy**

The Company and Federal Life may enter into additional agreements with the standby purchaser in the future. Any such agreement would be entered into on an arms-length basis and on terms no less favorable to the Company or Federal Life than it could obtain from an unrelated third party. Any agreement between Federal Life and the standby purchaser would be subject to prior approval by the Illinois Director of Insurance. Our board of directors will adopt, prior to completion of this offering, a related party transaction approval policy.

## DESCRIPTION OF CAPITAL STOCK

The following is a summary of certain rights of holders of our common stock and preferred stock and related provisions of our articles and bylaws, as they will be in effect upon the closing of this offering. The following summary does not purport to be complete and is subject to, and qualified in its entirety by, the provisions of our articles and bylaws, each of which is included as an exhibit to the registration statement of which this prospectus is a part, and by the provisions of applicable law.

### Authorized Capital Stock

Our authorized capital stock consists of 10,000,000 shares of common stock, par value \$0.01 per share. Prior to the completion of this offering, Federal Life Mutual will be the only record holder of our common stock. For additional detail regarding our ownership and structure prior to and following the closing of this offering, see “Prospectus Summary — Our Structure Prior to the Conversion” and “Prospectus Summary — Our Structure Following the Conversion.” Upon completion of this offering we will have a minimum of 3,400,000 shares and a maximum of 4,600,000 shares of common stock outstanding, excluding stock awards granted under the 2018 Plan, and no shares of preferred stock will be outstanding.

### Common Stock

*Voting Rights.* Holders of our common stock will be entitled to one vote per share on all matters submitted to a vote of shareholders, including the election of directors. Holders of our common stock will not be entitled to cumulative voting in the election of directors. Directors of the Company will be elected by a plurality of the shares of our common stock present in person or by proxy and entitled to vote thereon. Other than for the election of directors, matters to be voted on by shareholders must generally be approved by the affirmative vote of the majority of the shares of our common stock present in person or by proxy and entitled to vote thereon. However, our articles will require that the amendment, repeal, or modification of article provisions relating to the following matters be approved by holders of 95% of the voting power of our outstanding shares: the denial of cumulative voting for directors, the denial of preemptive rights, the prohibition of action by less than unanimous written consent of shareholders, the classification of our board of directors, and the limitation on monetary liability of our directors.

*Dividends.* Holders of our common stock will be entitled to receive ratably, on a per share basis, the dividends, if any, as may be declared from time to time by our board of directors out of funds legally available therefor. See “Dividend Policy.”

*Transfer.* The common stock issued in this offering will be freely transferable under the Securities Act of 1933. However, the transfer of shares purchased by our directors and officers pursuant to subscription rights granted to them will be restricted for a period of one year from the effective date of the conversion pursuant to the plan of conversion and Section 59.1(7)(a)(iii) of the Illinois Insurance Code. The directors and executive officers of Federal Life Group, Inc. also are subject to additional resale restrictions under Rule 144 of the Securities Act of 1933. Shares of common stock issued to directors and officers will bear a legend giving appropriate notice of these restrictions. We will give instructions to the transfer agent for the common stock regarding these transfer restrictions. Any shares issued to the directors and officers of Federal Life Group, Inc. as a stock dividend, stock split or otherwise with respect to restricted stock will be subject to the same restrictions. Shares acquired by the directors and executive officers after the completion of this offering will be subject to the requirements of Rule 144. See “Management.”

*Liquidation.* If there is a liquidation, dissolution, or winding up of Federal Life Group, Inc., holders of our common stock would be entitled to share in our assets remaining after the payment of liabilities and the satisfaction of any liquidation preference granted to the holders of any outstanding shares of preferred stock.

*Other Characteristics.* Holders of our common stock have no preemptive or conversion rights or other subscription rights, and no redemption or sinking fund provisions will apply to our common stock. All shares of our common stock to be issued in this offering will be, when issued, fully paid and non-assessable. The rights, preferences, and privileges of the holders of our common stock will be subject to, and may be adversely affected by, the rights of the holders of shares of any series of preferred stock which we may designate in the future.

### **Anti-takeover Effects of Provisions of Our Articles of Incorporation, Bylaws, Pennsylvania Law, and Illinois Law**

Anti-takeover provisions contained in our articles of incorporation and bylaws, as they will be in effect upon the closing of this offering, as well as provisions of Pennsylvania and Illinois law, contain provisions that could make the following transactions more difficult: acquisition of us by means of a tender offer; acquisition of us by means of a proxy contest or otherwise; or removal of our incumbent officers and directors. It is possible that these provisions could make it more difficult to accomplish or could deter transactions that shareholders may otherwise consider to be in their best interest or in our best interests, including transactions that might result in a premium over the market price for our shares.

These provisions are expected to discourage coercive takeover practices and inadequate takeover bids. These provisions are also designed to encourage persons seeking to acquire control of us to first negotiate with our board of directors. We believe that the benefits of increased protection of our potential ability to negotiate with the proponent of an unfriendly or unsolicited proposal to acquire or restructure us outweigh the disadvantages of discouraging these proposals because negotiation of these proposals could result in an improvement of their terms. For additional information about these provisions, see “Risk Factors — Risks Relating to Ownership of Our Common Stock — Statutory provisions and our articles and bylaws may discourage takeover attempts on the Company that you may believe are in your best interests or that might result in a substantial profit to you.”

### **Antitakeover Provisions of Our Articles of Incorporation and Bylaws and under Pennsylvania Law**

1. *Classified Board of Directors.* Our articles of incorporation provide that prior to the end of the standstill provision under the standby stock purchase agreement, the Corporation shall be governed by a classified board of directors of between 3 and 15 members, which number is fixed by the board of directors, divided into three classes serving for successive terms of three years each. This provision is designed to assure experience, continuity, and stability in the board’s leadership and policies. We believe that this can best be accomplished by electing each director to a three-year term and electing only approximately one-third of the directors each year.

The election of directors for staggered terms significantly extends the time required to make any change in control of the board of directors and may tend to discourage any surprise or non-negotiated takeover bid for control of Federal Life Group, Inc. Under the articles of incorporation, it will take at least two annual meetings for holders of a majority of Federal Life Group, Inc.’s voting securities to make a change in control of the board of directors because only a minority (approximately one-third) of the directors will be elected at each meeting. In addition, because certain actions require more than majority approval of the board of directors, as described herein, it may take as many as three annual meetings for a controlling block of shareholders to obtain complete control of the board and Federal Life Group, Inc.’s management.

This provision may tend to perpetuate present management because of the additional time required to change control of the board. Because the provision will increase the amount of time required for a takeover bidder to obtain control without the cooperation of the board even if the takeover bidder were to acquire a majority of the outstanding stock, it may tend to discourage certain tender offers, perhaps including some tender offers that the shareholders may believe would be in their best interests. The classified board provision will apply to all elections of directors and, accordingly, it will make it more difficult for shareholders to change the composition of the board if the shareholders believe such a change would be desirable, even in the absence of any third party’s acquisition of voting control. This is especially true in light of the denial of cumulative voting described below.

2. *No Cumulative Voting.* Cumulative voting entitles a shareholder to multiply the number of votes to which the shareholder is entitled by the number of directors to be elected, with the shareholder being able to cast all votes for a single nominee or distribute them among the nominees as the shareholder sees fit. The Pennsylvania Business Corporation Law provides that shareholders are entitled to cumulate their votes for the election of directors, unless a corporation’s articles of incorporation provide otherwise.

Cumulative voting is specifically prohibited in the articles of incorporation because we believe that each director should represent and act in the interest of all shareholders and not any special shareholder or group of shareholders. In light of current acquisition techniques and activity, minority representation could

be disruptive and could impair the efficient management of Federal Life Group, Inc. for the benefit of shareholders generally. In addition, the absence of cumulative voting also will tend to deter greenmail, in which a substantial minority shareholder uses his holdings as leverage to demand that a corporation purchase his shares at a significant premium over the market value of the stock to prevent the shareholder from obtaining or attempting to obtain a seat on the board of directors. In the absence of cumulative voting, a majority of the votes cast in any election of directors can elect all of the directors of the class in any given year.

The absence of cumulative voting, coupled with a classified board of directors, will also deter a proxy contest designed to win representation on the board of directors or remove management because a group or entity owning less than a majority of the voting stock may be unable to elect a single director. Although this will make removal of incumbent management more difficult, we believe deterring proxy contests will avoid the significant cost, in terms of money and management's time, of opposing such actions.

*3. Nominations for Directors and Shareholder Proposals.* Our bylaws require that nominations for the election of directors made by shareholders (as opposed to those made by the board of directors) and any shareholder proposals for the agenda at any annual meeting generally must be made by notice (in writing) delivered or mailed to the Secretary not less than 60 days prior to the meeting of shareholders at which directors are to be elected.

We believe that this procedure will assure that the board of directors and shareholders will have an adequate opportunity to consider the qualifications of all nominees for directors and all proposals, and will permit the shareholders' meetings to be conducted in an orderly manner. It may have the effect, however, of deterring nominations and proposals other than those made by the board of directors.

*4. Amendment of Articles of Incorporation.* The Pennsylvania Business Corporation Law provides that the articles of incorporation of a Pennsylvania business corporation (such as Federal Life Group, Inc.) may be amended by the affirmative vote of a majority of the votes cast by all shareholders entitled to vote, except as otherwise provided by the corporation's articles of incorporation.

*5. Amendment of Bylaws.* Generally, our articles of incorporation vest authority to make and amend the bylaws in the board of directors, acting by a vote of a majority of the entire board. In addition, except as described below, shareholders may amend the bylaws by an affirmative vote of the holders of a majority of the outstanding voting stock. However, the provision of the bylaws concerning directors' liability and indemnification of directors, officers, and others may not be amended to increase the exposure of directors to liability or decrease the degree of indemnification except by a vote of a majority of the entire board of directors or at least a majority of all votes of shareholders entitled to be cast.

This provision is intended to provide additional continuity and stability in our policies and governance so as to enable us to carry out our long-range plans. The provision also is intended to discourage non-negotiated efforts to acquire from Federal Life Group, Inc., since a greater percentage of outstanding voting stock will be needed before effective control over its affairs could be exercised. The board of directors will have relatively greater control over the bylaws than the shareholders because, except with respect to the director liability and indemnification provisions, the board could adopt, alter, amend, or repeal the bylaws upon a vote by a majority of the entire board of directors.

#### **Pennsylvania Fiduciary Duty Provisions**

The Pennsylvania Business Corporation Law provides that:

- (a) the board of directors, committees of the board, and directors individually, can consider, in determining whether a certain action is in the best interests of the corporation:
  - (1) the effects of any action upon any or all groups affected by such action, including shareholders, employees, suppliers, customers, and creditors of the corporation, and upon communities in which offices or other establishments of the corporation are located;
  - (2) the short-term and long-term interests of the corporation, including benefits that may accrue to the corporation from its long-term plans and the possibility that these interests may be best served by the continued independence of the corporation;



- (3) the resources, intent, and conduct (past, stated and potential) of any person seeking to acquire control of the corporation; and
- (4) all other pertinent factors;
- (b) the board of directors need not consider the interests of any particular group as dominant or controlling;
- (c) directors, absent any breach of fiduciary duty, bad faith, or self-dealing, are presumed to be acting in the best interests in the corporation, including with respect to actions relating to an acquisition or potential acquisition of control, and therefore they need not satisfy any greater obligation or higher burden of proof with respect to such actions;
- (d) actions relating to acquisitions of control that are approved by a majority of disinterested directors are presumed to satisfy the directors' fiduciary obligations unless it is proven by clear and convincing evidence that the directors did not assent to such action in good faith after reasonable investigation; and
- (e) the fiduciary duty of directors is solely to the corporation and not its shareholders, and may be enforced by the corporation or by a shareholder in a derivative action, but not by a shareholder directly.

One of the effects of these fiduciary duty provisions may be to make it more difficult for a shareholder to successfully challenge the actions of our board of directors in a potential change in control context. Pennsylvania case law appears to provide that the fiduciary duty standard under the Pennsylvania Business Corporation Law grants directors the almost unlimited statutory authority to reject or refuse to consider any potential or proposed acquisition of the corporation.

#### **Other Provisions of Pennsylvania Law**

The Pennsylvania Business Corporation Law also contains provisions that have the effect of impeding a change in control. As permitted by the Pennsylvania Business Corporation Law, we have elected to provide in our articles of incorporation that these provisions will not apply to us.

#### **Illinois Insurance Law**

We are subject to provisions of Illinois insurance law that regulate a change of control. Illinois law requires the Illinois Department of Insurance's prior approval of a change of control of an insurance holding company. Under Illinois law, the acquisition of 10% or more of the outstanding voting stock of an insurer or its holding company is presumed to be a change in control. Approval by the Illinois Department of Insurance may be withheld even if the transaction would be in the shareholders' best interest if the Illinois Department of Insurance determines that the transaction would be detrimental to policyholders. In addition to the limitations set forth above, no person (other than the standby purchaser) may acquire, directly or indirectly, in this offering or any public offering, more than 5% of the capital stock of the Company for a period of five years from the effective date of the conversion without the approval of the Illinois Director of Insurance.

#### **Transfer Agent and Registrar**

The transfer agent and registrar for our common stock is Computershare Trust Company, N.A.

#### **Listing**

We intend to apply to have our common stock approved for listing on the NASDAQ Capital Market under the symbol "FLF."

**LEGAL MATTERS**

The legality of our common stock will be passed upon for us by Stevens & Lee, P.C., Reading, PA.

**EXPERTS**

The consolidated financial statements included in this Prospectus and the related consolidated financial statement schedules included elsewhere in the Registration Statement as of December 31, 2017 and 2016, and for each of the two years in the period ended December 31, 2017, have been audited by BKD, LLP, an independent registered public accounting firm, as stated in their reports appearing herein and elsewhere in the Registration Statement. Such consolidated financial statements and consolidated financial statement schedules are included in reliance upon the reports of such firm given upon their authority as experts in accounting and auditing.

RP Financial, LC has consented to the publication in this document of the summary of its report to us setting forth its opinion as to the estimated consolidated pro forma market value of Federal Life as a subsidiary of Federal Life Group, Inc., as determined on the basis of an independent evaluation.

**ADDITIONAL INFORMATION**

We have filed with the SEC a registration statement on Form S-1 under the Securities Act of 1933 with respect to the shares of our common stock offered in this document. As permitted by the rules and regulations of the SEC, this prospectus does not contain all the information set forth in the registration statement. Such information can be examined without charge at the Public Reference Room of the SEC located at 100 F Street, N.E., Washington, D.C. 20549, and copies of such material can be obtained from the SEC at prescribed rates. The public may obtain more information on the operations of the Public Reference Room by calling the SEC at 1-800-732-0330. The registration statement also is available through the SEC's worldwide web site on the internet at <http://www.sec.gov>. The statements contained in this prospectus as to the contents of any contract or other document filed as an exhibit to the registration statement are, of necessity, brief descriptions thereof and are not necessarily complete.

In connection with this offering, we will register our common stock with the SEC under Section 12(b) of the Securities Exchange Act of 1934, and, upon such registration, we and the holders of our stock will become subject to the proxy solicitation rules, reporting requirements and restrictions on stock purchases and sales by directors, officers, and shareholders with 10% or more of the voting power, the annual and periodic reporting requirements, and certain other requirements of the Securities Exchange Act of 1934.

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## Report of Independent Registered Public Accounting Firm

Shareholders, Audit Committee, Board of Directors and Policyholders  
Federal Life Mutual Holding Company and Subsidiaries  
Riverwoods, Illinois

### *Opinion on the Financial Statements*

We have audited the accompanying consolidated balance sheets of Federal Life Mutual Holding Company and Subsidiaries (the "Company") as of December 31, 2017 and 2016, the related consolidated statements of operations and comprehensive loss, equity and cash flows for each of the years then ended, and the related notes (collectively referred to as the "financial statements"). In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the result of its operations and its cash flows for each of the years then ended, in conformity with accounting principles generally accepted in the United States of America.

### *Basis for Opinion*

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

We have served as the Company's auditor since 2014.

*BKD, LLP*

Kansas City, Missouri  
July 20, 2018



**Federal Life Mutual Holding Company and Subsidiaries**  
**Consolidated Balance Sheets**  
**for the Years Ended December 31, 2017 and 2016**

(in thousands of dollars)	2017	2016
<b>Assets</b>		
Investments		
Securities available for sale, at fair value:		
Fixed maturities (amortized cost; 2017, \$183,432; 2016, \$170,515)	\$188,452	\$174,880
Equity securities	6,209	7,927
Policy loans	9,852	10,059
Derivative instruments, at fair value	395	59
Total investments	204,908	192,925
Cash and cash equivalents	4,085	8,389
Real estate, property and equipment	2,151	2,297
Accrued investment income	1,886	1,832
Accounts receivable	538	575
Reinsurance recoverables	3,727	2,107
Prepaid reinsurance premiums	1,358	924
Deferred policy acquisition costs, net	12,179	11,940
Deferred sales inducement costs, net	867	315
Deferred tax asset, net	458	664
Other assets	202	254
Separate account asset	24,779	21,513
<b>Total Assets</b>	<b>257,138</b>	<b>243,735</b>
<b>Liabilities</b>		
Policy liabilities and accruals		
Policyholder account balance	109,823	99,440
Future life policy benefits	71,927	73,097
Future accident and health policy benefits	386	351
Reserve for deposit type contracts	10,850	10,529
Other policyholder funds	1,970	1,889
Unearned revenue	1,387	1,396
Deferred reinsurance settlements	2,949	1,512
Taxes payable	7	6
Other liabilities	1,703	1,140
Separate account liability	24,779	21,513
<b>Total Liabilities</b>	<b>225,781</b>	<b>210,873</b>
<b>Equity</b>		
Retained earnings	26,600	29,313
Accumulated other comprehensive income	4,757	3,549
<b>Total Equity</b>	<b>31,357</b>	<b>32,862</b>
<b>Total Liabilities and Equity</b>	<b>\$257,138</b>	<b>\$243,735</b>

The accompanying notes are an integral part of these consolidated financial statements.

**Federal Life Mutual Holding Company and Subsidiaries**  
**Consolidated Statements of Operations and Comprehensive Income (Loss)**  
**for the Years Ended December 31, 2017 and 2016**

(in thousands of dollars)	2017	2016
<b>Revenues</b>		
Insurance revenues	\$12,058	\$14,427
Net investment income	8,523	8,821
Net realized investment gains	2,228	1,783
Other revenues	194	173
<b>Total Revenues</b>	<u>23,003</u>	<u>25,204</u>
<b>Benefits and expenses</b>		
Policyholder benefits	13,712	16,069
Interest credit to policyholders	386	315
Operating costs and expenses	7,889	8,099
Amortization of deferred acquisition and sales inducement costs	2,108	1,876
Taxes, licenses and fees	716	722
Dividends to policyholders	66	86
<b>Total Benefits and Expenses</b>	<u>24,877</u>	<u>27,167</u>
Net loss before taxes	(1,874)	(1,963)
Tax expense	34	34
Net loss	<u>\$ (1,908)</u>	<u>\$ (1,997)</u>
<b>Other Comprehensive Income (Loss), net of tax:</b>		
Unrealized holding gains (losses) arising during the year (net of tax expense (benefit) of: 2017 \$236; 2016 (\$185))	458	(359)
Adjustment to deferred acquisition costs (net of tax expense (benefit) of: 2017 (\$28); 2016 \$1)	(55)	3
<b>Other Comprehensive Income (Loss)</b>	<u>403</u>	<u>(356)</u>
<b>Comprehensive Loss</b>	<u>\$ (1,505)</u>	<u>\$ (2,353)</u>

The accompanying notes are an integral part of these consolidated financial statements.

**Federal Life Mutual Holding Company and Subsidiaries**  
**Consolidated Statements of Equity**  
**for the Year Ended December 31, 2017 and 2016**

(in thousands of dollars)	Accumulated Other Comprehensive Income	Retained Earnings	Total
Balance, January 1, 2016	\$3,905	\$31,310	\$35,215
Net loss	—	(1,997)	(1,997)
Other Comprehensive Loss	(356)	—	(356)
Balance, December 31, 2016	<u>\$3,549</u>	<u>\$29,313</u>	<u>\$32,862</u>

(in thousands of dollars)	Accumulated Other Comprehensive Income	Retained Earnings	Total
Balance, January 1, 2017	\$3,549	\$29,313	\$32,862
Net loss	—	(1,908)	(1,908)
Other Comprehensive Income	403	—	403
Cumulative effect of adoption of new accounting principle (see Note 3)	805	(805)	—
Balance, December 31, 2017	<u>\$4,757</u>	<u>\$26,600</u>	<u>\$31,357</u>

The accompanying notes are an integral part of these consolidated financial statements.

**Federal Life Mutual Holding Company and Subsidiaries**  
**Consolidated Statements of Cash Flows**  
**for the Years Ended December 31, 2017 and 2016**

(in thousands of dollars)	2017	2016
<b>Cash flows from operating activities:</b>		
Net loss	\$ (1,908)	\$ (1,997)
<b>Adjustments to reconcile net loss to net cash used in operating activities:</b>		
Realized investment gains, net	(2,228)	(1,783)
Amortization on investments	(42)	(180)
Depreciation	271	263
Deferred taxes	(1)	1
Deferred insurance acquisition costs	(2,354)	(2,267)
Deferred sales inducement costs	(545)	(246)
Interest and amortization of deferred acquisition and sales inducement costs	2,108	1,876
Change in accrued investment income	(54)	119
Change in receivables	37	(23)
Change in reinsurance recoverable	(1,620)	(1,696)
Change in prepaid reinsurance premiums	(434)	(821)
Change in policy benefits	(1,053)	349
Change in unearned revenue	(8)	162
Change in deferred reinsurance settlements	1,437	1,512
Change in other assets and liabilities	615	(325)
Net cash used in operating activities	<u>\$ (5,779)</u>	<u>\$ (5,056)</u>
<b>Cash flows from investing activities:</b>		
<b>Proceeds from investments sold or matured:</b>		
Fixed maturity securities	23,130	26,986
Equity securities	4,043	3,974
Derivatives	154	0
Policy loans	206	70
<b>Costs of investments purchased:</b>		
Fixed maturity securities	(35,816)	(28,479)
Equity securities	(327)	(486)
Derivatives	(255)	(60)
Real estate additions	(84)	(226)
Other investing activities	(238)	(17)
Purchase of property and equipment	(41)	(109)
Net cash (used in) provided by investing activities	<u>(9,228)</u>	<u>1,653</u>
<b>Cash flows from financing activities:</b>		
<b>Policyholder account balances:</b>		
Deposits	19,300	14,559
Withdrawals	(8,482)	(9,366)
Net transfers (to) from separate accounts	(115)	46
Net cash provided by financing activities	<u>10,703</u>	<u>5,239</u>
Net (decrease) increase in cash	(4,304)	1,836
Cash, beginning of year	<u>8,389</u>	<u>6,553</u>
Cash, end of year	<u>\$ 4,085</u>	<u>\$ 8,389</u>

The accompanying notes are an integral part of these consolidated financial statements.



**Federal Life Mutual Holding Company and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**for the Years Ended December 31, 2017 and 2016**

**1. Organization and Basis of Presentation**

The financial statements include the accounts of Federal Life Mutual Holding Company (“the Company”) and its wholly-owned subsidiaries on a consolidated basis. In this report, “the Company” refers to Federal Life Mutual Holding Company and its consolidated subsidiaries. All significant inter-company balances and transfers have been eliminated in consolidation. The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP).

Federal Life Mutual Holding Company was formed on June 23, 2016 pursuant to Section 59.2 of the Illinois Insurance Code. FEDHO Holding Company was also established to serve as an intermediary holding company and the owner of Federal Life Insurance Company. FEDHO Holding Company is controlled by Federal Life Mutual Holding Company. At the same time, Federal Life Insurance Company converted from a mutual to a stock company. These changes did not have a material financial impact on a consolidated basis. Prior to June 23, 2016, the activities of the consolidated entity consisted of Federal Life Insurance Company as a mutual entity and its two wholly owned subsidiaries. All insurance activities are conducted through Federal Life Insurance Company.

Federal Life Insurance Company is a stock life insurance company domiciled in Illinois. Federal Life Insurance Company was incorporated on September 8, 1899 under the laws of the State of Illinois and commenced business on May 5, 1900. The Company’s inforce business is primarily comprised of traditional life policies (term insurance, whole life insurance, non-medical health insurance, and group life insurance), interest sensitive contracts and fixed deferred annuity contracts. The Company is licensed to sell new business in the District of Columbia and all states except Maine, Massachusetts, New Hampshire, New York and Vermont. Although the Company is licensed to sell its products in 45 states, its primary markets are Illinois, Michigan, Ohio, California, Florida, Texas, and Wisconsin.

Federal Life Insurance Company primarily sells interest sensitive life, whole life, term life, fixed and indexed annuities through a network of independent agents.

Federal Life Insurance Company has two wholly-owned non-insurance subsidiaries: Americana Realty Company and FED Mutual Financial Services, Inc.

Americana Realty Company owns mineral rights in Arkansas, Georgia, Oklahoma and Texas. Americana earns royalty revenues from energy producers that are under agreement to drill for and produce oil and gas products on properties where Americana owns mineral rights.

FED Mutual Financial Services, Inc. is a Financial Industry Regulatory Authority (FINRA) licensed broker/dealer that was established to distribute the Company’s variable annuity products.

**2. Summary of Significant Accounting Policies**

***Use of Estimates***

The preparation of financial statements in conformity with GAAP requires management to adopt accounting policies and make estimates and assumptions that affect amounts reported in the consolidated financial statements. The most significant estimates include those used in determining the capitalization and amortization of deferred policy acquisition costs (DAC), the valuation of investments, the liability for account balances (interest sensitive life contracts and annuities) and future policy benefits (traditional life contracts, immediate annuities, supplemental contracts with life contingencies, and accident and health), and the provision for income taxes. Actual results could differ from those estimates.

**Federal Life Mutual Holding Company and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**for the Years Ended December 31, 2017 and 2016**

***Subsequent Events***

On March 8, 2018 the Board of Directors approved a plan of conversion. The Company is currently organized as a mutual insurance holding company and has prepared these financial statements for use in its filing with the US Securities and Exchange Commission in order to complete the plan of conversion.

Effective June 29, 2018, an Exchangeable Promissory Note with a principal amount of up to \$2.0 million and a 3.75% interest rate has been issued by Federal Life Mutual Holding Company. Under this note, a \$0.6 million advance was taken on July 11<sup>th</sup>, 2018. The outstanding principal balance of the Exchangeable Promissory Note will automatically convert into shares of common stock of the Company at a price of \$10.00 per share upon the completion of the conversion.

***Investments***

The Company's principal investments are in fixed income and equity securities, and policy loans. The accounting policies related to the Company's investments are as follows:

***Fixed Maturity and Equity Securities***

Fixed income securities include corporate and municipal bonds, U.S. government and agency bonds, residential mortgage-backed securities (RMBS), and commercial mortgage-backed securities (CMBS). Fixed income securities, which may be sold prior to their contractual maturity, are classified as available for sale and are carried at fair value. The difference between amortized cost and fair value, net of any deferred income taxes and DAC, is reflected as a component of accumulated other comprehensive income (OCI). Cash received from calls, principal payments, make-whole payments, maturities and pay-downs is reflected as a component of proceeds from sales within the Consolidated Statements of Cash Flows.

Equity securities include primarily exchange-traded funds and a commercial real estate fund. Equity securities are carried at fair value and are classified as available for sale. The difference between cost and fair value, net of deferred income taxes, is reflected as a component of accumulated other comprehensive income.

Interest income on fixed maturity securities is included in net investment income and is recognized on an accrual basis using the effective yield method. The amortized cost of fixed maturity securities is adjusted for amortization of premiums and accretion of discounts to maturity, such amortization or accretion is also included in net investment income. In the case of mortgage-backed securities, the amortized cost is adjusted for amortization of premiums and accretion of discounts over the estimated life of the security. Accretion of the discount or amortization of the premium from mortgage-backed securities is recognized using a level effective yield method which considers the estimated timing and amount of prepayments originally anticipated and the actual prepayments received and currently anticipated. To the extent differences arise, the effective yield is recalculated on a retrospective basis. For other-than-temporarily impaired fixed income securities, the effective yield method utilizes the difference between the amortized cost basis at impairment and the cash flows expected to be collected. Accrual of income is suspended for other-than-temporarily impaired fixed income securities when the timing and amount of cash flows expected to be received is not reasonably estimable.

Realized capital gains and losses include gains and losses on sales of investments, write-downs in value due to other-than-temporary declines in fair value and periodic changes in fair value. Realized capital gains and losses on sales of investments include fixed maturity securities with calls and prepayments and are determined on the basis of specific security identification.

The Company recognizes other-than-temporary losses on fixed income securities when the decline in fair value is deemed other than temporary including when the Company has made the decision to sell or it is probable the Company will be required to sell the fixed income security before recovery of its amortized cost basis. If the Company does not expect to receive cash flows sufficient to recover the entire amortized

**Federal Life Mutual Holding Company and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
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cost basis of the fixed income security, the credit loss component of the impairment is recorded in the total net realized gains and losses line of the income statement, and the remaining amount of the unrealized loss deemed to be related to other factors is recognized in other comprehensive income (loss).

Fixed income securities subject to other-than-temporary impairment write-downs continue to earn investment income when future expected payments are able to be reasonably estimated, and any discount or premium is recognized using the effective yield method over the expected life of the security; otherwise income recognition is discontinued. The Company recognizes other-than-temporary impairment losses on equity securities when the decline in fair value is deemed other than temporary including when the Company does not have a positive intent and ability to hold an impaired security until recovery. Such unrealized gains are recorded net of deferred income tax expense and unrealized losses are tax benefited.

Management regularly reviews its fixed maturity and equity security portfolios to evaluate the necessity of recording impairment losses for other-than-temporary declines in the fair value of investments. A number of criteria are considered during this process including, but not limited to, the current fair value compared to the amortized cost of the security, the length of time the security's fair value has been below amortized cost, and by how much, specific credit issues related to the issuer, the intent and ability of the Company to hold the investment until recovery and current economic conditions. The Company uses an 80% market/book ratio and a 12-month length of time as the basis screening tool for evaluating potential OTTI candidates. In addition, the Company will analyze situations where there has been a rapid and significant change in a security's market value in the amount of -10% or more to determine and understand underlying factors that may have caused a sudden decline in market value.

Such impairment in fair value is included in realized investment gains (losses) and the cost basis of the security is reduced accordingly. The Company does not change the revised cost for subsequent increases in fair value.

***Policy Loans***

Policy loans are carried at the unpaid principal balances, which approximates fair value.

***Derivative Instruments***

Derivative instruments are used to hedge the Company's exposure to indexed annuities and are held at fair market value.

***Cash and cash equivalents***

The Company defines cash as amounts in demand deposit accounts. The Company has deposits with certain financial institutions which at times may exceed federally insured limits. The Company believes it is not exposed to any significant credit risk to cash. Cash equivalents are principally comprised of money market funds and reported at fair value.

***Real Estate, Property and Equipment***

The Company's real estate consists of its home office in Riverwoods, Illinois. The real estate, including related improvements, is carried at cost less accumulated depreciation. The Company uses the accelerated method based on an estimated useful life of 40 years for the building and 20 years for related improvements. The Company's property and equipment is reported at cost less accumulated depreciation and is primarily made up of electronic data processing equipment and furniture. Depreciation is determined using the straight-line method over useful lives of three to ten years.

***Accrued Investment Income***

Accrued investment income includes interest and dividends earned but not yet received. Investment income is not accrued on securities in default.

**Federal Life Mutual Holding Company and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**for the Years Ended December 31, 2017 and 2016**

***Accounts Receivable***

Accounts receivable consists primarily of balances due from agents.

***Reinsurance Recoverables and Prepaid Reinsurance Premiums***

Reinsurance premiums, commissions, expense reimbursements, benefits and reserves related to reinsurance of long duration contract are accounted for over the life of the underlying reinsured policies using assumptions consistent with those used to account for the original policies issued. The cost of reinsurance related to short duration policies is accounted for over the reinsurance contract period. Amounts recoverable from reinsurers for both short and long duration reinsurance agreements are estimated in a manner consistent with the claim liabilities and policy benefits associated with the reinsured policies. Recoverables from our reinsurers are any death claims that were ceded to the reinsurer. The GAAP reinsurance recoverable quantity is the present value of future reinsured death claims minus a percentage of the present value of net premium paid to the reinsurer. This quantity is analogous to the ceded reserve that we hold in our statutory statements. Prepaid reinsurance premium is that portion of premium paid to the reinsurer prior to the valuation date for reinsurance coverage beyond the valuation date.

***Deferred Policy Acquisition Costs (DAC) and Deferred Sales Inducement Costs (DSIC)***

The Company amortizes DAC related to traditional life policies over the entire premium paying period in proportion to the present value of actual historic and expected future gross premiums. The present value of expected premiums is based upon the premium requirement of each policy and assumptions for mortality, morbidity, persistency, certain expenses, and investment returns at policy issuance, that include provisions for adverse deviation and are consistent with the assumptions used to calculate future policyholder benefit liabilities. These assumptions are not revised after policy issuance or acquisition unless the DAC balance is deemed to be unrecoverable from future expected profits. Absent a premium deficiency, variability in amortization after policy issuance or acquisition is caused only by variability in premium volumes. The Company does not currently hold any premium deficiency reserve.

The Company amortizes DAC related to interest sensitive contracts and fixed and variable deferred annuity contracts over the estimated lives of the contracts in proportion to actual and expected future gross profits. The amortization includes interest based on rates in effect at inception or acquisition of the contracts.

The amount of future gross profits is dependent principally upon returns in excess of the amounts credited to policyholders, mortality, persistency, interest crediting rates, expenses to administer the business, and certain economic variables, such as inflation. Of these factors, the Company anticipates that investment returns, expenses and persistency are reasonably likely to impact significantly the rate of DAC amortization. Each reporting period, the Company updates the estimated gross profits with the actual gross profits for that period. When the actual gross profits change from previously estimated gross profits, the cumulative DAC amortization is re-estimated and adjusted by a cumulative charge or credit to current operations.

When actual gross profits exceed those previously estimated, the DAC amortization will increase, resulting in a current period charge to earnings. The opposite result occurs when the actual gross profits are below the previously estimated gross profits.

Each reporting period, the Company also updates the actual amount of business remaining in-force, which impacts expected future gross profits.

Separate account rates of return on variable deferred annuity contracts affect in-force account balances on such contracts each reporting period. Returns that are higher than the Company's long-term expectation produce higher account balances, which increase the Company's future fee expectations, resulting in higher expected future gross profits. The opposite result occurs when returns are lower than the Company's long-term expectation. The Company's practice to determine the impact of gross profits resulting from

**Federal Life Mutual Holding Company and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**for the Years Ended December 31, 2017 and 2016**

returns on separate accounts assumes that long-term appreciation in equity markets is not changed by short-term market fluctuations, but is only changed when sustained interim deviations are expected. The Company monitors these changes and only changes the assumption when its long-term expectation changes.

The Company also periodically reviews other long-term assumptions underlying the projections of estimated gross margins and profits. These include investment returns, policyholder dividend scales, interest crediting rates, mortality, persistency and expenses to administer business. Management annually updates assumptions used in the calculation of estimated gross margins and profits which may have significantly changed. If the update of assumptions causes expected future gross margins and profits to increase, DAC amortization will decrease, resulting in a current period increase to earnings. The opposite result occurs when the assumption update causes expected future gross margins and profits to decrease.

The DAC balance includes adjustments to reflect the amount by which the amortization of DAC would increase or decrease if the unrealized capital gains or losses in the respective product portfolios were actually realized. The adjustments are recorded net of tax in accumulated other comprehensive income. DAC and deferred income taxes determined on unrealized capital gains and losses and reported in accumulated other comprehensive income recognize the impact on policyholder's equity consistently with the amounts that would be recognized in the income statement on realized capital gains and losses.

The Company does occasionally offer sales inducements to new customers, principally on indexed annuities and on certain fixed annuity products. These costs are deferred and amortized over time.

***Deferred Tax Asset***

Deferred taxes are provided on the temporary differences between the tax and financial statement basis of assets and liabilities. Deferred tax assets established on unrealized capital losses may be partially offset by valuation allowances.

***Other Assets***

Other assets consist primarily of suspense accounts.

***Separate Account***

The assets and liabilities of the separate accounts represent segregated funds administered and invested by the Company for purposes of funding variable annuity contracts for the exclusive benefit of variable annuity policyholders. Investment income and realized capital gains and losses of the separate accounts accrue directly to the policyholders and therefore, are not included in the Company's Consolidated Statements of Operations and Comprehensive Income. Deposits to and surrenders and withdrawals from the separate accounts are reflected in separate account liabilities and are not included in consolidated cash flows.

These contracts do not have any minimum guarantees and the investment risks associated with market value changes are borne entirely by the policyholder. The assets of the separate accounts, carried at fair value, are invested in mutual funds which are carried at fair value.

***Policyholder Account Balance***

Policyholder account balances relate to investment-type contracts and interest sensitive policies. Investment-type contracts principally include traditional individual fixed and variable annuities in the accumulation phase and non-variable group annuity contracts. Policyholder account balances are equal to policy account values, which consist of an accumulation of gross premium payments, interest credited, ranging from 3.0% to 11.5%, less expenses, mortality charges, and withdrawals.

**Federal Life Mutual Holding Company and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**for the Years Ended December 31, 2017 and 2016**

***Future Life Policy Benefits and Future Accident and Health Policy Benefits***

The Company establishes liabilities for amounts payable under insurance policies, including traditional life insurance, traditional annuities, indexed annuities, and non-medical health insurance. Generally, amounts are payable over an extended period of time and related liabilities are calculated as the present value of future expected benefits to be paid reduced by the present value of future expected premiums. Such liabilities are established based on methods and underlying assumptions in accordance with GAAP and applicable actuarial standards. Principal assumptions used in the establishment of liabilities for future policy benefits are mortality, morbidity, policy lapse, renewal, retirement, disability incidence, disability terminations, investment returns, inflation, expenses and other contingent events as appropriate to the respective product type. Utilizing these assumptions, liabilities are established on a block of business basis.

Future policy benefits for traditional life insurance policies, both participating and non-participating, are equal to the aggregate of the present value of expected future benefit payments and related expenses less the present value of expected future net premiums. Assumptions as to mortality and persistency are based upon the Company's experience when the basis of the liability is established. Interest rates for the aggregate future policy benefit liabilities range from 5.0% to 9.3%.

The Company's amount of life insurance in-force is made up of approximately 92% participating policies and approximately 8% non-participating policies.

The Company periodically reviews its estimates of actuarial liabilities for future policy benefits and compares them with actual experience. Differences between actual experience and the assumptions used in pricing these policies and riders and in the establishment of the related liabilities result in variances in profit and could result in losses. The effects of changes in such estimated liabilities are included in the results of operations in the period in which the changes occur.

***Reserve for Deposit Type Contracts***

The reserve for deposit type contracts include payout annuities without life contingencies and dividend accumulations and presented at amounts contractually due to policyholders.

***Other Policyholder Funds***

Other policyholder funds consists of advance premiums, policyholder dividends due and unpaid, policyholder dividends left on deposit and the provision for future policy benefit liabilities for individual and group traditional fixed annuities under non-life contingent payout. The Company accounts for the prepayment of premiums on its individual life, group life and health contracts as premium received in advance and applies the cash received to premiums when due.

Policyholder dividends due and unpaid on participating policies and policyholder dividends left on deposit are presented at amounts contractually due to policyholders. Future policy benefit liabilities for individual and group traditional fixed annuities after annuitization are equal to the present value of expected future payments. Interest rates used in establishing such liabilities range from 4.0% to 7.5%.

***Unearned Revenue***

Unearned revenue is that portion of premium paid prior to the valuation date for insurance coverage after the valuation date.

***Deferred Reinsurance Settlements***

Deferred reinsurance settlements are the effect of reinsurance transactions that resulted in a net gain. This gain is amortized over the remaining life of the underlying reinsured contracts.

**Federal Life Mutual Holding Company and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
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**Other Liabilities**

Other liabilities consist primarily of due and accrued commissions, accrued general expenses and taxes, and remittances not allocated.

**Income Taxes**

The Company files a consolidated tax return. The Company provides for federal income taxes based on amounts the Company believes it will ultimately owe or receive. Inherent in the provision for federal income taxes are estimates regarding the deductibility of certain expenses and the realization of certain tax credits.

The Company recognizes interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense. The Company did not have any accrued and recognized interest or penalties associated with unrecognized tax benefits for the years ending December 31, 2017, 2016, and 2015. The company did not have any unrecognized tax benefits.

**Revenue and Expense Recognition**

Premiums related to traditional life and immediate annuities and supplemental contracts with life contingencies are recognized as revenues when due from policyholders. Policyholder benefits and expenses are booked against such revenues to recognize profits over the estimated lives of the policies. When premiums are due over a significantly shorter period than the period over which benefits are provided, any excess profit is deferred and recognized into operations in a constant relationship to insurance in-force or, for annuities, the amount of expected future policy benefit payments.

Premiums related to non-medical health and disability policies are recognized on a pro rata basis over the applicable contract term.

Premiums related to interest sensitive and deposits related to deferred and immediate annuities without life contingencies are credited to policyholder account balances. Revenues from such contracts consist of amounts assessed against policyholder account balances for the cost of insurance (mortality risk), policy administration and early surrender. These assessments are recorded in policy fees in the period in which services are provided. Amounts that are charged to operations include interest credited and benefit claims incurred in excess of related policyholder account balances. Deposits are not considered revenue. Deposits are shown as a financing activity in the Consolidated Statement of Cash Flows.

Policy fees for variable annuity products consist of fees assessed against the policyholder account values for contract maintenance, administration, mortality, expense and early surrender. Contract benefits incurred for variable annuity products include death, income, withdrawal and accumulation benefits. Deposits are not recorded as revenue.

Interest credited to policyholder funds represents accrued or paid on interest sensitive life policies and annuity contracts. Crediting rates for interest sensitive life policies and fixed annuities are adjusted periodically by the Company to reflect current market conditions subject to contractually guaranteed minimum rates.

Operating costs and expenses are general expenses that are recognized when incurred.

The company does not issue any variable annuity contracts through separate accounts where the company contractually guarantees to the policyholder total deposits made to the contract less any partial withdrawals plus a minimum return.

**Other Revenues**

Other revenues consists mainly of income from fees associated with the management of the Separate Account.

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***Other Comprehensive Income***

Other comprehensive income includes the change in gross unrealized gains and losses on debt and equity securities, as well as the change in shadow DAC. This value is presented net of tax.

**3. Recent Accounting Pronouncements**

**Changes in Accounting Principles — Adopted in Current Year**

In February 2018, the FASB issued ASU No. 2018-02, “Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income,” which provides an option to reclassify stranded tax effects within accumulated other comprehensive income (“AOCI”) to retained earnings in each period in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act (the “Tax Act”) is recorded. ASU No. 2018-02 is effective for fiscal years beginning after December 15, 2018, and should be applied either in the period of adoption or retrospectively to each period in which the effect of the change in the Tax Act is recognized. Early adoption is permitted. The Company early adopted ASU NO. 2018-02 effective December 31, 2017 using the portfolio method, which resulted in the reclassification of \$805 thousand of stranded tax effects from AOCI to retained earnings within the Company’s consolidated financial statements and disclosures.

**Changes in Accounting Principles — Issued but Not Yet Adopted**

In August 2017, the FASB issued ASU No. 2017-12, “Derivatives and Hedging — Targeted Improvements to Accounting for Hedging Activities,” which changes the recognition and presentation requirements of hedge accounting. ASU No. 2017-12 is effective for annual periods beginning after December 15, 2018. Early adoption is permitted. The adoption of ASU No. 2017-12 is not expected to have a material impact on the Company’s consolidated financial statements.

In March 2017, the FASB issued ASU NO. 2017-08, “Receivables — Nonrefundable Fees and Other Costs: Premium Amortization on Purchased Callable Debt Securities,” which requires that certain premiums on callable debt securities be amortized to the earliest call date. ASU No. 2017-08 is effective for annual periods beginning after December 15, 2018. Early adoption is permitted. The adoption of ASU No. 2017-08 is not expected to have a material impact on the Company’s consolidated financial statements.

In June 2016, the FASB issued, regarding recognition of unrealized gains and losses through income, ASU No. 2016-13 “Financial Instruments — Credit Losses: Measurement of Credit Losses of Financial Instruments,” which provides a new current expected credit loss model to account for credit losses on certain financial assets and off-balance sheet exposure. The model requires an entity to estimate lifetime credit losses related to such assets and exposure based on relevant information about past events, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. The guidance also modifies the current other-than-temporary impairment guidance for available-for-sale debt securities to require the use of an allowance rather than a direct write down of the investment, and replaces existing guidance for purchased credit deteriorated loans and debt securities. ASU No. 2016-13 is effective for annual reporting periods beginning after December 15, 2020 with early adoption permitted for annual periods beginning after December 15, 2018. The Company is currently assessing the impact of the guidance on its consolidated financial statements and disclosures.

In January 2016, the FASB issued ASU No. 2016-01 “Financial Instruments — Overall: Recognition and Measurement of Financial Assets and Financial Liabilities,” which revises an entity’s accounting related to the classification and measurement of certain equity investments and the presentation of certain fair value changes for financial liabilities measured at fair value. The guidance also amends certain disclosure requirements associated with the fair value of financial instruments. ASU No. 2016-01 is effective for non-public companies for annual periods beginning after December 15, 2018.



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**4. Investments and Related Income**

The Company's principal investments are in fixed income and equity securities and policy loans.

The following table presents the amortized cost, gross unrealized gains and (losses) and fair value of the Company's fixed maturity and equities as of December 31, 2017 and 2016:

	December 31, 2017			
	Amortized Cost	Gross Unrealized		Fair Value
		Gains	Losses	
U.S. government	\$ 4,075	\$ 207	\$ (120)	\$ 4,162
States, political subdivisions, other	26,850	876	(112)	27,614
Corporate	106,479	3,459	(543)	109,395
Residential mortgage-backed securities	41,818	1,480	(212)	43,086
Commercial mortgage-backed securities	4,210	26	(41)	4,195
Total fixed maturity securities	183,432	6,048	(1,028)	188,452
Equity securities	4,443	1,766	—	6,209
Total fixed maturity and equity securities	<u>\$187,875</u>	<u>\$7,814</u>	<u>\$(1,028)</u>	<u>\$194,661</u>

	December 31, 2016			
	Amortized Cost	Gross Unrealized		Fair Value
		Gains	Losses	
U.S. government	\$ 4,087	\$ 267	\$ (140)	\$ 4,214
States, political subdivisions, other	19,627	616	(130)	20,113
Corporate	101,698	3,452	(974)	104,176
Residential mortgage-backed securities	35,282	1,450	(314)	36,418
Commercial mortgage-backed securities	9,821	228	(90)	9,959
Total fixed maturity securities	170,515	6,013	(1,648)	174,880
Equity securities	6,202	1,745	(20)	7,927
Total fixed maturity and equity securities	<u>\$176,717</u>	<u>\$7,758</u>	<u>\$(1,668)</u>	<u>\$182,807</u>

The scheduled maturities for fixed income securities as of December 31, 2017 and 2016 are as follows:

	December 31, 2017		December 31, 2016	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	\$ 2,247	\$ 2,288	\$ 5,038	\$ 5,161
Due after one year through five years	40,926	42,809	34,101	36,605
Due after five years through ten years	66,739	68,151	66,029	66,648
Due after ten years	27,492	27,923	20,244	20,089
Mortgage-backed securities	46,028	47,281	45,103	46,377
Total	<u>\$183,432</u>	<u>\$188,452</u>	<u>\$170,515</u>	<u>\$174,880</u>

Actual maturities may differ from those scheduled as a result of prepayments by the issuers. Because of the potential for prepayment on mortgage-backed securities, they are not categorized by contractual maturity.

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The following table presents the sources of fixed maturity proceeds and the related gross investment gains (losses) at December 31, 2017 and 2016:

	2017		
	Fixed Maturities	Equity Securities	Derivative Instruments
Proceeds from sales or maturities	\$23,130	\$4,043	\$154
Gross gains from sales or maturities	200	1,957	183
Gross losses from sales or maturities	(23)	—	(89)

	2016	
	Fixed Maturities	Equity Securities
Proceeds from sales or maturities	\$26,986	\$3,974
Gross gains from sales or maturities	208	1,714
Gross losses from sales or maturities	(78)	(61)

The Company has a comprehensive portfolio monitoring process to identify and evaluate each fixed income and equity security whose carrying value may be other-than-temporarily impaired.

For each fixed income security in an unrealized loss position, the Company assesses whether management with the appropriate authority has made a decision to sell or whether it is probable that the Company will be required to sell the security before recovery of the amortized cost basis for reasons such as liquidity, contractual or regulatory purposes. If a security meets either of these criteria, the security's decline in fair value is deemed other than temporary and is recorded in earnings.

If the Company has not made the decision to sell the fixed income security and it is not more likely than not the Company will be required to sell the fixed income security before recovery of its amortized cost basis, the Company evaluates if it expects to receive cash flows sufficient to recover the entire amortized cost basis of the security by comparing the estimated recovery value calculated by discounting the best estimate of future cash flows at the security's original or current effective rate, as appropriate, with the amortized cost of the security. If the Company does not expect to receive cash flows sufficient to recover the entire amortized cost basis of the fixed income security, the credit loss component of the impairment is recorded in earnings, with the remaining amount of the unrealized loss deemed to be related to other factors and recognized in OCI.

For equity securities, the Company considers various factors, including whether the Company has the intent and ability to hold the equity security for a period of time sufficient to recover its cost basis. Where the Company lacks the intent and ability to hold to recovery, or believes the recovery period is extended, the equity security's decline in fair value is considered other than temporary and is recorded in earnings.

The Company's portfolio monitoring process includes a quarterly review of all securities through a screening process which identifies instances where the fair value compared to amortized cost for fixed income securities and cost for equity securities is below established thresholds, and also includes the monitoring of other criteria such as ratings, ratings downgrades or payment defaults. The securities identified, in addition to other securities for which the Company may have a concern, are evaluated for potential other-than-temporary impairment using all reasonably available information relevant to the collectability or recovery of the security. Inherent in the Company's evaluation of other-than-temporary impairment for these fixed income and equity securities are assumptions and estimates about the financial condition of the issue or issuer and its future earnings potential. Some of the factors considered in evaluating whether a decline in fair value is other than temporary are: 1) the length of time and extent to which the fair value has been less than amortized cost for fixed income securities, or cost for equity securities; 2) the financial condition, near-term and long-term prospects of the issue or issuer, including

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relevant industry specific market conditions and trends, geographic location and implications of rating agency actions and offering prices; and 3) the specific reasons that a security is in a significant unrealized loss position, including overall market conditions which could affect liquidity.

The following table shows the fair value and gross unrealized losses aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2017 and 2016:

2017	Less than 12 months		12 months or longer		Total	
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
<b>Description of Securities</b>						
U.S. government	\$ 1,161	\$ (31)	\$ 1,782	\$ (89)	\$ 2,943	\$ (120)
States, political subdivisions, other	8,773	(86)	714	(26)	9,487	(112)
Corporate	10,935	(169)	6,853	(374)	17,788	(543)
Residential mortgage-backed securities	11,517	(126)	2,263	(86)	13,780	(212)
Commercial mortgage-backed securities	2,039	(27)	77	(14)	2,116	(41)
Equity securities	—	—	—	—	—	—
<b>Total</b>	<b>\$34,425</b>	<b>\$ (439)</b>	<b>\$11,689</b>	<b>\$ (589)</b>	<b>\$46,114</b>	<b>\$ (1,028)</b>

2016	Less than 12 months		12 months or longer		Total	
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
<b>Description of Securities</b>						
U.S. government	\$ 2,932	\$ (140)	\$ —	\$ —	\$ 2,932	\$ (140)
States, political subdivisions, other	5,983	(130)	—	—	5,983	(130)
Corporate	25,055	(791)	3,239	(183)	28,294	(974)
Residential mortgage-backed securities	11,367	(314)	—	—	11,367	(314)
Commercial mortgage-backed securities	979	(25)	538	(65)	1,517	(90)
Equity securities	183	(3)	180	(17)	363	(20)
<b>Total</b>	<b>\$46,499</b>	<b>\$ (1,403)</b>	<b>\$3,957</b>	<b>\$ (265)</b>	<b>\$50,456</b>	<b>\$ (1,668)</b>

It is not more likely than not that the Company will be required to sell these investments before recovery of their amortized cost bases, which may be maturity.

**Net Investment Income**

Net investment income for the year ended December 31, 2017 and 2016 is as follows:

	2017	2016
Fixed maturity securities	\$7,350	\$7,818
Equity securities	181	253
Real estate	149	122
Cash equivalents	32	9
Policy loans	723	737
Other	685	470
Subtotal	9,120	9,409
Investment expense	(597)	(588)
<b>Net investment income</b>	<b>\$8,523</b>	<b>\$8,821</b>

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**Unrealized Capital Gains (Losses)**

Unrealized net capital gains and losses included in accumulated other comprehensive income at December 31, 2017 and 2016 are as follows:

	December 31, 2017			
	Fair Value	Gross Unrealized		Net Unrealized Gain (Loss)
		Gains	Losses	
Fixed income securities	\$188,452	\$6,048	\$(1,028)	\$5,020
Equity securities	6,209	1,766	—	1,766
Net unrealized capital gains				<u>\$6,786</u>

	December 31, 2016			
	Fair Value	Gross Unrealized		Net Unrealized Gain (Loss)
		Gains	Losses	
Fixed income securities	\$174,880	\$6,013	\$(1,648)	\$4,365
Equity securities	7,927	1,745	(20)	1,725
Net unrealized capital gains				<u>\$6,090</u>

At December 31, 2017 and 2016, securities with a market value of approximately \$4.7 million and \$4.6 million, respectively, were on deposit with governmental agencies as required by law.

**Credit Risk**

The Company generally strives to maintain a diversified invested asset portfolio but is exposed to credit and other types of risks related to its holding in fixed income and equity securities. Such risk may be related to individual companies, sectors, or entire asset classes. The Company manages this risk by holding a diversified portfolio of securities and sectors and by limiting the amount of exposure to a single issuer or credit. At December 31, 2017 and 2016, approximately 25% and 26% of the Company's investments in fixed maturities were invested in commercial and residential mortgage-backed securities and approximately 58% and 59% in corporate bonds, respectively. Approximately 5% and of the fixed income maturities were rated below investment grade. There is certain concentration risk from investments in companies that are engaged in similar activities and have similar economic characteristics. The largest corporate bond sector exposures at December 31, 2017 are consumer non-cyclical consisting of 12% of the total fixed income portfolio, banks 6%, energy 6%, communications 5%, and real estate 5%. The largest corporate bond sector exposures at December 31, 2016 were consumer non-cyclical consisting of 11% of the total fixed income portfolio, banks 7%, energy 7%, and communications 6%. The Company uses equity index options to fully hedge its equity market exposure to index annuity products. These are exchange traded options and there is no credit risk.

**5. Derivative Instruments**

The Company uses derivatives to hedge its equity market exposure to index annuity products which are contracts that earn a return based on the change in the value of the S&P 500 index between annual index point dates. The Company buys and sells listed equity and index call options and call option spreads and there is no credit risk. The net premium is paid up front and there are no additional cash requirements or additional contingent liabilities. These contracts are held at fair market value on the company's balance sheet. At December 31, 2017 and 2016, these derivative hedges had a net market value of \$395 thousand and \$59 thousand, with notional amounts of \$8.5 million and \$1.6 million on call options purchased and \$6.0 million and \$0.9 million on call options written, as of December 31, 2017 and 2016.

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**6. Fair Value of Financial Instruments**

Fair value estimates are made at specific points in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale, at one time, the Company's entire holding of a particular financial instrument. Although fair value estimates are calculated using assumptions that management believes are appropriate, changes in assumptions could significantly affect estimates.

Fair value estimates are determined for existing financial instruments without attempting to estimate the value of anticipated future business and the value of assets and certain liabilities that are not considered financial instruments. Accordingly, the aggregate fair value estimates presented do not represent the underlying value of the Company.

Valuation techniques and inputs used are described on pages F-20 – F-22.

The Company has procedures in place to validate the fair values received from the independent pricing service. The Company assesses whether prices received represent a reasonable estimate of fair value through various controls designed to ensure that valuations represent a fair price, including calculation of portfolio returns, comparison of returns to corresponding benchmark returns, analysis of periodic changes in market prices, evaluation of corresponding market yields and spread levels, and comparing prices from multiple pricing sources. On an ongoing basis, the Company monitors the pricing service valuation methods and evaluates the various types of securities in its investment portfolio to determine an appropriate fair value hierarchy. Most prices provided by the pricing services are classified into Level 2 due to their use of market observable inputs.

In addition, tax ramifications related to the realization of unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in any of the estimates. The following methods and assumptions were used by the Company in estimating the fair value of its financial instruments:

**Fixed maturity and equity securities:** Fair values were determined by an independent pricing service and are downloaded from Clearwater Analytics. The Company does not own any securities for which a fair value was not provided by the pricing service or a custody statement. Fair values are checked for reasonableness. If a fair value had not been provided for a security, the Company would use a fair value estimated from yield data relating to instruments or securities with similar characteristics or as determined in good faith by the Company's investment advisor, Deutsche Asset Management.

**Derivative instruments:** Fair values were determined by an independent pricing service and are downloaded from Clearwater Analytics. Fair values are checked for reasonableness.

**Policy loans:** The carrying value of policy loans approximates fair value.

**Cash and cash equivalents:** The carrying value approximates fair value.

**Policyholder account balance:** For deposit liabilities, the fair value was based on the amount payable on demand at the reporting date and approximates fair value.

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Amounts related to the Company's financial instruments as of December 31, 2017 and 2016 are as follows:

	Carrying/Fair Value 12/31/2017	Carrying/Fair Value 12/31/2016
<b>Financial instruments recorded as assets:</b>		
Fixed maturity securities	\$188,452	\$174,880
Equity securities	6,209	7,927
Policy loans	9,852	10,059
Derivative instruments	395	59
Cash and cash equivalents	4,085	8,389
Separate account	24,779	21,513
<b>Financial instruments recorded as liabilities:</b>		
<b>Policyholder account balance:</b>		
Interest sensitive life contracts	41,078	40,508
Annuities	68,745	58,932
Dividend accumulations and other <sup>(1)</sup>	7,076	7,413
Separate account	24,779	21,513

(1) included within Reserve for deposit type funds in the consolidated balance sheet

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The hierarchy for inputs used in determining fair value maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that observable inputs be used when available. Assets and liabilities recorded on the Consolidated Statements of Financial Position at fair value are categorized in the fair value hierarchy based on the observability of inputs to the valuation techniques as follows:

Level 1 — Assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market that the Company can access.

Level 2 — Assets and liabilities whose values are based on the following: Quoted prices for similar assets or liabilities in active markets;

- (a) Quoted prices for identical or similar assets or liabilities in markets that are not active; or
- (b) Valuation models whose inputs are observable, directly or indirectly, for substantially the full term of the asset or liability.

Level 3 — Assets and liabilities whose values are based on prices or valuation techniques that require that are both unobservable and significant to the overall fair value measurement. Unobservable inputs reflect the Company's estimates of the assumptions that market participants would use in valuing the assets and liabilities. Summary of significant valuation techniques for assets and liabilities measured at fair value on a recurring basis:

Level 1 measurements:

Fixed maturity securities: Comprised of U.S. Treasury and GNMA agency securities. Valuation is based on unadjusted quoted prices for identical assets in active markets that the Company can access.

Equities: Comprised of actively traded, exchange-listed equities. Valuation is based on unadjusted quoted prices for identical assets in active markets that the Company can access.

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Derivative instruments: Comprised of actively traded, exchange-listed derivatives. Valuation is based on unadjusted quoted prices for identical assets in active markets that the Company can access.

Cash Equivalents: Comprised of money market funds. Market values for the money market funds are obtained from the fund managers.

Separate account assets: Comprised of actively traded mutual funds that have daily quoted net asset values for identical assets that the Company can access. Market values for the actively traded mutual funds in which the separate account assets are invested are obtained daily from the fund managers.

Level 2 measurements:

Fixed maturity securities: States, political subdivisions, and corporate securities: The primary inputs to the valuation include quoted prices for identical or similar assets in markets that are not active, contractual cash flows, benchmark yields and credit spreads.

Residential mortgage-backed securities: The primary inputs to the valuation include quoted prices for identical or similar assets in markets that are not active, contractual cash flows, benchmark yields, prepayment speeds, collateral performance and credit spreads.

Commercial mortgage-backed securities: The primary inputs to the valuation include quoted prices for identical or similar assets in markets that are not active, contractual cash flows, benchmark yields, collateral performance and credit spreads.

Level 3 measurements:

Equities: The primary inputs to the valuation include quoted prices for identical or similar assets in markets that exhibit less liquidity relative to those markets supporting Level 2 fair value measurements, contractual cash flows, benchmark yields, collateral performance, credit spreads, and other estimates including custody statements.

The following table presents the Company's securities measured at fair value on a recurring basis as of December 31, 2017 and 2016:

Description	Recurring Fair Value Measurements at December 31, 2017 Using:			
	Fair Values	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Fixed maturity securities:</b>				
U.S. government	\$ 4,162	\$ 4,162	\$ —	\$ —
States, political subdivisions, other	27,614	—	27,614	—
Corporate	109,395	—	109,395	—
Residential mortgage-backed securities	43,086	—	43,086	—
Commercial mortgage-backed securities	4,195	—	4,195	—
<b>Total fixed maturities</b>	<b>188,452</b>	<b>4,162</b>	<b>184,290</b>	<b>—</b>
Equities	6,209	4,027	—	2,182
Derivative instruments	395	395	—	—
Cash equivalents <sup>(1)</sup>	4,085	4,085	—	—
Separate accounts <sup>(2)</sup>	24,779	24,779	—	—
<b>Total</b>	<b>\$ 223,920</b>	<b>\$ 37,448</b>	<b>\$ 184,290</b>	<b>\$ 2,182</b>

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Description	Fair Values	Recurring Fair Value Measurements at December 31, 2016 Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Fixed maturity securities:</b>				
U.S. government	\$ 4,214	\$ 4,214	\$ —	\$ —
States, political subdivisions, other	20,113	—	20,113	—
Corporate	104,176	—	104,176	—
Residential mortgage-backed securities	36,418	—	36,418	—
Commercial mortgage-backed securities	9,959	—	9,959	—
<b>Total fixed maturities</b>	<b>174,880</b>	<b>4,214</b>	<b>170,666</b>	<b>—</b>
Equities	7,927	4,758	—	3,169
Derivative instruments	59	59	—	—
Cash equivalents <sup>(1)</sup>	5,670	5,670	—	—
Separate accounts <sup>(2)</sup>	21,513	21,513	—	—
<b>Total</b>	<b>\$210,049</b>	<b>\$36,214</b>	<b>\$170,666</b>	<b>\$3,169</b>

(1) Cash equivalents are invested in money market funds with daily liquidity. The estimated fair value of cash equivalents is based on the estimated fair value of the underlying assets as provided by fund managers in daily net asset values and included in Level 1 assets.

(2) Separate account assets are invested in money market funds with daily liquidity. The estimated fair value of separate account assets is based on the estimated fair value of the underlying assets as provided by fund managers in daily net asset values and included in Level 1 assets.

The following table shows quantitative information about significant unobservable inputs related to the Level 3 fair value measurements reported in the tables used as of December 31, 2017 and 2016:

Fair value at December 31, 2017	Primary Valuation Technique(s)	Significant Unobservable Inputs	Range		Weighted Average
			Min	Max	
Reef America REIT II	\$2,150 Discounted Cash Flows	Discount Rate	5.50%	9.00%	6.61%
		Terminal capitalization rate	4.00%	8.25%	5.62%
Fair Value at December 31, 2016	Primary Valuation Technique(s)	Significant Unobservable Inputs	Min	Max	Weighted Average
Reef America REIT II	\$3,074 Discounted Cash Flows	Discount Rate	5.50%	10.75%	6.71%
		Terminal capitalization rate	4.00%	9.50%	5.70%



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The following table presents the rollforward of Level 3 assets held at fair value on a recurring basis as of December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Balance, beginning of year	\$ 3,169	\$ 6,006
Gains included in net income	396	1,131
Settlements	(1,000)	(3,000)
Unrealized gains (losses) in OCI	(383)	(968)
Balance, end of year	<u>\$ 2,182</u>	<u>\$ 3,169</u>

#### 7. Deferred Acquisition Costs and Deferred Sales Inducement Costs

The Company incurs significant costs in connection with acquiring new insurance business. Costs that vary with and relate to the successful production of new business are deferred as DAC. Such costs consist principally of commissions and policy issue expenses. The recovery of DAC is dependent upon the future profitability of the related business. DAC on life insurance or investment-type contracts are amortized in proportion to gross premiums, gross margins or gross profits, depending on the type of contract as described below. Sales inducements such as bonuses on index annuity products are also deferred and amortized through expenses over future time periods.

The balances of and changes in deferred acquisition costs were as follows as of and for the years ended December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Balance, beginning of year	\$11,940	\$12,288
Capitalization of commissions, sales and issue expenses	2,437	2,263
Accrual of interest	544	530
Amortization	(2,659)	(2,462)
Change in Shadow DAC	(83)	(679)
Balance end of year	<u>\$12,179</u>	<u>\$11,940</u>

The balances of and changes in deferred sales inducement costs were as follows as of and for the years ended December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Balance, beginning of year	\$315	\$ 13
Capitalization of commissions and issue expenses	545	246
Accrual of interest	18	—
Amortization	(11)	56
Balance end of year	<u>\$867</u>	<u>\$315</u>

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**8. Accumulated Other Comprehensive Income**

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

	Unrealized Investment Gains (losses)	Shadow DAC	Accumulated Other Comprehensive Income (loss)
Balance, December 31, 2015	\$4,356	\$(451)	\$ 3,905
Available-for-sale investment gains (losses) arising during the year:			
Fixed maturity securities net of tax benefit of \$29	(56)		(56)
Equity securities net of tax benefit of \$156	(303)		(303)
Change in Shadow DAC net of tax of \$1		3	3
Balance, December 31, 2016	\$3,997	\$(448)	\$ 3,549
Available-for-sale investment gains (losses) arising during the year:			
Fixed maturity securities net of tax of \$227	440		440
Equity securities net of tax of \$9	18		18
Change in Shadow DAC net of tax benefit of \$28		(55)	(55)
Cumulative effect of adoption of new accounting principle (see Note 3)	904	(99)	805
Balance, December 31, 2017	\$5,359	\$(602)	\$ 4,757

Accumulated other comprehensive income includes gross unrealized gains and losses on debt and equity securities, as well as shadow DAC. This value is presented net of tax.

**9. Reinsurance**

The Company reinsures a portion of its business to other insurance companies to limit mortality risk and limit its overall financial exposure. The Company reinsures amounts over its \$250 thousand retention limit on certain life policies through yearly renewable term (YRT) and coinsurance agreements. Although these reinsurance agreements contractually obligate the reinsurers to reimburse the Company, they do not discharge the Company from its primary liability and obligations to policyholders. Federal Life's reinsured business under life reinsurance agreements is primarily ceded to two reinsurers; Optimum Re and SCOR Global Life Americas. The Company regularly monitors the financial strength of its reinsurers. We believe the assuming companies will be able to honor all contractual commitments, based on our periodic review of their financial statements, insurance industry reports and reports filed with state insurance departments.

In 2016, the Company entered into a reinsurance arrangement with Optimum Re covering the majority of its inforce level term business. This is defined as a long duration contract and the expected cost of reinsurance is spread over the life of the policies. This arrangement cedes 80% of the mortality risk on every such policy on a YRT basis that was not already ceded as described in the previous paragraph. In 2017, the Company entered into a reinsurance arrangement with Optimum Re covering the majority of its inforce universal life business, which cedes 80% of the mortality risk on every such policy. These transactions resulted in deferred reinsurance gains.

Total insurance revenues for 2017 include \$2.6 million reinsurance assumed and \$2.1 million reinsurance ceded, resulting in a net effect of \$0.5 million. As of December 31, 2017, we have reinsurance recoverables of \$3.7 million and prepaid reinsurance premium of \$1.4 million. Total insurance revenues for 2016 include \$2.9 million reinsurance assumed and \$1.9 million reinsurance ceded, resulting in a net effect of \$1.0 million. As of December 31, 2016, we had reinsurance recoverables of \$2.1 million and prepaid reinsurance premium of \$0.9 million.

**Federal Life Mutual Holding Company and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**for the Years Ended December 31, 2017 and 2016**

**10. Separate Account**

The Company utilizes separate accounts to record and account for assets and liabilities for a variable annuity line of business. In accordance with the product recorded within the separate account, all of the assets are considered legally insulated. The legal insulation of the separate account assets prevents such assets from being generally available to satisfy claims resulting from the general account.

Separate account assets are invested in mutual funds. The estimated fair value of separate account assets is based on the estimated fair values of the underlying assets as published by fund managers in daily net asset values and are the basis for current transactions.

As of December 31, 2017 and 2016 the Company's separate account statement included legally insulated assets of \$24.8 million and \$21.5 million, respectively. The separate account verification between years is as follows:

	December 31, 2017	December 31, 2016
Balance, beginning of year	\$21,513	\$23,335
Cost of bonds and stocks acquired	299	80
Unrealized valuation increase	3,275	91
Total gain on disposals	186	1,820
Deduction consideration for bonds and stocks disposed of	(562)	(3,813)
Other assets	68	—
Balance end of year	<u>\$24,779</u>	<u>\$21,513</u>

The Company has no accumulation products with guarantees backed by the general account. The Company no longer issues new contracts under the separate account.

**11. Policyholder Liabilities**

Future life and accident and health policy benefits as of December 31, 2017 and 2016 are as follows:

	2017	2016
Traditional life contracts	\$62,311	\$63,141
Immediate annuities and pension plan	6,774	7,135
Supplemental contracts with life contingencies	2,522	2,500
Accident and health	386	351
Accident death benefits	132	130
Disability	188	191
	<u>\$72,313</u>	<u>\$73,448</u>

**Federal Life Mutual Holding Company and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**for the Years Ended December 31, 2017 and 2016**

The following table highlights the key assumptions generally used in calculating the reserve for life-contingent contract benefits:

<u>Product</u>	<u>Mortality</u>	<u>Interest Rate</u>	<u>Estimation Method</u>
Immediate fixed annuities	1971, 1983, 2000, and 2012 annuity mortality tables	Rates range from 4% to 6.5%	Present value of expected future benefits based on historical experience
Traditional life insurance	Actual company experience plus loading	Rates range from 2.5% to 5.75%	Net level premium reserve method using the Company's withdrawal experience
Accident and health	Actual company experience plus loading	n/a	Unearned premium; additional contract reserves for mortality risk

The total net reserves for life-contingent products are greater than the actuarial present value of the difference between future cash flow disbursements and future cash flow receipts using best estimate assumptions. Consequently, no premium deficiency reserve is required for this block of business.

Policyholder account balances as of December 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Interest sensitive life contracts	\$ 41,078	\$40,508
Annuities	68,745	58,932
	<u>\$109,823</u>	<u>\$99,440</u>

The following table highlights the key contract provisions relating to policyholder funds:

<u>Product</u>	<u>Interest Rate</u>	<u>Withdrawal/surrender charges</u>
Interest-sensitive life insurance	Rates range from 3% to 7%	Either a percentage of account balance or a dollar amount grading off generally over 20 years
Fixed annuities	Rates range from 0% to 8%	Either a declining or level charge generally over 9 years or less
Other investment contracts	Rates range from 2% to 6%	No explicit charge assumed

**Federal Life Mutual Holding Company and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**for the Years Ended December 31, 2017 and 2016**

Policyholder funds activity for the years ended December 31, 2017 and 2016 is as follows:

	2017	2016
Balance, beginning of year	\$ 99,440	\$94,691
Deposits	17,994	13,005
Interests credited	4,353	3,932
Benefits	(2,734)	(2,446)
Surrenders and partial withdrawals	(4,835)	(5,769)
COI charges	(2,973)	(2,852)
Contract charges	(1,307)	(1,167)
Net transfers from separate accounts	(115)	46
Balance, end of year	<u>\$109,823</u>	<u>\$99,440</u>

Other policyholder funds as of December 31, 2017 and 2016 are as follows:

	2017	2016
Payout annuities without life contingencies	\$ 3,774	\$ 3,116
Dividend accumulations and other	7,076	7,413
	<u>\$10,850</u>	<u>\$10,529</u>

## 12. Real Estate

Real estate consists of the Company's home office property and is carried at cost less accumulated depreciation. The following table presents the Company's real estate holdings at December 31, 2017 and 2016:

	2017	2016
Land	\$ 405	\$ 405
Building and other	8,378	8,294
	8,783	8,699
Accumulated depreciation	(6,828)	(6,712)
Real Estate, net	<u>\$ 1,955</u>	<u>\$ 1,987</u>

Depreciation expense on real estate was \$117 thousand for 2017 and \$121 thousand for 2016.

## 13. Property and Equipment

Property and equipment is carried at cost less accumulated depreciation. The following table presents the Company's property and equipment at December 31, 2017 and 2016:

	2017	2016
EDP equipment	\$ 3,955	\$ 3,963
Furniture	1,522	1,501
EDP equipment & furniture cost	5,477	5,464
Accumulated depreciation	(5,281)	(5,154)
Property and Equipment, net	<u>\$ 196</u>	<u>\$ 310</u>

Depreciation expense on property and equipment was \$155 thousand for 2017 and \$142 thousand for 2016.

**Federal Life Mutual Holding Company and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**for the Years Ended December 31, 2017 and 2016**

**14. Income Taxes**

Effective 2016, the Company and subsidiaries files a consolidated federal income tax return under Federal Life Mutual Holding Company as the ultimate parent. Tax years 2014 through 2017 are subject to examination by the IRS. Prior to 2016, consolidated federal income tax returns were filed under Federal Life Insurance Company as the ultimate parent.

The Company had no liability for unrecognized tax benefits at December 31, 2017 or 2016 and believes it is reasonably possible that the liability will not significantly increase within the next twelve months. No amounts have been accrued for interest or penalties.

The Tax Act limits life reserves for tax purposes to the greater of net surrender value or 92.81 percent of required reserves. It is not estimated that this will have a meaningful impact to the net admitted assets on the Company's balance sheet.

The components of income tax benefit for the years ended December 31, 2017 and 2016 are as follows:

	2017	2016
Current	\$34	\$34
Deferred	—	—
Provision for income tax	<u>\$34</u>	<u>\$34</u>

The federal income tax provisions differ from the amounts determined by multiplying pre-tax income attributable to the Company by the statutory federal income tax rate of 34% for 2017 and 2016.

	2017	2016
Income taxes at statutory rate	\$(637)	\$(667)
Dividends received deduction	—	—
Tax effect from change in enacted tax rate	805	—
Other	(134)	(701)
Income tax (benefit) expense	<u>\$ 34</u>	<u>\$ 34</u>
Effective tax rate	-1.8%	-1.7%

The tax effects of temporary differences that give rise to significant portions of the Company's net deferred federal tax asset (liability) from continuing operations are shown below. The change in the tax rate from 34% in 2016 to 21% in 2017 was a result of the 2017 Tax Act.

	2017	2016
<b>Deferred federal tax assets:</b>		
Difference between financial reporting and the tax basis of:		
Operating loss carry forward	\$5,859	\$ 9,567
Other than temporary impairments	947	1,545
Deferred premiums	734	1,465
Life policy reserves	600	103
Other	380	745
Deferred reinsurance settlements	619	514
Total deferred tax assets	<u>\$9,139</u>	<u>13,939</u>

**Federal Life Mutual Holding Company and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**for the Years Ended December 31, 2017 and 2016**

	2017	2016
<b>Deferred federal tax liabilities:</b>		
Difference between financial reporting and the tax basis of:		
Deferred acquisition costs and sales inducements	\$ 2,147	3,215
Net unrealized gains	1,421	2,064
Reinsurance recoverable	766	716
Amortized discount on bonds	138	527
Other	143	516
Fixed assets	53	89
Total deferred tax liabilities	4,668	7,127
Net	4,471	6,812
Less valuation allowance	(4,013)	(6,148)
Net deferred tax asset	<u>\$ 458</u>	<u>\$ 664</u>

The Company has net operating loss carryforwards for income tax purposes at December 31, 2017 as follows:

<u>Expiring</u>	
2018	\$ 167
2019	1,590
2020	2,296
2021	651
2022	520
2023	861
2024	1,762
2025	7,836
2026	2,188
2027	1,353
2028	2,664
2029	509
2030	2,240
2031	1,119
2032	596
Total	<u>\$26,352</u>

Recent changes in corporate tax laws regarding net operating losses (NOLs) have resulted in taxable income for tax periods after 2017 being limited to an 80% deduction with no carrybacks and indefinite carryforwards.

#### **15. Employers' Disclosures About Postretirement Benefits**

The Company has a 401k plan covering substantially all employees. Employees may contribute up to 10% of their total pretax cash compensation. The Company matches employee contributions up to 3% of cash compensation at the time of the contribution. The Company may match employee contributions up to an additional 3% of cash compensation at the end of the year. The Company's contribution during the years ended December 31, 2017 and 2016, was \$90 thousand and \$93 thousand, respectively.

**Federal Life Mutual Holding Company and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**for the Years Ended December 31, 2017 and 2016**

**16. Commitments and Contingent Liabilities**

The Company is involved in various legal actions for which it will establish liabilities where appropriate. In the opinion of the Company's management, based on the advice of legal counsel, the resolution of such litigation is not expected to have a material adverse affect on the Company's financial position, results of operations or cash flows.

**17. Debt and Federal Home Loan Bank Advances**

The Company has not issued any debt or other credit obligations as of December 31, 2017. The Company has no commitments in the form of loan guarantees. Federal Life Insurance Company is a member of the Federal Home Loan Bank (FHLB) and has access to various advances and other funding products. As of December 31, 2017 and 2016 there are no advances or other credit outstanding with the FHLB.

**18. Related Party Transactions**

All the outstanding shares of Americana Realty Company and FED Mutual Financial Services, Inc. are owned by the parent company, Federal Life Insurance Company. Federal Life Insurance Company is owned by FEDHO Holding Company which is controlled by Federal Life Mutual Holding Company. During 2017 and 2016, Americana Realty paid \$1.4 million and \$0.3 million, respectively, in common stock dividends to Federal Life Insurance Company. As of December 31, 2017 and 2016 Americana Realty Company reported \$41 thousand and \$451 thousand, respectively, as dividends due to its parent company, Federal Life Insurance Company. This amount is generally settled within 60 days. Federal Life Insurance Company distributed \$3.05 million in dividends to FEDHO Holding Company on 09/06/2017 which was immediately contributed back to Federal Life Insurance Company as paid-in and contributed surplus. In 2017, Federal Life Mutual Holding Company paid \$20 thousand in interest to Federal Life Insurance Company on the Guaranty Fund Note that was issued in 2016. Federal Life Insurance Company provides financial support for Fed Mutual Financial Services, Inc. to continue its operations. In both 2016 and 2017, a \$25 thousand capital infusion was provided. All related party transactions eliminate in consolidation.

**19. Policyholder's Equity — Statutory Capital and Surplus**

Under Illinois insurance regulations, Federal Life Insurance Company is required to maintain minimum surplus of \$1.5 million. As of December 31, 2016 and 2017 its surplus exceeded the minimum required. Federal Life Mutual Holding Company is required to maintain a minimum surplus of \$2 million.

Federal Life Insurance Company's statutory loss and capital and surplus, as determined in accordance with accounting practices prescribed or permitted by the State of Illinois Department of Insurance were approximately \$92 thousand and \$14.9 million as of December 31, 2017 and \$64 thousand and \$14.7 million as of December 31, 2016.

Each licensed insurance company's state of domicile imposes minimum risk-based capital requirements that were developed by the National Association of Insurance Commissioners (NAIC). The formulas for determining the amount of risk-based capital utilize various weighting factors that are applied to financial balances or various levels of activity based on the perceived degree of risk. Either the weighting factors or the methodology for determining the weighting factors is specified by the NAIC. Regulatory compliance is determined by a ratio of total adjusted capital, as defined by the NAIC, to authorized control level risk-based capital, as defined by the NAIC. Companies below specific trigger points or ratios are classified within certain levels, each of which requires specified corrective action. Federal Life Insurance Company exceeded the minimum risk-based capital requirements at December 31, 2016 and 2017.



**Federal Life Mutual Holding Company and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**for the Years Ended December 31, 2017 and 2016**

Federal Life Insurance Company faces regulatory restrictions on the ability to transfer funds to the Federal Life Mutual Holding Company in the form of cash dividends, loans or advances. As of December 31, 2017 the amount of restricted net assets amounts to \$13.4 million, which equals 90% of Federal Life Insurance Company's capital and surplus of \$14.9 million.

The Illinois Department of Insurance has approved permitted practice to admit a \$2 million Guaranty Fund Note issued by Federal Life Mutual Holding Company and purchased by Federal Life Insurance Company. Without this approval, this asset would be non-admitted and total Capital and Surplus would be reduced by \$2 million to \$12.9 million. This amount exceeds the required minimum capital.

**Federal Life Mutual Holding Company and Subsidiaries**  
**Consolidated Balance Sheets**  
**June 30, 2018 and December 31, 2017**

(in thousands of dollars)	6/30/2018 (unaudited)	12/31/2017
<b>Assets</b>		
Investments		
Securities available for sale, at fair value:		
Fixed maturities (amortized cost; 2018, \$185,247; 2017, \$183,432)	\$183,249	\$188,452
Equity securities	6,362	6,209
Policy loans	9,718	9,852
Derivative instruments, at fair value	398	395
Total investments	199,727	204,908
Cash and cash equivalents	3,913	4,085
Real estate, property and equipment	2,166	2,151
Accrued investment income	1,929	1,886
Accounts receivable	2,417	538
Reinsurance recoverables	3,622	3,727
Prepaid reinsurance premiums	1,379	1,358
Deferred policy acquisition costs, net	13,320	12,179
Deferred sales inducement costs, net	1,076	867
Deferred tax asset, net	495	458
Other assets	296	202
Separate account asset	23,690	24,779
<b>Total Assets</b>	<b>254,030</b>	<b>257,138</b>
<b>Liabilities</b>		
Policy liabilities and accruals		
Policyholder account balance	113,654	109,823
Future life policy benefits	72,608	71,927
Future accident and health policy benefits	343	386
Reserve for deposit type contracts	11,222	10,850
Other policyholder funds	2,733	1,970
Unearned revenue	1,357	1,387
Deferred reinsurance settlements	2,826	2,949
Taxes payable	7	7
Other liabilities	2,073	1,703
Separate account liability	23,690	24,779
<b>Total Liabilities</b>	<b>230,513</b>	<b>225,781</b>
<b>Equity</b>		
Retained earnings	24,606	26,600
Accumulated other comprehensive income (loss)	(1,089)	4,757
<b>Total Equity</b>	<b>23,517</b>	<b>31,357</b>
<b>Total Liabilities and Equity</b>	<b>\$254,030</b>	<b>\$257,138</b>

The accompanying notes are an integral part of these consolidated financial statements.

**Federal Life Mutual Holding Company and Subsidiaries**  
**Consolidated Statements of Operations and Comprehensive Income (Loss)**  
**for the six-months Ended June 30, 2018 and 2017 (unaudited)**

(in thousands of dollars)	for the six-month periods ended	
	6/30/2018	6/30/2017
<b>Revenues</b>		
Insurance revenues	\$ 6,258	\$ 6,596
Net investment income	4,218	4,292
Net realized investment gains	324	904
Other revenues	97	85
<b>Total Revenues</b>	<b>10,897</b>	<b>11,877</b>
<b>Benefits and expenses</b>		
Policyholder benefits	7,018	7,215
Interest credit to policyholders	207	114
Operating costs and expenses	4,331	3,994
Amortization of deferred acquisition and sales inducement costs	897	1,124
Taxes, licenses and fees	398	392
Dividends to policyholders	31	31
<b>Total Benefits and Expenses</b>	<b>12,882</b>	<b>12,870</b>
Net loss before taxes	(1,985)	(993)
Tax expense	9	14
<b>Net loss</b>	<b>\$ (1,994)</b>	<b>\$ (1,007)</b>
<b>Other Comprehensive Income (Loss), net of tax:</b>		
Unrealized holding gains (losses) arising during the year (net of tax expense (benefit) of: 2018 (\$255); 2017 \$506)	(6,663)	982
Adjustment to deferred acquisition costs (net of tax expense (benefit) of: 2018 \$217; 2017 (\$73))	817	(142)
<b>Other Comprehensive Income (Loss)</b>	<b>(5,846)</b>	<b>840</b>
<b>Comprehensive Loss</b>	<b>\$ (7,840)</b>	<b>\$ (167)</b>

The accompanying notes are an integral part of these consolidated financial statements.

**Federal Life Mutual Holding Company and Subsidiaries**  
**Consolidated Statement of Equity**  
**for the six-months Ended June 30, 2018 (unaudited)**

(in thousands of dollars)	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balance, January 1, 2018	\$ 4,757	\$26,600	\$31,357
Net loss	—	(1,994)	(1,994)
Other Comprehensive Loss	(5,846)	—	(5,846)
Balance, June 30, 2018	\$ (1,089)	\$24,606	\$23,517

The accompanying notes are an integral part of these consolidated financial statements.

**Federal Life Mutual Holding Company and Subsidiaries**  
**Consolidated Statements of Cash Flows**  
**for the six-months Ended June 30, 2018 and 2017 (unaudited)**

(in thousands of dollars)	for the six-month periods ended	
	6/30/2018	6/30/2017
<b>Cash flows from operating activities:</b>		
Net loss	\$ (1,994)	\$ (1,007)
Adjustments to reconcile net loss to net cash used in operating activities:		
Realized investment gains, net	(324)	(904)
Amortization on investments	(40)	(46)
Depreciation	137	137
Deferred taxes	1	—
Deferred insurance acquisition costs	(2,046)	(1,039)
Deferred sales inducement costs	(201)	(263)
Interest and amortization of deferred acquisition and sales inducement costs	897	1,124
Change in accrued investment income	(42)	(13)
Change in receivables	(1,879)	(1,455)
Change in reinsurance recoverable	105	4
Change in prepaid reinsurance premiums	(21)	(36)
Change in policy benefits	1,401	1,650
Change in unearned revenue	(30)	(8)
Change in deferred reinsurance settlements	(123)	(108)
Change in other assets and liabilities	276	602
Net cash used in operating activities	<u>\$ (3,883)</u>	<u>\$ (1,362)</u>
<b>Cash flows from investing activities:</b>		
Proceeds from investments sold or matured:		
Fixed maturity securities	8,197	13,346
Equity securities	261	1,541
Derivatives	206	3
Policy loans	134	151
Costs of investments purchased:		
Fixed maturity securities	(10,026)	(18,938)
Equity securities	(41)	(167)
Derivatives	(202)	(90)
Real estate additions	(61)	(3)
Other investing activities	1,131	(277)
Purchase of property and equipment	(92)	(27)
Net cash used in investing activities	<u>(493)</u>	<u>(4,461)</u>
<b>Cash flows from financing activities:</b>		
Policyholder account balances:		
Deposits	8,388	9,104
Withdrawals	(4,184)	(4,749)
Net transfers from separate accounts	0	260
Net cash provided by financing activities	<u>4,204</u>	<u>4,615</u>
Net decrease in cash	(172)	(1,208)
Cash, beginning of year	4,085	8,389
Cash, end of period	<u>\$ 3,913</u>	<u>\$ 7,181</u>

The accompanying notes are an integral part of these consolidated financial statements.

**Federal Life Mutual Holding Company and Subsidiaries**  
**Notes to Unaudited Consolidated Financial Statements**

## **1. Organization and Basis of Presentation**

The financial statements include the accounts of Federal Life Mutual Holding Company (“the Company”) and its wholly-owned subsidiaries on a consolidated basis. In this report, “the Company” refers to Federal Life Mutual Holding Company and its consolidated subsidiaries. All significant inter-company balances and transfers have been eliminated in consolidation. The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP).

The accompanying interim consolidated financial statements are unaudited and reflect all adjustments (including normal recurring adjustments) necessary to present fairly the financial position, results of operations and cash flows for the interim periods presented in conformity with GAAP. Interim results are not necessarily indicative of full year performance. The December 31, 2017 consolidated balance sheet data was derived from audited consolidated financial statements for the year ended December 31, 2017, which include all disclosures required by GAAP. Therefore, these interim consolidated financial statements should be read in conjunction with the consolidated financial statement of the Company.

Federal Life Mutual Holding Company was formed on June 23, 2016 pursuant to Section 59.2 of the Illinois Insurance Code. FEDHO Holding Company was also established to serve as an intermediary holding company and the owner of Federal Life Insurance Company. FEDHO Holding Company is controlled by Federal Life Mutual Holding Company. At the same time, Federal Life Insurance Company converted from a mutual to a stock company. These changes did not have a material financial impact on a consolidated basis. Prior to June 23, 2016, the activities of the consolidated entity consisted of Federal Life Insurance Company as a mutual entity and its two wholly owned subsidiaries. All insurance activities are conducted through Federal Life Insurance Company.

Federal Life Insurance Company is a stock life insurance company domiciled in Illinois. Federal Life Insurance Company was incorporated on September 8, 1899 under the laws of the State of Illinois and commenced business on May 5, 1900. The Company’s inforce business is primarily comprised of traditional life policies (term insurance, whole life insurance, non-medical health insurance, and group life insurance), interest sensitive contracts and fixed deferred annuity contracts. The Company is licensed to sell new business in the District of Columbia and all states except Maine, Massachusetts, New Hampshire, New York and Vermont. Although the Company is licensed to sell its products in 45 states, its primary markets are Illinois, Michigan, Ohio, California, Florida, Texas, and Wisconsin.

Federal Life Insurance Company primarily sells interest sensitive life, whole life, term life, fixed and indexed annuities through a network of independent agents.

Federal Life Insurance Company has two wholly-owned non-insurance subsidiaries: Americana Realty Company and FED Mutual Financial Services, Inc.

Americana Realty Company owns mineral rights in Arkansas, Georgia, Oklahoma and Texas. Americana earns royalty revenues from energy producers that are under agreement to drill for and produce oil and gas products on properties where Americana owns mineral rights.

FED Mutual Financial Services, Inc. is a Financial Industry Regulatory Authority (FINRA) licensed broker/dealer that was established to distribute the Company’s variable annuity products.

## **2. Summary of Significant Accounting Policies**

### ***Use of Estimates***

The preparation of financial statements in conformity with GAAP requires management to adopt accounting policies and make estimates and assumptions that affect amounts reported in the consolidated financial statements. The most significant estimates include those used in determining the capitalization and amortization of deferred policy acquisition costs (DAC), the valuation of investments, the liability for

**Federal Life Mutual Holding Company and Subsidiaries**  
**Notes to Unaudited Consolidated Financial Statements**

account balances (interest sensitive life contracts and annuities) and future policy benefits (traditional life contracts, immediate annuities, supplemental contracts with life contingencies, and accident and health), and the provision for income taxes. Actual results could differ from those estimates.

***Subsequent Events***

On March 8, 2018 the Board of Directors approved a plan of conversion. The Company is currently organized as a mutual insurance holding company and has prepared these financial statements for use in its filing with the US Securities and Exchange Commission in order to complete the plan of conversion.

Effective June 29, 2018, an Exchangeable Promissory Note with a principal amount of up to \$2.0 million and a 3.75% interest rate has been issued by Federal Life Mutual Holding Company. Under this note, a \$0.6 million advance was taken as of June 30, 2018 with July 11, 2018 funding date. The outstanding principal balance of the Exchangeable Promissory Note will automatically convert into shares of common stock of the Company at a price of \$10.00 per share upon the completion of the conversion from a mutual to stock form of organization. In connection with this conversion, an S-1 Registration Statement under the Securities Act of 1933 was filed with the SEC on July 23, 2018.

***Investments***

The Company's principal investments are in fixed income and equity securities, and policy loans. The accounting policies related to the Company's investments are as follows:

***Fixed Maturity and Equity Securities***

Fixed income securities include corporate and municipal bonds, U.S. government and agency bonds, residential mortgage-backed securities (RMBS), and commercial mortgage-backed securities (CMBS). Fixed income securities, which may be sold prior to their contractual maturity, are classified as available for sale and are carried at fair value. The difference between amortized cost and fair value, net of any deferred income taxes and DAC, is reflected as a component of accumulated other comprehensive income (AOCI). Cash received from calls, principal payments, make-whole payments, maturities and pay-downs is reflected as a component of proceeds from sales within the Consolidated Statements of Cash Flows.

Equity securities include primarily exchange-traded funds and a commercial real estate fund. Equity securities are carried at fair value and are classified as available for sale. The difference between cost and fair value, net of deferred income taxes, is reflected as a component of (AOCI).

Interest income on fixed maturity securities is included in net investment income and is recognized on an accrual basis using the effective yield method. The amortized cost of fixed maturity securities is adjusted for amortization of premiums and accretion of discounts to maturity, such amortization or accretion is also included in net investment income. In the case of mortgage-backed securities, the amortized cost is adjusted for amortization of premiums and accretion of discounts over the estimated life of the security. Accretion of the discount or amortization of the premium from mortgage-backed securities is recognized using a level effective yield method which considers the estimated timing and amount of prepayments originally anticipated and the actual prepayments received and currently anticipated. To the extent differences arise, the effective yield is recalculated on a retrospective basis. For other-than-temporarily impaired fixed income securities, the effective yield method utilizes the difference between the amortized cost basis at impairment and the cash flows expected to be collected. Accrual of income is suspended for other-than-temporarily impaired fixed income securities when the timing and amount of cash flows expected to be received is not reasonably estimable.

Realized capital gains and losses include gains and losses on sales of investments and write-downs in value due to other-than-temporary declines in fair value. Realized capital gains and losses on sales of investments include fixed maturity securities with calls and prepayments and are determined on the basis of specific security identification.

**Federal Life Mutual Holding Company and Subsidiaries**  
**Notes to Unaudited Consolidated Financial Statements**

The Company recognizes other-than-temporary losses on fixed income securities when the decline in fair value is deemed other than temporary including when the Company has made the decision to sell or it is probable the Company will be required to sell the fixed income security before recovery of its amortized cost basis. If the Company does not expect to receive cash flows sufficient to recover the entire amortized cost basis of the fixed income security, the credit loss component of the impairment is recorded in the total net realized gains and losses line of the income statement, and the remaining amount of the unrealized loss deemed to be related to other factors is recognized in other comprehensive income (loss).

Fixed income securities subject to other-than-temporary impairment write-downs continue to earn investment income when future expected payments are able to be reasonably estimated, and any discount or premium is recognized using the effective yield method over the expected life of the security; otherwise income recognition is discontinued. The Company recognizes other-than-temporary impairment losses on equity securities when the decline in fair value is deemed other than temporary including when the Company does not have a positive intent and ability to hold an impaired security until recovery. Such unrealized gains are recorded net of deferred income tax expense and unrealized losses are tax benefited.

Management regularly reviews its fixed maturity and equity security portfolios to evaluate the necessity of recording impairment losses for other-than-temporary declines in the fair value of investments. A number of criteria are considered during this process including, but not limited to, the current fair value compared to the amortized cost of the security, the length of time the security's fair value has been below amortized cost, and by how much, specific credit issues related to the issuer, the intent and ability of the Company to hold the investment until recovery and current economic conditions. The Company uses an 80% market/book ratio and a 12-month length of time as the basis screening tool for evaluating potential OTTI candidates. In addition, the Company will analyze situations where there has been a rapid and significant change in a security's market value in the amount of -10% or more to determine and understand underlying factors that may have caused a sudden decline in market value.

Such impairment in fair value is included in realized investment gains (losses) and the cost basis of the security is reduced accordingly. The Company does not change the revised cost for subsequent increases in fair value.

***Policy Loans***

Policy loans are carried at the unpaid principal balances, which approximates fair value.

***Derivative Instruments***

Derivative instruments are used to hedge the Company's exposure to indexed annuities and are held at fair market value.

***Cash and cash equivalents***

The Company defines cash as amounts in demand deposit accounts. The Company has deposits with certain financial institutions which at times may exceed federally insured limits. The Company believes it is not exposed to any significant credit risk to cash. Cash equivalents are principally comprised of money market funds and reported at fair value.

***Real Estate, Property and Equipment***

The Company's real estate consists of its home office in Riverwoods, Illinois. The real estate, including related improvements, is carried at cost less accumulated depreciation. The Company uses the accelerated method based on an estimated useful life of 40 years for the building and 20 years for related improvements. The Company's property and equipment is reported at cost less accumulated depreciation and is primarily made up of electronic data processing equipment and furniture. Depreciation is determined using the straight-line method over useful lives of three to ten years.



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***Accrued Investment Income***

Accrued investment income includes interest and dividends earned but not yet received. Investment income is not accrued on securities in default.

***Accounts Receivable***

Accounts receivable consists primarily of balances due from agents.

***Reinsurance Recoverables and Prepaid Reinsurance Premiums***

Reinsurance premiums, commissions, expense reimbursements, benefits and reserves related to reinsurance of long duration contracts are accounted for over the life of the underlying reinsured policies using assumptions consistent with those used to account for the original policies issued. The cost of reinsurance related to short duration policies is accounted for over the reinsurance contract period. Amounts recoverable from reinsurers for both short and long duration reinsurance agreements are estimated in a manner consistent with the claim liabilities and policy benefits associated with the reinsured policies. Recoverables from our reinsurers are any death claims that were ceded to the reinsurer. The GAAP reinsurance recoverable quantity is the present value of future reinsured death claims minus a percentage of the present value of net premium paid to the reinsurer. This quantity is analogous to the ceded reserve that we hold in our statutory statements. Prepaid reinsurance premium is that portion of premium paid to the reinsurer prior to the valuation date for reinsurance coverage beyond the valuation date.

***Deferred Policy Acquisition Costs (DAC) and Deferred Sales Inducement Costs (DSIC)***

The Company amortizes DAC related to traditional life policies over the entire premium paying period in proportion to the present value of actual historic and expected future gross premiums. The present value of expected premiums is based upon the premium requirement of each policy and assumptions for mortality, morbidity, persistency, certain expenses, and investment returns at policy issuance, that include provisions for adverse deviation and are consistent with the assumptions used to calculate future policyholder benefit liabilities. These assumptions are not revised after policy issuance or acquisition unless the DAC balance is deemed to be unrecoverable from future expected profits. Absent a premium deficiency, variability in amortization after policy issuance or acquisition is caused only by variability in premium volumes. The Company does not currently hold any premium deficiency reserve.

The Company amortizes DAC related to interest sensitive contracts and fixed and variable deferred annuity contracts over the estimated lives of the contracts in proportion to actual and expected future gross profits. The amortization includes interest based on rates in effect at inception or acquisition of the contracts.

The amount of future gross profits is dependent principally upon returns in excess of the amounts credited to policyholders, mortality, persistency, interest crediting rates, expenses to administer the business, and certain economic variables, such as inflation. Of these factors, the Company anticipates that investment returns, expenses and persistency are reasonably likely to impact significantly the rate of DAC amortization. Each reporting period, the Company updates the estimated gross profits with the actual gross profits for that period. When the actual gross profits change from previously estimated gross profits, the cumulative DAC amortization is re-estimated and adjusted by a cumulative charge or credit to current operations.

When actual gross profits exceed those previously estimated, the DAC amortization will increase, resulting in a current period charge to earnings. The opposite result occurs when the actual gross profits are below the previously estimated gross profits.

Each reporting period, the Company also updates the actual amount of business remaining in-force, which impacts expected future gross profits.

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Separate account rates of return on variable deferred annuity contracts affect in-force account balances on such contracts each reporting period. Returns that are higher than the Company's long-term expectation produce higher account balances, which increase the Company's future fee expectations, resulting in higher expected future gross profits. The opposite result occurs when returns are lower than the Company's long-term expectation. The Company's practice to determine the impact of gross profits resulting from returns on separate accounts assumes that long-term appreciation in equity markets is not changed by short-term market fluctuations, but is only changed when sustained interim deviations are expected. The Company monitors these changes and only changes the assumption when its long-term expectation changes.

The Company also periodically reviews other long-term assumptions underlying the projections of estimated gross margins and profits. These include investment returns, policyholder dividend scales, interest crediting rates, mortality, persistency and expenses to administer business. Management annually updates assumptions used in the calculation of estimated gross margins and profits which may have significantly changed. If the update of assumptions causes expected future gross margins and profits to increase, DAC amortization will decrease, resulting in a current period increase to earnings. The opposite result occurs when the assumption update causes expected future gross margins and profits to decrease.

The DAC balance includes adjustments to reflect the amount by which the amortization of DAC would increase or decrease if the unrealized capital gains or losses in the respective product portfolios were actually realized. The adjustments are recorded net of tax in accumulated other comprehensive income. DAC and deferred income taxes determined on unrealized capital gains and losses and reported in accumulated other comprehensive income recognize the impact on policyholder's equity consistently with the amounts that would be recognized in the income statement on realized capital gains and losses.

The Company does occasionally offer sales inducements to new customers, principally on indexed annuities and on certain fixed annuity products. These costs are deferred and amortized over time.

***Deferred Tax Asset***

Deferred taxes are provided on the temporary differences between the tax and financial statement basis of assets and liabilities. Deferred tax assets established on unrealized capital losses may be partially offset by valuation allowances.

***Other Assets***

Other assets consist primarily of suspense accounts.

***Separate Account***

The assets and liabilities of the separate accounts represent segregated funds administered and invested by the Company for purposes of funding variable annuity contracts for the exclusive benefit of variable annuity policyholders. Investment income and realized capital gains and losses of the separate accounts accrue directly to the policyholders and therefore, are not included in the Company's Consolidated Statements of Operations and Comprehensive Income. Deposits to and surrenders and withdrawals from the separate accounts are reflected in separate account liabilities and are not included in consolidated cash flows.

These contracts do not have any minimum guarantees and the investment risks associated with market value changes are borne entirely by the policyholder. The assets of the separate accounts, carried at fair value, are invested in mutual funds which are carried at fair value.

***Policyholder Account Balance***

Policyholder account balances relate to investment-type contracts and interest sensitive policies. Investment-type contracts principally include traditional individual fixed and variable annuities in the accumulation phase and non-variable group annuity contracts. Policyholder account balances are equal to

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policy account values, which consist of an accumulation of gross premium payments, interest credited, ranging from 3.0% to 11.5%, less expenses, mortality charges, and withdrawals.

***Future Life Policy Benefits and Future Accident and Health Policy Benefits***

The Company establishes liabilities for amounts payable under insurance policies, including traditional life insurance, traditional annuities, indexed annuities, and non-medical health insurance. Generally, amounts are payable over an extended period of time and related liabilities are calculated as the present value of future expected benefits to be paid reduced by the present value of future expected premiums. Such liabilities are established based on methods and underlying assumptions in accordance with GAAP and applicable actuarial standards. Principal assumptions used in the establishment of liabilities for future policy benefits are mortality, morbidity, policy lapse, renewal, retirement, disability incidence, disability terminations, investment returns, inflation, expenses and other contingent events as appropriate to the respective product type. Utilizing these assumptions, liabilities are established on a block of business basis.

Future policy benefits for traditional life insurance policies, both participating and non-participating, are equal to the aggregate of the present value of expected future benefit payments and related expenses less the present value of expected future net premiums. Assumptions as to mortality and persistency are based upon the Company's experience when the basis of the liability is established. Interest rates for the aggregate future policy benefit liabilities range from 5.0% to 9.3%.

The Company's amount of life insurance in-force is made up of approximately 92% participating policies and approximately 8% non-participating policies. The Company periodically reviews its estimates of actuarial liabilities for future policy benefits and compares them with actual experience. Differences between actual experience and the assumptions used in pricing these policies and riders and in the establishment of the related liabilities result in variances in profit and could result in losses. The effects of changes in such estimated liabilities are included in the results of operations in the period in which the changes occur.

***Reserve for Deposit Type Contracts***

The reserve for deposit type contracts include payout annuities without life contingencies and dividend accumulations and are presented at amounts contractually due to policyholders.

***Other Policyholder Funds***

Other policyholder funds consists of advance premiums, policyholder dividends due and unpaid, policyholder dividends left on deposit and the provision for future policy benefit liabilities for individual and group traditional fixed annuities under non-life contingent payout. The Company accounts for the prepayment of premiums on its individual life, group life and health contracts as premium received in advance and applies the cash received to premiums when due.

Policyholder dividends due and unpaid on participating policies and policyholder dividends left on deposit are presented at amounts contractually due to policyholders. Future policy benefit liabilities for individual and group traditional fixed annuities after annuitization are equal to the present value of expected future payments. Interest rates used in establishing such liabilities range from 4.0% to 7.5%.

***Unearned Revenue***

Unearned revenue is that portion of premium paid prior to the valuation date for insurance coverage after the valuation date.

***Deferred Reinsurance Settlements***

Deferred reinsurance settlements are the effect of reinsurance transactions that resulted in a net gain. This gain is amortized over the remaining life of the underlying reinsured contracts.

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**Other Liabilities**

Other liabilities consist primarily of due and accrued commissions, accrued general expenses and taxes, and remittances not allocated.

**Income Taxes**

The Company files a consolidated tax return. The Company provides for federal income taxes based on amounts the Company believes it will ultimately owe or receive. Inherent in the provision for federal income taxes are estimates regarding the deductibility of certain expenses and the realization of certain tax credits.

The Company recognizes interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense. The Company did not have any accrued and recognized interest or penalties associated with unrecognized tax benefits for the years ending December 31, 2017, 2016, and 2015. The company did not have any unrecognized tax benefits.

**Revenue and Expense Recognition**

Premiums related to traditional life and immediate annuities and supplemental contracts with life contingencies are recognized as revenues when due from policyholders. Policyholder benefits and expenses are booked against such revenues to recognize profits over the estimated lives of the policies. When premiums are due over a significantly shorter period than the period over which benefits are provided, any excess profit is deferred and recognized into operations in a constant relationship to insurance in-force or, for annuities, the amount of expected future policy benefit payments.

Premiums related to non-medical health and disability policies are recognized on a pro rata basis over the applicable contract term.

Premiums related to interest sensitive and deposits related to deferred and immediate annuities without life contingencies are credited to policyholder account balances. Revenues from such contracts consist of amounts assessed against policyholder account balances for the cost of insurance (mortality risk), policy administration and early surrender. These assessments are recorded in policy fees in the period in which services are provided. Amounts that are charged to operations include interest credited and benefit claims incurred in excess of related policyholder account balances. Deposits are not considered revenue. Deposits are shown as a financing activity in the Consolidated Statement of Cash Flows.

Policy fees for variable annuity products consist of fees assessed against the policyholder account values for contract maintenance, administration, mortality, expense and early surrender. Contract benefits incurred for variable annuity products include death, income, withdrawal and accumulation benefits. Deposits are not recorded as revenue.

Interest credited to policyholder funds represents accrued or paid on interest sensitive life policies and annuity contracts. Crediting rates for interest sensitive life policies and fixed annuities are adjusted periodically by the Company to reflect current market conditions subject to contractually guaranteed minimum rates.

Operating costs and expenses are general expenses that are recognized when incurred.

The company does not issue any variable annuity contracts through separate accounts where the company contractually guarantees to the policyholder total deposits made to the contract less any partial withdrawals plus a minimum return.

**Other Revenues**

Other revenues consists mainly of income from fees associated with the management of the Separate Account.

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***Other Comprehensive Income***

Other comprehensive income includes the change in gross unrealized gains and losses on debt and equity securities, as well as the change in shadow DAC. This value is presented net of tax.

**3. Recent Accounting Pronouncements**

**Changes in Accounting Principles — Adopted**

In February 2018, the FASB issued ASU No. 2018-02, “Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income,” which provides an option to reclassify stranded tax effects within accumulated other comprehensive income (“AOCI”) to retained earnings in each period in which the effect of the change in the U.S. federal corporate income tax rate in the Tax

Cuts and Jobs Act (the “Tax Act”) is recorded. ASU No. 2018-02 is effective for fiscal years beginning after December 15, 2018, and should be applied either in the period of adoption or retrospectively to each period in which the effect of the change in the Tax Act is recognized. The Company early adopted ASU NO. 2018-02 effective December 31, 2017 using the portfolio method.

**Changes in Accounting Principles — Issued but Not Yet Adopted**

In August 2017, the FASB issued ASU No. 2017-12, “Derivatives and Hedging — Targeted Improvements to Accounting for Hedging Activities,” which changes the recognition and presentation requirements of hedge accounting. ASU No. 2017-12 is effective for annual periods beginning after December 15, 2018. Early adoption is permitted. The adoption of ASU No. 2017-12 is not expected to have a material impact on the Company’s consolidated financial statements.

In March 2017, the FASB issued ASU NO. 2017-08, “Receivables — Nonrefundable Fees and Other Costs: Premium Amortization on Purchased Callable Debt Securities,” which requires that certain premiums on callable debt securities be amortized to the earliest call date. ASU No. 2017-08 is effective for annual periods beginning after December 15, 2018. Early adoption is permitted. The adoption of ASU No. 2017-08 is not expected to have a material impact on the Company’s consolidated financial statements.

In June 2016, the FASB issued, regarding recognition of unrealized gains and losses through income, ASU No. 2016-13 “Financial Instruments — Credit Losses: Measurement of Credit Losses of Financial Instruments,” which provides a new current expected credit loss model to account for credit losses on certain financial assets and off-balance sheet exposure. The model requires an entity to estimate lifetime credit losses related to such assets and exposure based on relevant information about past events, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. The guidance also modifies the current other-than-temporary impairment guidance for available-for-sale debt securities to require the use of an allowance rather than a direct write down of the investment, and replaces existing guidance for purchased credit deteriorated loans and debt securities. ASU No. 2016-13 is effective for annual reporting periods beginning after December 15, 2020 with early adoption permitted for annual periods beginning after December 15, 2018. The Company is currently assessing the impact of the guidance on its consolidated financial statements and disclosures.

In January 2016, the FASB issued ASU No. 2016-01 “Financial Instruments — Overall: Recognition and Measurement of Financial Assets and Financial Liabilities,” which revises an entity’s accounting related to the classification and measurement of certain equity investments and the presentation of certain fair value changes for financial liabilities measured at fair value. The guidance also amends certain disclosure requirements associated with the fair value of financial instruments. ASU No. 2016-01 is effective for non-public companies for annual periods beginning after December 15, 2018.

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**4. Investments and Related Income**

The Company's principal investments are in fixed income and equity securities and policy loans.

The following table presents the amortized cost, gross unrealized gains and (losses) and fair value of the Company's fixed maturity and equities as of June 30, 2018 and December 31, 2017:

	June 30, 2018			
	Amortized Cost	Gross Unrealized		Fair Value
		Gains	Losses	
U.S. government	\$ 4,070	\$ 162	\$ (202)	\$ 4,030
States, political subdivisions, other	28,262	493	(534)	28,221
Corporate	107,080	1,034	(2,458)	105,656
Residential mortgage-backed securities	42,039	670	(1,046)	41,663
Commercial mortgage-backed securities	3,796	11	(128)	3,679
Total fixed maturity securities	185,247	2,370	(4,368)	183,249
Equity securities	4,484	1,878	—	6,362
Total fixed maturity and equity securities	<u>\$189,731</u>	<u>\$4,248</u>	<u>\$(4,368)</u>	<u>\$189,611</u>

	December 31, 2017			
	Amortized Cost	Gross Unrealized		Fair Value
		Gains	Losses	
U.S. government	\$ 4,075	\$ 207	\$ (120)	\$ 4,162
States, political subdivisions, other	26,850	876	(112)	27,614
Corporate	106,479	3,459	(543)	109,395
Residential mortgage-backed securities	41,818	1,480	(212)	43,086
Commercial mortgage-backed securities	4,210	26	(41)	4,195
Total fixed maturity securities	183,432	6,048	(1,028)	188,452
Equity securities	4,443	1,766	—	6,209
Total fixed maturity and equity securities	<u>\$187,875</u>	<u>\$7,814</u>	<u>\$(1,028)</u>	<u>\$194,661</u>

The scheduled maturities for fixed income securities as of June 30, 2018 and December 31, 2017 are as follows:

	June 30, 2018		December 31, 2017	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	\$ 3,499	\$ 3,554	\$ 2,247	\$ 2,288
Due after one year through five years	41,230	41,801	40,926	42,809
Due after five years through ten years	68,467	66,976	66,739	68,151
Due after ten years	26,216	25,576	27,492	27,923
Mortgage-backed securities	45,835	45,342	46,028	47,281
Total	<u>\$185,247</u>	<u>\$183,249</u>	<u>\$183,432</u>	<u>\$188,452</u>

Actual maturities may differ from those scheduled as a result of prepayments by the issuers. Because of the potential for prepayment on mortgage-backed securities, they are not categorized by contractual maturity.

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The following table presents the sources of fixed maturity proceeds and the related gross investment gains (losses) at June 30, 2018 and 2017:

	for the six-month period ended		
	June 30, 2018		
	Fixed Maturities	Equity Securities	Derivative Instruments
Proceeds from sales or maturities	\$8,197	\$261	\$ 206
Gross gains from sales or maturities	75	261	339
Other-than-temporary-impairment (OTTI) losses	(89)	—	—
Gross losses from sales or maturities	(39)	—	(223)
	for the six-month period ended		
	June 30, 2017		
	Fixed Maturities	Equity Securities	Derivative Instruments
Proceeds from sales or maturities	\$13,346	\$1,541	\$ 3
Gross gains from sales or maturities	143	778	9
Gross losses from sales or maturities	(19)	—	(7)

For the period ended June 30, 2018 a credit loss of \$89 was recognized through realized losses because the Company does not expect to fully recover the amortized cost value of two fixed income securities in the commercial mortgage backed sector held as available for sale. It was determined that that best estimate of the net present value of the future cash flow expected to be collected from these securities was significantly below their amortized cost values. A number of factors were analyzed to determine whether these impairments should be considered other-than-temporary, including but not limited to, fair market values of the securities, changes in fair market values, credit ratings, and an analysis of the underlying loan collateral with an assessment of the likelihood of full repayment of principal and interest. The credit loss reported was equal to the difference between amortized book value and the best estimate of the net present value of the projected cash flow expected to be recovered. The Company will evaluate future recovery estimates on a periodic basis.

The following is a rollforward of credit related OTTI recognized in earnings as of June 30, 2018:

	for the six-month period ended June 30, 2018
Balance at beginning of period	\$—
Additions for credit related OTTI not previously reported	89
Additions for increases in OTTI amounts previously recognized	—
Balance at end of period	\$89

The Company has a comprehensive portfolio monitoring process to identify and evaluate each fixed income and equity security whose carrying value may be other-than-temporarily impaired.

For each fixed income security in an unrealized loss position, the Company assesses whether management with the appropriate authority has made a decision to sell or whether it is probable that the Company will be required to sell the security before recovery of the amortized cost basis for reasons such as liquidity, contractual or regulatory purposes. If a security meets either of these criteria, the security's decline in fair value is deemed other than temporary and is recorded in earnings.

If the Company has not made the decision to sell the fixed income security and it is not more likely than not the Company will be required to sell the fixed income security before recovery of its amortized cost basis, the Company evaluates if it expects to receive cash flows sufficient to recover the entire

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amortized cost basis of the security by comparing the estimated recovery value calculated by discounting the best estimate of future cash flows at the security's original or current effective rate, as appropriate, with the amortized cost of the security. If the Company does not expect to receive cash flows sufficient to recover the entire amortized cost basis of the fixed income security, the credit loss component of the impairment is recorded in earnings, with the remaining amount of the unrealized loss deemed to be related to other factors and recognized in AOCI.

For equity securities, the Company considers various factors, including whether the Company has the intent and ability to hold the equity security for a period of time sufficient to recover its cost basis. Where the Company lacks the intent and ability to hold to recovery, or believes the recovery period is extended, the equity security's decline in fair value is considered other than temporary and is recorded in earnings.

The Company's portfolio monitoring process includes a quarterly review of all securities through a screening process which identifies instances where the fair value compared to amortized cost for fixed income securities and cost for equity securities is below established thresholds, and also includes the monitoring of other criteria such as ratings, ratings downgrades or payment defaults. The securities identified, in addition to other securities for which the Company may have a concern, are evaluated for potential other-than-temporary impairment using all reasonably available information relevant to the collectability or recovery of the security. Inherent in the Company's evaluation of other-than-temporary impairment for these fixed income and equity securities are assumptions and estimates about the financial condition of the issue or issuer and its future earnings potential. Some of the factors considered in evaluating whether a decline in fair value is other than temporary are: 1) the length of time and extent to which the fair value has been less than amortized cost for fixed income securities, or cost for equity securities; 2) the financial condition, near-term and long-term prospects of the issue or issuer, including relevant industry specific market conditions and trends, geographic location and implications of rating agency actions and offering prices; and 3) the specific reasons that a security is in a significant unrealized loss position, including overall market conditions which could affect liquidity.

The following table shows the fair value and gross unrealized losses aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at June 30, 2018 and December 31, 2017:

<b>June 30, 2018</b>	<b>Less than 12 months</b>		<b>12 months or longer</b>		<b>Total</b>	
<b>Description of securities</b>	<b>Fair Value</b>	<b>Gross Unrealized Loss</b>	<b>Fair Value</b>	<b>Gross Unrealized Loss</b>	<b>Fair Value</b>	<b>Gross Unrealized Loss</b>
U.S. government	\$ 1,406	\$ (85)	\$1,451	\$ (117)	\$ 2,857	\$ (202)
States, political subdivisions, other	16,345	(486)	694	(48)	17,039	(534)
Corporate	53,853	(1,921)	5,671	(537)	59,524	(2,458)
Residential mortgage-backed securities	19,331	(881)	1,795	(165)	21,126	(1,046)
Commercial mortgage-backed securities	3,611	(128)	—	—	3,611	(128)
<b>Total</b>	<b>\$94,546</b>	<b>\$ (3,501)</b>	<b>\$9,611</b>	<b>\$ (867)</b>	<b>\$104,157</b>	<b>\$ (4,368)</b>

<b>2017</b>	<b>Less than 12 months</b>		<b>12 months or longer</b>		<b>Total</b>	
<b>Description of securities</b>	<b>Fair Value</b>	<b>Gross Unrealized Loss</b>	<b>Fair Value</b>	<b>Gross Unrealized Loss</b>	<b>Fair Value</b>	<b>Gross Unrealized Loss</b>
U.S. government	\$ 1,161	\$ (31)	\$ 1,782	\$ (89)	\$ 2,943	\$ (120)
States, political subdivisions, other	8,773	(86)	714	(26)	9,487	(112)
Corporate	10,935	(169)	6,853	(374)	17,788	(543)
Residential mortgage-backed securities	11,517	(126)	2,263	(86)	13,780	(212)
Commercial mortgage-backed securities	2,039	(27)	77	(14)	2,116	(41)
<b>Total</b>	<b>\$34,425</b>	<b>\$ (439)</b>	<b>\$11,689</b>	<b>\$ (589)</b>	<b>\$46,114</b>	<b>\$ (1,028)</b>



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It is not more likely than not that the Company will be required to sell these investments before recovery of their amortized cost bases, which may be maturity.

**Net Investment Income**

Net investment income for the periods ended June 30, 2018 and June 30, 2017 is as follows:

	for the six-month periods ended	
	6/30/2018	6/30/2017
Fixed maturity securities	\$3,689	\$3,752
Equity securities	82	94
Real estate	72	74
Cash equivalents	19	12
Policy loans	356	362
Other	285	300
Subtotal	4,503	4,594
Investment expense	(285)	(302)
Net investment income	<u>\$4,218</u>	<u>\$4,292</u>

**Unrealized Capital Gains (Losses)**

Unrealized net capital gains and losses included in accumulated other comprehensive income at June 30, 2018 and December 31, 2017:

	June 30, 2018			
	Fair Value	Gross Unrealized		Net Unrealized Gain (Loss)
		Gains	Losses	
Fixed income securities	\$183,249	\$2,370	\$(4,368)	\$(1,998)
Equity securities	6,362	1,878	—	1,878
Net unrealized capital gains				<u>\$ (120)</u>

	December 31, 2017			
	Fair Value	Gross Unrealized		Net Unrealized Gain (Loss)
		Gains	Losses	
Fixed income securities	\$188,452	\$6,048	\$(1,028)	\$5,020
Equity securities	6,209	1,766	—	1,766
Net unrealized capital gains				<u>\$6,786</u>

At June 30, 2018 and December 31, 2017, securities with a market value of approximately \$4.5 million and \$4.7 million, respectively, were on deposit with governmental agencies as required by law.

**Credit Risk**

The Company generally strives to maintain a diversified invested asset portfolio but is exposed to credit and other types of risks related to its holding in fixed income and equity securities. Such risk may be related to individual companies, sectors, or entire asset classes. The Company manages this risk by holding a diversified portfolio of securities and sectors and by limiting the amount of exposure to a single issuer or credit. For both June 30, 2018 and December 31, 2017, approximately 25% of the Company's investments in fixed maturities were invested in commercial and residential mortgage-backed securities and approximately

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57% and 58% in corporate bonds, respectively. Approximately 5% and of the fixed income maturities were rated below investment grade. There is certain concentration risk from investments in companies that are engaged in similar activities and have similar economic characteristics. The largest corporate bond sector exposures at June 30, 2018 are consumer non-cyclical consisting of 11% of the total fixed income portfolio, banks 6%, communications 6%, real estate 5%, and energy 5%. The largest corporate bond sector exposures at December 31, 2017 were consumer non-cyclical consisting of 12% of the total fixed income portfolio, banks 6%, energy 6%, communications 5%, and real estate 5%. The Company uses equity index options to fully hedge its equity market exposure to index annuity products. These are exchange traded options and there is no credit risk.

#### **5. Derivative Instruments**

The Company uses derivatives to hedge its equity market exposure to index annuity products which are contracts that earn a return based on the change in the value of the S&P 500 index between annual index point dates. The Company buys and sells listed equity and index call options and call option spreads and there is no credit risk. The net premium is paid up front and there are no additional cash requirements or additional contingent liabilities. These contracts are held at fair market value on the company's balance sheet. At June 30, 2018 and December 31, 2017, these derivative hedges had a net market value of \$398 thousand and \$395 thousand, with notional amounts of \$11.1 million and \$8.5 million on call options purchased and \$7.6 million and \$6.0 million on call options written, as of June 30, 2018 and December 31, 2017.

#### **6. Fair Value of Financial Instruments**

Fair value estimates are made at specific points in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale, at one time, the Company's entire holding of a particular financial instrument. Although fair value estimates are calculated using assumptions that management believes are appropriate, changes in assumptions could significantly affect estimates.

Fair value estimates are determined for existing financial instruments without attempting to estimate the value of anticipated future business and the value of assets and certain liabilities that are not considered financial instruments. Accordingly, the aggregate fair value estimates presented do not represent the underlying value of the Company.

Valuation techniques and inputs used are described on pages F-50 – F-53.

The Company has procedures in place to validate the fair values received from the independent pricing service. The Company assesses whether prices received represent a reasonable estimate of fair value through various controls designed to ensure that valuations represent a fair price, including calculation of portfolio returns, comparison of returns to corresponding benchmark returns, analysis of periodic changes in market prices, evaluation of corresponding market yields and spread levels, and comparing prices from multiple pricing sources. On an ongoing basis, the Company monitors the pricing service valuation methods and evaluates the various types of securities in its investment portfolio to determine an appropriate fair value hierarchy. Most prices provided by the pricing services are classified into Level 2 due to their use of market observable inputs.

In addition, tax ramifications related to the realization of unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in any of the estimates. The following methods and assumptions were used by the Company in estimating the fair value of its financial instruments:

**Fixed maturity and equity securities:** Fair values were determined by an independent pricing service and are downloaded from Clearwater Analytics. The Company does not own any securities for which a fair value was not provided by the pricing service or a custody statement. Fair values are checked for

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reasonableness. If a fair value had not been provided for a security, the Company would use a fair value estimated from yield data relating to instruments or securities with similar characteristics or as determined in good faith by the Company's investment advisor, Deutsche Asset Management.

**Derivative instruments:** Fair values were determined by an independent pricing service and are downloaded from Clearwater Analytics. Fair values are checked for reasonableness.

**Policy loans:** The carrying value of policy loans approximates fair value.

**Cash and cash equivalents:** The carrying value approximates fair value.

**Policyholder account balance:** For deposit liabilities, the fair value was based on the amount payable on demand at the reporting date and approximates fair value.

Amounts related to the Company's financial instruments as of June 30, 2018 and December 31, 2017 are as follows:

	Carrying\Fair Value 06/30/2018	Carrying\Fair Value 12/31/2017
<b>Financial instruments recorded as assets:</b>		
Fixed maturity securities	\$183,249	\$188,452
Equity securities	6,362	6,209
Policy loans	9,718	9,852
Derivative instruments	398	395
Cash and cash equivalents	3,913	4,085
Separate account	23,690	24,779
<b>Financial instruments recorded as liabilities:</b>		
<b>Policyholder account balance:</b>		
Interest sensitive life contracts	41,217	41,078
Annuities	72,437	68,745
Dividend accumulations and other <sup>(1)</sup>	6,906	7,076
Separate account	23,690	24,779

(1) included within Reserve for deposit type funds in the consolidated balance sheet

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The hierarchy for inputs used in determining fair value maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that observable inputs be used when available. Assets and liabilities recorded on the Consolidated Statements of Financial Position at fair value are categorized in the fair value hierarchy based on the observability of inputs to the valuation techniques as follows:

Level 1 — Assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market that the Company can access.

Level 2 — Assets and liabilities whose values are based on the following: Quoted prices for similar assets or liabilities in active markets;

- (a) Quoted prices for identical or similar assets or liabilities in markets that are not active; or
- (b) Valuation models whose inputs are observable, directly or indirectly, for substantially the full term of the asset or liability.

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Level 3 — Assets and liabilities whose values are based on prices or valuation techniques that require that are both unobservable and significant to the overall fair value measurement. Unobservable inputs reflect the Company's estimates of the assumptions that market participants would use in valuing the assets and liabilities. Summary of significant valuation techniques for assets and liabilities measured at fair value on a recurring basis:

Level 1 measurements:

Fixed maturity securities: Comprised of U.S. Treasury and GNMA agency securities. Valuation is based on unadjusted quoted prices for identical assets in active markets that the Company can access.

Equities: Comprised of actively traded, exchange-listed equities. Valuation is based on unadjusted quoted prices for identical assets in active markets that the Company can access.

Derivative instruments: Comprised of actively traded, exchange-listed derivatives. Valuation is based on unadjusted quoted prices for identical assets in active markets that the Company can access.

Cash Equivalents: Comprised of money market funds. Market values for the money market funds are obtained from the fund managers.

Separate account assets: Comprised of actively traded mutual funds that have daily quoted net asset values for identical assets that the Company can access. Market values for the actively traded mutual funds in which the separate account assets are invested are obtained daily from the fund managers.

Level 2 measurements:

Fixed maturity securities:

States, political subdivisions, and corporate securities: The primary inputs to the valuation include quoted prices for identical or similar assets in markets that are not active, contractual cash flows, benchmark yields and credit spreads.

Residential mortgage-backed securities: The primary inputs to the valuation include quoted prices for identical or similar assets in markets that are not active, contractual cash flows, benchmark yields, prepayment speeds, collateral performance and credit spreads.

Commercial mortgage-backed securities: The primary inputs to the valuation include quoted prices for identical or similar assets in markets that are not active, contractual cash flows, benchmark yields, collateral performance and credit spreads.

Level 3 measurements:

Equities: The primary inputs to the valuation include quoted prices for identical or similar assets in markets that exhibit less liquidity relative to those markets supporting Level 2 fair value measurements, contractual cash flows, benchmark yields, collateral performance, credit spreads, and other estimates including custody statements.

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The following table presents the Company's securities measured at fair value on a recurring basis as of June 30, 2018 and December 31, 2017:

Description	Recurring Fair Value Measurements at June 30, 2018 Using:			
	Fair Values	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Fixed maturity securities:</b>				
U.S. government	\$ 4,030	\$ 4,030	\$ —	\$ —
States, political subdivisions, other	28,221	—	28,221	—
Corporate	105,656	—	105,656	—
Residential mortgage-backed securities	41,663	—	41,663	—
Commercial mortgage-backed securities	3,679	—	3,679	—
<b>Total fixed maturities</b>	<b>183,249</b>	<b>4,030</b>	<b>179,219</b>	<b>—</b>
Equities	6,362	4,123	—	2,239
Derivative instruments	398	398	—	—
Cash equivalents <sup>(1)</sup>	3,913	3,913	—	—
Separate accounts <sup>(2)</sup>	23,690	23,690	—	—
<b>Total</b>	<b>\$217,612</b>	<b>\$ 36,154</b>	<b>\$ 179,219</b>	<b>\$ 2,239</b>
Description	Recurring Fair Value Measurements at December 31, 2017 Using:			
	Fair Values	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Fixed maturity securities:</b>				
U.S. government	\$ 4,162	\$ 4,162	\$ —	\$ —
States, political subdivisions, other	27,614	—	27,614	—
Corporate	109,395	—	109,395	—
Residential mortgage-backed securities	43,086	—	43,086	—
Commercial mortgage-backed securities	4,195	—	4,195	—
<b>Total fixed maturities</b>	<b>188,452</b>	<b>4,162</b>	<b>184,290</b>	<b>—</b>
Equities	6,209	4,027	—	2,182
Derivative instruments	395	395	—	—
Cash equivalents <sup>(1)</sup>	4,085	4,085	—	—
Separate accounts <sup>(2)</sup>	24,779	24,779	—	—
<b>Total</b>	<b>\$223,920</b>	<b>\$ 37,448</b>	<b>\$ 184,290</b>	<b>\$ 2,182</b>

(1) Cash equivalents are invested in money market funds with daily liquidity. The estimated fair value of cash equivalents is based on the estimated fair value of the underlying assets as provided by fund managers in daily net asset values and included in Level 1 assets.

(2) Separate account assets are invested in money market funds with daily liquidity. The estimated fair value of separate account assets is based on the estimated fair value of the underlying assets as provided by fund managers in daily net asset values and included in Level 1 assets.

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The following table shows quantitative information about significant unobservable inputs related to the Level 3 fair value measurements reported in the tables used as of June 30, 2018 and December 31, 2017:

Fair value at June 30, 2018	Primary Valuation Technique(s)	Significant Unobservable Inputs	Range		Weighted Average
			Min	Max	
Rreef America REIT II	\$2,202 Discounted cash Flows	Discount Rate	5.00%	9.00%	6.50%
		Terminal capitalization rate	3.75%	8.00%	5.48%

Fair value at December 31, 2017	Primary Valuation Technique(s)	Significant Unobservable Inputs	Range		Weighted Average
			Min	Max	
Rreef America REIT II	\$2,150 Discounted cash Flows	Discount Rate	5.00%	9.00%	6.61%
		Terminal capitalization rate	4.00%	8.25%	5.62%

The following table presents the rollforward of Level 3 assets held at fair value on a recurring basis as of June 30, 2018 and 2017:

	for the six-month periods ended	
	6/30/2018	6/30/2017
Balance, beginning of year	\$2,182	\$ 3,169
Gains included in net income	—	396
Settlements	—	(1,000)
Unrealized gains (losses) in OCI	57	(424)
Balance, end of period	\$2,239	\$ 2,141

#### 7. Deferred Acquisition Costs and Deferred Sales Inducement Costs

The Company incurs significant costs in connection with acquiring new insurance business. Costs that vary with and relate to the successful production of new business are deferred as DAC. Such costs consist principally of commissions and policy issue expenses. The recovery of DAC is dependent upon the future profitability of the related business. DAC on life insurance or investment-type contracts are amortized in proportion to gross premiums, gross margins or gross profits, depending on the type of contract as described below. Sales inducements such as bonuses on index annuity products are also deferred and amortized through expenses over future time periods.

The balances of and changes in deferred acquisition costs were as follows as of June 30, 2018 and December 31, 2017:

	6/30/2018	12/31/2017
Balance, beginning of year	\$12,179	\$11,940
Capitalization of commissions, sales and issue expenses	1,011	2,437
Accrual of interest	275	544
Amortization	(1,180)	(2,659)
Change in Shadow DAC	1,035	(83)
Balance end of period	\$13,320	\$12,179

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The balances of and changes in deferred sales inducement costs were as follows as of June 30, 2018 and December 31, 2017:

	<u>6/30/2018</u>	<u>12/31/2017</u>
Balance, beginning of year	\$ 867	\$315
Capitalization of commissions and issue expenses	201	545
Accrual of interest	15	18
Amortization	(7)	(11)
Balance end of period	<u>\$1,076</u>	<u>\$867</u>

### 8. Accumulated Other Comprehensive Income

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

	<u>Unrealized Investment Gains (losses)</u>	<u>Shadow DAC</u>	<u>Accumulated Other Comprehensive Income (loss)</u>
Balance, December 31, 2016	\$ 3,997	\$(448)	\$ 3,549
Available-for-sale investment gains (losses) arising during the year:			
Fixed maturity securities net of tax of \$227	440		440
Equity securities net of tax of \$9	18		18
Change in Shadow DAC net of tax benefit of \$28		(55)	(55)
Cumulative effect of adoption of new accounting principle (see Note 3)	904	(99)	805
Balance, December 31, 2017	<u>\$ 5,359</u>	<u>\$(602)</u>	<u>\$ 4,757</u>
Available-for-sale investment gains (losses) arising during the year:			
Fixed maturity securities net of tax benefit of \$276	(6,742)		(6,742)
Equity securities net of tax of \$21	79		79
Change in Shadow DAC net of tax of \$217		817	817
Balance, June 30, 2018	<u>\$(1,304)</u>	<u>\$ 215</u>	<u>\$(1,089)</u>

Accumulated other comprehensive income includes gross unrealized gains and losses on debt and equity securities, as well as shadow DAC. This value is presented net of tax.

### 9. Reinsurance

The Company reinsures a portion of its business to other insurance companies to limit mortality risk and limit its overall financial exposure. The Company reinsures amounts over its \$250 thousand retention limit on certain life policies through yearly renewable term (YRT) and coinsurance agreements. Although these reinsurance agreements contractually obligate the reinsurers to reimburse the Company, they do not discharge the Company from its primary liability and obligations to policyholders. Federal Life's reinsured business under life reinsurance agreements is primarily ceded to two reinsurers; Optimum Re and SCOR Global Life Americas. The Company regularly monitors the financial strength of its reinsurers. We believe the assuming companies will be able to honor all contractual commitments, based on our periodic review of their financial statements, insurance industry reports and reports filed with state insurance departments.

In 2016, the Company entered into a reinsurance arrangement with Optimum Re covering the majority of its inforce level term business. This is defined as a long duration contract and the expected cost of reinsurance is spread over the life of the policies. This arrangement cedes 80% of the mortality risk on every

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such policy on a YRT basis that was not already ceded as described in the previous paragraph. In 2017, the Company entered into a reinsurance arrangement with Optimum Re covering the majority of its inforce universal life business, which cedes 80% of the mortality risk on every such policy. These transactions resulted in deferred reinsurance gains.

Total insurance revenues as of June 30, 2018 include \$1.3 million reinsurance assumed and \$1.3 million reinsurance ceded, resulting in no net effect. As of June 30, 2018, we have reinsurance recoverables of \$3.6 million and prepaid reinsurance premium of \$1.4 million. Total insurance revenues as of June 30, 2017 include \$1.5 million reinsurance assumed and \$1.0 million reinsurance ceded, resulting in a net effect of \$0.5 million. As of December 31, 2017, we had reinsurance recoverables of \$3.7 million and prepaid reinsurance premium of \$1.4 million.

#### 10. Separate Account

The Company utilizes separate accounts to record and account for assets and liabilities for a variable annuity line of business. In accordance with the product recorded within the separate account, all of the assets are considered legally insulated. The legal insulation of the separate account assets prevents such assets from being generally available to satisfy claims resulting from the general account.

Separate account assets are invested in mutual funds. The estimated fair value of separate account assets is based on the estimated fair values of the underlying assets as published by fund managers in daily net asset values and are the basis for current transactions.

As of June 30, 2018 and December 31, 2017 the Company's separate account statement included legally insulated assets of \$23.7 million and \$24.8 million, respectively. The separate account verification is as follows:

	<u>June 30, 2018</u>	<u>December 31, 2017</u>
Balance, beginning of year	\$24,779	\$21,513
Cost of bonds and stocks acquired	—	299
Net realized and unrealized increase (decrease)	(200)	3,467
Deduction consideration for bonds and stocks disposed of	(952)	(562)
Change in other assets	63	62
Balance, end of period	<u>\$23,690</u>	<u>\$24,779</u>

The Company has no accumulation products with guarantees backed by the general account. The Company no longer issues new contracts under the separate account.

#### 11. Policyholder Liabilities

Future life and accident and health policy benefits as of June 30, 2018 and December 31, 2017 are as follows:

	<u>6/30/2018</u>	<u>12/31/2017</u>
Traditional life contracts	\$62,404	\$62,311
Immediate annuities and pension plan	6,704	6,774
Supplemental contracts with life contingencies	3,186	2,522
Accident and health	343	386
Accident death benefits	133	132
Disability	181	188
	<u>\$72,951</u>	<u>\$72,313</u>



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The following table highlights the key assumptions generally used in calculating the reserve for life-contingent contract benefits:

<u>Product</u>	<u>Mortality</u>	<u>Interest Rate</u>	<u>Estimation Method</u>
Immediate fixed annuities	1971, 1983, 2000, and 2012 annuity mortality tables	Rates range from 4% to 6.5%	Present value of expected future benefits based on historical experience
Traditional life insurance	Actual company experience plus loading	Rates range from 2.5% to 5.75%	Net level premium reserve method using the Company's withdrawal experience
Accident and health	Actual company experience plus loading	n/a	Unearned premium; additional contract reserves for mortality risk

The total net reserves for life-contingent products are greater than the actuarial present value of the difference between future cash flow disbursements and future cash flow receipts using best estimate assumptions. Consequently, no premium deficiency reserve is required for this block of business.

Policyholder account balances as of June 30, 2018 and December 31, 2017 are as follows:

	<u>6/30/2018</u>	<u>12/31/2017</u>
Interest sensitive life contracts	\$ 41,217	\$ 41,078
Annuities	72,437	68,745
	<u>\$113,654</u>	<u>\$109,823</u>

The following table highlights the key contract provisions relating to policyholder funds:

<u>Product</u>	<u>Interest Rate</u>	<u>Withdrawal/surrender charges</u>
Interest-sensitive life insurance	Rates range from 3% to 7%	Either a percentage of account balance or a dollar amount grading off generally over 20 years
Fixed annuities	Rates range from 0% to 8%	Either a declining or level charge generally over 9 years or less
Other investment contracts	Rates range from 2% to 6%	No explicit charge assumed

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Policyholder funds activity for the six and twelve months ended June 30, 2018 and December 31, 2017 is as follows:

	<u>6/30/2018</u>	<u>12/31/2017</u>
Balance, beginning of year	\$109,823	\$ 99,440
Deposits	7,439	17,994
Interest credited	2,214	4,353
Benefits	(1,432)	(2,734)
Surrenders and partial withdrawals	(2,279)	(4,835)
COI charges	(1,459)	(2,973)
Contract charges	(652)	(1,307)
Net transfers from separate accounts	—	(115)
Balance, end of period	<u>\$113,654</u>	<u>\$109,823</u>

Other policyholder funds as of June 30, 2018 and December 31, 2017:

	<u>6/30/2018</u>	<u>12/31/2017</u>
Payout annuities without life contingencies	\$ 4,316	\$ 3,774
Dividend accumulations and other	6,906	7,076
	<u>\$11,222</u>	<u>\$10,850</u>

## 12. Real Estate

Real estate consists of the Company's home office property and is carried at cost less accumulated depreciation. The following table presents the Company's real estate holdings at June 30, 2018 and December 31, 2017:

	<u>6/30/2018</u>	<u>12/31/2017</u>
Land	\$ 405	\$ 405
Building and other	8,439	8,378
	8,844	8,783
Accumulated depreciation	(6,887)	(6,828)
Real Estate, net	<u>\$ 1,957</u>	<u>\$ 1,955</u>

Depreciation expense on real estate was \$58 thousand as of June 30, 2018 and \$59 thousand as of June 30, 2017.

## 13. Property and Equipment

Property and equipment is carried at cost less accumulated depreciation. The following table presents the Company's property and equipment at June 30, 2018 and December 31, 2017:

	<u>6/30/2018</u>	<u>12/31/2017</u>
EDP equipment	\$ 3,973	\$ 3,955
Furniture	1,592	1,522
EDP equipment & furniture cost	5,565	5,477
Accumulated depreciation	(5,356)	(5,281)
Property and Equipment, net	<u>\$ 209</u>	<u>\$ 196</u>

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Depreciation expense on property and equipment was \$79 thousand as of June 30, 2018 and \$79 thousand as of June 30, 2017.

**14. Income Taxes**

Effective 2016, the Company and subsidiaries files a consolidated federal income tax return under Federal Life Mutual Holding Company as the ultimate parent. Tax years 2014 through 2017 are subject to examination by the IRS. Prior to 2016, consolidated federal income tax returns were filed under Federal Life Insurance Company as the ultimate parent.

The Company had no liability for unrecognized tax benefits at June 30, 2018 or December 31, 2017 and believes it is reasonably possible that the liability will not significantly increase within the next twelve months. No amounts have been accrued for interest or penalties.

The Tax Act limits life reserves for tax purposes to the greater of net surrender value or 92.81 percent of required reserves. It is not estimated that this will have a meaningful impact to the net admitted assets on the Company's balance sheet.

The components of income tax benefit for the periods ended June 30, 2018 and 2017 are as follows:

	for the six-month periods ended	
	6/30/2018	6/30/2017
Current	\$ 9	\$14
Deferred	—	—
Provision for income tax	<u>\$ 9</u>	<u>\$14</u>

The federal income tax provisions differ from the amounts determined by multiplying pre-tax income attributable to the Company by the statutory federal income tax rate of 21% for June 30, 2018 and 34% for June 30, 2017.

	for the six-month periods ended	
	6/30/2018	6/30/2017
Income tax benefits at statutory rate	\$(417)	\$(338)
Dividends received deduction	—	—
Other	426	352
Income tax (benefit) expense	<u>\$ 9</u>	<u>\$ 14</u>
Effective tax rate	0.5%	1.4%

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The tax effects of temporary differences that give rise to significant portions of the Company's net deferred federal tax asset (liability) from continuing operations at a tax rate of 21% are shown below.

	6/30/2018	12/31/2017
<b>Deferred federal tax assets:</b>		
Difference between financial reporting and the tax basis of:		
Operating loss carryforward	\$ 6,180	\$ 5,859
Other than temporary impairments	966	947
Deferred premiums	850	734
Life policy reserves	702	600
Other	299	380
Deferred reinsurance settlements	594	619
Total deferred tax assets	9,591	9,139
<b>Deferred federal tax liabilities:</b>		
Difference between financial reporting and the tax basis of:		
Deferred acquisition costs and sales inducements	2,430	2,147
Net unrealized gains	(32)	1,421
Reinsurance recoverable	761	766
Amortized discount on bonds	123	138
Other	216	143
Fixed assets	(12)	53
Total deferred tax liabilities	3,486	4,668
Net	6,105	4,471
Less valuation allowance	(5,610)	(4,013)
Net deferred tax asset	<u>\$ 495</u>	<u>\$ 458</u>

The Company has net operating loss carryforwards for income tax purposes at December 31, 2017 as follows:

Expiring	
2018	\$ 167
2019	1,590
2020	2,296
2021	651
2022	520
2023	861
2024	1,762
2025	7,836
2026	2,188
2027	1,353
2028	2,664
2029	509
2030	2,240
2031	1,119
2032	596
Total	<u>\$26,352</u>

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Recent changes in corporate tax laws regarding net operating losses (NOLs) have resulted in taxable income for tax periods after 2017 being limited to an 80% deduction with no carrybacks and indefinite carryforwards.

**15. Employers' Disclosures About Postretirement Benefits**

The Company has a 401k plan covering substantially all employees. Employees may contribute up to 10% of their total pretax cash compensation. The Company matches employee contributions up to 3% of cash compensation at the time of the contribution. The Company may match employee contributions up to an additional 3% of cash compensation at the end of the year. The Company's contribution during the periods ended June 30, 2018 and 2017, was \$49 thousand and \$48 thousand, respectively.

**16. Commitments and Contingent Liabilities**

The Company is involved in various legal actions for which it will establish liabilities where appropriate. In the opinion of the Company's management, based on the advice of legal counsel, the resolution of such litigation is not expected to have a material adverse affect on the Company's financial position, results of operations or cash flows.

**17. Debt and Federal Home Loan Bank Advances**

Effective June 29, 2018, an Exchangeable Promissory Note with a principal amount of up to \$2.0 million and a 3.75% interest rate has been issued by Federal Life Mutual Holding Company. Under this note, a \$0.6 million advance was taken as of June 30, 2018 with July 11, 2018 funding date. The outstanding principal balance of this exchangeable note will automatically convert into shares of our common stock upon completion of the plan of conversion.

Federal Life Insurance Company is a member of the Federal Home Loan Bank (FHLB) and has access to various advances and other funding products. As of June 30, 2018 and December 31, 2017 there were no advances or other credit outstanding with the FHLB.

**18. Related Party Transactions**

All the outstanding shares of Americana Realty Company and FED Mutual Financial Services, Inc. are owned by the parent company, Federal Life Insurance Company. Federal Life Insurance Company is owned by FEDHO Holding Company which is controlled by Federal Life Mutual Holding Company. As of June 30, 2018 and 2017, Americana Realty paid \$119 thousand and \$754 thousand respectively, in common stock dividends to Federal Life Insurance Company. As of June 30, 2018 and December 31, 2017 Americana Realty Company reported \$285 thousand and \$41 thousand, respectively, as dividends due to its parent company, Federal Life Insurance Company. This amount is generally settled within 60 days. As of June 30, 2018, Federal Life Mutual Holding Company paid \$10 thousand in interest to Federal Life Insurance Company on the Guaranty Fund Note that was issued in 2016. As of June 30, 2018, Federal Life Mutual Holding Company has accrued \$540 thousand in reorganizational expenses that will be reimbursed to Federal Life Insurance Company. Federal Life Insurance Company has set up a receivable for this amount. Federal Life Insurance Company provides financial support for Fed Mutual Financial Services, Inc. to continue its operations. All related party transactions eliminate in consolidation.

**19. Policyholder's Equity — Statutory Capital and Surplus**

Under Illinois insurance regulations, Federal Life Insurance Company is required to maintain minimum surplus of \$1.5 million. As of June 30, 2018 and December 31, 2017 its surplus exceeded the minimum required. Federal Life Mutual Holding Company is required to maintain a minimum surplus of \$2 million.

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**Notes to Unaudited Consolidated Financial Statements**

Federal Life Insurance Company's statutory loss and capital and surplus, as determined in accordance with accounting practices prescribed or permitted by the State of Illinois Department of Insurance were approximately \$1.0 million and \$13.9 million as of June 30, 2018 and \$92 thousand and \$14.9 million as of December 31, 2017.

Each licensed insurance company's state of domicile imposes minimum risk-based capital requirements that were developed by the National Association of Insurance Commissioners (NAIC). The formulas for determining the amount of risk-based capital utilize various weighting factors that are applied to financial balances or various levels of activity based on the perceived degree of risk. Either the weighting factors or the methodology for determining the weighting factors is specified by the NAIC. Regulatory compliance is determined by a ratio of total adjusted capital, as defined by the NAIC, to authorized control level risk-based capital, as defined by the NAIC. Companies below specific trigger points or ratios are classified within certain levels, each of which requires specified corrective action. Federal Life Insurance Company exceeded the minimum risk-based capital requirements at June 30, 2018 and December 31, 2017.

Federal Life Insurance Company faces regulatory restrictions on the ability to transfer funds to the registrant (Federal Life Mutual Holding Company) in the form of cash dividends, loans or advances. As of June 30, 2018 the amount of restricted net assets amounts to \$12.5 million, which equals 90% of Federal Life Insurance Company's capital and surplus of \$13.9 million.

The Illinois Department of Insurance has approved permitted practice to admit a \$2 million Guaranty Fund Note issued by Federal Life Mutual Holding Company and purchased by Federal Life Insurance Company. Without this approval, this asset would be non-admitted and total Capital and Surplus would be reduced by \$2 million to \$11.9 million. This amount exceeds the required minimum capital.

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You should rely only on the information contained in this prospectus. We have not, and Griffin Financial has not, authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and Griffin Financial is not, making an offer to sell these securities to any person in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this prospectus is accurate only as of the date of this prospectus. Our business, financial condition, results of operations, and prospects may have changed since that date. Information contained on our website is not part of this prospectus.

The table of contents is located on the inside of the front cover of this prospectus.

## **FEDERAL LIFE GROUP, INC.**

[LOGO]

### **UP TO 4,600,000 SHARES COMMON STOCK**

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**PROSPECTUS**

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**GRIFFIN FINANCIAL**

[                      ], 2018

Until [                      , 2018] all dealers effecting transactions in Federal Life Group, Inc. common stock may be required to deliver a prospectus. This is in addition to the obligation of dealers to deliver a prospectus when acting as underwriters and with respect to any unsold allotments or subscriptions.

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**PART II**  
**INFORMATION NOT REQUIRED IN PROSPECTUS**

**Item 13. Other Expenses of Issuance and Distribution.**

The table below sets forth the costs and expenses payable by us in connection with the issuance and distribution of the securities being registered. All amounts are estimated, except for the SEC registration fee. All costs and expenses are payable by us.

SEC Registration Fee	\$ 5,727
Printing, Postage and Mailing Expenses	\$225,000
FINRA Filing Fees	7,400
NASDAQ Listing Fee	45,000
Legal Fees and Expenses	350,000
Accounting Fees and Expenses	255,000
Valuation Expenses	124,000
Transfer and Offering Agent Fees and Expenses	5,000
Underwriters' Expense Reimbursement	[•]
Blue Sky Fees and Expenses	0
Miscellaneous Expenses	[•]
Total	<u>\$ *</u>

**Item 14. Indemnification of Directors and Officers.**

Pennsylvania law provides that a Pennsylvania corporation may indemnify directors, officers, employees, and agents of the corporation against liabilities they may incur in such capacities for any action taken or any failure to act, whether or not the corporation would have the power to indemnify the person under any provision of law, unless such action or failure to act is determined by a court to have constituted recklessness or willful misconduct. Pennsylvania law also permits the adoption of a bylaw amendment, approved by shareholders, providing for the elimination of a director's liability for monetary damages for any action taken or any failure to take any action unless the director has breached or failed to perform the duties of his office, and the breach or failure to perform constitutes self-dealing, willful misconduct, or recklessness.

Our bylaws provide for (i) the indemnification of the directors, officers, employees, and agents of Federal Life Group, Inc. and its subsidiaries to the fullest extent permitted by Pennsylvania law and (ii) the elimination of a directors' liability for monetary damages to the fullest extent permitted by Pennsylvania law unless the director has breached or failed to perform the duties of his or her office under Subchapter B of Chapter 17 of the Pennsylvania Business Corporation Law, and such breach or failure to perform constitutes self-dealing, willful misconduct, or recklessness.

We will also maintain director and officer liability insurance.

These indemnification provisions may be sufficiently broad to permit indemnification of our officers and directors for liabilities (including reimbursement of expenses incurred) arising under the Securities Act.

Additionally, in the agency agreement with Griffin Financial, Griffin Financial will indemnify our officers and directors against certain liabilities, including liabilities under the Securities Act under certain conditions and with respect to certain information.

**Item 15. Recent Sales of Unregistered Securities.**

None.

**Item 16. Exhibits and Financial Statement Schedules.**

(a) *List of Exhibits.* See the Exhibit Index filed as part of this Registration Statement.



(b) *Financial Statement Schedules.* No financial statement schedules are filed as a part of this registration statement because the information is included in the Company's financial statements and related notes beginning on page F-1 of the prospectus.

**Item 17. Undertakings.**

- (a) The undersigned registrant hereby undertakes:
- (1) to file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:
    - (i) to include any prospectus required by Section 10(a)(3) of the Securities Act of 1933;
    - (ii) to reflect in the prospectus any fact or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement; and
    - (iii) to include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement.
  - (2) that, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial *bona fide* offering thereof;
  - (3) to remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of this offering;
  - (4) to provide to the underwriter at the closing specified in the underwriting agreements certificates in such denominations and registered in such names as required by the underwriter to permit prompt delivery to each purchaser;
  - (5) that, for purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act of 1933 shall be deemed to be part of this registration statement as of the time it was declared effective; and
  - (6) that, for the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial *bona fide* offering thereof.
- (b) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the forgoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act of 1933 and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

## EXHIBIT INDEX

Exhibit No.	Description of Exhibit
1.1	Form of Agency Agreement between Federal Life Insurance Company, Federal Life Mutual Holding Company, Federal Life Group, Inc. and Griffin Financial Group LLC
2.1	Federal Life Mutual Holding Company Plan of Conversion from Mutual Holding Company to Stock Form adopted March 8, 2018, as amended
3.1	Amended and Restated Articles of Incorporation of Federal Life Group, Inc.
3.2	Bylaws of Federal Life Group, Inc.
4.1	Form of Stock Certificate of Federal Life Group, Inc.**
4.2	Exchangeable Promissory Note issued by Federal Life Mutual Holding Company to Insurance Capital Group, LLC
5.1	Opinion of Stevens & Lee, P.C. regarding legality of stock of Federal Life Group, Inc. being issued*
8.1	Opinion of Stevens & Lee, P.C. regarding the tax treatment of the subscription rights*
10.1	Federal Life Group, Inc. 2018 Equity Incentive Plan*
10.2	Form of Non-Qualified Stock Option Award Agreement under the Federal Life Group, Inc. 2018 Equity Incentive Plan*
10.3	Form of Restricted Stock Award Agreement under the Federal Life Group, Inc. 2018 Equity Incentive Plan*
10.4	Reinsurance Agreement dated August 26, 2016 between Federal Life Insurance Company and Optimum Re Insurance Company, as amended.
10.5	Standby Stock Purchase Agreement dated as of March 9, 2018, by and among Federal Life Insurance Company, Federal Life Mutual Holding Company, Federal Life Group, Inc., and Insurance Capital Group, LLC, as amended
10.6	Executive Agreement dated March 3, 2010 between Joseph D. Austin and Federal Life Insurance Company.
10.7	Executive Agreement dated November 30, 2017 between William S. Austin and Federal Life Insurance Company.
10.8	Executive Agreement dated March 3, 2010 between Michael Austin and Federal Life Insurance Company.
10.9	Escrow Agreement dated September 12, 2018, among Griffin Financial Group, LLC, Federal Life Insurance Company, Federal Life Group, Inc., and Computershare Trust Company, N.A.
21.1	Subsidiaries of Federal Life Group, Inc.**
23.1	Consent of BKD, LLP*
23.2	Consent of RP Financial, LC**
23.3	Consent of Stevens & Lee, P.C. (contained in Exhibits 5.1 and 8.1)*
24.1	Power of Attorney**
99.1	Stock Order Form and Instructions*
99.2	Question and Answer Brochure*
99.3	Letters and statements to prospective purchasers of stock in offering*
99.4	Form of Federal Life Mutual Holding Company Member Proxy Materials*
99.5	Pro Forma Valuation Appraisal Report of Federal Life Mutual Holding Company, dated as of December 22, 2017, of RP Financial, LC**
99.6	Letter dated September , 2018, from RP Financial, LC regarding value of subscription rights*

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\* To be filed by amendment.

\*\* Previously filed.

## SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized in the City of Riverwoods, State of Illinois, on September , 2018.

## FEDERAL LIFE GROUP, INC.

By: /s/ William S. Austin

\_\_\_\_\_  
 William S. Austin  
 President and Chief Operating Officer

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Joseph D. Austin and William S. Austin, and each of them, his or her true and lawful attorney-in-fact and agent, with full power of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign any and all amendments (including post effective amendments) to this registration statement, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their or his or her substitutes or substitute, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, this registration statement has been signed by the following persons in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/</u> Joseph D. Austin	Chairman and Chief Executive Officer (Principal Executive Officer), Director	September , 2018
<u>/s/</u> William S. Austin	President and Chief Operating Officer, Director	September , 2018
<u>/s/</u> Anders Raaum	Chief Financial Officer (Principal Financial Officer)	September , 2018
<u>/s/</u> Michael Austin	Director	September , 2018
<u>/s/</u> Wayne R. Ebersberger	Director	September , 2018
<u>/s/</u> William H. Springer	Director	September , 2018
<u>/s/</u> James H. Stacke	Director	September , 2018

Federal Life Group, Inc.  
Up to 4,600,000 Shares

COMMON STOCK  
(\$0.01 Par Value)

Subscription Price \$10.00 Per Share

AGENCY AGREEMENT

\_\_\_\_\_, 2018

Griffin Financial Group, LLC  
620 Freedom Business Center  
2nd Floor  
King of Prussia, Pennsylvania 10019

Ladies and Gentlemen:

Federal Life Group, Inc., a Pennsylvania business corporation (“HoldCo”), Federal Life Mutual Holding Company, an Illinois mutual holding company (“Federal Life Mutual”), and Federal Life Insurance Company, an Illinois insurance company (“Federal Life” and together with HoldCo and Federal Life Mutual, the “Federal Life Parties”), hereby confirm, jointly and severally, their agreement (the “Agreement”) with Griffin Financial Group, LLC (the “Agent”), as follows:

**1. The Offering.** On March 8, 2018, the board of directors of Federal Life Mutual adopted a Plan of Conversion (the “Plan”). The Plan provides for the conversion of Federal Life Mutual from mutual to stock form (the “Conversion”). The Plan also provides for (a) the issuance of all of the outstanding common stock of Federal Life Mutual upon completion of the Conversion to HoldCo, and (b) the formation of HoldCo as a stock holding company that will own 100% of the common stock of Federal Life Mutual.

In connection with the Conversion, HoldCo is offering up to 4,600,000 shares (the “Shares”) of its common stock, \$0.01 par value (the “Common Stock”), in (i) a subscription offering (the “Subscription Offering”), and, if necessary, (ii) a direct community offering (the “Community Offering”), and (iii) if necessary, a syndicated offering (the “Syndicated Offering”). The Subscription Offering, the Community Offering and the Syndicated Offering are herein sometimes collectively referred to as the “Offering.” Except for any shares of Common Stock issued under any stock incentive plan adopted by HoldCo, the Shares will constitute 100% of the outstanding common stock of HoldCo after completion of the Offering.

HoldCo will issue the Shares at a purchase price of \$10.00 per share (the “Purchase Price”). If the number of Shares is increased or decreased in accordance with the Plan, the term “Shares” shall mean such greater or lesser number, where applicable.

The shares of Common Stock to be offered in the Subscription Offering will be offered pursuant to nontransferable subscription rights (subject to limitations set forth in the Plan) in the following order of priority

- to eligible members of Federal Life, who are the named insureds under policies of insurance and holders of annuity contracts issued by Federal Life and in force on March 8, 2018 (the “Eligible Members”); and
- directors and officers of HoldCo.

HoldCo may offer shares of Common Stock for which subscriptions have not been received in the Subscription Offering to the following categories of purchasers (listed in order of priority) in the Community Offering before offering them to the general public:

- employees of Federal Life;
- Insurance Capital Group LLC (“ICG”); and
- Up to four strategic investors.

In the event a Community Offering is held, it may be held at any time during or immediately after the Subscription Offering. Depending on market conditions, shares not subscribed for in the Subscription Offering or in the Community Offering may be offered in the Syndicated Offering to selected members of the general public on a best-efforts basis through a syndicate of registered broker-dealers who are members of the Financial Industry Regulatory Authority (“FINRA”). The Syndicated Offering will be managed by the Agent.

It is acknowledged that the number of Shares to be sold in the Offering may be increased or decreased as described in the Prospectus (as hereinafter defined), that the purchase of Shares in the Offering is subject to maximum and minimum purchase limitations as described in the Prospectus, and that HoldCo may reject, in whole or in part, any subscription received in the Community Offering or Syndicated Offering.

HoldCo has filed with the U.S. Securities and Exchange Commission (the “Commission”) a Registration Statement on Form S-1 (File No. 377-02185) in order to register the Shares under the Securities Act of 1933, as amended (the “1933 Act”), and the regulations promulgated thereunder (the “1933 Act Regulations”) and has filed such amendments thereto as have been required to the date hereof (the “Registration Statement”). The term “Registration Statement” shall include any documents incorporated by reference therein and all financial schedules and exhibits thereto, including post-effective amendments. The prospectus, as amended, included in the Registration Statement at the time it initially becomes effective is hereinafter called the “Prospectus,” except that if any prospectus is filed by HoldCo pursuant to Rule 424(b) or (c) of the 1933 Act Regulations differing from the prospectus included in the Registration Statement at the time it initially becomes effective, the term “Prospectus” shall refer to the prospectus filed pursuant to Rule 424(b) or (c) from and after the time such prospectus is filed with the Commission and shall include any supplements and amendments thereto from and after their dates of effectiveness or use, respectively.

Concurrently with the execution of this Agreement, HoldCo is delivering to the Agent copies of the Prospectus, dated [●], 2018, of HoldCo to be used in the Subscription Offering and Community Offering (if any), and, if necessary, will deliver copies of the Prospectus and any prospectus supplement for use in a Syndicated Offering as defined in the Prospectus.

In accordance with Section 59.1 of the Illinois Insurance Code, 215 ILCS 5/59.1 (the “Insurance Code”), Federal Life Mutual has filed with the Illinois Department of Insurance (the “Department”) an application for conversion and has filed such amendments thereto and supplementary materials as may have been required to the date hereof (such application, as amended to date, is hereinafter referred to as the “Conversion Application”), including a copy of the Proxy Statement for a Special Meeting of the voting members of Federal Life Mutual relating to the Conversion (the “Proxy Statement”), the Pro Forma Valuation Report prepared by RP Financial, LC (the “Appraisal”), and the Prospectus.

**2. Appointment of the Agent.** Subject to the terms and conditions of this Agreement, the Federal Life Parties hereby appoint the Agent as their exclusive financial advisor (i) to consult with and to advise and assist the Federal Life Parties with respect to the sale of the Shares in the Offering, (ii) to utilize its best efforts to solicit subscriptions for the Shares and to advise and assist HoldCo with respect to the sale of the Shares in the Offering, and (iii) to participate in the Offering in the areas of market making and in syndicate formation (if necessary).

It is acknowledged by the Federal Life Parties that the Agent shall not be obligated to purchase any Shares and shall not be obligated to take any action that is inconsistent with any applicable law, regulation, decision or order. Except as provided in the last Paragraph of this Section 2 and Section 13, the appointment of the Agent hereunder shall terminate upon consummation of the Offering, but in no event later than forty-five (45) days after completion of the Subscription Offering (the “End Date”). All fees or expenses due to the Agent but unpaid will be payable to the Agent in same day funds at the earlier of the Closing Date (as hereinafter defined) or the End Date. In the event the Offering is extended beyond the End Date, the Federal Life Parties and the Agent may agree to renew this Agreement under mutually acceptable terms.

If selected broker-dealers are used to assist in the sale of Shares in the Syndicated Offering, the Federal Life Parties hereby, subject to the terms and conditions of this Agreement, appoint the Agent to manage such broker-dealers in the Syndicated Offering. On the basis of the representations, warranties, and agreements of the Federal Life Parties contained in, and subject to the terms and conditions of, this Agreement, the Agent accepts such appointment and agrees to manage the selling group of broker-dealers in the Syndicated Offering.

**3. Refund of Purchase Price.** In the event that the Offering is not consummated for any reason, including but not limited to the inability of HoldCo to sell a minimum of 3,400,000 Shares during the Offering (including any permitted extension thereof) or such other minimum number of Shares as shall be established consistent with the Plan, this Agreement shall terminate and any persons who have subscribed for or placed orders for any of the Shares shall have refunded to them the full amount that has been received from such person, without interest, as provided in the Prospectus. In the event the Offering is terminated for any reason not attributable to the action or inaction of the Agent, the Agent shall be paid the fees due to the date of such termination pursuant to Section 4(a) and (b) hereof.

4. **Fees.** In addition to the expenses specified in Section 9 hereof, as compensation for the Agent's services under this Agreement, the Agent has received or will receive the following fees from the Federal Life Parties:

- (a) A success fee of 2.0% shall be paid based on the aggregate purchase price of Shares (i) sold in the Offering to Eligible Members, directors, officers and employees of Federal Life Mutual and its subsidiaries or to any strategic investor identified by Federal Life in accordance with the Plan, (ii) issued pursuant to the terms of the Exchangeable Note, or (iii) sold to persons for the purpose of satisfying the NASDAQ listing requirement of having at least 300 round lot holders of Common Stock. Any amounts paid to the Agent and related persons shall be repaid to the Federal Life Parties to the extent any portion thereof is not actually incurred in compliance with FINRA Rule 5110(f)(2)(C).
- (b) A success fee of 6.5% shall be paid based on the aggregate purchase price of Shares sold in the Offering to Insurance Capital Group LLC or any of its affiliates or assignees. Any amounts paid to the Agent and related persons shall be repaid to the Federal Life Parties to the extent any portion thereof is not actually incurred in compliance with FINRA Rule 5110(f)(2)(C).
- (c) If any of the Shares remain available after the Subscription Offering and Community Offering, at the request of the Federal Life Parties, the Agent will seek to form a group of approved registered broker-dealer firms (the "Assisting Brokers") to assist in the sale of such available Shares on a best-efforts basis, subject to the terms and conditions set forth in a selected dealers agreement to be entered into between HoldCo and the Agent. Agent will endeavor to distribute the Shares among dealers in a fashion which best meets the distribution objectives of HoldCo and the Plan. The Federal Life Parties, in consultation with the Agent, will determine which FINRA member firms will participate in the Syndicated Offering and the extent of their participation. The Agent will be paid a fee pursuant to this Section 4(c) equal to 6.5% of the aggregate Purchase Price of the Shares sold in the Syndicated Offering. From this fee, Agent will pass onto selected broker-dealers who assist in the Syndicated Offering an amount competitive with gross underwriting discounts charged at such time for comparable amounts of stock sold at a comparable price per share in a similar market environment. Fees with respect to purchases affected with the assistance of a broker/dealer other than the Agent shall be transmitted by the Agent to such broker/dealer. The decision to utilize selected broker-dealers will be made by Agent upon consultation with the HoldCo. All such fees payable under this Section 4(b) shall be in addition to all fees payable under Section 4(a) and shall be paid at Closing (as defined in Section 5). The fees paid under paragraphs (a), (b), and (c) of this Section 4 are collectively referred to as the "Success Fee."

- (d) The Federal Life Parties will reimburse the Agent, upon request made from time to time, for its reasonable out-of-pocket expenses incurred in connection with its conversion agent services not to exceed \$15,000 without the written approval of Federal Life, with the exclusion of any legal and travel expenses, which shall not be included in such \$15,000 limit. Any amounts paid to the Agent and related persons shall be repaid to the Federal Life Parties to the extent any portion thereof is not actually incurred in compliance with FINRA Rule 5110(f)(2)(C).

If this Agreement is terminated in accordance with the provisions of Sections 3, 10, or 14, and the sale of Shares is not consummated, the Agent shall not be entitled to receive the fees set forth in Sections 4(a), (b), and (c), and the Agent will return to the Federal Life Parties any amounts advanced to the Agent to the extent not actually incurred by the Agent in accordance with FINRA Rule 5110(f)(2)(C).

**5. Closing.** If the minimum number of Shares required to be sold in the Offering pursuant to the Plan are subscribed for or ordered at or before the termination of the Offering, and the other conditions to the completion of the Offering are satisfied, HoldCo agrees to issue the Shares at the Closing Time (as hereinafter defined) against payment therefor by the means authorized by the Plan; *provided, however*, that no funds shall be released to HoldCo until the conditions specified in Section 10 hereof have been complied with to the reasonable satisfaction of the Agent. HoldCo shall deliver written notice of the issuance of the Shares in accordance with Section 59.1 of the Insurance Code (the "Conversion Act") in such authorized denominations and registered in such names as may be indicated on the subscription order forms directly to the purchasers thereof as promptly as practicable after the Closing Time. The Closing (the "Closing") shall be held at the offices of Stevens & Lee, PC, 620 Freedom Business Center, King of Prussia, Pennsylvania, or at such other place as shall be agreed upon among the Federal Life Parties and the Agent, at 9:00 a.m., Central Time, on the business day selected by HoldCo (the "Closing Date"), which business day shall be no less than two business days following the giving of prior notice by HoldCo to the Agent or at such other time as shall be agreed upon by HoldCo and the Agent. At the Closing, HoldCo shall deliver to the Agent by wire transfer in same-day funds the commissions, fees and expenses owing as set forth in Sections 4 and 9 hereof and the opinions and other documents required hereby shall be executed and delivered to effect the sale of the Shares as contemplated hereby and pursuant to the terms of the Prospectus; *provided, however*, that all out-of-pocket expenses to which the Agent is entitled under Section 9 hereof shall be due and payable upon receipt by HoldCo of a written accounting therefor setting forth in reasonable detail the expenses incurred by the Agent. The hour and date upon which HoldCo shall release the Shares for delivery in accordance with the terms hereof is referred to herein as the "Closing Time."

The Agent shall have no liability to any party for the records or other information provided by the Federal Life Parties (or their agents) to the Agent for use in allocating the Shares. Subject to the limitations of Section 11 hereof, the Federal Life Parties shall indemnify and hold harmless the Agent for any liability arising out of the allocation of the Shares in accordance with (i) the Plan generally, and (ii) the records or other information provided to the Agent by the Federal Life Parties (or their respective agents).



**6. Representations and Warranties of the Federal Life Parties.** The Federal Life Parties jointly and severally represent and warrant to the Agent that, except as disclosed in the Prospectus:

- (a) Each of the Federal Life Parties has and, as of the Closing Time, will have all such power, authority, authorizations, approvals and orders as may be required to enter into this Agreement, to carry out the provisions and conditions hereof and to issue and sell the Shares as provided herein and as described in the Prospectus. Subject to the receipt of regulatory approval, the execution, delivery and performance of this Agreement and the consummation of the transactions herein contemplated have been duly and validly authorized by all necessary corporate action on the part of each of the Federal Life Parties that is a party thereto. This Agreement has been validly executed and delivered by each of the Federal Life Parties and is a valid, legal and binding obligation of each of the Federal Life Parties, enforceable in accordance with its terms, except as the legality, validity, binding nature and enforceability thereof may be limited by (i) bankruptcy, insolvency, moratorium, conservatorship, receivership or other similar laws relating to or affecting the enforcement of creditors' rights generally; (ii) general equity principles regardless of whether such enforceability is considered in a proceeding in equity or at law; and (iii) the extent, if any, that the provisions of Sections 11 or 12 hereof may be unenforceable as against public policy.
- (b) The Registration Statement, which was prepared by the Federal Life Parties and filed with the Commission, was declared effective by the Commission on \_\_\_\_\_, 2018, and no stop order has been issued with respect thereto and no proceedings therefor have been initiated or, to the knowledge of the Federal Life Parties, threatened by the Commission. At the time the Registration Statement, including the Prospectus contained therein (including any amendment or supplement), became effective, at the Applicable Time (as defined in Section 6(d) hereof) and at the Closing Date, (x) the Registration Statement (including the Prospectus contained therein) complied and will comply in all material respects with the 1933 Act and the 1933 Act Regulations, and (y) the Registration Statement, including the Prospectus contained therein (including any amendment or supplement), and any information regarding the Federal Life Parties contained in any Sales Information (as defined in Section 11(a) hereof) authorized by the Federal Life Parties for use in connection with the Offering, (i) contained and will contain all statements required to be included therein in accordance with the 1933 Act and the 1933 Act Regulations, and (ii) did not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. At the time any Rule 424(b) or (c) Prospectus was or is filed with the Commission and at the Closing Time referred to in Section 5, the Registration Statement, including the Prospectus contained therein (including any amendment or supplement thereto), and any state securities law application or any Sales Information authorized by the Federal Life Parties for use in connection with the Offering did not and will not contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading; *provided, however*, that the representations and warranties in this Section 6(b) shall not apply to statements or omissions made in reliance upon and in conformity with written information furnished to the Federal Life Parties by the Agent regarding the Agent or the method of conducting the Offering expressly for use in the Registration Statement or Prospectus, which the parties hereto agree is limited to the information contained in the first three paragraphs under the caption "The Conversion and the Offering—Marketing and Underwriting Arrangements."

- (c) At the time of filing of the Registration Statement and at the date hereof, HoldCo was not, and is not, an ineligible issuer, as defined in Rule 405. At the time of the filing of the Registration Statement and at the time of the use of any Issuer Free Writing Prospectus, as defined in Rule 433(h), HoldCo met the conditions required by Rules 164 and 433 for the use of a free writing prospectus. If required to be filed, HoldCo has filed any Issuer Free Writing Prospectus related to the offered Shares at the time it is required to be filed under Rule 433 and, if not required to be filed, will retain such free writing prospectus in HoldCo's records pursuant to Rule 433(g), and if any Issuer Free Writing Prospectus is used after the date hereof in connection with the offering of the Shares, HoldCo will file or retain such free writing prospectus as required by Rule 433.
- (d) As of the Applicable Time (as hereinafter defined), neither (i) the Issuer General Free Writing Prospectus(es) issued at or prior to the Applicable Time and the Statutory Prospectus, all considered together (collectively, the "General Disclosure Package"), nor (ii) any individual Issuer Limited-Use Free Writing Prospectus, when considered together with the General Disclosure Package, included any untrue statement of a material fact or omitted to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. The preceding sentence does not apply to statements in or omissions from any Prospectus included in the Registration Statement relating to the offered Shares or any Issuer Free Writing Prospectus based upon and in conformity with written information furnished to any of the Federal Life Parties by the Agent specifically for use therein. As used in this Paragraph and elsewhere in this Agreement:
- (i) "Applicable Time" means each and every date when a potential purchaser submitted a subscription or otherwise committed to purchase Shares.
- (ii) "Statutory Prospectus" as of any time, means the Prospectus relating to the offered Shares that is included in the Registration Statement immediately prior to the Applicable Time, including any document incorporated by reference therein.
- (iii) "Issuer Free Writing Prospectus" means any "issuer free writing prospectus," as defined in Rule 433(h), relating to the offered Shares that is filed or is required to be filed with the Commission by HoldCo, or, if not required to be filed with the Commission, that is retained in HoldCo's records pursuant to Rule 433(g). The term does not include any writing exempted from the definition of prospectus pursuant to clause (g) of Section 2(a)(10) of the 1933 Act, without regard to Rule 172 or Rule 173 under the 1933 Act Regulations.

- (iv) "Issuer General Free Writing Prospectus" means any Issuer Free Writing Prospectus that is intended for general distribution to prospective investors.
  - (v) "Issuer Limited-Use Free Writing Prospectus" means any Issuer Free Writing Prospectus that is not an Issuer General Free Writing Prospectus. The term Issuer Limited-Use Free Writing Prospectus also includes any "bona fide electronic road show," as defined in Rule 433 under the 1933 Act Regulations, that is made available without restriction pursuant to Rule 433(d)(8)(ii) under the 1933 Act Regulations or otherwise, even though not required to be filed with the Commission.
  - (vi) "Permitted Free Writing Prospectus" means any free writing prospectus as defined in Rule 405 of the 1933 Act Regulations that is consented to by HoldCo and the Agent.
- (e) None of the Federal Life Parties has directly or indirectly distributed or otherwise used and will not directly or indirectly distribute or otherwise use any prospectus, any "free writing prospectus" (as defined in Rule 405 of the 1933 Act Regulations) or other offering material (including, without limitation, content on HoldCo's website that may be deemed to be a prospectus, free writing prospectus or other offering material) in connection with the offering and sale of the Shares other than any Permitted Free Writing Prospectus or the Prospectus or other materials permitted by the 1933 Act and the 1933 Act Regulations distributed by HoldCo and reviewed and approved in advance for distribution by the Agent. HoldCo has not, directly or indirectly, prepared or used and will not directly or indirectly, prepare or use, any Permitted Free Writing Prospectus except in compliance with the filing and other requirements of Rules 164 and 433 of the 1933 Act Regulations; assuming that such Permitted Free Writing Prospectus is so sent or given after the Registration Statement was filed with the Commission (and after such Permitted Free Writing Prospectus was, if required pursuant to Rule 433(d) under the Act, filed with the Commission), the sending or giving, by the Agent, of any Permitted Free Writing Prospectus will satisfy the provisions of Rules 164 and 433 (without reliance on subsections (b), (c) and (d) for Rule 164).
- (f) Each Issuer Free Writing Prospectus, as of its date of first use and at all subsequent times through the completion of the Offering and sale of the offered Shares or until any earlier date that HoldCo notified or notifies the Agent (as described in the next sentence), did not, does not and will not include any information that conflicted, conflicts or will conflict with the information contained in the Registration Statement, including any document incorporated by reference therein that has not been superseded or modified. If at any time following the date of first use of an Issuer Free Writing Prospectus there occurred or occurs an event or development as a result of which such Issuer Free Writing Prospectus conflicted or would conflict with the information contained in the Registration Statement relating to the offered Shares or included or would include an untrue statement of a material fact or omitted or would omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances prevailing at that subsequent time, not misleading, HoldCo has notified or will notify promptly the Agent so that any use of such Issuer Free-Writing Prospectus may cease until it is amended or supplemented, and HoldCo has promptly amended or will promptly amend or supplement such Issuer Free Writing Prospectus to eliminate or correct such conflict, untrue statement or omission. The foregoing two sentences do not apply to statements in or omissions from any Issuer Free Writing Prospectus based upon and in conformity with written information furnished to any of the Federal Life Parties by the Agent specifically for use therein.

- (g) HoldCo will promptly file the Prospectus and any supplemental sales literature with the Commission. The Prospectus and all supplemental sales literature, as of the date the Registration Statement became effective and at the Closing Time referred to in Section 5, will have received all required authorizations for use in final form.
- (h) The Conversion Application, which was prepared by the Federal Life Parties and filed with the Department, has been approved by the Department and the related Prospectus and Proxy Statement delivered or to be delivered to eligible voters of Federal Life have been authorized for use by the Department. The Conversion Application complies in all material respects with the Conversion Act, except to the extent waived in writing by the Department, and did not and does not include any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.
- (i) No order has been issued by the Department, the Commission, or any other state or federal regulatory authority, preventing or suspending the use of the Registration Statement, the Prospectus, the Proxy Statement or any supplemental sales literature, and no action by or before any such government entity to revoke any approval, authorization or order of effectiveness related to the Offering is pending or, to the knowledge of the Federal Life Parties, threatened.
- (j) The Plan has been duly adopted by the Board of Directors of Federal Life, and the offer and sale of the Shares will have been conducted in all material respects in accordance with the Plan, the Insurance Code (except to the extent waived or otherwise approved by the Department), and all other applicable laws, regulations, decisions and orders, including all terms, conditions, requirements and provisions precedent to the Offering imposed upon the Federal Life Parties by the Department or the Commission and in the manner described in the Prospectus. To the knowledge of the Federal Life Parties, no person has, or at the Closing Time will have, sought to obtain review of the final action of any state or federal regulatory authority with respect to the Plan or the Offering.

- (k) RP Financial, LC, which prepared the Appraisal in connection with the Offering, has advised the Federal Life Parties in writing that it is independent with respect to each of the Federal Life Parties. The Federal Life Parties believe that RP Financial, LC is an expert in preparing appraisals of insurance companies.
- (l) BKD, LLP, which certified the financial statements included in the Registration Statement, has advised the Federal Life Parties that it is an independent registered public accounting firm within the meaning of the Code of Ethics of the American Institute of Certified Public Accountants (the "AICPA"), that it is registered with the Public Company Accounting Oversight Board ("PCAOB"), and that it is, with respect to each of the Federal Life Parties, an independent certified public accountant within the meaning of, and is not in violation of the auditor independence requirements of the 1933 Act, the 1933 Act Regulations, the regulations of the PCAOB and the Sarbanes Oxley Act of 2002 (the "Sarbanes-Oxley Act").
- (m) The consolidated financial statements, schedules and notes thereto that are included in the Registration Statement and that are a part of the Prospectus present fairly the consolidated financial condition and retained earnings of Federal Life and its subsidiaries as of the dates indicated and the consolidated results of operations and cash flows for the periods specified. The financial statements comply in all material respects with the applicable accounting requirements of the 1933 Act Regulations, Regulation S-X of the Commission, and accounting principles generally accepted in the United States of America ("GAAP") applied on a consistent basis during the periods presented except as otherwise noted therein, and present fairly in all material respects the information required to be stated therein. The other financial, statistical and pro forma information and related notes included in the Prospectus present fairly the information shown therein on a basis consistent with the audited and unaudited financial statements included in the Prospectus, and as to the pro forma adjustments, the adjustments made therein have been properly applied on the basis described therein.
- (n) Since the respective dates as of which information is given in the Registration Statement, including the Prospectus, other than disclosed therein: (i) there has not been any material adverse change in the financial condition or in the earnings, capital, properties, business affairs or prospects of any of the Federal Life Parties or of the Federal Life Parties taken as a whole, whether or not arising in the ordinary course of business ("Material Adverse Effect"); (ii) there has not been any material change in total assets of the Federal Life Parties, nor have any of the Federal Life Parties issued any securities or incurred any liability or obligation for borrowings other than in the ordinary course of business; and (iii) there have not been any material transactions entered into by any of the Federal Life Parties, other than those in the ordinary course of business. The capitalization, liabilities, assets, properties and business of the Federal Life Parties conform in all material respects to the descriptions thereof contained in the Prospectus, and none of the Federal Life Parties has any material liabilities of any kind, contingent or otherwise, except as disclosed in the Registration Statement or the Prospectus.

- (o) HoldCo is a corporation duly incorporated and validly existing under the laws of the Commonwealth of Pennsylvania, with corporate power and authority to own, lease and operate its properties and to conduct its business as described in the Registration Statement and the Prospectus, and is, and as of the Closing Date will be, qualified to transact business and in good standing in each jurisdiction in which the conduct of its business requires such qualification unless the failure to qualify in one or more of such jurisdictions would not have a Material Adverse Effect. As of the Closing Time, HoldCo will be in good standing under the laws of the Commonwealth of Pennsylvania and will have obtained all licenses, permits and other governmental authorizations required for the conduct of its business, except those that individually or in the aggregate would not have a Material Adverse Effect; and all such licenses, permits and governmental authorizations are in full force and effect, and HoldCo is, and as of the Closing Date will be, in compliance therewith in all material respects. There are no outstanding options, warrants or other rights to purchase any securities of HoldCo or any of the Federal Life Parties except as disclosed in the Prospectus.
- (p) Federal Life Mutual is a mutual insurance holding company organized under the laws of the State of Illinois and validly existing under the laws of the State of Illinois, with power and authority to own, lease and operate its properties and to conduct its business as described in the Registration Statement and the Prospectus, and is, and as of the Closing Date will be, qualified to transact business and in good standing in each jurisdiction in which the conduct of its business requires such qualification unless the failure to qualify in one or more of such jurisdictions would not have a Material Adverse Effect. As of the Closing Time, Federal Life Mutual will be in good standing under the laws of the State of Illinois and will have obtained all licenses, permits and other governmental authorizations required for the conduct of its business, except those that individually or in the aggregate would not have a Material Adverse Effect; and all such licenses, permits and governmental authorizations are in full force and effect, and Federal Life Mutual is, and at the Closing Date will be, in compliance therewith in all material respects. Federal Life Mutual directly owns all of the outstanding equity interests of Federal Life free and clear of any mortgage, pledge, lien, encumbrance, claim or restriction.
- (q) Federal Life is a stock insurance company organized and validly existing under the laws of the State of Illinois, with power and authority to own, lease and operate its properties and to conduct its business as described in the Registration Statement and the Prospectus, and is, and as of the Closing Date will be, qualified to transact business and in good standing in each jurisdiction in which the conduct of its business requires such qualification unless the failure to qualify in one or more of such jurisdictions would not have a Material Adverse Effect. As of the Closing Time, Federal Life will be in good standing under the laws of the State of Illinois and will have obtained all licenses, permits and other governmental authorizations required for the conduct of its business, except those that individually or in the aggregate would not have a Material Adverse Effect; and all such licenses, permits and governmental authorizations are in full force and effect, and Federal Life is, and at the Closing Date will be, in compliance therewith in all material respects. Federal Life directly owns all of the outstanding equity interests of FED Mutual Financial Services, Inc. and Americana Realty Company free and clear of any mortgage, pledge, lien, encumbrance, claim or restriction.

- (r) The authorized capital stock of HoldCo consists of 10,000,000 shares of Common Stock, \$0.01 par value per share. Upon consummation of the Offering, the issued and outstanding Common Stock of HoldCo will be within the range set forth in the Prospectus under the caption “Capitalization” (except for subsequent issuances, if any, pursuant to reservations, agreements or employee benefit plans referred to in the Prospectus); and the shares of Common Stock to be subscribed for in the Offering have been duly and validly authorized for issuance and, when issued and delivered by HoldCo pursuant to the Plan against payment of the consideration calculated as set forth in the Plan and the Prospectus, will be duly and validly issued and fully paid and nonassessable; the issuance of the Shares is not subject to preemptive rights, except for the Subscription Rights granted pursuant to the Plan; and the terms and provisions of the Shares will conform in all material respects to the description thereof contained in the Prospectus. Upon issuance of the Shares against payment therefor in the Offering as set forth in the Plan and the Prospectus such shares will be duly authorized, fully paid, and nonassessable. No holder of Shares will be subject to personal liability by reason of being such a holder.
- (s) Upon consummation of the Conversion, the authorized capital stock of Federal Life Mutual will be 100,000 shares of common stock, no par value (the “Federal Life Mutual Common Stock”), and no shares of Federal Life Mutual Common Stock have been or will be issued prior to the Closing Time. The shares of Federal Life Mutual Common Stock to be issued to HoldCo will have been duly authorized for issuance and, when issued and delivered by Federal Life Mutual, will be duly and validly issued and fully paid and nonassessable, and all such Federal Life Mutual Common Stock will be owned beneficially and of record by HoldCo, free and clear of any security interest, mortgage, pledge, lien, encumbrance or legal or equitable claim; the certificates representing the shares of Federal Life Mutual Common Stock will conform with the requirements of applicable laws and regulations.
- (t) None of the Federal Life Parties is and, as of the Closing Time, none of the Federal Life Parties will be, in violation of its respective declaration of organization, charter, certificate or articles of incorporation, certificate of organization, operating agreement or bylaws (collectively, the “Organizational Documents”), or in material default in the performance or observance of any obligation, agreement, covenant, or condition contained in any contract, lease, loan agreement, indenture or other instrument to which any of them is a party or by which any of them, or any of their respective properties, may be bound that would result in a Material Adverse Effect. The consummation of the transactions herein contemplated will not (i) conflict with or constitute a breach of, or default under, the Organizational Documents of any of the Federal Life Parties, or materially conflict with or constitute a material breach of, or default under, any material contract, lease or other instrument to which any of the Federal Life Parties is a party or bound, or any applicable law, rule, regulation or order that is material to the financial condition of the Federal Life Parties, on a consolidated basis; (ii) violate any authorization, approval, judgment, decree, order, statute, rule or regulation applicable to the Federal Life Parties except for such violations that would not have a Material Adverse Effect; or (iii) result in the creation of any material lien, charge or encumbrance upon any property of any of the Federal Life Parties.

- (u) No default exists, and no event has occurred that with notice or lapse of time, or both, would constitute a material default on the part of any of the Federal Life Parties, in the due performance and observance of any term, covenant or condition of any indenture, mortgage, deed of trust, note, bank loan or credit agreement or any other material instrument or agreement to which any of the Federal Life Parties is a party or by which any of them or any of their property is bound or affected in any respect that, in any such case, is material to the Federal Life Parties individually or considered as one enterprise, and such agreements are in full force and effect; and no other party to any such agreements has instituted or, to the knowledge of the Federal Life Parties, threatened any action or proceeding wherein any of the Federal Life Parties is alleged to be in default thereunder under circumstances where such action or proceeding, if determined adversely to any of the Federal Life Parties, would have a Material Adverse Effect.
- (v) The Federal Life Parties have good and marketable title to all assets that are material to the businesses of the Federal Life Parties and to those assets described in the Prospectus as owned by them, free and clear of all material liens, charges, encumbrances, restrictions or other claims, except such as are described in the Prospectus or which do not have a Material Adverse Effect, and all of the leases and subleases that are material to the businesses of the Federal Life Parties, as described in the Registration Statement or Prospectus, are in full force and effect.
- (w) The Federal Life Parties are not in material violation of any directive from the Department, the Commission, or any other agency to make any material change in the method of conducting their respective businesses; the Federal Life Parties have conducted and are conducting their respective businesses so as to comply in all respects with all applicable statutes and regulations (including, without limitation, regulations, decisions, directives and orders of the Department and the Commission), except where the failure to so comply would not reasonably be expected to result in any Material Adverse Effect, and there is no charge, investigation, action, suit or proceeding before or by any court, regulatory authority or governmental agency or body pending or, to the knowledge of any of the Federal Life Parties, threatened, that would reasonably be expected to materially and adversely affect the Offering, the performance of this Agreement, or the consummation of the transactions contemplated in the Plan as described in the Registration Statement, or that would reasonably be expected to result in a Material Adverse Effect.



- (x) The Federal Life Parties have received an opinion of their counsel, Stevens & Lee P.C., with respect to the legality of the Shares and an opinion of Stevens & Lee, P.C. with respect to the federal income tax consequences of the Conversion and the Offering, as described in the Registration Statement and the Prospectus, and the facts and representations upon which such opinions are based are truthful, accurate and complete, and none of the Federal Life Parties will take any action inconsistent therewith. All material aspects of the aforesaid opinions are accurately summarized in the Prospectus. None of the Federal Life Parties has taken or will take any action inconsistent with such opinions.
- (y) The Federal Life Parties have timely filed all required federal and state tax returns, have paid all taxes that have become due and payable in respect of such returns, except where permitted to be extended, have made adequate reserves for similar future tax liabilities, and no deficiency has been asserted with respect thereto by any taxing authority.
- (z) No approval, authorization, consent or other order of any regulatory, supervisory or other public authority is required for the execution and delivery by the Federal Life Parties of this Agreement and the issuance of the Shares, except (i) for the approval of the Department (which will have been received as of the Closing Time), (ii) the non-objection of FINRA, and (iii) any necessary qualification, notification, or registration or exemption under the securities or blue sky laws of the various states in which the Shares are to be offered for sale.
- (aa) None of the Federal Life Parties has: (i) issued any securities within the last 18 months (except for notes to evidence bank loans or other liabilities in the ordinary course of business or as described in the Prospectus); (ii) had any dealings with respect to sales of securities within the 18 months prior to the date hereof with any member of FINRA except the Agent, or any person related to or associated with such member, other than discussions and meetings relating to the Offering and purchases and sales of U.S. government and agency and other securities in the ordinary course of business; (iii) entered into a financial or management consulting agreement; or (iv) engaged any intermediary between the Agent and the Federal Life Parties in connection with the Offering, and no person is being compensated in any manner for such services.
- (bb) None of the Federal Life Parties nor, to the knowledge of the Federal Life Parties, any employee of the Federal Life Parties, has made any payment of funds of the Federal Life Parties as a loan to any person for the purchase of Shares or has made any other payment of funds prohibited by law, and no funds have been set aside to be used for any payment prohibited by law.

- (cc) The Federal Life Parties and their respective subsidiaries comply in all material respects with any applicable financial record keeping and reporting requirements of the Currency and Foreign Transactions Reporting Act of 1970, as amended, and the regulations and rules thereunder. The Federal Life Parties have established compliance programs and are in compliance in all material respects with the requirements of the USA PATRIOT Act and all applicable regulations promulgated thereunder, and there is no charge, investigation, action, suit or proceeding by or before any court, regulatory authority or governmental entity or body pending or, to the knowledge of the Federal Life Parties, threatened regarding compliance by the Federal Life Parties with the USA PATRIOT Act or any regulations promulgated thereunder.
- (dd) The membership records of Federal Life, including, without limitation, as to Eligible Members, are accurate and complete in all material respects.
- (ee) The Federal Life Parties comply in all material respects with all laws, rules and regulations relating to environmental protection, and none of them has been notified or is otherwise aware that any of them is potentially liable, or is considered potentially liable, under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, or any other federal, state or local environmental laws and regulations; no action, suit, regulatory investigation or other proceeding is pending or, to the knowledge of the Federal Life Parties, threatened against the Federal Life Parties relating to environmental protection, nor do the Federal Life Parties have any reason to believe any such proceedings may be brought against any of them; and no disposal, release or discharge of hazardous or toxic substances, pollutants or contaminants, including petroleum and gas products, as any of such terms may be defined under federal, state or local law, has occurred on, in, at or about any facilities or properties owned or leased by any of the Federal Life Parties.
- (ff) None of the Federal Life Parties maintains any “pension plan,” as defined in the Employee Retirement Income Security Act of 1974, as amended (“ERISA”). In addition, (A) the employee benefit plans, including employee welfare benefit plans, of the Federal Life Parties (the “Employee Plans”) have been operated in compliance with the applicable provisions of ERISA, the Internal Revenue Code of 1986, as amended (the “Code”), all regulations, rulings and announcements promulgated or issued thereunder and all other applicable laws and governmental regulations, (B) no reportable event under Section 4043(c) of ERISA has occurred with respect to any Employee Plan of the Federal Life Parties for which the reporting requirements have not been waived, (C) no prohibited transaction under Section 406 of ERISA, for which an exemption does not apply, has occurred with respect to any Employee Plan of the Federal Life Parties and (D) all Employee Plans that are group health plans have been operated in compliance with the group health plan continuation coverage requirements of Section 4980B of the Code, except to the extent such noncompliance, reportable event or prohibited transaction would not have, individually or in the aggregate, a Material Adverse Effect. There are no pending or, to the knowledge of the Federal Life Parties, threatened, claims by or on behalf of any Employee Plan, by any employee or beneficiary covered under any such Employee Plan or by any governmental authority, or otherwise involving such Employee Plans or any of their respective fiduciaries (other than for routine claims for benefits). Each of the Federal Life Parties has fulfilled, in all material respects, its obligations, if any, under the minimum funding standards of Section 302 of the United States Employee Retirement Income Security Act of 1974, as amended (“ERISA”), and the regulations promulgated thereunder with respect to any “plan” (as defined in Section 3(3) of ERISA and the regulations thereunder), that is maintained by any of the Federal Life Parties for their employees, and any such plan is in compliance in all material respects with the presently applicable provisions of ERISA and the regulations thereunder. None of the Federal Life Parties has incurred any unpaid liability under Title IV of ERISA to the Pension Benefit Guaranty Corporation (other than for the payment of premiums in the ordinary course) or to any such plan.

- (gg) HoldCo has applied for approval, subject to completion of the Offering, to have the Shares listed on the NASDAQ Capital Market effective as of the Closing Time.
- (hh) Except as disclosed in the Prospectus, all material reinsurance treaties or agreements to which Federal Life is a party or is a named reinsured are in full force and effect. To the knowledge of Federal Life, neither Federal Life nor any other party thereto, is in default under any such agreement, and no party may terminate any such agreement by reason of the transactions contemplated by the Plan.
- (ii) HoldCo has filed a registration statement on Form 8-A to register the Common Stock under Section 12(g) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and pursuant to Form 8-A such registration statement shall be effective concurrent with the effectiveness of the Registration Statement.
- (jj) There is no contract or other document of a character required to be described in the Registration Statement or the Prospectus or to be filed as an exhibit to the Registration Statement which is not described or filed as required.
- (kk) The Federal Life Parties maintain a system of internal accounting controls sufficient to provide reasonable assurances that (i) transactions are executed in accordance with management's general or specific authorizations, (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with generally accepted accounting principles and to maintain accountability for assets, (iii) access to cash and other liquid assets is permitted only in accordance with management's general or specific authorization, and (iv) the recorded ledger assets are compared with existing assets at reasonable intervals and appropriate action is taken with respect to any differences. The books, records and accounts and systems of internal accounting control of Federal Life and its subsidiaries comply in all material respects with the requirements of Section 13(b)(2) of the Securities Exchange Act of 1934, as amended (the "1934 Act"). HoldCo has established and maintains "disclosure controls and procedures" (as defined in Rule 13a-15(e) under the 1934 Act) that are effective in ensuring that the information it will be required to disclose in the reports it files or submits under the 1934 Act is accumulated and communicated to HoldCo's management (including HoldCo's chief executive officer and chief financial officer) in a timely manner and recorded, processed, summarized and reported within the periods specified in the Commission's rules and forms. To the knowledge of the Federal Life Parties, BKD LLP and the Audit Committee of the Board of Directors have been advised of: (A) any significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting that could adversely affect HoldCo's ability to record, process, summarize, and report financial data; and (B) any fraud, whether or not material, that involves management or other employees who have a significant role in the internal accounting controls of Federal Life and its subsidiaries.

- (ll) Except as described in the Prospectus, (i) there are no contractual encumbrances or contractual restrictions or regulatory restrictions on the ability of any of the Federal Life Parties to pay dividends or make any other distributions on its capital stock, and (ii) there are no contractual encumbrances or contractual restrictions on the ability of the Federal Life Parties (A) to pay any indebtedness owed to any of the Federal Life Parties or (B) to make any loans or advances to, or investments in, any of the Federal Life Parties, or (C) to transfer any of its property or assets to any of the Federal Life Parties.
- (mm) None of the Federal Life Parties is required to be registered as an “investment company” under the Investment Company Act of 1940, as amended, or as an “investment advisor” under the Investment Advisor Act of 1940, as amended.
- (nn) The Federal Life Parties have taken all actions necessary to obtain at the Closing Time a blue sky memorandum from Stevens & Lee, PC.
- (oo) The Federal Life Parties carry, or are covered by, insurance in such amounts and covering such risks as the Federal Life Parties deem reasonably adequate for the conduct of their respective businesses and the value of their respective properties.
- (pp) The Federal Life Parties have not relied upon the Agent for any legal, tax or accounting advice in connection with the Conversion.
- (qq) The Standby Stock Purchase Agreement dated as of March 8, 2018, among HoldCo, Federal Life Mutual, Federal Life and ICG (the “Standby Stock Purchase Agreement”) is in full force and effect.
- (rr) The statistical and market related data contained in any Permitted Free Writing Prospectus, the Prospectus and the Registration Statement are based on or derived from sources that the Federal Life Parties believe were reliable and accurate at the time they were filed with the Commission. No forward-looking statement (within the meaning of Section 27A of the 1933 Act and Section 21E of the 1934 Act) contained in the Registration Statement, the Prospectus, or any Permitted Free Writing Prospectus has been made or reaffirmed without a reasonable basis or has been disclosed other than in good faith.

- (ss) None of the Federal Life Parties, or any of their subsidiaries nor, to the knowledge of the Federal Life Parties, any other person associated with or acting on behalf of the Federal Life Parties or any of their subsidiaries has violated or is in violation of any provision of the Foreign Corrupt Practices Act of 1977, as amended, and the rules and regulations thereunder.
- (tt) Except for rights of ICG under the Standby Stock Purchase Agreement, there are no persons with registration rights or other similar rights to have any securities of HoldCo registered for sale under the 1933 Act or otherwise registered for sale or sold by HoldCo under the 1933 Act.
- (uu) There are no contracts or documents that are required to be described in the Registration Statement, the General Disclosure Package or the Prospectus or to be filed as exhibits to the Registration Statement that have not been so described or filed as required.
- (vv) The Federal Life Parties and their subsidiaries own or possess all material patents, copyrights, trademarks, service marks, inventions, trade names or other intellectual property (collectively, "Intellectual Property"), or have valid licenses to use such Intellectual Property necessary to carry on the business now operated by them, except where the failure to own or have the right to use such Intellectual Property, singularly or in the aggregate, would not reasonably be expected to have a Material Adverse Effect. None of the Federal Life Parties nor any of their subsidiaries has received any notice or is otherwise aware of any infringement of or conflict with asserted rights of others with respect to any Intellectual Property.
- (ww) None of the Federal Life Parties nor any of their subsidiaries or, to the knowledge of the Federal Life Parties, any director, officer, or employee of any of them is an individual or entity currently the subject or target of any sanctions administered or enforced by the United States Government, including without limitation the U.S. Department of the Treasury's Office of Foreign Assets Control ("OFAC").

Any certificates signed by an officer of any of the Federal Life Parties and delivered to the Agent or its counsel that refer to this Agreement shall be deemed to be a representation and warranty by the Federal Life Parties to the Agent as to the matters covered thereby with the same effect as if such representation and warranty were set forth herein.

**7. Representations and Warranties of the Agent.** The Agent represents and warrants to the Federal Life Parties that:

- (a) The Agent is a limited liability company and is validly existing in good standing under the laws of the Commonwealth of Pennsylvania, with full power and authority to provide the services to be furnished to the Federal Life Parties hereunder.

- (b) The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby have been duly and validly authorized by all necessary action on the part of the Agent, and this Agreement is a legal, valid and binding agreement of the Agent, enforceable in accordance with its terms except as the legality, validity, binding nature and enforceability thereof may be limited by (i) bankruptcy, insolvency, moratorium, conservatorship, receivership or other similar laws relating to or affecting the enforcement of creditors' rights generally; (ii) general equity principles regardless of whether such enforceability is considered in a proceeding in equity or at law; and (iii) the extent, if any, that the provisions of Sections 11 or 12 hereof may be unenforceable as against public policy.
- (c) Each of the Agent and its employees, agents and representatives who shall perform any of the services hereunder has, and until the Offering is completed or terminated shall maintain, all licenses, approvals and permits necessary to perform such services.
- (d) No action, suit, charge or proceeding before the Commission, FINRA, any state securities commission or any court is pending, or to the knowledge of Agent threatened, against the Agent that, if determined adversely to Agent, would have a material adverse effect upon the ability of the Agent to perform its obligations under this Agreement.
- (e) The Agent is registered as a broker/dealer pursuant to Section 15(b) of the 1934 Act and is a member of FINRA.
- (f) Any funds received in the Offering by the Agent from prospective purchasers of the Shares shall be delivered by the Agent to Computershare Trust Company, N. A., as escrow agent (the "Escrow Agent") for deposit in the escrow account established under the Escrow Agreement dated September 12, 2018, by and among Federal Life, HoldCo, the Agent, and the Escrow Agent (the "Escrow Agreement"), by noon of the next business day after receipt by the Agent, together with a written account of each purchaser that sets forth, among other things, the name and address of the purchaser, the number of Shares purchased and the amount paid therefor. Any checks received by the Agent that are made payable to any party other than the Escrow Agent shall be returned to the purchaser who submitted the check and shall not be accepted. The Agent shall require any selected dealers agreements with Assisting Brokers to include provisions requiring such Assisting Brokers to comply with Rule 15c2-4 under the 1934 Act.

**8. Covenants of the Federal Life Parties.** The Federal Life Parties hereby jointly and severally covenant with the Agent as follows:

- (a) HoldCo will not, at any time after the date the Registration Statement is declared effective, file any amendment or supplement to the Registration Statement without providing the Agent and its counsel an opportunity to review such amendment or supplement or, except as may be required by law, file any amendment or supplement to which the Agent shall reasonably object. HoldCo will furnish promptly to the Agent and its counsel copies of all correspondence from the Commission with respect to the Registration Statement and HoldCo's responses thereto.
- (b) HoldCo represents and agrees that, unless it obtains the prior consent of the Agent, and the Agent represents and agrees that, unless it obtains the prior consent of HoldCo, it has not made and will not make any offer relating to the offered Shares that would constitute an "issuer free writing prospectus," as defined in Rule 433, or that would constitute a "free writing prospectus," as defined in Rule 405, required to be filed with the Commission. Any such free writing prospectus consented to by HoldCo and the Agent is hereinafter referred to as a "Permitted Free Writing Prospectus." HoldCo represents that it has treated or agrees that it will treat each Permitted Free Writing Prospectus as an "issuer free writing prospectus," as defined in Rule 433, and has complied and will comply with the requirements of Rule 433 applicable to any Permitted Free Writing Prospectus, including timely Commission filing where required, legending and record keeping. HoldCo need not treat any communication as a free writing prospectus if it is exempt from the definition of prospectus pursuant to Clause (a) of Section 2(a)(10) of the 1933 Act without regard to Rule 172 or 173.
- (c) The Federal Life Parties will use commercially reasonable efforts to cause any post-effective amendment to the Registration Statement to be declared effective by the Commission and will immediately upon receipt of any information concerning the events listed below notify the Agent (i) when the Registration Statement, as amended, has become effective; (ii) of any request by the Commission or any other governmental entity for any amendment or supplement to the Registration Statement, or of any request for additional information; (iii) of the issuance by the Commission or any other governmental agency of any order or other action suspending the Offering or the use of the Registration Statement or the Prospectus or any other filing of the Federal Life Parties under the 1933 Act, the 1933 Act Regulations, the 1934 Act, and the rules and regulations of the Commission promulgated under the 1934 Act (the "1934 Act Regulations"), the Insurance Code or any other applicable law, or the threat of any such action; or (iv) of the issuance by the Commission of any stop order suspending the effectiveness of the Registration Statement or of the initiation or threat of initiation of any proceedings for that purpose.

- (d) For a period of eighteen (18) months after the Closing Time, the Federal Life Parties will comply in all material respects with any and all terms, conditions, requirements and provisions with respect to the Offering and the transactions contemplated thereby imposed by the Commission or the Department, by applicable state law and regulations (including without limitation the Insurance Code), and by the 1933 Act, the 1933 Act Regulations, the 1934 Act, and 1934 Act Regulations, FINRA, and the NASDAQ Stock Market, to be complied with prior to or subsequent to the Closing Time; and when the Prospectus is required to be delivered, the Federal Life Parties will comply in all material respects, at their own expense, with all material requirements imposed upon them by the Commission or the Department, by applicable state law and regulations and by the 1933 Act, the 1933 Act Regulations, the 1934 Act, and the 1934 Act Regulations, in each case as from time to time in force, so far as necessary to permit the continuance of sales or dealing in the Shares during such period in accordance with the provisions hereof and the Prospectus. If the most recent updated valuation of the Company prepared by RP Financial, LC is not within the valuation range set forth in the Prospectus at the time of effectiveness and HoldCo decides to resolicit subscriptions, HoldCo will promptly prepare and file with the Commission a post-effective amendment to the Registration Statement relating to the results of the updated valuation prior to any resolicitation of subscriptions.
- (e) Each of the Federal Life Parties will inform the Agent of any event or circumstances of which it is or becomes aware as a result of which the Registration Statement and/or Prospectus, as then supplemented or amended, would include an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein not misleading. If it is necessary, in the reasonable opinion of counsel for the Federal Life Parties and in the reasonable opinion of the Agent, to amend or supplement the Registration Statement or the Prospectus in order to correct such untrue statement of a material fact or to make the statements therein not misleading in light of the circumstances existing at the time of their use, the Federal Life Parties will, at their expense, prepare and file with the Commission, as necessary under applicable federal and state rules and regulations, and furnish to the Agent a reasonable number of copies of an amendment or amendments of, or a supplement or supplements to, the Registration Statement and the Prospectus (in form and substance reasonably satisfactory to the Agent after a reasonable time for review) that will amend or supplement the Registration Statement and/or the Prospectus so that as amended or supplemented it will not contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in light of the circumstances existing at the time, not misleading. For the purpose of this subsection, each of the Federal Life Parties will furnish such information with respect to itself as the Agent may from time to time reasonably request.



- (f) Pursuant to the terms of the Plan, HoldCo will endeavor in good faith, in cooperation with the Agent, to register or to qualify the Shares for offer and sale or to exempt such Shares from registration and to exempt HoldCo and its officers, directors and employees from registration as broker-dealers, under the applicable securities laws of the jurisdictions in which the Offering will be conducted; *provided, however*, that HoldCo shall not be obligated to file any general consent to service of process, to qualify as a foreign corporation to do business in any jurisdiction in which it is not so qualified, or to register its directors or officers as brokers, dealers, salesmen, or agents in any jurisdiction. In each jurisdiction where any of the Shares shall have been registered or qualified as above provided, HoldCo will make and file such statements and reports as are or may be required by the laws of such jurisdiction as a result of, or in connection with, such registration or qualification.
- (g) HoldCo will not sell or issue, contract to sell or otherwise dispose of, for a period of 180 days after the date hereof, without the Agent's prior written consent, which consent shall not be unreasonably withheld, any shares of Common Stock, any option, warrant, contract or other right to purchase shares of Common Stock, or any security convertible into or exercisable or exchangeable for shares of Common Stock, other than in connection with any plan or arrangement described in the Prospectus.
- (h) For the period of three years from the date of this Agreement, HoldCo will furnish to the Agent upon request (i) a copy of each report of HoldCo furnished to or filed with the Commission under the 1934 Act or any national securities exchange or system or the NASDAQ Stock Market on which any class of securities of HoldCo is listed or quoted, (ii) a copy of each report of HoldCo mailed to holders of Common Stock or non-confidential report filed with the Commission, the Department, or any other supervisory or regulatory authority or any national securities exchange or system or the NASDAQ Stock Market on which any class of the securities of HoldCo is listed or quoted, (iii) each press release and material news item and article released by the Federal Life Parties, and (iv) from time-to-time, such other publicly available information concerning the Federal Life Parties as the Agent may reasonably request; *provided that*, any information or documents available on the Commission's Electronic Data Gathering, Analysis and Retrieval System shall be considered furnished for purposes of this Section 8(h).
- (i) The Federal Life Parties will use the net proceeds from the sale of the Shares in the manner set forth in the Prospectus under the caption "USE OF PROCEEDS."
- (j) HoldCo will distribute the Prospectus or other offering materials in connection with the offering and sale of the Common Stock only in accordance with the 1933 Act, the 1933 Act Regulations, the 1934 Act and the 1934 Act Regulations, and the laws of any state in which the shares are qualified for sale.
- (k) Prior to the Closing Time, HoldCo shall register its Common Stock under Section 12(b) of the 1934 Act, as amended, and will request that such registration statement be effective as of the Closing Time. HoldCo will use commercially reasonable efforts to list, subject to notice of issuance, the Shares on the NASDAQ Capital Market.

- (l) [Intentionally Omitted].
- (m) HoldCo will report the use of proceeds of the Offering in accordance with Rule 463 under the 1933 Act.
- (n) The Federal Life Parties will maintain appropriate arrangements for depositing with the Escrow Agent all funds received from persons mailing subscriptions for or orders to purchase Shares on a non-interest bearing basis as described in the Prospectus until the Closing Time and satisfaction of all conditions precedent to the release of HoldCo's obligation to refund payments received from persons subscribing for or ordering Shares in the Offering, in accordance with the Plan as described in the Prospectus, or until refunds of such funds have been made to the persons entitled thereto. The Federal Life Parties will maintain, together with the Agent, such records of all funds received to permit the funds of each subscriber to be separately insured by the FDIC (to the maximum extent allowable) and to enable the Federal Life Parties to make the appropriate refunds of such funds in the event that such refunds are required to be made in accordance with the Plan and as described in the Prospectus.
- (o) Until the Closing Time, the Federal Life Parties will take such actions and furnish such information as are reasonably requested by the Agent in order for the Agent to ensure compliance with Rule 5130 of FINRA.
- (p) The Federal Life Parties will conduct their businesses in compliance in all material respects with all applicable federal and state laws, rules, regulations, decisions, directives and orders, including all decisions, directives and orders of the Commission and the Department.
- (q) The Federal Life Parties shall comply with any and all terms, conditions, requirements and provisions with respect to the Plan and the transactions contemplated thereby imposed by the Commission, the 1933 Act, the 1933 Act Regulations, the 1934 Act and the 1934 Act Regulations to be complied with subsequent to the Closing Time for so long as such terms, conditions, requirements and provisions are applicable. HoldCo will comply with all provisions of all undertakings contained in the Registration Statement until such undertakings are performed in full or are no longer applicable.
- (r) The Federal Life Parties will not amend the Plan without the consent of the Agent, which consent shall not be unreasonably withheld or delayed.
- (s) HoldCo shall provide the Agent with any information necessary to assist with the allocation of the Shares in the Offering in the event of an oversubscription, and such information shall be accurate and reliable in all material respects.
- (t) HoldCo will not deliver the Shares until the Federal Life Parties have satisfied or caused to be satisfied each condition set forth in Section 10 hereof, unless such condition is waived in writing by the Agent.

- (u) Immediately upon completion of the sale by HoldCo of the Shares contemplated by the Plan and the Prospectus, all of the issued and outstanding shares of capital stock of Federal Life Mutual shall be owned by HoldCo.
- (v) Prior to the Closing Time, the Plan shall have been approved by the voting members of Federal Life in accordance with the provisions of the Insurance Code.
- (w) On or before the Closing Time, the Federal Life Parties will have completed all conditions precedent to the Offering specified in the Plan and the offer and sale of the Shares will have been conducted in all material respects in accordance with the Plan and with all other applicable laws, regulations, decisions and orders, including all terms, conditions, requirements and provisions precedent to the Offering imposed upon any of the Federal Life Parties by the Department, the Commission or any other regulatory authority and in the manner described in the Prospectus.
- (x) HoldCo shall notify the Agent when funds shall have been received for the minimum number of Shares.
- (y) The Federal Life Parties shall cause each of the Persons listed on Schedule A attached hereto to execute and deliver to the Agent a lockup agreement substantially in the form of Exhibit B attached hereto.

**9. Payment of Expenses.** The Federal Life Parties will pay for all expenses incident to the performance of this Agreement, including without limitation: (a) the preparation, printing, filing, delivery and shipment of the Registration Statement, including the Prospectus, and all amendments and supplements thereto, and all filing fees related thereto; (b) all filing fees and expenses in connection with the qualification or registration of the Shares for offer and sale by HoldCo under the securities or "blue sky" laws, including without limitation filing fees, reasonable legal fees and disbursements of counsel in connection therewith, and in connection with the preparation of a blue sky law survey; (c) the filing fees of FINRA related to the Agent's fairness filing under Rule 5110 (or any successor rule of FINRA); (e) fees and expenses related to the preparation of the Appraisal; (f) fees and expenses related to auditing and accounting services; (g) all expenses relating to advertising, postage, temporary personnel, investor meetings and the operation of the stock information center; (h) transfer agent fees and costs of preparation and distribution of written notices under Conversion Act; and (i) fees and expenses of the Federal Life Parties relating to presentations or meetings undertaken in connection with the marketing of the Syndicated Offering and sale of the Shares in the Syndicated Offering to prospective investors and the Agent's sales forces, including expenses associated with travel, lodging, and other expenses incurred by the officers of the Federal Life Parties; *provided, however*, that the Agent shall pay the fees and expenses of the Agent and any of its affiliates relating to presentations or meetings undertaken in connection with the marketing and sale of the Shares to prospective investors and the Agent's sales forces, including expenses associated with the production of road show slides and graphics, fees and expenses of any consultants engaged in connection with the road show presentations, travel, lodging and other expenses incurred by the officers of the Agent and any such consultants. In the event that the Agent incurs any expenses on behalf of the Federal Life Parties, the Federal Life Parties will pay or reimburse the Agent for such expenses in an amount not to exceed \$15,000 (except for travel and legal expenses, which will not be included in such \$15,000 limit, and except as approved in writing by Federal Life) regardless of whether the Offering is successfully completed. Not later than two days prior to the Closing Time, the Agent will provide the Federal Life Parties with a detailed accounting of all reimbursable expenses to be paid at the Closing.

**10. Conditions to the Agent's Obligations.** The obligations of the Agent hereunder and the occurrence of the Closing are subject to the conditions that (i) all representations and warranties and other statements of the Federal Life Parties herein contained are, at and as of the commencement of the Offering and at and as of the Closing Time, true and correct in all material respects, and (ii) the Federal Life Parties shall have performed all of their obligations hereunder to be performed on or before such dates, and to the following further conditions:

(a) The Registration Statement shall have been declared effective by the Commission, and no stop order or other action suspending the effectiveness of the Registration Statement shall have been issued under the 1933 Act or proceedings therefor initiated or, to any of the Federal Life Parties' knowledge, threatened by the Commission or any state authority and no order or other action suspending the authorization for use of the Prospectus or the consummation of the Conversion shall have been issued or proceedings therefor initiated or, to any of the Federal Life Parties' knowledge, threatened by the Department, the Commission, or any other governmental body. The Conversion Application shall have been approved by the Department.

(b) At the Closing Time, the Agent shall have received:

(1) An opinion or opinions, dated as of the Closing Time, of Stevens & Lee, P.C., as counsel to the Federal Life Parties, in form and substance satisfactory to counsel for the Agent, to the effect that:

- (i) HoldCo is a corporation duly incorporated and validly subsisting under the laws of the Commonwealth of Pennsylvania, with corporate power and authority to own, lease and operate its properties and to conduct its business as described in the Prospectus, and, to its knowledge, is duly qualified to transact business and will be in good standing in each jurisdiction in which the conduct of its business requires such qualification and in which the failure to qualify would have a Material Adverse Effect.
- (ii) Prior to the Closing Time Federal Life Mutual was a mutual insurance holding company, and, after the Closing Time, Federal Life will be a duly incorporated and validly subsisting Illinois stock insurance holding company with corporate power and authority to own, lease and operate its properties and to conduct its business as described in the Prospectus and to enter into this Agreement and perform its obligations hereunder, and, to its knowledge, is duly qualified to transact business and in good standing in each jurisdiction in which the conduct of its business requires such qualification and in which the failure to qualify would have a Material Adverse Effect.

- (iii) Federal Life is a corporation duly incorporated and validly subsisting under the laws of the State of Illinois, with corporate power and authority to own, lease and operate its properties and to conduct its business as described in the Prospectus, and, to its knowledge, is duly qualified to transact business and will be in good standing in each jurisdiction in which the conduct of its business requires such qualification and in which the failure to qualify would have a Material Adverse Effect.
- (iv) The authorized capital stock of HoldCo consists of 10,000,000 shares of Common Stock, \$0.01 par value per share, and HoldCo has no shares of capital stock issued and outstanding. Immediately upon consummation of the Offering, (a) the shares of Common Stock of HoldCo to be subscribed for or for which orders are placed in the Offering will have been duly and validly authorized for issuance, and when issued and delivered by HoldCo pursuant to the Plan against payment of the consideration calculated as set forth in the Plan, will be fully paid and nonassessable; and (b) the issuance of the shares of Common Stock of HoldCo will not be subject to preemptive rights under the articles of incorporation or bylaws of HoldCo, or arising or outstanding by operation of law or, to the knowledge of such counsel, under any contract, indenture, agreement, instrument or other document, except for the subscription rights under the Plan and the provisions of the Standby Stock Purchase Agreement dated as of March 8, 2018 between the Federal Life Parties and Insurance Capital Group LLC.
- (v) The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby have been duly authorized by all necessary corporate action on the part of the Federal Life Parties; and this Agreement constitutes a valid and legal obligation of each of the Federal Life Parties.
- (vi) The Plan has been duly adopted by the Board of Directors of Federal Life Mutual in the manner required by the Insurance Code.
- (vii) Upon consummation of the Offering, to the knowledge of such counsel, (a) the Offering was made in all material respects in accordance with the Plan, (b) all terms, conditions, requirements and provisions with respect to the Conversion and Offering imposed by the Commission or the Department were complied with by the Federal Life Parties in all material respects or appropriate waivers were obtained, and (c) all notice and waiting periods were satisfied or waived; *provided, however*, that no opinion need be expressed concerning the state securities or blue sky laws or foreign securities laws of various jurisdictions in which the Shares will be offered.

- (viii) The Registration Statement has become effective under the 1933 Act and, to such counsel's knowledge after making inquiry of the Commission, and based upon representations made by staff of the Commission, no stop order suspending the effectiveness of the Registration Statement has been issued, and, to such counsel's knowledge, no proceedings for that purpose have been instituted or threatened.
- (ix) The description of the shares of Common Stock of HoldCo contained in the Registration Statement and the Prospectus, insofar as such statements purport to summarize certain provisions of the articles of incorporation and bylaws of HoldCo, provide a fair summary thereof.
- (x) At the time that the Registration Statement became effective, the Registration Statement, including the Prospectus contained therein, as amended or supplemented (other than the financial statements, notes to financial statements, financial tables or other financial and statistical data included therein and the appraisal valuation, as to which counsel need express no opinion), complied as to form in all material respects with the requirements of the 1933 Act and the 1933 Act Regulations.
- (xi) To such counsel's knowledge, there are no legal or governmental proceedings pending or threatened (i) asserting the invalidity of this Agreement or (ii) seeking to prevent the offer, sale or issuance of the Shares.
- (xii) The information in the Prospectus under the captions "BUSINESS — Regulation," and "DESCRIPTION OF OUR CAPITAL STOCK," to the extent that it constitutes summaries of legal matters, documents or proceedings, or legal conclusions, fairly presents in all material respects the information required to be presented in Form S-1.
- (xiii) None of the Federal Life Parties is required to be registered as an investment company under the Investment Company Act of 1940, as amended.
- (xiv) To such counsel's knowledge, none of the Federal Life Parties is in violation of its Organizational Documents as in effect at the Closing Time. In addition, to such counsel's knowledge, the execution and delivery of and performance under this Agreement by the Federal Life Parties, the incurrence of the obligations set forth herein and the consummation of the transactions contemplated herein will not result in any material violation of the provisions of the Organizational Documents of any of the Federal Life Parties or any material violation of any applicable law, act, regulation, or to such counsel's knowledge, order or court order, writ, injunction or decree.

In rendering such opinion, such counsel may rely as to matters of fact, without independent investigation, on certificates of responsible officers of the Federal Life Parties (to the extent relevant) and public officials, provided copies of any such certificates are delivered to Agent together with the opinion to be rendered hereunder. Such opinion may be limited to the laws of the Commonwealth of Pennsylvania and the federal securities laws of the United States of America, and such opinion will not be deemed to be rendering any opinion or any other statements regarding the regulatory laws of any other state.

(2) A letter of Stevens & Lee, PC addressed to the Agent to the effect that during the preparation of the Registration Statement and the Prospectus, representatives of Stevens & Lee, PC participated in conferences with certain officers of and other representatives of the Federal Life Parties, representatives of the independent public accounting firm for the Federal Life Parties and representatives of the Agent at which the contents of the Registration Statement and the Prospectus and related matters were discussed, and although (without limiting the opinions provided pursuant to Section 10(b)(1)) Stevens & Lee, PC has not independently verified the accuracy, completeness or fairness of the statements contained in the Registration Statement and Prospectus, on the basis of the information obtained in the course of engagement as counsel, nothing has come to the attention of the representatives of Stevens & Lee, PC providing services to the Federal Life Parties that caused them to believe that (i) the Registration Statement at the time it was ordered effective by the Commission, (ii) the General Disclosure Package as of the Closing Time, or (iii) the Prospectus, as of its date and as of the Closing Time, contained or contains any untrue statement of a material fact or omitted to state any material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading (it being understood that counsel need not assume any responsibility for the accuracy, completeness or fairness of the statements contained in the Registration Statement, the General Disclosure Package and the Prospectus, and counsel need not express any belief with respect to the financial statements, schedules and other financial and statistical data included, statistical or appraisal or valuation methodology employed, or information concerning internal controls over financial reporting contained in, the Registration Statement, Prospectus or General Disclosure Package).

(3) A blue sky memorandum from Stevens & Lee, PC addressed to the Federal Life Parties and the Agent relating to the Offering, including the Agent's participation therein. The Blue Sky Memorandum will address the necessity of obtaining or confirming exemptions, qualifications or the registration of the Shares under applicable state securities law.

- (a) Concurrently with the execution of this Agreement, the Agent shall receive a letter from BKD LLP, dated the date hereof and addressed to the Agent, in the form set forth in Exhibit A hereto.
- (b) At the Closing Time, the Agent shall receive a letter from BKD LLP dated the Closing Time, addressed to the Agent, confirming the statements made by its letter delivered by it pursuant to subsection (c) above, the "specified date" referred to in clause (iii)(C) and (D) thereof to be a date specified in such letter, which shall not be more than six business days prior to the Closing Time.

- (c) At the Closing Time, the Agent shall receive a certificate of the Chief Executive Officer and Chief Financial Officer of each of the Federal Life Parties, dated as of the Closing Time, in form and substance satisfactory to the Agent to the effect that: (i) they have examined the Prospectus and at the time the Prospectus became authorized for final use, the Prospectus did not contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading; (ii) since the date the Prospectus became authorized for final use, no event has occurred that should have been set forth in an amendment or supplement to the Prospectus that has not been so set forth, including specifically, but without limitation, any material adverse change in the condition, financial or otherwise, or in the earnings, capital, properties or business of the Federal Life Parties; (iii) since the respective dates as of which information is given in the Registration Statement, the General Disclosure Package and the Prospectus, there has been no material adverse change in the condition, financial or otherwise, or in the earnings, capital, properties or business of the Federal Life Parties independently, or of the Federal Life Parties considered as one enterprise, whether or not arising in the ordinary course of business; (iv) the representations and warranties contained in Section 6 of this Agreement are true and correct with the same force and effect as though made at and as of the Closing Time; (v) each of the Federal Life Parties has complied in all material respects with all agreements and satisfied all conditions on its part to be performed or satisfied at or prior to the Closing Time including the conditions contained in this Section 10; (vi) no stop order suspending the effectiveness of the Registration Statement has been issued or, to their knowledge, is threatened, by the Commission or any other governmental body; (vii) no order suspending the Offering, the Conversion or the use of the Prospectus has been issued and, to their knowledge, no proceedings for any such purpose have been initiated or threatened by the Department, the Commission, or any other federal or state authority; and (viii) to their knowledge, no person has sought to obtain review of the final action of the Director with respect to the Conversion Application.
- (d) Prior to and at the Closing Time, none of the Federal Life Parties shall have sustained, since the date of the latest audited financial statements included in the Registration Statement and Prospectus, any material loss or interference with its business from fire, explosion, flood or other calamity, whether or not covered by insurance, or from any labor dispute or court or governmental action, order or decree, otherwise than as set forth in the Registration Statement and the Prospectus, and since the respective dates as of which information is given in the Registration Statement and the Prospectus, there shall not have been any material change, or any development involving a prospective Material Adverse Effect, otherwise than as set forth or contemplated in the Registration Statement and the Prospectus, the effect of which, in any such case described above, is in the Agent's reasonable judgment sufficiently material and adverse as to make it impracticable or inadvisable to proceed with the Offering or the delivery of the Shares on the terms and in the manner contemplated in the Prospectus.



- (e) At or prior to the Closing Time, the Department shall have issued a letter or order to Federal Life, which shall have the force of approving the Conversion and Offering.
- (f) Subsequent to the date hereof, there shall not have occurred any of the following: (i) a suspension or limitation in trading in securities generally on the New York Stock Exchange or American Stock Exchange or in the over-the-counter market, or quotations halted generally on the Nasdaq Stock Market, or minimum or maximum prices for trading have been fixed, or maximum ranges for prices for securities have been required by either of such exchanges or FINRA or by order of the Commission or any other governmental authority other than temporary trading halts (A) imposed as a result of intraday changes in the Dow Jones Industrial Average, (B) lasting no longer than until the regularly scheduled commencement of trading on the next succeeding business-day, and (C) which, when combined with all other such halts occurring during the previous five business days, total less than three; (ii) a general moratorium on the operations of federally-insured financial institutions or general moratorium on the withdrawal of deposits from federally-insured financial institutions declared by either federal or state authorities; or (iii) any outbreak of hostilities or escalation thereof or other calamity or crisis, including, without limitation, terrorist activities after the date hereof, the effect of any of (i) through (iii) herein, in the judgment of the Agent, is so material and adverse as to make it impracticable to market the Shares or to enforce contracts, including subscriptions or purchase orders, for the sale of the Shares.

All such opinions, certificates, letters and documents will be in compliance with the provisions hereof only if they are reasonably satisfactory in form and substance to the Agent. Any certificate signed by an officer of any of the Federal Life Parties and delivered to the Agent shall be deemed a representation and warranty by the Federal Life Parties to the Agent as to the statements made therein. If any condition to the Agent's obligations hereunder to be fulfilled prior to or at the Closing Time is not fulfilled, the Agent may terminate this Agreement (provided that if this Agreement is so terminated but the sale of Shares is nevertheless consummated, the Agent shall be entitled to the reimbursement of all expenses to the extent contemplated by Section 14 hereof but shall not be entitled to any compensation provided for in Section 4(a) or (b) hereof) or, if the Agent so elects, may waive any such conditions which have not been fulfilled or may extend the time of their fulfillment.

## 11. Indemnification.

- (a) The Federal Life Parties jointly and severally agree to indemnify and hold harmless the Agent, its officers, directors, agents, and employees and each person, if any, who controls the Agent within the meaning of Section 15 of the 1933 Act or Section 20(a) of the 1934 Act, against any and all loss, liability, claim, damage or expense whatsoever (including but not limited to settlement expenses, subject to the limitation set forth in the last sentence of Paragraph (c) below), joint or several, that the Agent or any of such officers, directors, agents, employees and controlling Persons (collectively, the “Related Persons”) may suffer or to which the Agent or the Related Persons may become subject under all applicable federal and state laws or otherwise, and to promptly reimburse the Agent and any Related Persons upon written demand for any reasonable expenses (including reasonable fees and disbursements of counsel) incurred by the Agent or any Related Persons in connection with investigating, preparing or defending any actions, proceedings or claims (whether commenced or threatened) to the extent such losses, claims, damages, liabilities or actions: (i) arise out of or are based upon any untrue statement or alleged untrue statement of a material fact contained in the Registration Statement (or any amendment or supplement thereto), the Prospectus (or any amendment or supplement thereto), the General Disclosure Package, the Conversion Application, any Issuer Free Writing Prospectus or any blue sky application or other instrument or document executed by any of the Federal Life Parties or based upon written information supplied by any of the Federal Life Parties filed in any state or jurisdiction to register or qualify any or all of the Shares under the securities laws thereof or to claim an exemption therefrom (collectively, the “Blue Sky Applications”), or any application or other document, advertisement, or communication (“Sales Information”) prepared, made or executed by or on behalf of any of the Federal Life Parties with its consent or based upon written or oral information furnished by or on behalf of any of the Federal Life Parties, whether or not filed in any jurisdiction in order to qualify or register the Shares under the securities laws thereof or to claim an exemption therefrom, (ii) arise out of or are based upon the omission or alleged omission to state in any of the foregoing documents or information, a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading; (iii) arise from any theory of liability whatsoever relating to or arising from or based upon the Registration Statement (or any amendment or supplement thereto), the Prospectus (or any amendment or supplement thereto), any Issuer Free Writing Prospectus, or any Blue Sky Applications or Sales Information or other documentation distributed in connection with the Offering; or (iv) result from any claims made with respect to the accuracy, reliability and completeness of the records of policyholders, including without limitation, Eligible Members, or for any denial or reduction of a subscription or order to purchase Common Stock, whether as a result of a properly calculated allocation pursuant to the Plan or otherwise, based upon such records; *provided, however*, that no indemnification is required under this Paragraph (a) to the extent such losses, claims, damages, liabilities or actions arise out of or are based upon any untrue material statements or alleged untrue material statements in, or material omission or alleged material omission from, the Registration Statement (or any amendment or supplement thereto) or the Prospectus (or any amendment or supplement thereto), any Issuer Free Writing Prospectus, the Blue Sky Applications or Sales Information or other documentation distributed in connection with the Offering made in reliance upon and in conformity with written information furnished to the Federal Life Parties by the Agent or its representatives with respect to the Agent expressly for use in any such document (or any amendment or supplement thereto); *provided*, that it is agreed and understood that the only information furnished in writing to the Federal Life Parties, by the Agent regarding the Agent is set forth in the Prospectus in the first three paragraphs under the caption “The Conversion and the Offering—Marketing and Underwriting Arrangements”.

- (b) The Agent agrees to indemnify and hold harmless the Federal Life Parties, their directors and officers, agents, and employees and each person, if any, who controls any of the Federal Life Parties within the meaning of Section 15 of the 1933 Act or Section 20(a) of the 1934 Act against any and all loss, liability, claim, damage or expense whatsoever (including but not limited to settlement expenses, subject to the limitation set forth in the last sentence of Paragraph (c) below), joint or several which they, or any of them, may suffer or to which they, or any of them, may become subject under all applicable federal and state laws or otherwise, and to promptly reimburse the Federal Life Parties and any such persons upon written demand for any reasonable expenses (including reasonable fees and disbursements of counsel) incurred by them in connection with investigating, preparing or defending any actions, proceedings or claims (whether commenced or threatened) to the extent such losses, claims, damages, liabilities or actions (i) arise out of or are based upon any untrue statement or alleged untrue statement of a material fact contained in the Registration Statement (or any amendment or supplement thereto), the Prospectus (or any amendment or supplement thereto), any Issuer Free Writing Prospectus, or any Blue Sky Applications or Sales Information, or (ii) are based upon the omission or alleged omission to state in any of the foregoing documents a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; *provided, however*, that the Agent's obligations under this Paragraph (b) shall exist only if and only to the extent that such untrue statement or alleged untrue statement was made in, or such material fact or alleged material fact was omitted from, the Registration Statement (or any amendment or supplement thereto), the Prospectus (or any amendment or supplement thereto), the Blue Sky Applications or Sales Information in reliance upon and in conformity with written information furnished to any of the Federal Life Parties by the Agent or its representatives (including counsel) with respect to the Agent expressly for use therein; *provided*, that it is agreed and understood that the only information furnished in writing to the Federal Life Parties, by the Agent regarding the Agent is set forth in the Prospectus in the first three paragraphs under the caption "The Conversion and the Offering—Marketing and Underwriting Arrangements".

- (c) Each indemnified party shall give prompt written notice to each indemnifying party of any action, proceeding, claim (whether commenced or threatened), or suit instituted against it in respect of which indemnity may be sought hereunder, but failure to so notify an indemnifying party shall not relieve it from any liability which it may have on account of this Section, Section 12 or otherwise, except to the extent that such failure or delay causes actual harm to the indemnifying party with respect to such action, proceeding, claim or suit. An indemnifying party may participate at its own expense in the defense of such action. In addition, if it so elects within a reasonable time after receipt of such notice, an indemnifying party, jointly with any other indemnifying parties receiving such notice, may assume the defense of such action with counsel chosen by it reasonably acceptable to the indemnified parties that are defendants in such action, unless such indemnified parties reasonably object to such assumption on the ground that there may be legal defenses available to them that are different from or in addition to those available to such indemnifying party. If an indemnifying party assumes the defense of such action, the indemnifying parties shall not be liable for any fees and expenses of counsel for the indemnified parties incurred thereafter in connection with such action, proceeding or claim, other than reasonable costs of investigation unless such indemnified parties reasonably object to such assumption on the ground that there may be legal defenses available to them that are different from or in addition to those available to such indemnifying party. In no event shall the indemnifying parties be liable for the fees and expenses of more than one separate firm of attorneys for all indemnified parties in connection with any one action, proceeding or claim or separate but similar or related actions, proceedings or claims in the same jurisdiction arising out of the same general allegations or circumstances. The indemnifying party shall be liable for any settlement of any claim against the indemnified party (or its directors, officers, employees, affiliates or controlling persons) made with the indemnifying party's consent, which consent shall not be unreasonably withheld. The indemnifying party shall not, without the written consent of the indemnified party, settle or compromise any claim against the indemnified party based upon circumstances giving rise to an indemnification claim against the indemnifying party hereunder unless such settlement or compromise provides that indemnified party and the other indemnified parties shall be unconditionally and irrevocably released from all liability in respect of such claim.

**12. Contribution.** In order to provide for just and equitable contribution in circumstances in which the indemnification provided for in Section 11 is due in accordance with its terms but is found in a final judgment by a court to be unavailable from the Federal Life Parties or the Agent, the Federal Life Parties and the Agent shall contribute to the aggregate losses, claims, damages and liabilities of the nature contemplated by such indemnification (including any investigation, legal and other expenses incurred in connection with, and any amount paid in settlement of, any action, suit or proceeding, but after deducting any contribution received by the Federal Life Parties or the Agent from persons other than the other parties thereto, who may also be liable for contribution) in such proportion so that (i) the Agent is responsible for that portion represented by the percentage that the fees paid to the Agent pursuant to Section 4 of this Agreement (not including expenses) (“Agent’s Fees”) bear to the total proceeds received by the Federal Life Parties from the sale of the Shares in the Offering, net of the Agent’s Fees, and (ii) the Federal Life Parties shall be responsible for the balance. If, however, the allocation provided above is not permitted by applicable law, then each indemnifying party shall contribute to such amount paid or payable by such indemnified party in such proportion as is appropriate to reflect not only such relative fault of the Federal Life Parties on the one hand and the Agent on the other in connection with the statements or omissions which resulted in such losses, claims, damages or liabilities (or actions, proceedings or claims in respect thereof), but also the relative benefits received by the Federal Life Parties on the one hand and the Agent on the other from the Offering, as well as any other relevant equitable considerations. The relative benefits received by the Federal Life Parties on the one hand and the Agent on the other hand shall be deemed to be in the same proportion as the total proceeds from the Offering, net of the Agent’s Fees, received by the Federal Life Parties bear to the Agent’s Fees. The relative fault shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Federal Life Parties on the one hand or the Agent on the other and the parties relative intent, good faith, knowledge, access to information and opportunity to correct or prevent such statement or omission. The Federal Life Parties and the Agent agree that it would not be just and equitable if contribution pursuant to this Section 12 were determined by pro-rata allocation or by any other method of allocation which does not take account of the equitable considerations referred to above in this Section 12. The amount paid or payable by an indemnified party as a result of the losses, claims, damages or liabilities (or action, proceedings or claims in respect thereof) referred to above in this Section 12 shall be deemed to include any legal or other expenses reasonably incurred by such indemnified party in connection with investigating or defending any such action, proceeding or claim. It is expressly agreed that the Agent shall not be liable for any loss, liability, claim, damage or expense or be required to contribute any amount that in the aggregate exceeds the amount paid (excluding reimbursable expenses) to the Agent under this Agreement. It is understood and agreed that the above-stated limitation on the Agent’s liability is essential to the Agent and that the Agent would not have entered into this Agreement if such limitation had not been agreed to by the parties to this Agreement. No person found guilty of any fraudulent misrepresentation (within the meaning of Section 11(f) of the 1933 Act) shall be entitled to contribution from any person who was not found guilty of such fraudulent misrepresentation. For purposes of this Section 12, each of the Agent’s and the Federal Life Parties’ officers and directors and each person, if any, who controls the Agent or any of the Federal Life Parties within the meaning of the 1933 Act and the 1934 Act shall have the same rights to contribution as the Federal Life Parties and the Agent. Any party entitled to contribution, promptly after receipt of notice of commencement of any action, suit, claim or proceeding against such party in respect of which a claim for contribution may be made against another party under this Section 12, will notify such party from whom contribution may be sought, but the omission to so notify such party shall not relieve the party from whom contribution may be sought from any other obligation it may have hereunder or otherwise than under this Section 12, except to the extent that such failure or delay causes actual harm to the indemnifying party with respect to such action, proceeding, claim or suit. The obligations of the Federal Life Parties under this Section 12 and under Section 11 shall be in addition to any liability which the Federal Life Parties and the Agent may otherwise have.

**13. Survival.** All representations, warranties and indemnities and other statements contained in this Agreement or contained in certificates of officers of the Federal Life Parties or the Agent submitted pursuant hereto, shall remain operative and in full force and effect, regardless of any termination or cancellation of this Agreement or any investigation made by or on behalf of the Agent or its controlling persons, or by or on behalf of the Federal Life Parties and shall survive the issuance of the Shares, and any legal representative, successor or assign of the Agent, any of the Federal Life Parties, and any indemnified person shall be entitled to the benefit of the respective agreements, indemnities, warranties and representations.

#### 14. Termination.

- (a) Agent may terminate this Agreement by giving the notice indicated below in this Section at any time after this Agreement becomes effective as follows:
- (i) If any domestic or international event or act or occurrence has materially disrupted the United States securities markets such as to make it, in the Agent's reasonable opinion, impracticable to proceed with the offering of the Shares; or if trading on the NYSE shall have suspended (except that this shall not apply to the imposition of NYSE trading collars imposed on program trading); or if the United States shall have become involved in a war or major hostilities or escalation thereof; or if a general banking moratorium has been declared by a state or federal authority which has a material effect on the Federal Life Parties on a consolidated basis; or if a moratorium in foreign exchange trading by major international banks or persons has been declared; or if any of the Federal Life Parties shall have sustained a material or substantial loss by fire, flood, accident, hurricane, earthquake, theft, sabotage or other calamity or malicious act, whether or not such loss shall have been insured; or, if there shall have been a material adverse change in the financial condition, results of operations or business of the Federal Life Parties taken as a whole.
  - (ii) In the event that (x) the Plan is abandoned or terminated by Federal Life, (y) HoldCo fails to consummate the sale of the minimum number of the Shares by \_\_\_\_\_, 2019, in accordance with the provisions of the Plan, or (z) the Agent terminates this relationship because there has been a Material Adverse Effect, this Agreement shall terminate and no party to this Agreement shall have any obligation to the other hereunder, except that (1) the Federal Life Parties shall remain liable for any amounts due pursuant to Sections 3, 4, 9, 11 and 12 hereof, unless the transaction is not consummated due to the breach by the Agent of a warranty, representation or covenant and (2) the Agent shall remain liable for any amount due pursuant to Sections 11 and 12 hereof, unless the transaction is not consummated due to the breach by the Federal Life Parties of a warranty representation or covenant.
  - (iii) If any of the conditions specified in Section 10 shall not have been fulfilled when and as required by this Agreement, or by the Closing Time, or waived in writing by the Agent, this Agreement and all of the Agent's obligations hereunder may be canceled by the Agent by notifying the Federal Life Parties of such cancellation in writing at any time at or prior to the Closing Time, and any such cancellation shall be without liability of any party to any other party except that (x) the Federal Life Parties shall remain liable for any amounts due pursuant to Sections 3, 4, 9, 11 and 12 hereof, unless the transaction is not consummated due to breach by the Agent of a warrant, representation or covenant, and (y) the Agent shall remain liable for any amount due pursuant to Sections 11 and 12 hereof, unless the transaction is not consummated due to the breach by the Federal Life Parties of a warranty representation or covenant.

- (b) If Agent elects to terminate this Agreement as provided in this Section, the Federal Life Parties shall be notified by the Agent as provided in Section 15 hereof.
- (c) If this Agreement is terminated in accordance with the provisions of this Agreement, the Federal Life Parties shall pay the Agent the fees earned pursuant to Section 4 and will reimburse the Agent for its reasonable expenses pursuant to Section 9.
- (d) Any of the Federal Life Parties may terminate this Agreement in the event the Agent is in material breach of the representations and warranties or covenants contained in Section 5 and such breach has not been cured within a reasonable time period after the Federal Life Parties have provided the Agent with notice of such breach.
- (e) This Agreement may also be terminated by mutual written consent of the parties hereto.

**15. Notices.** All notices and other communications hereunder shall be in writing and shall be deemed to have been duly given if mailed by United States certified mail, return receipt requested, or sent by a nationally recognized commercial courier promising next business day delivery (such as Federal Express) or transmitted by any standard form of telecommunication (such as facsimile or email) with confirming copy sent by regular U.S. mail. Notices shall be sent as follows:

If to Agent:	Griffin Financial Group, LLC 620 Freedom Business Center 2nd Floor King of Prussia, Pennsylvania 10019 Attention: Jeffrey P. Waldron, Senior Managing Director Facsimile: (610) 371-7974 Email: jpw@griffinfinancialgroup.com
If to the Federal Life Parties	Federal Life Company 3759 Deerfield Road Riverwoods, Illinois 60015 Attention: William S. Austin Facsimile: Email: waustin@federallife.com
With a copy to:	Stevens & Lee, PC 111 North 6 <sup>th</sup> Street Reading, Pennsylvania 19603 Attention: Wesley R. Kelso, Esquire Facsimile: (610) 236-4176 Email: wrk@stevenslee.com

Any party may change the address or other information for notices set forth above by written notice to the other parties, which notice shall be given in accordance with this Section 15.

**16. Parties.** This Agreement shall inure to the benefit of and be binding upon the Agent and the Federal Life Parties and their respective successors. Nothing expressed or mentioned in this Agreement is intended or shall be construed to give any person, firm or corporation, other than the parties hereto and their respective successors and the controlling persons and officers, directors, agents and employees referred to in Sections 11 and 12 and their heirs and legal representatives, any legal or equitable right, remedy or claim under or in respect of this Agreement or any provisions herein contained.

**17. Partial Invalidity.** In the event that any term, provision or covenant herein or the application thereof to any circumstances or situation shall be invalid or unenforceable, in whole or in part, the remainder hereof and the application of said term, provision or covenant to any other circumstance or situation shall not be affected thereby, and each term, provision or covenant herein shall be valid and enforceable to the full extent permitted by law.

**18. Governing Law and Construction.** This Agreement shall be construed in accordance with the laws of the Commonwealth of Pennsylvania applicable to contracts executed and to be wholly performed therein without giving effects to its conflicts of laws principles or rules.

**19. Counterparts.** This Agreement may be executed in any number of counterparts, all of which taken together shall constitute one and the same instrument and any of the parties hereto may execute this Agreement by signing any such counterpart. Any signature delivered by facsimile or email (including any delivery by PDF) shall bind the parties hereto with the same effect as the delivery of a manually signed signature page.

**20. Entire Agreement.** This Agreement, including schedules and exhibits hereto, which are integral parts hereof and incorporated as though set forth in full, constitutes the entire agreement between the parties pertaining to the subject matter hereof superseding any and all prior or contemporaneous oral or prior written agreements, proposals, letters of intent and understandings, and cannot be modified, changed, waived or terminated except by a writing which expressly states that it is an amendment, modification or waiver, refers to this Agreement and is signed by the party to be charged. No course of conduct or dealing shall be construed to modify, amend or otherwise affect any of the provisions hereof.

**21. Waiver of Trial by Jury.** Each of the Agent and the Federal Life Parties waives all right to trial by jury in any action, proceeding, claim or counterclaim (whether based on contract, tort or otherwise) related to or arising out of this Agreement.



If the foregoing is in accordance with your understanding of our agreement, please sign and return to us a counterpart hereof, whereupon this instrument along with all counterparts will become a binding agreement between you and us in accordance with its terms.

Very truly yours,

**FEDERAL LIFE GROUP, INC.**

By:

\_\_\_\_\_  
William S. Austin, President and  
Chief Operating Officer

**FEDERAL LIFE INSURANCE COMPANY**

By:

\_\_\_\_\_  
William S. Austin, President and  
Chief Operating Officer

**FEDERAL LIFE MUTUAL HOLDING COMPANY**

By:

\_\_\_\_\_  
William S. Austin, President and  
Chief Operating Officer

**[COUNTERPART SIGNATURE OF GRIFFIN ON FOLLOWING PAGE]**

The foregoing Agency Agreement is hereby confirmed and accepted as of the date first set and above written.

**GRIFFIN FINANCIAL GROUP, LLC**

By:

---

Jeffrey P. Waldron, Senior Managing  
Director

**Schedule A**

Persons Required to Enter into Lock-up Agreements

**NONE**

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**Exhibit A**

**Form of Comfort Letter from BKD LLP**

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**Exhibit B**  
**Form of Lockup Agreement**

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**PLAN OF CONVERSION  
OF  
FEDERAL LIFE MUTUAL HOLDING COMPANY**

**Under Section 59.1 of the  
Illinois Insurance Code, 215 ILCS 5/59.1**

**As Approved on March 8, 2018  
by the Board of Directors**

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**PLAN OF CONVERSION**  
**OF**  
**FEDERAL LIFE MUTUAL HOLDING COMPANY**

**Under Section 59.1 of the**  
**Illinois Insurance Code, 215 ILCS 5/59.1**

This Plan of Conversion provides for the conversion of Federal Life Mutual Holding Company, a mutual holding company organized under the laws of Illinois (such entity, both before and after the Conversion, being referred to as “FLMHC”), from a mutual holding company into a stock company (the “Conversion”) and the issuance by FLMHC of newly-issued shares of common stock of FLMHC to Federal Life Group, Inc., a Pennsylvania corporation (“HoldCo”), as authorized by Section 59.1 of the Illinois Insurance Code, 215 ILCS 5/59.1 (the “Conversion Act”). In the Conversion, all Eligible Members will receive subscription rights to purchase shares of common stock of HoldCo, in exchange for the extinguishment of their Membership Interests in FLMHC. As required by Section 59.1(2) of the Illinois Insurance Code, this Plan of Conversion was originally approved and adopted by at least two-thirds of the members of the Board of Directors (the “Board”) of FLMHC, at a meeting duly called and held on March 8, 2018 (the “Adoption Date”). Capitalized terms used herein without definition have the meaning set forth in Article 2 hereof.

**ARTICLE 1**  
**REASONS FOR THE CONVERSION**

The principal purpose of the Conversion is to convert FLMHC from a mutual insurance holding company into a stock holding company in order to enhance its strategic and financial flexibility and to provide the Eligible Members with the right to acquire an equity interest in HoldCo. The Board believes that the Conversion is in the best interest of FLMHC because the additional capital resulting from the Conversion should: (i) support further organic growth in life insurance premiums written and annuity deposits; (ii) provide the capital necessary to permit increased sales of life insurance and annuities by Federal Life; and (iii) enable HoldCo to attract institutional investors and engage in strategic transactions advantageous to HoldCo and its subsidiaries. The Board further believes that the transaction is fair and equitable, is consistent with the purpose and intent of Section 59.1 and will not prejudice the interests of the Members.

In its present structure as a mutual holding company, FLMHC can increase the statutory capital of Federal Life only through earnings generated by the businesses of Federal Life and its subsidiaries, the issuance of surplus notes by Federal Life, or the sale of a minority interest in Federal Life with or without the granting of subscription rights. Reliance on earnings to provide a long-term source of permanent capital, however, limits Federal Life’s ability to develop new business, issue new insurance and annuity products, and provide greater stability and protection for its policyholders. Surplus notes do not provide permanent capital and must be repaid out of the company’s earnings. The sale of a minority interest in Federal Life is unlikely to provide a meaningful amount of capital, especially in relation to the costs incurred to raise this capital.

**ARTICLE 2**  
**DEFINITIONS**

2.01 Certain Terms. As used in this Plan of Conversion, the following terms have the meanings set forth below:

“Adoption Date” has the meaning specified in the preamble.

“Affiliate” means a Person who, directly or indirectly, through one or more intermediaries, controls or is controlled by or is under common control with the Person specified or who is acting in concert with the Person specified.

“Amended and Restated Articles of Incorporation” has the meaning specified in Section 14.01(a).

“Amended and Restated Bylaws” has the meaning specified in Section 15.04(a).

“Application” has the meaning specified in Section 4.01.

“Appraised Value” means the estimated pro forma market value of FLMHC, as determined by RP Financial, LC.

“Board” has the meaning specified in the preamble.

“Code” means the Internal Revenue Code of 1986, as amended.

“Common Stock” means the common stock of HoldCo, par value \$0.01 per share.

“Community Offering” means the offering for sale by HoldCo of any shares of Common Stock not subscribed for in the Subscription Offering as set forth in Article 8 hereof, and includes any Public Offering. HoldCo may retain the assistance of a broker-dealer or syndicate of broker-dealers to assist it in connection with the sale of Common Stock in the Community Offering.

“Conversion” has the meaning specified in the preamble.

“Decision and Order” means the final and effective decision and order issued by the Director and evidencing the Director’s approval of the Application and of this Plan of Conversion.

“Department” means the Illinois Department of Insurance.

“Director” means the Director of the Illinois Department of Insurance.

“Effective Date Filing” has the meaning specified in Section 15.04.

“Effective Time” means 12:01 a.m., Illinois time, on the Plan Effective Date. This is the time that this Plan of Conversion is deemed to be effective.

“Eligible Member” means a Member on the Adoption Date; provided that a person insured under a group policy is not an Eligible Member unless all of the conditions in 215 ILCS 5/59.1(1)(a)(i)-(iv) are satisfied.

“Eligible Policy” means any Policy that is In Force on the Adoption Date.

“Employee” means any natural person who is a full or part-time employee of Federal Life.

“Federal Life” means Federal Life Insurance Company, an Illinois chartered stock insurance company.

“Federal Life Records” means the books, records and accounts of Federal Life.

“FLMHC Shares” means the duly authorized shares of common stock of FLMHC to be issued to HoldCo on the Plan Effective Date in accordance with this Plan of Conversion.

“Gross Proceeds” means the product of (x) the Purchase Price and (y) the number of shares for which subscriptions and orders are received in the Offering and accepted by HoldCo.

“HoldCo” means Federal Life Group, Inc., a Pennsylvania corporation that will become the sole stockholder of FLMHC, and which will issue shares of Common Stock in the Offering.

“Illinois Insurance Code” means 215 ILCS 5.

“In Force” has the meaning specified in Section 16.03(a).

“Insider” means any Officer or director of Federal Life.

“Maximum of the Valuation of Range” has the meaning specified in Section 5.01.

“Member” means a person who, according to the Federal Life Records and pursuant to its bylaws and in accordance with Article 16 hereof, is deemed to be a holder of a Membership Interest in FLMHC.

“Membership Interests” means, with respect to FLMHC, the interests of Members arising under Illinois law and the articles of incorporation and bylaws of FLMHC prior to the Conversion, including the right to vote and the right to participate in any distribution of surplus in the event that FLMHC is liquidated.

“Minimum of the Valuation of Range” has the meaning specified in Section 5.01.

“Notice of Special Meeting” has the meaning specified in Section 14.02(a).

“Offering” means the offering of shares of Common Stock pursuant to this Plan in the Subscription Offering and the Community Offering or any Public Offering.

“Officer” means the people elected to serve as an officer by the Board of Directors of Federal Life, FLMHC, or HoldCo.

“Order Form” means the form provided on behalf of HoldCo by which Common Stock may be ordered in the Offering.

“Owner” means, with respect to any Policy, the Person or Persons specified or determined pursuant to the provisions of Section 16.02.

“Participant” means a Person to whom Common Stock is offered in the Subscription Offering.

“Person” means an individual, partnership, firm, association, corporation, joint-stock company, limited liability company, trust, government or governmental agency, state or political subdivision of a state, public or private corporation, board, association, estate, trustee, or fiduciary, or any similar entity.

“Plan Effective Date” has the meaning specified in Section 15.05(a).

“Plan of Conversion” means this Plan of Conversion, as it may be amended from time to time in accordance with Section 19.06 or corrected in accordance with Section 19.07. Any reference to the term “Plan of Conversion” shall be deemed to incorporate by reference all of the Exhibits thereto.

“Policy” or “Policies” has the meaning specified in Section 16.01(a).

“Prospectus” means the one or more documents to be used in offering the Common Stock in the Offering and for providing information to Persons in connection with the Offering.

“Public Offering” means an underwritten firm commitment or best efforts offering to the public through one or more underwriters or registered broker-dealers

“Purchase Price” has the meaning specified in Section 5.02.

“Registration Statement” means the registration statement filed or to be filed with the SEC by HoldCo under the Securities Act with respect to the offer and sale of shares of HoldCo common stock in the Offering.

“RP Financial” means RP Financial, L.C.

“SEC” means the United States Securities and Exchange Commission.

“Securities Act” means the Securities Act of 1933, as amended.

“Special Meeting” has the meaning specified in Section 14.01.

“Standby Purchaser” means one or more Persons that enter into a Stock Purchase Agreement to purchase stock in the Offering in an amount in excess of five percent (5%) of the number of shares issued in the Offering.

“Strategic Investors” means the Persons (which shall not exceed four (4) in number) identified in a resolution adopted by the Board and granted preference by HoldCo and FLMHC in the Community Offering.

“Stock Compensation Plan” means any executive stock incentive plan that may be established by HoldCo and under which stock options, shares of restricted stock, or restricted stock units may be granted to directors and employees of HoldCo or any of its subsidiaries.

“Stock Purchase Agreement” means any Stock Purchase Agreement entered into between HoldCo and a Standby Purchaser.

“Subscription Offering” means the offering of the Common Stock that is described in Section 7.01 hereof.

“Subscription Rights” means nontransferable rights to subscribe for Common Stock in the Subscription Offering granted to Participants as described in Section 7.01 hereof.

“Valuation Range” means the range of the estimated pro forma market value of FLMHC as converted to a stock insurance holding company as determined by RP Financial in accordance with Section 5.01 hereof.

2.02 Terms Generally. As used in this Plan of Conversion, except to the extent that the context otherwise requires:

(a) when a reference is made in this Plan of Conversion to an Article, Section or Exhibit, such reference is to an Article or Section of, or an Exhibit to, this Plan of Conversion unless otherwise indicated;

(b) the words “hereby”, “herein”, “hereof”, “hereunder” and words of similar import refer to this Plan of Conversion as a whole (including any Exhibits hereto) and not merely to the specific section, paragraph or clause in which such word appears;

(c) whenever the words “include,” “includes,” or “including” (or similar terms) are used in this Plan of Conversion, they are deemed to be followed by the words “without limitation”;

(d) the definitions contained in this Plan of Conversion are applicable to the singular as well as the plural forms of such terms; and

(e) whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms.

**ARTICLE 3**  
ADOPTION BY THE BOARD OF DIRECTORS

3.01 Adoption by the Board. This Plan of Conversion has been approved and adopted by at least two-thirds of the members of the Board at a meeting duly called and held on March 8, 2018. This Plan of Conversion provides for the conversion of FLMHC into a stock insurance holding company in accordance with the requirements of Section 59.1(2) of the Illinois Insurance Code.

**ARTICLE 4**  
APPROVAL BY THE DIRECTOR

4.01 Application for Approval. Following the adoption of this Plan of Conversion by the Board, FLMHC shall file an application (the "Application") with the Director for approval of this Plan of Conversion in accordance with Section 59.1(3) of the Illinois Insurance Code. The Application shall include true and complete copies of the following documents:

(a) this Plan of Conversion;

(b) the independent appraisal of market value of FLMHC provided by RP Financial in accordance with Section 5.01 and required by Section 59.1(6)(f) of the Illinois Insurance Code;

(c) the form of notice of the Special Meeting, required by Section 59.1(4)(b) of the Illinois Insurance Code;

(d) the form of information statement and proxy to be solicited from Eligible Members, required by Section 59.1(4)(c)(ii) of the Illinois Insurance Code;

(e) the form of notice to persons whose Policies are issued after the Adoption Date but before the Plan Effective Date, required by Section 59.1(10)(a) of the Illinois Insurance Code;

(f) the proposed amended and restated articles of incorporation and amended and restated bylaws of FLMHC; and

(g) any other information or documentation as the Director may request.

If the Director requires modifications to this Plan of Conversion, the Board shall submit any amended Plan of Conversion to the Director for his review and approval.

4.02 Director Approval. This Plan of Conversion is subject to the approval of the Director.

## ARTICLE 5

### TOTAL NUMBER OF SHARES AND PURCHASE PRICE OF COMMON STOCK.

The number of shares of Common Stock required to be offered and sold by HoldCo in the Offering will be determined as follows:

5.01 Independent Appraiser. RP Financial has been retained by FLMHC to determine the Valuation Range. The Valuation Range will consist of a midpoint valuation, a valuation fifteen percent (15%) above the midpoint valuation (the "Maximum of the Valuation Range") and a valuation fifteen percent (15%) below the midpoint valuation (the "Minimum of the Valuation Range"). The Valuation Range will be based upon the consolidated financial condition and results of operations of FLMHC, the consolidated pro forma book value and earnings per share of FLMHC as converted to a stock company, a comparison of FLMHC with comparable publicly-held insurance companies and insurance holding companies, and such other factors as RP Financial may deem to be relevant, including that value which RP Financial estimates to be necessary to attract a full subscription for the Common Stock. RP Financial will submit to FLMHC the Valuation Range and a related report that describes the data and methodology used to determine the Valuation Range.

5.02 Purchase Price. The Purchase Price for Common Stock in the Offering (the "Purchase Price") will be \$10.00 per share and will be uniform as to all purchasers in the Offering.

5.03 Number of Shares of Common Stock to be Offered. The maximum number of shares of Common Stock to be offered in the Offering shall be equal to the Maximum of the Valuation Range divided by the Purchase Price.

5.04 Number of Shares of Common Stock to be Sold. RP Financial will submit to FLMHC the Appraised Value as of the end of the latest calendar quarter for which financial statements of FLMHC are available prior to the initial filing of a draft Registration Statement with the SEC. If the Gross Proceeds of the Offering do not equal or exceed the Minimum of the Valuation Range, then FLMHC may cancel the Offering and terminate this Plan, establish a new Valuation Range and extend, reopen or hold a new Offering, or take such other action as it deems to be reasonably necessary.

5.05 Results of Offering.

(a) If the Gross Proceeds of the Offering equal or exceed the Minimum of the Valuation Range, the following steps will be taken:

(i) *Subscription Offering Exceeds Maximum*. If the number of shares to which Participants subscribe in the Subscription Offering multiplied by the Purchase Price is greater than the Maximum of the Valuation Range, then HoldCo on the Effective Date shall issue shares of Common Stock to the subscribing Participants; which shares shall be allocated among the subscribing Participants as provided in Section 7.01; *provided, however*, that the number of shares of Common Stock issued shall not exceed the number of shares of Common Stock offered in the Offering as provided in Section 5.03; and *provided further*, that no fractional shares of Common Stock shall be issued.



(ii) *Subscription Offering Meets or Exceeds Minimum, but does not Exceed Maximum.* If the number of shares of Common Stock subscribed for by Participants in the Subscription Offering multiplied by the Purchase Price is equal to or greater than the Minimum of the Valuation Range, but less than or equal to the Maximum of the Valuation Range, then HoldCo on the Effective Date shall issue shares of Common Stock to the subscribing Participants in an amount sufficient to satisfy the subscriptions of such Participants in full. To the extent that shares of Common Stock remain unsold after the subscriptions of all Participants in the Subscription Offering have been satisfied in full, HoldCo shall have the right in its absolute discretion to accept, in whole or in part, orders received from purchasers in the Community Offering, including without limitation orders from Standby Purchasers pursuant to any Stock Purchase Agreement; *provided, however*, that the number of shares of Common Stock issued shall not exceed the Maximum of the Valuation Range; and, *provided further*, that no fractional shares of Common Stock shall be issued.

(iii) *Subscription Offering Does Not Meet Minimum.* If the number of shares of Common Stock subscribed for by Participants in the Subscription Offering multiplied by the Purchase Price is less than the Minimum of the Valuation Range, then in such event HoldCo may accept orders received from purchasers in the Community Offering, including without limitation orders from Standby Purchasers pursuant to any Stock Purchase Agreement. If the aggregate number of shares of Common Stock subscribed for in the Subscription Offering together with the orders for shares accepted in the Community Offering multiplied by the Purchase Price is equal to or greater than the Minimum of the Valuation Range, then on the Effective Date HoldCo shall: (A) issue shares of Common Stock to subscribing Participants in an amount sufficient to satisfy the subscriptions of such Participants in full, and (B) issue to purchasers in the Community Offering whose orders have been accepted such additional number of shares of Common Stock such that the aggregate number of shares of Common Stock to be issued to subscribing Participants and to purchasers in the Community Offering multiplied by the Purchase Price shall be equal to the Minimum of the Valuation Range; *provided, however*, that no fractional shares of Common Stock shall be issued. HoldCo may in its absolute discretion elect to issue shares of Common Stock to purchasers in the Community Offering in excess of the number determined by reference to clause (B) of the preceding sentence; *provided, however*, that the number of shares of Common Stock issued shall not exceed the Maximum of the Valuation Range.

(b) *Offering Does Not Meet Minimum.* If the aggregate number of shares of Common Stock subscribed for in the Subscription Offering together with the orders for shares accepted in the Community Offering multiplied by the Purchase Price is less than the Minimum of the Valuation Range, then in such event HoldCo and FLMHC may (w) cancel the Offering and terminate this Plan, (x) establish a new Valuation Range, (y) extend, reopen or hold a new Offering, or (z) take such other action as they deem reasonably necessary. If a new Valuation Range is established and the Offering is extended, reopened or continued as part of a new Offering, Persons who previously submitted subscriptions or orders will be required to confirm, revise or cancel their original subscriptions or orders. If original subscriptions or orders are canceled, any related payment will be refunded (without interest).

If, following a reduction in the Valuation Range, the aggregate number of shares of Common Stock for which subscriptions and orders have been accepted in the Offering multiplied by the Purchase Price is equal to or greater than the Minimum of the Valuation Range (as such Valuation Range has been reduced), then HoldCo on the Effective Date shall: (i) issue shares of Common Stock to Participants in the Subscription Offering in an amount sufficient to satisfy the subscriptions of such subscribers in full, and (ii) issue to purchasers in the Community Offering whose orders have been accepted such additional number of shares of Common Stock such that the aggregate number of shares of Common Stock to be issued multiplied by the Purchase Price shall be at least equal to the Minimum of the Valuation Range (as such Valuation Range has been reduced).

(c) *Allocation of Shares.* In determining the allocation of shares of Common Stock to purchasers in the Offering: (i) only those orders and subscriptions accepted by FLMHC and HoldCo shall be counted; (ii) any orders and subscriptions for shares in excess of the limitations on purchases set forth in Article 10 hereof shall be accepted only up to the applicable limitation on purchases set forth in Article 10 hereof; and (iii) any order or subscription for shares of Common Stock shall only be accepted to the extent of the payment of the Purchase Price for such shares actually received prior to the termination of the Offering.

(d) *Participant Eligibility.* Notwithstanding anything to the contrary set forth in this Plan, FLMHC and HoldCo shall have the right in their absolute discretion and without liability to any subscriber, purchaser, underwriter, broker-dealer, or any other Person to determine which proposed Persons and which subscriptions and orders in the Offering meet the criteria provided in this Plan for eligibility to purchase Common Stock and the number of shares eligible for purchase by any Person. The determination of these matters by HoldCo and FLMHC shall be final and binding on all parties and all Persons. Except for orders submitted by any Standby Purchaser in accordance with the provisions of a Stock Purchase Agreement, FLMHC and HoldCo shall have absolute and sole discretion to accept or reject, in whole or in part, any offer to purchase that is made or received in the course of the Community Offering, irrespective of a Person's eligibility under this Plan to participate in the Community Offering.

## ARTICLE 6

### GENERAL PROCEDURE FOR THE OFFERINGS.

6.01 Commencement of Offerings. As soon as practicable after the registration of the Common Stock under the Securities Act, and after the receipt of all required regulatory approvals, the Common Stock shall be first offered for sale in the Subscription Offering. It is anticipated that any shares of Common Stock remaining unsold after the Subscription Offering will be sold through a Community Offering. The purchase price per share for the Common Stock shall be a uniform price determined in accordance with Section 5.02 hereof.

## ARTICLE 7

### SUBSCRIPTION OFFERING.

7.01 Allocation of Subscription Rights. Rights to purchase shares of Common Stock at the Purchase Price (the "Subscription Rights") will be distributed by HoldCo to the Participants in the following priorities:

(a) Eligible Members (First Priority). Each Eligible Member shall receive, without payment, nontransferable Subscription Rights to purchase up to 50,000 shares of Common Stock in the Subscription Offering; *provided, however*, that the maximum number of shares that may be purchased by Eligible Members in the aggregate shall be equal to the Maximum of the Valuation Range divided by the Purchase Price.

In the event of an oversubscription for shares of Common Stock pursuant to this Section 7.01(a), available shares shall be allocated among subscribing Eligible Members so as to permit each such Eligible Member, to the extent possible, to purchase a number of shares that will make his or her total allocation equal to the lesser of (i) the number of shares that he or she subscribed for or (ii) 1,000 shares. Any shares of Common Stock remaining after such initial allocation will be allocated among the subscribing Eligible Members whose subscriptions remain unsatisfied in the proportion in which (i) the aggregate number of shares as to which each such Eligible Member's subscription remains unsatisfied bears to (ii) the aggregate number of shares as to which all such Eligible Members' subscriptions remain unsatisfied; *provided, however*, that no fractional shares of Common Stock shall be issued. If, because of the magnitude of the oversubscription, shares of Common Stock cannot be allocated among subscribing Eligible Members so as to permit each such Eligible Member to purchase the lesser of 1,000 shares or the number of shares subscribed for, then shares of Common Stock will be allocated among the subscribing Eligible Members in the proportion in which: (i) the aggregate number of shares subscribed for by each such Eligible Member bears to (ii) the aggregate number of shares subscribed for by all Eligible Members; *provided, however*, that no fractional shares of Common Stock shall be issued.

(b) Directors and Officers of FLMHC (Second Priority). Each director and Officer of FLMHC shall receive, without payment, nontransferable Subscription Rights to purchase shares of Common Stock in the Subscription Offering; *provided, however*, that such Subscription Rights shall be subordinated to the Subscription Rights of the Eligible Members; and *provided, further*, that such Subscription Rights may be exercised only to the extent that there are shares of Common Stock that could have been purchased by Eligible Members, but which remain unsold after satisfying the subscriptions of all Eligible Members. In the event of an oversubscription among the directors and Officers, the number of shares issued to any one director or Officer shall be equal to the product of (i) the number of shares available for issuance to all directors and Officers, and (ii) a fraction, expressed as a percentage, the numerator of which is the number of shares to which the subscribing director or Officer subscribed and the denominator of which is the total number of shares subscribed by all directors and Officers. The aggregate number of shares purchased by the directors and Officers, whether purchased in the Subscription Offering in their capacity as Eligible Members, in the Community Offering, or otherwise, shall be limited as provided in Section 10.1 hereof.

A director or Officer who subscribes to purchase shares of Common Stock and who also is eligible to purchase shares of Common Stock as an Eligible Member will be deemed to purchase Common Stock first in his or her capacity as an Eligible Member.

(c) Limitations on Subscription Rights. Subscription rights granted under this Plan will be nontransferable, nonnegotiable personal rights to subscribe for and purchase shares of Common Stock at the Purchase Price. Subscription Rights under this Plan will be granted without payment, but subject to all the terms, conditions and limitations of this Plan. Any Person purchasing Common Stock hereunder will be deemed to represent and affirm to HoldCo and FLMHC that such Person is purchasing for his or her own account and not on behalf of any other Person.

**ARTICLE 8**  
COMMUNITY OFFERING AND PUBLIC OFFERING.

8.01 Community Offering. If less than the total number of shares of Common Stock offered by HoldCo in connection with the Conversion are sold in the Subscription Offering, it is anticipated that remaining shares of Common Stock shall, if practicable, be sold by HoldCo in the Community Offering.

8.02 Preference in Community Offering. In the Community Offering, subject to the terms of any Stock Purchase Agreement, HoldCo may accept, in its sole and absolute discretion, orders received, in the following order of priority, from (i) Employees, (ii) any Standby Purchaser, (iii) the Federal Life 401-K plan, and (iv) Strategic Investors, before accepting orders from the general public; provided, however, that notwithstanding the foregoing, HoldCo may accept such number of orders as are necessary for HoldCo to qualify for listing on the NASDAQ Capital Market.

8.03 Delivery of Offering Materials. A Prospectus and an Order Form shall be furnished to such Persons as FLMHC and HoldCo may select in connection with the Community Offering. Except to the extent provided in any Stock Purchase Agreement with a Standby Purchaser, each order for Common Stock in the Community Offering shall be subject to the absolute right of HoldCo to accept or reject any such order in whole or in part either at the time of receipt of an order or as soon as practicable following completion of the Community Offering. In the event of an oversubscription, subject to the preferences described above, the terms of the Standby Purchase Agreement, and the right of HoldCo to accept or reject, in its sole discretion, any order received in the Community Offering, any available shares will be allocated so as to permit each purchaser whose order is accepted in the Community Offering to purchase, to the extent possible, the lesser of 1,000 shares and the number of shares subscribed for by such person. Thereafter, any shares remaining will be allocated among purchasers whose orders have been accepted but remain unsatisfied on a *pro rata* basis, provided no fractional shares shall be issued.

8.04 Commencement of Community Offering. HoldCo may commence the Community Offering concurrently with, at any time during, or as soon as practicable after the end of, the Subscription Offering, and the Community Offering must be completed within 45 days after the completion of the Subscription Offering, unless extended by HoldCo.

8.05 Public Offering. HoldCo may sell any shares of Common Stock remaining following the Subscription Offering and Community Offering in a Public Offering, if desired. The provisions of Section 10.01 hereof shall not be applicable to the sales to underwriters for purposes of the Public Offering, but shall be applicable to sales by the underwriters to the public. The price to be paid by the underwriters in such an offering shall be equal to the Purchase Price less an underwriting discount to be negotiated among such underwriters and HoldCo, subject to any required regulatory approval or consent.

8.06 Alternative Offering Procedures. If for any reason a Public Offering of shares of Common Stock not sold in the Subscription Offering and the Community Offering cannot be effected, or if the number of shares of Common Stock remaining to be sold after the Subscription Offering and Community Offering is so small that a Public Offering of those remaining shares would be impractical, HoldCo shall use its best efforts to obtain other purchases in such manner and upon such condition as may be necessary, including without limitation selling shares of Common Stock to any Standby Purchaser as described in Section 9.01 hereof.

**ARTICLE 9**  
STANDBY PURCHASER.

9.01 Sale of Shares to Standby Purchaser. If the aggregate number of shares of Common Stock subscribed for in the Subscription Offering multiplied by the Purchase Price is less than the Maximum of the Valuation Range, then in such event HoldCo may sell shares of Common Stock to Standby Purchasers at the Purchase Price, provided that the total number of shares sold in the Offering multiplied by the Purchase Price do not exceed the Maximum of the Valuation Range. Subject to the terms of any Stock Purchase Agreement, any order submitted by Standby Purchasers in the Community Offering may be accepted by HoldCo prior to accepting any other order received in the Community Offering. The Standby Purchaser has purchased an exchangeable promissory note issued by FLMHC in the principal amount of up to \$2,000,000 (the "Exchangeable Note"). The outstanding principal balance of the Exchangeable Note will be converted into shares of Common Stock at the Effective Time at a price per share equal to the Purchase Price. The shares of Common Stock issuable upon conversion of the Exchangeable Note shall be issued outside of the Offering and will have no effect on the number of shares issuable in the Offering.

**ARTICLE 10**  
LIMITATIONS ON SUBSCRIPTIONS AND PURCHASES OF COMMON STOCK.

10.01 Maximum Number of Shares That May be Purchased. The following additional limitations and exceptions shall apply to all purchases of Common Stock in the Offering:

- (a) To the extent that shares are available, no Person may purchase fewer than the lesser of (i) 50 shares of Common Stock or (ii) shares of Common Stock having an aggregate purchase price of \$500.00 in the Offering.
- (b) Except for an Officer or director, no employee may purchase more than 50,000 shares of Common Stock in the Offering.
- (c) No Strategic Investor may purchase more than 50,000 shares of Common Stock in the Offering.

(d) In addition to the other restrictions and limitations set forth herein, except for purchases by a director or Officer, the maximum amount of Common Stock which any Person together with any Affiliate may, directly or indirectly, subscribe for or purchase in the Offering (including without limitation the Subscription Offering and/or Community Offering), shall not exceed 50,000 shares, except that any Standby Purchaser may purchase such number of shares of Common Stock as provided in Section 9.01; *and provided further*, that any purchase in excess of five percent (5%) of the total shares of Common Stock sold in the Offering must be approved by the Director as otherwise provided under the Illinois Insurance Code. The limit set forth in this section shall not be construed to increase any other purchase limit provided herein. Purchases of shares of Common Stock in the Offering by any Person other than any Standby Purchaser shall not exceed five percent (5%) of the total shares of Common Stock sold in the Offering irrespective of the different capacities in which such person may have received Subscription Rights or other rights or options to place orders for shares of Common Stock under this Plan. The aggregate number of shares purchased in the Offering by the Strategic Investors, employees, the Federal Life 401-K Plan, and the directors and Officers as a group may not exceed 700,000 shares.

(e) For purposes of the foregoing limitations and the determination of Subscription Rights, (i) directors, Officers, and Employees shall not be deemed to be Affiliates or a group acting in concert solely as a result of their capacities as such, (ii) shares of Common Stock purchased by any plan participant in any tax-qualified retirement account using personal funds or funds held in any tax-qualified retirement account (including, for avoidance of doubt, the Federal Life 401-K Plan) pursuant to the exercise of Subscription Rights granted to such plan participant in his individual capacity as an Eligible Member or as a director or Officer and/or purchases by such plan participant in the Community Offering in such plan participant's capacity as an employee, director or Officer shall not be deemed to be purchases by the tax-qualified retirement account for purposes of calculating the maximum amount of Common Stock that the tax-qualified retirement account may purchase, but shall count towards the individual limitations on purchases set forth in this Plan, and (iii) no Person shall be deemed to be an Affiliate of any Standby Purchaser.

(f) HoldCo may increase or decrease any of the purchase limitations set forth herein at any time; *provided* that in no event shall the maximum purchase limitation applicable to Eligible Members be less than the maximum purchase limitation percentage applicable to any other class of subscribers or purchasers in the Offering other than the directors and Officers and any Standby Purchaser. In the event that either an individual or aggregate purchase limitation is increased after commencement of the Offering, any Person who ordered the maximum number of shares of Common Stock shall be permitted to purchase an additional number of shares such that such Person may subscribe for or order the then maximum number of shares permitted to be subscribed for or ordered by such Person, subject to the rights and preferences of any person who has priority rights to purchase shares of Common Stock in the Offering. In the event that either an individual or the aggregate purchase limitation is decreased after commencement of the Offering, the orders of any Person who subscribed for or submitted an order for the maximum number of shares of Common Stock shall be decreased by the minimum amount necessary so that such Person shall be in compliance with the then maximum number of shares permitted to be subscribed for or ordered by such Person.

(g) Each Person who purchases Common Stock in the Offering shall be deemed to confirm that such purchase does not conflict with the purchase limitations under this Plan or otherwise imposed by law. FLMHC shall have the right to take any action as it may, in its sole discretion, deem necessary, appropriate or advisable in order to monitor and enforce the terms, conditions, limitations and restrictions contained in this Section and elsewhere in this Plan and the terms, conditions and representations contained in the Order Form, including, but not limited to, the absolute right of FLMHC and HoldCo to reject, limit or revoke acceptance of any order and to delay, terminate or refuse to consummate any sale of Common Stock that they believe might violate, or is designed to, or is any part of a plan to, evade or circumvent such terms, conditions, limitations, restrictions and representations. Any such action shall be final, conclusive and binding on all Persons, and HoldCo and FLMHC shall be free from any liability to any Person on account of any such action.

**ARTICLE 11**  
TIMING OF THE OFFERINGS, MANNER OF  
PURCHASING COMMON STOCK AND ORDER FORMS.

11.01 Commencement of the Offering. The exact timing of the commencement of the Offering shall be determined by HoldCo in consultation with any financial advisory or investment banking firm retained by it in connection with the Offering. HoldCo may consider a number of factors in determining the exact timing of the commencement of the Offering, including, but not limited to, its pro forma current and projected future earnings, local and national economic conditions and the prevailing market for stocks in general and stocks of insurance companies in particular. HoldCo shall have the right to withdraw, terminate, suspend, delay, revoke or modify the Offering at any time and from time to time, as it in its sole discretion may determine, without liability to any Person, subject to any necessary regulatory approval or concurrence.

11.02 Right to Reject Orders. Subject to the terms of any Stock Purchase Agreement, FLMHC and HoldCo shall have the absolute right, in their sole discretion and without liability to any Person, to reject any Order Form, including, but not limited to, any Order Form that is (i) improperly completed or executed, (ii) not timely received, (iii) not accompanied by the proper payment, or (iv) submitted by a Person whose representations FLMHC or HoldCo believes to be false or who it otherwise believes, either alone, or acting in concert with others, is violating, evading or circumventing, or intends to violate, evade or circumvent, the terms and conditions of this Plan. HoldCo and FLMHC may, but will not be required to, waive any irregularity on any Order Form or may require the submission of corrected Order Forms or the remittance of full payment for shares of Common Stock by such date as FLMHC and HoldCo may specify. The interpretation of FLMHC and HoldCo of the terms and conditions of the Order Forms shall be final and conclusive. Once HoldCo receives an Order Form, the order shall be deemed placed and will be irrevocable; *provided, however*, that no Order Form shall be accepted until the Prospectus has been filed with the SEC and mailed or otherwise made available to the Persons entitled to Subscription Rights in the Offering, and any Order Form received prior to that time shall be rejected and no sale of Common Stock shall be made in respect thereof.

11.03 Policyholders Outside the United States. HoldCo shall make reasonable efforts to comply with the securities laws of all jurisdictions in the United States in which Persons entitled to subscribe reside. However, HoldCo has no obligation to offer or sell shares to any Person under the Plan if such Person resides in a foreign country or in a jurisdiction of the United States with respect to which (i) there are few Persons otherwise eligible to subscribe for shares under this Plan who reside in such jurisdiction, (ii) the granting of Subscription Rights or the offer or sale of shares of Common Stock to such Persons would require HoldCo or its directors, Officers or employees, under the laws of such jurisdiction, to register as a broker or dealer, salesman or selling agent or to register or otherwise qualify the Common Stock for sale in such jurisdiction, or HoldCo would be required to qualify as a foreign corporation or file a consent to service of process in such jurisdiction, or (iii) such registration or qualification in the judgment of HoldCo would be impracticable or unduly burdensome for reasons of cost or otherwise.

**ARTICLE 12**  
PAYMENT FOR COMMON STOCK.

12.01 Purchase Price for Shares. Payment for shares of Common Stock ordered by Persons in the Offering shall be equal to the Purchase Price per share multiplied by the number of shares that are being ordered. Payment for shares subscribed for or ordered in the Subscription Offering or the Community Offering shall be made by bank draft, check, or money order at the time the Order Form is delivered to HoldCo, or in HoldCo's sole and absolute discretion by delivery of a wire transfer of immediately available funds. Payment for all shares of Common Stock subscribed for must be received in full and collected by HoldCo or by any subscription agent engaged by HoldCo. All subscription payments will be deposited by HoldCo in an escrow account at a bank designated by HoldCo and FLMHC and any wire transfers will be delivered directly to such escrow account. Payment for shares ordered by a Standby Purchaser or through a broker-dealer or underwriter in the Community Offering or any Public Offering may be made by delivery of a wire transfer of immediately available funds to such escrow account.

12.02 Shares Nonassessable. Each share of Common Stock issued in the Offering shall be nonassessable upon payment in full of the Purchase Price.

**ARTICLE 13**  
CONDITIONS OF THE OFFERING

13.01 Closing Conditions. Consummation of the Offering is subject to (i) the receipt of all required federal and state approvals for the issuance of Common Stock in the Offering, (ii) approval of the Plan by the members of FLMHC as provided in Section 59.1(4)(c)(i) of the Conversion Act, and (iii) the sale in the Offering (including any shares sold to a Standby Purchaser) of such minimum number of shares of Common Stock within the Valuation Range as may be determined by the Board of Directors of FLMHC.

**ARTICLE 14**  
APPROVAL BY ELIGIBLE MEMBERS

14.01 Special Meeting.

(a) After the approval of the Application by the Director, FLMHC shall hold a special meeting of Eligible Members to vote on this Plan of Conversion (the "Special Meeting"). At the Special Meeting, each Eligible Member shall be entitled to vote on a single proposal (the "Proposal") to (i) adopt and approve this Plan of Conversion and the other transactions contemplated by this Plan of Conversion, and (ii) amend and restate the articles of incorporation of FLMHC to read in the form attached as Exhibit A (the "Amended and Restated Articles of Incorporation"). The number of votes that each Eligible Member is entitled to cast at the Special Meeting shall be governed by the Bylaws of FLMHC.



(b) Adoption of this Plan of Conversion and the Amended and Restated Articles of Incorporation, pursuant to Section 59.1(4)(c)(i) of the Illinois Insurance Code, is subject to the approval of at least two-thirds of the votes cast by Eligible Members in person or by proxy at the Special Meeting.

#### 14.02 Notice of the Special Meeting.

(a) FLMHC shall mail notice of the Special Meeting in a form satisfactory to the Department (the "Notice of Special Meeting"). The Notice of Special Meeting shall be mailed within forty-five (45) days following the Director's approval of this Plan of Conversion. Such notice shall inform each Eligible Member of such Eligible Member's right to vote upon the Proposal and the place, the day, and the hour of the Special Meeting. Such notice and other materials set forth in Sections 14.02(b) shall be mailed by first class or priority mail or an equivalent of first class or priority mail, to the last-known address of each Eligible Member as it appears on the Federal Life Records, at least thirty (30) days prior to the date of the Special Meeting, and shall be in a form satisfactory to the Director.

Beginning on the date that the first Notice of Special Meeting is mailed pursuant to Section 14.02(a) and continuing until the Plan Effective Date, FLMHC shall also make available at its statutory home office located at 3750 Deerfield Road, Riverwoods, Illinois, 60015, during regular business hours, copies of the Notice of Special Meeting, this Plan of Conversion and its Exhibits, each in its entirety, for inspection by Eligible Members.

(b) The Notice of the Special Meeting shall be accompanied by information relevant to the Special Meeting, including a copy or summary of this Plan of Conversion, a form of proxy allowing the Eligible Members to vote for or against the Plan of Conversion, a policyholder information statement regarding this Plan of Conversion, and such other explanatory information that the Director approves or requires, all of which shall be in a form satisfactory to the Director. With the prior approval of the Director, FLMHC may also send supplemental information relating to this Plan of Conversion to Eligible Members either before or after the date of the Special Meeting.

### **ARTICLE 15** **THE CONVERSION**

15.01 Effect on FLMHC. On the Plan Effective Date, FLMHC shall be converted from a mutual insurance holding company into a stock insurance holding company in accordance with Section 59.1 and the closing of the Offering shall occur in accordance with this Plan of Conversion. Under the terms of this Plan of Conversion, HoldCo will acquire all of the FLMHC Shares. HoldCo thereupon will become the sole shareholder of FLMHC and will have all the rights, privileges, immunities and powers and will be subject to all of the duties and liabilities to the extent provided by law of a shareholder of a corporation organized under the laws of the State of Illinois.

15.02 Effect on Existing Policies.

(a) Any Policy In Force on the Plan Effective Date will remain In Force under the terms of such Policy, except that the following rights, to the extent they existed in FLMHC, shall be extinguished on the Plan Effective Date:

- (i) any voting rights of the policyholder provided under or as a result of the Policy;
- (ii) any right to share in the surplus of FLMHC, except as provided in Section 15.02(b).

(b) Except as otherwise provided in Section 15.02(c), an Owner of a participating Policy In Force on the Plan Effective Date will continue to have a right to receive policyholder dividends as provided in the participating Policy, if any, consistent with Federal Life's dividend principles and policies practice prior to the Plan Effective Date. Nothing in this Plan shall be construed to guarantee the future payment of any policy dividend for any Policy, whether issued by Federal Life prior to the Plan Effective Date or after the Plan Effective Date. Policy dividends may increase or decrease. The declaration and crediting of future policy dividends, if any, shall remain within the sole discretion of the Board of Directors of Federal Life, except as provided by law. Federal Life may modify the dividend principles and policy in effect on June 1, 2015, with the approval of the Director.

(c) Except for life insurance policies, guaranteed renewable accident and health policies and non-cancellable accident and health policies, after the Plan Effective Date Federal Life may issue the Owner a nonparticipating Policy as a substitute for the participating Policy upon the renewal date of any Policy.

15.03 Closed Block of Participating Policies. Federal Life believes that the size of the block of Policies in Force on the Adoption Date that are participating policies and eligible to receive dividends is insignificant and that the reserve supporting such policies is adequate to continue to support Federal Life's obligations under such Policies. Accordingly, subject to the Director's approval of this Plan, Federal Life does not intend to establish a closed block for such policies.

15.04 Filing of Plan of Conversion and Amended and Restated Articles. As soon as practicable following (i) the receipt of the Decision and Order, (ii) the Director's determination that all conditions to such approval contained in the Decision and Order have been satisfied, except for those conditions required by the Decision and Order to be satisfied after the Plan Effective Date and with respect to which the Director has received commitments, acceptable to the Director, from FLMHC and/or HoldCo to satisfy after the Plan Effective Date, (iii) the adoption of this Plan of Conversion and the Amended and Restated Articles of Incorporation by the Eligible Members as provided in this Plan of Conversion, and (iv) the satisfaction or waiver of all of the conditions contained in this Plan of Conversion, FLMHC shall file with the Director (A) the minutes of the Special Meeting, (B) a certificate of the Secretary of FLMHC setting forth the results of the vote on the Plan of Conversion and the Amended and Restated Articles of Incorporation and certifying as to whether or not it was approved by not less than two-thirds of the votes cast by the Eligible Members voting in person or by proxy at the Special Meeting, and (C) the Amended and Restated Articles of Incorporation and the Amended and Restated Bylaws of FLMHC (the filing described in clauses (A), (B) and (C) above, the "Effective Date Filing").

15.05 Effectiveness of Plan of Conversion.

(a) The “Plan Effective Date” of the Plan of Conversion shall be the date and time as of which all of the following steps have been completed: (i) the Plan of Conversion has been approved by the Director, (ii) the Eligible Members have approved the Plan of Conversion by the requisite vote, (iii) the Amended and Restated Articles of Incorporation have been duly adopted, (iv) the Effective Date Filing shall have been made by FLMHC, and (v) the Articles of Incorporation of HoldCo have been filed with the Illinois Secretary of State. Subsequent to the Plan Effective Date, the bylaws of FLMHC shall be substantially in the form attached hereto as Exhibit B (the “Amended and Restated Bylaws”). This Plan of Conversion shall be deemed to have become effective at the Effective Time.

(b) At the Effective Time:

(i) FLMHC shall by operation of Section 59.1 of the Illinois Insurance Code become a stock insurance holding company;

(ii) the Amended and Restated Articles of Incorporation and the Amended and Restated Bylaws shall without further action become effective; and

(iii) all of the Membership Interests shall be extinguished.

(c) On the Plan Effective Date:

(i) FLMHC shall issue all of the authorized FLMHC Shares to HoldCo, representing all of the issued and outstanding common stock of FLMHC; and

(ii) HoldCo shall issue shares of Common Stock to Persons whose subscriptions and orders were accepted in the Offering.

15.06 Tax Considerations. This Plan of Conversion shall not become effective and the Conversion shall not occur unless, on or prior to the Plan Effective Date, FLMHC shall have received a favorable opinion of Stevens & Lee, P.C., special counsel to FLMHC, or other nationally-recognized independent tax counsel to FLMHC, dated as of the Plan Effective Date, addressed to the Board and in form and substance satisfactory to FLMHC, which, notwithstanding any qualifications expressed therein, is substantially to the effect that FLMHC will not recognize any gain or loss for U.S. federal income tax purposes as a result of the Conversion.

**ARTICLE 16**  
**POLICIES**

16.01 Policies.

(a) For the purposes of this Plan of Conversion, the term “Policy” means each insurance policy and annuity contract that has been issued or will be issued or assumed through assumption reinsurance, if any, by Federal Life.

(b) The following policies and contracts shall be deemed not to be Policies for purposes of this Plan of Conversion:

(i) any reinsurance assumed by Federal Life as a reinsurer on an indemnity basis (but assumption certificates may constitute Policies if they otherwise fall within the definition of Policies as provided in Section 16.01(a));

(ii) all administrative services agreements; and

(iii) any policy or contract issued by Federal Life and ceded to another insurance company through assumption reinsurance.

16.02 Determination of Ownership. Unless otherwise stated herein, the Owner of any Policy as of any date shall be determined on the basis of the Federal Life Records as of such date in accordance with the following provisions:

(a) the Owner shall be the owner of the Policy as shown on the Federal Life Records;

(b) an additional insured under a Policy shall not be an Owner of the Policy and shall not be a Member;

(c) except as otherwise set forth in this Section 16.02, the identity of the Owner of a Policy shall be determined without giving effect to any interest of any other Person in such Policy;

(d) in any situation not expressly covered by the foregoing provisions of this Section 16.02, the owner of the Policy, as reflected on the Federal Life Records, and as determined in good faith by FLMHC, shall conclusively be presumed to be the Owner of such Policy for purposes of this Section 16.02, and except for administrative errors, FLMHC shall not be required to examine or consider any other facts or circumstances;

(e) the mailing address of an Owner as of any date for purposes of this Plan of Conversion shall be the Owner’s last known address as shown on the Federal Life Records as of such date;

(f) in no event may there be more than one Owner of a Policy, although more than one Person may constitute a single Owner. If a Person owns a Policy with one or more other Persons, they will constitute a single Owner with respect to the Policy; and

(g) any dispute as to the identity of the Owner of a Policy or the right to vote shall be resolved in accordance with the foregoing and such other procedures as FLMHC may determine. Any determinations made by FLMHC shall be conclusive as between FLMHC and any Owner of a Policy or any other Person with an interest therein but shall not preclude any actions among such Persons.

#### 16.03 In Force.

(a) A Policy shall be deemed to be in force ("In Force") as of any date if, as shown in the Federal Life Records:

(i) the Policy has been issued or coverage has been bound by Federal Life or assumed by Federal Life through assumption reinsurance as of such date; and

(ii) such Policy has not expired, cancelled, non-renewed or otherwise terminated, provided that a Policy shall be deemed to be In Force after lapse for nonpayment of premiums until expiration of any applicable grace period (or similar period however designated in such Policy) during which the Policy is in full force for its basic benefits.

(b) The date of expiration, cancellation or termination of a Policy shall be as shown on the Federal Life Records.

(c) A Policy shall not be deemed to be In Force as of a given date if the Policy is returned to Federal Life and all premiums are refunded within thirty (30) days of such date.

(d) Any dispute as to whether a Policy is In Force shall be resolved in accordance with the foregoing.

### **ARTICLE 17** **SUBSEQUENT POLICYHOLDERS**

17.01 Notice to Subsequent Policyholders. Upon the issuance of a Policy that becomes effective after the Adoption Date and before the Plan Effective Date (excluding renewals of Policies In Force on the Adoption Date), Federal Life shall send to the Owner of such Policy (a "Subsequent Policyholder") a written notice regarding this Plan of Conversion in accordance with 215 ILCS 5/59.1(10). Such notice shall specify such Subsequent Policyholder's right to rescind such Policy as provided in Section 17.02 within forty-five (45) days after the Plan Effective Date and shall be accompanied by a copy or summary of this Plan of Conversion. The form of such notice shall be filed with and approved by the Director.

17.02 Option to Rescind. Each Subsequent Policyholder shall be entitled to rescind his Policy and receive a full refund of any amounts paid for the Policy within ten (10) days after the receipt by Federal Life of the notice of rescission by such Subsequent Policyholder. No Subsequent Policyholder, the estate of such Subsequent Policyholder, or any beneficiary under such policy that has made or filed a claim under a Policy will be entitled to rescission or refund of any premiums paid for such policy. If a Subsequent Policyholder rescinds its Policy pursuant to the right described in this Section 17.02, such Subsequent Policyholder, the estate of such Subsequent Policyholder, or any beneficiary under such policy will have no insurance coverage under such Policy and may not make or file a claim under such Policy.

**ARTICLE 18**  
OFFICERS AND BOARD OF DIRECTORS

18.01 Directors. Each of the members of FLMHC's Board immediately prior to the Effective Time shall remain as a director of FLMHC as of the Effective Time, and thereafter, HoldCo, as the sole shareholder of FLMHC, shall have the right to elect the directors of FLMHC.

18.02 Officers. The officers of FLMHC immediately prior to the Effective Time shall serve as officers of FLMHC after the Effective Time until new officers are duly elected pursuant to the Amended and Restated Articles of Incorporation and the Amended and Restated Bylaws.

**ARTICLE 19**  
ADDITIONAL PROVISIONS

19.01 Continuation of Corporate Existence. Upon the conversion of FLMHC to a stock insurance holding company in accordance with the terms of this Plan of Conversion and the provisions of Section 59.1(11):

(a) the corporate existence of FLMHC as a mutual insurance holding company shall be continued in FLMHC's corporate existence as a stock insurance holding company;

(b) all the rights, franchises and interests of FLMHC as a mutual insurance holding company in and to every type of property, real, personal and mixed, and things in action thereunto belonging, shall be deemed transferred to and vested in FLMHC as a stock insurance holding company without any deed or transfer;

(c) FLMHC (as converted to a stock insurance holding company) shall be deemed to have assumed all the obligations and liabilities of FLMHC (as the former mutual insurance holding company);

(d) Except to the extent any surplus note or other convertible instrument is converted to shares of HoldCo common stock in accordance with its terms, all outstanding surplus notes, guaranty fund interests or other surplus debentures issued by Federal Life prior to the Effective Time shall remain in full force and effect following the Conversion.

19.02 Conflict of Interest. No director, officer, agent or employee of FLMHC, or any of its subsidiaries or affiliates or any other person shall receive any fee, commission or other valuable consideration whatsoever, other than his or her usual regular salary and compensation, for in any manner aiding, promoting or assisting in the transactions contemplated by this Plan of Conversion; *provided*, that FLMHC may pay reasonable fees and compensation to attorneys, accountants and actuaries for services performed in the independent practice of their professions, even if such attorney, accountant or actuary is also a director or agent of FLMHC or any of its subsidiaries.

19.03 Registration of Shares; Listing of Shares on Stock Exchange.

HoldCo shall register the Common Stock pursuant to the Securities Exchange Act of 1934, as amended. HoldCo shall use its best efforts to (i) encourage and assist a market maker to establish and maintain a market for that class of stock and (ii) list that class of stock on a national or regional securities exchange or to have quotations for that class of stock disseminated on The Nasdaq Stock Market.

19.04 Restrictions on Transfer of Common Stock.

(a) All shares of the Common Stock which are purchased in the Offering by Persons other than directors and officers of FLMHC shall be transferable without restriction. Shares of Common Stock purchased by directors and officers of FLMHC in the Offering shall be subject to the restriction that such shares shall not be sold for a period of one year following the date of purchase. The shares of Common Stock issued by HoldCo to officers and directors of FLMHC shall bear the following legend giving appropriate notice of such one year restriction:

The shares represented by this Certificate may not be sold by the registered holder hereof for a period of one year from the date of the issuance printed hereon. This restrictive legend shall be deemed null and void after one year from the date of this Certificate.

(b) In addition, HoldCo shall give appropriate instructions to the transfer agent for its Common Stock with respect to the applicable restrictions relating to the transfer of restricted stock. Any shares issued at a later date as a stock dividend, stock split or otherwise with respect to any such restricted stock shall be subject to the same holding period restrictions as may then be applicable to such restricted stock.

(c) The foregoing restriction on transfer shall be in addition to any restrictions on transfer that may be imposed by federal and state securities laws.

19.05 No Preemptive Rights. No Member or other Person shall have any preemptive right to acquire FLMHC shares in connection with this Plan of Conversion.

19.06 Amendment or Withdrawal of Plan of Conversion.

(a) At any time prior to the Plan Effective Date, FLMHC may, by resolution of not less than two-thirds of the Board, amend or withdraw this Plan of Conversion (including the Exhibits hereto). Any amendment shall require the written consent of the Director. No amendment may change the Plan of Conversion after its approval by the Eligible Members in a manner that the Director determines is material unless the Plan of Conversion, as amended, is submitted for reconsideration by the Eligible Members of FLMHC pursuant to the provisions of Sections 14.01 and 14.02. No amendment may change the Adoption Date of the Plan of Conversion.

(b) After the Plan Effective Date, the Amended and Restated Articles of Incorporation adopted pursuant to this Plan of Conversion may be amended pursuant to the provisions of such articles of incorporation, the Illinois Insurance Code and the statutory provisions generally applicable to the amendment of the articles of incorporation of insurance holding companies, or such other statutory provisions as may be applicable at the time of the amendment.

19.07 Corrections. Prior to the Plan Effective Date, FLMHC, with the prior consent of the Director, may make such modifications as are appropriate to correct errors, cure ambiguities, clarify existing items or make additions to correct manifest omissions in this Plan of Conversion or any exhibits hereto.

19.08 Notices. If FLMHC complies substantially and in good faith with the notice requirements of Section 59.1 of the Illinois Insurance Code with respect to the giving of any required notice to Members, the failure of FLMHC to give any Member any required notice does not impair the validity of any action taken under Section 59.1 of the Illinois Insurance Code.

19.09 Limitation of Actions. Any action or proceeding challenging the validity of or arising out of acts taken or proposed to be taken pursuant to Section 59.1 of the Illinois Insurance Code shall be commenced within 30 days after the Plan Effective Date. No Person shall have any rights or claims against FLMHC or its Board based upon the withdrawal or termination of this Plan of Conversion.

19.10 Costs and Expenses. All the costs and expenses related to the Plan of Conversion, including the costs of outside advisors and consultants of the regulatory agencies, shall be borne, directly or indirectly, by FLMHC or its subsidiaries.

19.11 Headings. Article and Section headings contained in this Plan of Conversion are for convenience only and shall not be considered in construing or interpreting any of the provisions hereof.

19.12 Governing Law. The Plan of Conversion shall be governed by and construed in accordance with the laws of the State of Illinois, without regard to such State's principles of conflicts of law.

19.13 Limitation on Acquisition of Shares of Common Stock. In accordance with Section 59.1(6)(i) of the Conversion Act, no person or group of persons acting in concert may acquire more than 5% of the outstanding shares of Common Stock, through a public offering or subscription rights, for a period of five (5) years after the Effective Time without the prior approval of the Director.

*[Remainder of this page intentionally left blank]*



IN WITNESS WHEREOF, FLMHC by authority of its Board, has caused this Plan of Conversion to be duly executed as of the day and year first above written.

Federal Life Mutual Holding Company

By: /s/ William S. Austin

Name: William S. Austin

Title: President

**AMENDMENT TO  
PLAN OF CONVERSION  
OF  
FEDERAL LIFE MUTUAL HOLDING COMPANY**

**Under Section 59.1 of the  
Illinois Insurance Code, 215 ILCS 5/59.1**

**As Approved on August 16, 2018  
by the Board of Directors**

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**AMENDMENT TO  
PLAN OF CONVERSION  
OF  
FEDERAL LIFE MUTUAL HOLDING COMPANY**

**Under Section 59.1 of the  
Illinois Insurance Code, 215 ILCS 5/59.1**

The Board of Directors (the “Board”) of Federal Life Mutual Holding Company (“FLMHC”) adopted a Plan of Conversion on March 8, 2018 (the “Plan”). This Amendment to the Plan of Conversion was approved and adopted by the Board by at least two-thirds of the members of the Board of Directors, at a meeting duly called and held on August 16, 2018. Capitalized terms used herein without definition have the meaning set forth in the Plan.

1. Section 5.04 of the Plan is amended and restated to read as follows:

“5.04 Number of Shares of Common Stock to be Sold. RP Financial will submit to FLMHC the Appraised Value as of December 22, 2017. If the Gross Proceeds of the Offering do not equal or exceed the Minimum of the Valuation Range, then FLMHC may cancel the Offering and terminate this Plan, establish a new Valuation Range and extend, reopen or hold a new Offering, or take such other action as it deems to be reasonably necessary.”

2. Section 9.01 of the Plan is amended and restated to read as follows:

“9.01 Sale of Shares to Standby Purchaser. If the aggregate number of shares of Common Stock subscribed for in the Subscription Offering multiplied by the Purchase Price is less than the Maximum of the Valuation Range, then in such event HoldCo may sell shares of Common Stock to Standby Purchasers at the Purchase Price, provided that the total number of shares sold in the Offering multiplied by the Purchase Price do not exceed the Maximum of the Valuation Range. Subject to the terms of any Stock Purchase Agreement, any order submitted by Standby Purchasers in the Community Offering may be accepted by HoldCo prior to accepting any other order received in the Community Offering. The Standby Purchaser has purchased an exchangeable promissory note issued by FLMHC in the principal amount of up to \$2,000,000 (the “Exchangeable Note”). The outstanding principal balance of the Exchangeable Note will be converted into shares of Common Stock at the Effective Time at a price per share equal to the Purchase Price. The shares of Common Stock issuable upon conversion of the Exchangeable Note shall be counted towards the number of shares purchased by the Standby Purchasers and included in the number of shares issuable in the Offering.”

IN WITNESS WHEREOF, FLMHC by authority of its Board, has caused this Amendment to Plan of Conversion to be duly executed as of this August 16, 2018.

Federal Life Mutual Holding Company

By: /s/ William S. Austin

Name: William S. Austin

Title: President

**AMENDED AND RESTATED  
ARTICLES OF INCORPORATION  
OF  
FEDERAL LIFE GROUP, INC.**

**A Business-Stock Domestic Corporation**

**The Articles of Incorporation of Federal Life Group, Inc., a Pennsylvania corporation, are hereby amended and restated to read as follows:**

FIRST: The name of the corporation is: Federal Life Group, Inc. (the "Corporation").

SECOND: The location and address of the Corporation's registered office in this Commonwealth of Pennsylvania and the county of venue is: c/o: Corporation Service Company, 2595 Interstate Drive, Suite 103, Harrisburg, Pennsylvania 17110, Dauphin County.

THIRD: The purpose of the Corporation is to have unlimited power to engage in, and do any lawful act concerning, any or all lawful business for which corporations may be incorporated under the provisions of the Pennsylvania Business Corporation Law of 1988, as amended (15 Pa. C.S. §§ 1101, et seq.) (the "Business Corporation Law"), specifically to act as an insurance holding company.

FOURTH: The term for which the Corporation is to exist is perpetual.

FIFTH:

A. Authorized Shares. The total number of shares of capital stock which the Corporation has authority to issue is 10,000,000 shares of Common Stock, par value \$0.01 per share (the "Common Stock").

The Corporation shall be entitled to treat the person in whose name any share of its stock is registered as the owner thereof for all purposes and shall not be bound to recognize any equitable or other claim to, or interest in, such share on the part of any other person, whether or not the Corporation shall have notice thereof, except as expressly provided by applicable law.

B. Preemptive Rights. No holder of capital stock of the Corporation shall have any preemptive, subscription, redemption, conversion or sinking fund rights with respect to the capital stock, or to any obligations convertible (directly or indirectly) into stock of the Corporation, whether now or hereafter authorized.

C. Voting Rights. Each holder of Common Stock shall have one vote for each share held by such holder on all matters voted upon by the shareholders of the Corporation.

D. Uncertificated Shares. Any and all classes or series of shares of capital stock of the Corporation, or any part thereof, may be represented by uncertificated shares to the extent determined by the Board, except as required by applicable law, including that shares represented by a certificate that is issued and outstanding shall continue to be represented thereby until the certificate is surrendered to the Corporation. Within a reasonable time after the issuance or transfer of uncertificated shares, the Corporation shall send to the registered owner thereof a written notice containing the information required by applicable law to be set forth or stated on certificates. Except as otherwise expressly provided by law, the rights and obligations of the holders of uncertificated shares of the same class and series shall be identical.

SIXTH: In furtherance and not in limitation of the powers conferred by statute, the Board is expressly authorized to make, alter, amend or repeal the Bylaws of the Corporation.

SEVENTH: The shareholders of the Corporation shall not be entitled to cumulate their votes for the election of directors.

EIGHTH: Shareholders of the Corporation may take action by written consent provided that the holders of at least such number of shares of capital stock of the Corporation having the right to vote with respect to such action as is necessary to approve such action have signed consents approving such action.

NINTH: If the Corporation solicits proxies generally with respect to a meeting of shareholders, the Corporation need not give notices of the meeting, or any material that accompanies the notice, to any shareholder to whom the Corporation is not required to send a proxy statement pursuant to the rules of the Securities and Exchange Commission.

TENTH: The Corporation expressly elects not to be governed by the provisions contained in Subchapters E (Control Transactions), F (Business Combinations), G (Control-Share Acquisitions), H (Disgorgement by Certain Controlling Shareholders Following Attempts to Acquire Control), I (Severance Compensation for Employees Terminated Following Certain Control-Share Acquisitions) and J (Business Combination Transactions – Labor Contracts) of Chapter 25 of the Business Corporation Law.

ELEVENTH: The Corporation reserves the right to amend, alter, change or repeal any provision contained in these Articles, or any amendment hereof, in the manner now or hereafter prescribed herein and by the laws of the Commonwealth of Pennsylvania upon the approval of the holders of at least a majority of the outstanding shares of capital stock of the Corporation, and all rights conferred upon shareholders herein are granted subject to this reservation.

TWELFTH: Directors.

A. The business affairs of the Corporation shall be managed by or under the direction of the Board of Directors (the “Board”). The election of the directors need not be by ballot unless required by the Bylaws of the Corporation. The number of directors of the Corporation shall be fixed from time to time exclusively by the Board pursuant to a resolution adopted by a majority of the whole Board, but shall not be less than three and not more than fifteen.

B. (i) During the Standstill Period (as defined in the Standby Stock Purchase Agreement dated as of March 8, 2018, by and among Federal Life Insurance Company, Federal Life Mutual Holding Company, and Insurance Capital Group, LLC), the directors shall be divided into three classes, as nearly equal in number as possible. Members of each class shall hold office until their successors are duly elected and qualified, subject to their earlier death, resignation, disqualification or removal. At each annual meeting of the shareholders of the Corporation, the successors of the class of directors whose term expires at that meeting shall be elected by the shareholders in the manner set forth in the Bylaws of the Corporation, to hold office for a term expiring at the annual meeting of shareholders held in the third year following the year of their election. If the number of directors is changed, any increase or decrease shall be apportioned among the classes so as to maintain the number of directors in each class as nearly equal as possible, but in no case will a decrease in the number of authorized directors constituting the whole Board shorten the term of any incumbent director.

(ii) After the end of the Standstill Period, all of the directors shall hold office until their successors are duly elected and qualified at an annual meeting of the shareholders of the Corporation, subject to their earlier death, resignation, disqualification or removal. At each annual meeting of the shareholders of the Corporation, all of the directors shall be elected by the shareholders in the manner set forth in the Bylaws of the Corporation, to hold office for a term expiring at the next annual meeting of shareholders.

C. (i) During the Standstill Period, unless the Board otherwise determines, newly created directorships resulting from any increase in the authorized number of directors or any vacancies on the Board resulting from death, resignation, retirement, disqualification, removal from office or other cause may be filled only by a majority vote of the directors then in office, though less than a quorum, and shall not be filled by the shareholders unless there are no directors remaining on the Board. Any director so chosen, if chosen to fill a vacancy, shall be a director of the same class as the director whose vacancy he or she fills.

(ii) After the end of the Standstill Period, unless the Board otherwise determines, newly created directorships resulting from any increase in the authorized number of directors or any vacancies on the Board resulting from death, resignation, retirement, disqualification, removal from office or other cause may be filled only by a vote of the shareholders. Any director so chosen, if chosen to fill a vacancy, shall hold office for a term expiring at the next annual meeting of shareholders.

THIRTEENTH: A director of the Corporation shall not be personally liable for monetary damages (including, without limitation, any judgment, amount paid in settlement, penalty, punitive damages or expense of any nature (including, without limitation, attorneys' fees and disbursements)) for any action taken, or any failure to take any action, unless the director has breached or failed to perform the duties of his or her office and the breach or failure to perform constitutes self-dealing, willful misconduct or recklessness.

FOURTEENTH: The Corporation shall indemnify any officer or director of the Corporation against any and all expenses, judgments, fines, amounts paid in settlement, and any other liabilities to the fullest extent permitted by the Business Corporation Law and may, at the discretion of the Board, purchase and maintain insurance, at the Corporation's expense, to protect itself, the directors and officers of the Corporation, and any other persons against any such expense, judgment, fine, amount paid in settlement, or other liability, whether or not the Corporation would have the power to so indemnify such person under the Business Corporation Law.

FIFTEENTH: The name and post office address of the incorporator of the Corporation is: Melissa M. Zeiders, 17 North Second Street, 16th Floor, Harrisburg, PA 17101.

IN WITNESS WHEREOF, Federal Life Group, Inc. has caused these Amended and Restated Articles of Incorporation to be executed in its name by its duly authorized officer and this September 12, 2018.

/s/ Melissa M. Zeiders  
\_\_\_\_\_  
Melissa M. Zeiders, Incorporator

**BYLAWS  
OF  
FEDERAL LIFE GROUP, INC.**

**ARTICLE 1  
OFFICES**

Section 1.1. Registered Office. The registered office of Federal Life Group, Inc. (the "Corporation") in the Commonwealth of Pennsylvania shall be as specified in the Articles of Incorporation of the Corporation, as they may be amended from time to time (the "Articles"), or at such other place as the Board of Directors of the Corporation (the "Board") may specify in a statement of change of registered office filed with the Department of State of the Commonwealth of Pennsylvania.

Section 1.2. Other Offices. The Corporation may also have an office or offices at such other place or places either within or without the Commonwealth of Pennsylvania as the Board may from time to time determine or as the business of the Corporation requires.

**ARTICLE 2  
MEETINGS OF THE SHAREHOLDERS**

Section 2.1. Place. All meetings of the shareholders shall be held at such places, within or without the Commonwealth of Pennsylvania, as the Board may from time to time determine. If, as permitted by the Board pursuant to Section 2.15 hereof, a meeting of the shareholders is held by means of the Internet or other electronic communications technology in a fashion pursuant to which the shareholders have the opportunity to read or hear the proceedings substantially concurrently with their occurrence, vote on matters submitted to the shareholders and pose questions to the directors, the meeting need not be held at a particular geographic location.

Section 2.2. Annual Meetings.

(1) A meeting of the shareholders for the election of directors and the transaction of such other business as may properly be brought before the meeting shall be held once each calendar year on such date and at such time as may be fixed by the Board not less than 90 days prior to the date of such meeting..

(2) Nominations of persons for election to the Board and the proposal of business to be considered by the shareholders at an annual meeting of shareholders may be made (A) pursuant to the Corporation's notice of meeting, (B) by or at the direction of the Board, or (C) by any shareholder of the Corporation who was a shareholder of record at the time of giving of notice provided for in this Article 2, who is entitled to vote at the meeting and who complies with the notice procedures set forth in this Article 2.



(3) For nominations or other business to be properly brought before an annual meeting by a shareholder pursuant to clause (C) of paragraph (2) of this Section 2.2, the shareholder must have given timely notice thereof in writing to the Secretary of the Corporation (the “Secretary”) and such other business must otherwise be a proper matter for shareholder action. To be timely, a shareholder’s notice must be received by the Secretary at the principal executive offices of the Corporation not later than the 60th day prior to the first anniversary of the preceding year’s annual meeting; *provided, however*, that in the event that the date of the annual meeting is more than 30 days before or more than 60 days after such anniversary date, notice by the shareholder must be so received not later than the later of the 60th day prior to the annual meeting or the 15th day following the day on which public announcement of the date of the meeting is first made by the Corporation. In no event shall the public announcement of an adjournment or postponement of an annual meeting commence a new time period for the giving of a shareholder’s notice as described above. Notwithstanding the foregoing, if the Corporation is required under Rule 14a-8 under the Securities Exchange Act of 1934 (the “Exchange Act”) to include a shareholder’s proposal in its proxy statement, such shareholder shall be deemed to have given timely notice for purposes of this paragraph (3) of Section 2.2 with respect to such proposal. A shareholder’s notice shall set forth (A) as to each person whom the shareholder proposes to nominate for election or reelection as a director: (i) all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors in an election contest or is otherwise required pursuant to Regulation 14A under the Exchange Act, (ii) a description of any arrangements or understandings among the shareholder and each such person and any other person with respect to such nomination, and (iii) the consent of each such person to being named in the proxy statement as a nominee and to serving as a director of the Corporation if so elected; (B) as to any other business that the shareholder proposes to bring before the meeting, a brief description of the business desired to be brought before the meeting, the reasons for conducting such business at the meeting and any material interest in such business of such shareholder and the beneficial owner, if any, on whose behalf the proposal is made; and (C) as to the shareholder giving the notice and the beneficial owner, if any, on whose behalf the nomination or proposal is made (i) the name and address of such shareholder, as they appear on the Corporation’s books, and of such beneficial owner; (ii) the class and number of shares of the Corporation which are owned beneficially and of record by such shareholder and such beneficial owner; and (iii) a representation that such shareholder and beneficial owner intend to appear in person or by proxy at the meeting. At the request of the Corporation, any person nominated by a shareholder for election as a director must furnish to the Secretary such other information as may reasonably be required by the Corporation to determine the eligibility of such proposed nominee to serve as an independent director of the Corporation or that could be material to a reasonable shareholder’s understanding of the independence, or lack thereof, of such nominee; in the absence of the furnishing of such information if requested, such shareholder’s nomination shall not be considered in proper form pursuant to this Section 2.2.

(4) Notwithstanding anything in paragraph (3) of this Section 2.2 to the contrary, in the event that the number of directors to be elected to the Board at the annual meeting is increased pursuant to an act of the Board and there is no public announcement by the Corporation naming all of the nominees for director or specifying the size of the increased Board on or before the date which is 15 days before the latest date by which a shareholder may timely notify the Corporation of nominations or other business to be brought by a shareholder in accordance with paragraph (3) of this Section 2.2, a shareholder’s notice required by this Section 2.2 shall also be considered timely, but only with respect to nominees for any new positions created by such increase, if it shall be received by the Secretary at the principal executive offices of the Corporation not later than the 15th day following the day on which such public announcement is first made by the Corporation.

(5) In addition to the requirements of this Section 2.2 and Section 2.3, a shareholder must also comply with all applicable requirements of state law and of the Exchange Act and the rules and regulations thereunder with respect to the matters set forth in this Section 2.2 and Section 2.3; *provided, however*, that any references in this Section 2.2 to the Exchange Act or the rules and regulations promulgated thereunder are not intended to and shall not limit the requirements applicable to proposals as to any other business to be considered pursuant to this Section 2.2 or Section 2.3.

Section 2.3. Special Meetings of Shareholders. A special meeting of the shareholders for any purpose or purposes shall be called only by the Executive Chairman, the Chief Executive Officer, the Secretary of the Corporation, or the holders of at least a majority of the outstanding shares of capital stock of the Corporation. Only such business shall be conducted at a special meeting of shareholders as shall have been brought before the meeting pursuant to the Corporation's notice of meeting. Nominations of persons for election to the Board may be made at a special meeting of shareholders at which directors are to be elected pursuant to the Corporation's notice of meeting (1) by or at the direction of the Board or (2) provided that the Board or the holders of at least a majority of the outstanding shares of capital stock of the Corporation have determined that directors shall be elected at such meeting, by any shareholder of the Corporation who is a shareholder of record at the time of giving of notice provided for in this Section 2.3, who shall be entitled to vote at the meeting and who complies with the notice procedures set forth in this Section 2.3. In the event the Corporation calls a special meeting of shareholders for the purpose of electing one or more directors to the Board, any such shareholder may nominate a person or persons (as the case may be), for election to such position(s) as specified in the Corporation's notice of meeting, if the shareholder's notice required by paragraph (3) of Section 2.2 shall be received by the Secretary at the principal executive offices of the Corporation not later than the later of the 60th day prior to such special meeting or the 15th day following the day on which public announcement is first made of the date of the special meeting and of the nominees proposed by the Board to be elected at such meeting. In no event shall the public announcement of an adjournment or postponement of a special meeting commence a new time period for the giving of a shareholder's notice as described above.

Section 2.4. Written Ballot. Unless required by vote of the shareholders before the voting begins, elections of directors need not be by written ballot.

Section 2.5. Conduct of Shareholders Meeting. The Executive Chairman shall preside at all meetings of shareholders and of the Board of Directors. In the absence of the Executive Chairman, the Chief Executive Officer shall preside at such meetings. The Secretary of the Corporation shall act as secretary of the meeting, but in his absence the chairman of the meeting may appoint any person to act as secretary of the meeting. The presiding officer shall determine the order of business and shall have the authority to establish rules for the conduct of the meeting of the shareholders. Any action by the presiding officer in adopting rules for, and in conducting, a meeting of the shareholders shall be fair to the shareholders. The presiding officer shall announce at the meeting when the polls close for each matter voted upon. If no announcement is made, the polls shall be deemed to have closed upon the final adjournment of the meeting. After the polls close, no ballots, proxies or votes, nor any revocations or changes thereto, may be accepted.

Section 2.6. General.

(1) Only such persons who are nominated in accordance with the procedures set forth in this Article 2 and Section 3.5 shall be eligible to serve as directors to the Board and only such business shall be conducted at a meeting of shareholders as shall have been brought before the meeting in accordance with the procedures set forth in this Article 2. Except as otherwise provided by law, the Articles or the Bylaws of the Corporation (the "Bylaws"), the presiding officer at the meeting, acting reasonably, shall have the power and duty to determine whether a nomination or any business proposed to be brought before the meeting was made or proposed, as the case may be, in accordance with the procedures set forth in this Article 2 and, if any proposed nomination or business is not in compliance with this Article 2, to declare that such defective proposal or nomination shall be disregarded.

(2) For purposes of this Article 2, "public announcement" shall mean disclosure in a press release reported by the Dow Jones News Service, Associated Press or comparable national news service or in a document publicly filed by the Corporation with the Securities and Exchange Commission pursuant to Sections 13, 14 or 15(d) of the Exchange Act.

Section 2.7. Notice of Meetings. Written notice of every meeting of the shareholders, stating the place, the date and hour thereof and, in the case of a special meeting of the shareholders, the general nature of the business to be transacted thereat, shall be given in a manner consistent with the provisions of Section 11.4 of these Bylaws at the direction of the Secretary or, in the absence of the Secretary, the Executive Chairman or the Chief Executive Officer, at least ten (10) days prior to the day named for a meeting called to consider a fundamental change under Chapter 19 of the Pennsylvania Business Corporation Law of 1988, as it may from time to time be amended (the "1988 BCL"), or five (5) days prior to the day named for the meeting in any other case, to each shareholder entitled to vote thereat on the date fixed as a record date in accordance with Section 7.1 of these Bylaws or, if no record date be fixed, then of record at the close of business on the tenth (10th) day next preceding the day on which notice is given or, if notice is waived, at the close of business on the day immediately preceding the day of the meeting, at such address (or facsimile, electronic mail address or telephone number), as appears on the transfer books of the Corporation. Any notice of any meeting of shareholders may state that, for purposes of any meeting that has been previously adjourned for one or more periods aggregating at least fifteen (15) days because of an absence of a quorum, the shareholders entitled to vote who attend such a meeting, although less than a quorum pursuant to Section 2.8 of these Bylaws, shall nevertheless constitute a quorum for the purpose of acting upon any matter set forth in the original notice of the meeting that was so adjourned.

Section 2.8. Quorum.

(1) The shareholders present in person or by proxy, entitled to cast at least a majority of the votes that all shareholders are entitled to cast on any particular matter to be acted upon at the meeting, shall constitute a quorum for the purposes of consideration of, and action on, such matter. Treasury shares shall not be counted in determining the total number of outstanding shares for voting purposes at any given time. The shareholders present in person or by proxy at a duly organized meeting can continue to do business until the adjournment thereof notwithstanding the withdrawal of enough shareholders to leave less than a quorum. If a meeting cannot be organized because a quorum has not been achieved, the shareholders present in person or by proxy may, except as otherwise provided by the 1988 BCL and subject to the provisions of Section 2.9 of these Bylaws, adjourn the meeting to such time and place as they may determine.

(2) Abstentions and broker votes and broker nonvotes (only when accompanied by broker votes with respect to at least one matter at the meeting) are considered present and entitled to vote for purposes of establishing a quorum for the transaction of business at a meeting of shareholders. A “broker vote” occurs when a broker votes the shares on any matter pursuant to either (i) the voting instructions and authority received from its client who is the beneficial owner of the shares or (ii) the broker’s discretionary authority to vote the shares under the applicable rules and regulations of the NASDAQ Stock Market LLP (“NASDAQ”) or other national securities exchange governing the voting authority of brokers. A “broker nonvote” occurs when a broker has not received voting instructions from its client who is the beneficial owner of the shares and the broker is barred from exercising its discretionary authority to vote the shares under the applicable rules and regulations of NASDAQ or other securities exchange governing the voting authority of brokers.

Section 2.9. Adjournments and Postponements.

(1) Any meeting of the shareholders, including one at which directors are to be elected, may be adjourned for such period as the shareholders present in person or by proxy and entitled to vote shall direct. Notice of the adjourned meeting or the business to be transacted thereat need not be given, other than announcement at the meeting at which adjournment is taken, unless the Board fixes a new record date for the adjourned meeting or the 1988 BCL requires notice of the business to be transacted and such notice has not previously been given. At any adjourned meeting at which a quorum is present, any business may be transacted that might have been transacted at the meeting as originally noticed. Those shareholders entitled to vote present in person or by proxy, although less than a quorum pursuant to Section 2.8 of these Bylaws, shall nevertheless constitute a quorum for the purpose of (a) electing directors at a meeting called for the election of directors that has been previously adjourned for lack of a quorum, and (b) acting, at a meeting that has been adjourned for one or more periods aggregating fifteen (15) days because of an absence of a quorum, upon any matter set forth in the original notice of such adjourned meeting, provided that such original notice shall have complied with the last sentence of Section 2.7 of these Bylaws.

(2) Any meeting of the shareholders, including one at which directors are to be elected, may be postponed for any proper purpose for such period as the Board shall determine.

Section 2.10. Action at a Meeting. Subject to the provisions of Section 3.3, any matter brought before a duly organized meeting for a vote of the shareholders, including, without limitation, the amendment of any provision of these Bylaws, shall be decided by a majority of the votes cast at such meeting by the shareholders present in person or by proxy and entitled to vote thereon, unless the matter is one for which a different vote is required by express provision of the 1988 BCL, the Articles or a provision of these Bylaws adopted by the shareholders, in any of which case(s) such express provision shall govern and control the decision on such matter. For clarification purposes, abstentions and broker nonvotes will not be counted as votes cast.

Section 2.11. Voting Rights. Except as otherwise provided in the Articles, at every meeting of the shareholders, every shareholder entitled to vote shall have the right to one vote for each share having voting power standing in his or her name on the books of the Corporation. Shares of the Corporation owned by it, directly or indirectly, including treasury shares, shall not be voted.

Section 2.12. Proxies. Every shareholder entitled to vote at a meeting of the shareholders or to express consent or dissent to a corporate action in writing may authorize another person to act for him or her by proxy appointed by an instrument in writing executed (or transmitted by electronic means which results in a writing) by such shareholder or by the shareholder's attorney thereunto authorized, and delivered to the Secretary or its designated agent. The presence of, or vote or other action at a meeting of shareholders, or the expression of consent or dissent to corporate action in writing, by a proxy of a shareholder, shall constitute the presence of, or vote or action by, or written consent or dissent of the shareholder. Every proxy shall be executed in writing by the shareholder or by the shareholder's duly authorized attorney-in-fact and filed with the Secretary or its designated agent. A proxy, unless coupled with an interest, shall be revocable at will, notwithstanding any other agreement or any provision in the proxy to the contrary, but the revocation of a proxy shall not be effective until written notice of revocation has been given to the Secretary or its designated agent in writing. An unrevoked proxy shall not be valid after three (3) years from the date of its execution, unless a longer time is expressly provided therein. A proxy shall not be revoked by the death or incapacity of the maker unless, before the vote is counted or the authority is exercised, written notice of such death or incapacity is given to the Secretary or its designated agent.

Section 2.13. Voting Lists. The officer or agent having charge of the transfer books for securities of the Corporation shall make a complete list of the shareholders entitled to vote at a meeting of the shareholders, arranged in alphabetical order, with the address of and the number of shares held by each shareholder, which list shall be produced and kept open at the time and place of the meeting and shall be subject to the inspection of any shareholder during the whole time of the meeting. Failure to comply with the requirements of this Section shall not affect the validity of any action taken at a meeting prior to a demand at the meeting by any shareholder entitled to vote thereat to examine the list. If the Corporation has 5,000 or more shareholders, it may make such information available at the meeting by any other means.

Section 2.14. Judges of Election. In advance of any meeting of the shareholders, the Board may appoint judges of election, who need not be shareholders, to act at such meeting or any adjournment thereof. If judges of election are not so appointed, the presiding officer of any such meeting may, and on the request of any shareholder shall, appoint judges of election at the meeting. The number of judges shall be either one (1) or three (3), as determined by the Board or presiding officer, as the case may be, to be appropriate under the circumstances. No person who is a candidate for office to be filled at the meeting shall act as a judge at the meeting. The judges of election shall do all such acts as may be proper to conduct the election or vote with fairness to all shareholders, and shall make a written report of any matter determined by them and execute a certificate of any fact found by them, if requested by the presiding officer of the meeting or any shareholder or the proxy of any shareholder. If there are three (3) judges of election, the decision, act or certificate of a majority shall be effective in all respects as the decision, act or certificate of all.

Section 2.15. Participation by Electronic Means. The right of any shareholder to participate in any shareholders' meeting by means of conference telephone, the Internet or other electronic means by which all persons participating in the meeting may hear each other and, in which event, all shareholders so participating shall be deemed present at such meeting, shall be granted solely in the discretion of the Board.

### **ARTICLE 3 DIRECTORS**

Section 3.1. Powers. The business and affairs of the Corporation shall be managed under the direction of the Board, which may exercise all powers of the Corporation and do all such lawful acts and things as are not by statute or by the Articles or these Bylaws directed or required to be exercised and done by the shareholders.

Section 3.2. Number, Elections and Term of Office.

(1) Subject to the provisions of the Articles (including, but not limited to, for purposes of these Bylaws, pursuant to any duly authorized certificate of designation), the number of directors of the Corporation shall be fixed from time to time exclusively by the Board pursuant to a resolution adopted by a majority of the whole Board, but the size of the Board shall not be less than three or greater than fifteen. During the Standstill Period (as defined in the Standby Stock Purchase Agreement dated as of March 8, 2018, by and among Federal Life Insurance Company, Federal Life Mutual Holding Company, and Insurance Capital Group, LLC ), the directors, other than those who may be elected by the holders of any series or class of stock, as provided in the Articles, shall be divided into three (3) classes, as nearly equal in term as possible, shall be elected to serve a term of three (3) years and shall hold office until his or her successor shall have been duly elected and qualified, subject to his earlier death, resignation, disqualification or removal. No decrease in the number of authorized directors constituting the whole Board shall shorten the term of any incumbent director. At each annual meeting of the shareholders of the Corporation, commencing with the 2019 annual meeting, the successors of the class of directors whose term expires at that meeting shall be elected by a plurality vote of all votes cast at such meeting to hold office for a term expiring at the annual meeting of shareholders held in the third year following the year of their election.

(2) After the end of the Standstill Period, the directors shall be elected at each annual meeting of the shareholders of the Corporation by a plurality vote of all votes cast at such meeting to hold office for a term expiring at the next annual meeting of shareholders.

Section 3.3. Plurality Voting. When directors are to be elected at a meeting of shareholders, the directors shall be elected by a plurality of the votes of the shares present in person or represented by proxy at the meeting and entitled to vote in the election of directors; provided that, whenever the holders of any class or series of common stock of the Corporation are entitled to elect one or more directors pursuant to the provisions of the Articles, such directors shall be elected by a plurality of the votes of such class or series present in person or represented by proxy at the meeting and entitled to vote in the election of such directors.

Section 3.4. Qualifications. Directors shall be natural persons, shall be 18 years or older, and need not be residents of the Commonwealth of Pennsylvania or security holders of the Corporation.

Section 3.5. Nominations of Directors. Nominees for election to the Board shall be selected by the Board or a committee of the Board to which the Board has delegated the authority to make such selections pursuant to Section 3.13 of these Bylaws. Nominees for election to the Board may also be selected by shareholders, provided that such nominations are made in accordance with, and accompanied by the information required by, Section 2.2 and Section 2.3. Only persons duly nominated for election to the Board in accordance with this Section 3.5, Section 2.2 or Section 2.3 and for whose election proxies have been solicited pursuant to a proxy statement filed pursuant to the Exchange Act shall be eligible for election to the Board.

Section 3.6. Vacancies.

(1) During the Standstill Period, subject to the rights of the holders of any capital stock of the Corporation, as specified in the Articles, and unless the Board otherwise determines, newly created directorships resulting from any increase in the authorized number of directors or any vacancies on the Board resulting from death, resignation, retirement, disqualification, removal from office or other cause may be filled only by a majority vote of the directors then in office, though less than a quorum, and shall not be filled by the shareholders unless there are no directors remaining on the Board. Any director so chosen, if chosen to fill a vacancy, shall be a director of the same class as the director whose vacancy he or she fills.

(2) After the end of the Standstill Period, subject to the rights of the holders of any capital stock of the Corporation, as specified in the Articles, newly created directorships resulting from any increase in the authorized number of directors or any vacancies on the Board resulting from death, resignation, retirement, disqualification, removal from office or other cause shall be filled only by a vote of the shareholders at a special meeting called for such purpose (or by written consent in accordance with the Corporation's articles and bylaws). Any director so chosen, if chosen to fill a vacancy, shall have a term that expires at the next annual meeting of the shareholders of the Corporation.

Section 3.7. Removal.

(a) Removal by the Shareholders. Subject to the rights of the holders of any series or class of capital stock pursuant to provisions of the Articles, prior to the end of the Standstill Period, any director may be removed from office at any time, but only for cause and by the affirmative vote of the holders of at least eighty percent (80%) of the voting power of the then outstanding capital stock of the Corporation entitled to vote generally in the election of directors, voting together as a single class. After the end of the Standstill Period, subject to the rights of the holders of any series or class of capital stock pursuant to provisions of the Articles, any director may be removed from office at any time, but only for cause and by the affirmative vote of the holders of at least sixty-five percent (65%) of the voting power of the then outstanding capital stock of the Corporation entitled to vote generally in the election of directors, voting together as a single class.

(b) Removal by the Board. The Board may declare vacant the office of a director who has been judicially declared of unsound mind or who has been convicted of an offense punishable by imprisonment for a term of more than one year, or if, within one hundred twenty days after notice of election, the director does not accept such office either in writing or by attending a meeting of the Board.

Section 3.8. Place of Board Meetings. Meetings of the Board may be held at such place within or without the Commonwealth of Pennsylvania as the Board may from time to time appoint or as may be designated in the notice of the meeting.

Section 3.9. First Meeting of Newly Elected Board. The first meeting of each newly elected Board may be held at the same place and immediately after the meeting at which such directors were elected and no notice shall be required other than announcement at such meeting. If such first meeting of the newly elected Board is not so held, notice of such meeting shall be given in the same manner as set forth in Section 3.10 of these Bylaws with respect to notice of regular meetings of the Board.

Section 3.10. Regular Board Meetings; Notice. Regular meetings of the Board may be held at such times and places as shall be determined from time to time by the Board at a duly convened meeting, or by unanimous written consent. Notice of each regular meeting of the Board shall specify the purpose, date, place and hour of the meeting and shall be given to each director at least five (5) days before the meeting. Notice shall be given in a manner consistent with Section 11.4 of these Bylaws.

Section 3.11. Special Board Meetings; Notice. Special meetings of the Board may be called by the Executive Chairman of the Board, the Chief Executive Officer or the Secretary on one day's notice to each director, either by telephone, or, if in writing, in accordance with the provisions of Section 11.4 of these Bylaws.

Section 3.12. Quorum of the Board; Action of the Board. At all meetings of the Board, the presence of (i) a majority of the directors then in office and (ii) the directors nominated by Insurance Capital Group, LLC pursuant to Section 6(f) of the Standby Stock Purchase Agreement dated as of March 8, 2018, by and among Federal Life Insurance Company, Federal Life Mutual Holding Company, and Insurance Capital Group, LLC, shall constitute a quorum for the transaction of business, and the acts of a majority of the directors present and voting at a meeting at which a quorum is present shall be the acts of the Board. If a quorum shall not be present at any meeting of directors, the directors present thereat may adjourn the meeting. It shall not be necessary to give any notice of the adjourned meeting or of the business to be transacted thereat other than by announcement at the meeting at which such adjournment is taken.



Section 3.13. Committees of Directors. (a) The Board may establish one or more committees, each committee to consist of one or more of the directors, and may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee or for the purposes of any written action by the committee. Any such committee, to the extent provided in such resolution of the Board or in these Bylaws, shall have and may exercise all of the powers and authority of the Board; provided, however, that no such committee shall have any power or authority to (a) submit to the shareholders any action requiring approval of the shareholders under the 1988 BCL, (b) create or fill vacancies on the Board, (c) amend or repeal these Bylaws or adopt new Bylaws, (d) amend or repeal any resolution of the Board that by its terms is amendable or repealable only by the Board, (e) act on any matter committed by these Bylaws or by resolution of the Board to another committee of the Board, (f) amend the Articles or adopt a resolution proposing an amendment to the Articles, or (g) adopt a plan or an agreement of merger or consolidation, share exchange, asset sale or division. In the absence or disqualification of a member or alternate member or members of a committee, the member or members thereof present at any meeting and not disqualified from voting, whether or not a quorum is present, may unanimously appoint another director to act at the meeting in the place of any absent or disqualified member. Minutes of all meetings of any committee of the Board shall be kept by the person designated by such committee to keep such minutes. Copies of such minutes and any writing setting forth an action taken by written consent without a meeting shall be distributed to each member of the Board promptly after such meeting is held or such action is taken. Each committee of the Board shall serve at the pleasure of the Board and shall include at least one director nominated by Insurance Capital Group, LLC.

(b) The Board shall appoint an Audit Committee, and the authority of the Audit Committee shall be as follows:

(i) To recommend to the Board a firm of independent public accountants to audit the Corporation's accounts for the year regarding which the accountants are appointed;

(ii) To meet with the independent public accountants before commencement of the audit to:

(1) discuss the evaluation by the accountants of the adequacy and effectiveness of the accounting procedures and internal controls of the Corporation;

(2) approve the overall scope of the audit to be made and the fees to be charged; and

(3) inquire regarding and discuss with the accountants recent Pennsylvania Business Corporation Law, Financial Accounting Standards Board, Securities and Exchange Commission or other regulatory agency pronouncements, if any, which might affect the Corporation's financial statements.

(iii) To meet with the independent public accountants at the conclusion of the audit to:

(1) review the audited financial statements of the Corporation;

(2) discuss the results of the audit;

(3) discuss the report by the accountants to management of the Corporation regarding the audit and the response by the management thereto; and

(4) discuss any significant recommendations by the accountants for improvement of accounting systems and controls of the Corporation.

Section 3.14. Executive Chairman of the Board. The Executive Chairman of the Board, if one is elected, shall preside at all meetings of the Board and of the shareholders. The Executive Chairman of the Board shall perform all duties incident to the office of Executive Chairman of the Board and shall have such other powers and duties as the Board assigns to that individual.

Section 3.15. Participation in Board Meetings by Electronic Means. One or more directors may participate in a meeting of the Board or of a committee of the Board by means of conference telephone or other electronic technology by means of which all persons participating in the meeting can hear each other, and all directors so participating shall be deemed present at the meeting.

Section 3.16. Action by Written Consent of Directors. Any action required or permitted to be taken at a meeting of the Board or of a committee of the Board may be taken without a meeting if, prior or subsequent to the action, a consent or consents in writing setting forth the action so taken shall be signed by all of the directors then in office or the members of the committee, as the case may be, and filed with the Secretary. For purposes of this Section 3.16, a consent may be given by means of a physical written copy or may be transmitted by facsimile transmission, e-mail or similar electronic communications technology.

Section 3.17. Compensation of Directors. The Board may, by resolution, fix the compensation of directors for their services as directors. A director may also serve the Corporation in any other capacity and receive compensation therefor.

Section 3.18. Directors' Liability. A director of the Board shall not be personally liable for monetary damages as such (including, without limitation, any judgment, amount paid in settlement, penalty, punitive damages or expense of any nature (including, without limitation, attorneys' fees and disbursements)) for any action taken, or any failure to take any action, unless the director has breached or failed to perform the duties of his or her office under the Articles, these Bylaws or applicable provisions of law and the breach or failure to perform constitutes self-dealing, willful misconduct or recklessness.

#### **ARTICLE 4 OFFICERS**

Section 4.1. Number, Qualifications and Designation. The officers of the Corporation shall be an Executive Chairman, a Chief Executive Officer, a President, one or more Vice Presidents (including executive or Senior Vice Presidents), a Chief Financial Officer, a Secretary and a Treasurer, and such other officers as may be elected or appointed in accordance with the provisions of this Section 4.1 or Section 4.3 of this Article. One person may hold more than one office. Officers may but need not be directors or shareholders of the Corporation. The Officers shall be natural persons of full age.

Section 4.2. Election and Term of Office. The officers of the Corporation, except those elected by delegated authority pursuant to Section 4.3 of this Article, shall be elected annually by the Board, and each such officer shall hold office until the next annual organization meeting of Board and until a successor shall have been duly chosen and qualified, or until his or her earlier death, resignation, or removal.

Section 4.3. Other and Subordinate Officers, Committees and Agents. The Board may from time to time appoint such other officers and appoint such committees, employees or other agents as the business of the Corporation may require, including one or more vice-chairmen, a chief operating officer, one or more assistant secretaries, and one or more assistant treasurers, each of whom shall hold office for such period, have such authority, and perform such duties as are provided in these Bylaws, or as the Board may from time to time determine. The Board may delegate to any officer or committee the power to appoint subordinate officers and to retain or appoint employees or other agents, or committees thereof, and to prescribe the authority and duties of such subordinate officers, committees, employees or other agents.

Section 4.4. Resignations. Any officer or agent may resign at any time by giving written notice to the Chief Executive Officer. Any such resignation shall take effect at the date of the receipt of such notice or at any later time specified therein and, unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

Section 4.5. Removal. Any officer, committee, employee or other agent of the Corporation may be removed, either with or without cause, by the Board or other authority which elected or appointed such officer, committee or other agent. Election or appointment of an officer or employee or other agent shall not of itself create contract rights.

Section 4.6. Vacancies. A vacancy in any office because of death, resignation, removal, disqualification, or any other cause, shall be filled by the Board or by the officer or committee to which the power to fill such office has been delegated pursuant to Section 4.3 of this Article, as the case may be, and if the office is one for which these Bylaws prescribe a term, shall be filled for the unexpired portion of the term.

Section 4.7. General Powers. All officers of the Corporation as between themselves and the Corporation, shall have such authority and perform such duties in the management of the Corporation as may be provided by or pursuant to resolutions or orders of the Board, or in the absence of controlling provisions in the resolutions or orders of the Board, as may be determined by or pursuant to these Bylaws.

Section 4.8. The Chief Executive Officer. Unless otherwise determined by the Board, the Chief Executive Officer shall have general supervision, direction and management over the business and operations of the Corporation, subject, however, to the control of the Board. The Chief Executive Officer shall sign, execute, and acknowledge, in the name of the Corporation, deeds, mortgages, bonds, contracts or other instruments, authorized by the Board, except in cases where the signing and execution thereof shall be expressly delegated by the Board, or by these Bylaws, to some other officer or agent of the Corporation; and, in general, shall perform all duties incident to the office of Chief Executive Officer and such other duties as from time to time may be assigned by the Board.

In the absence of the Chief Executive Officer, the officer as designated by the Board shall perform the duties of the Chief Executive Officer and such other duties as may from time to time be assigned to him by the Board.

Section 4.9. The Secretary. The Secretary shall record all the votes of the shareholders and of the directors and the minutes of the meetings of the shareholders and of the Board and of committees of the Board in a book or books to be kept for that purpose; shall see that notices are given and records and reports properly kept and filed by the Corporation as required by law; shall be the custodian of the seal of the Corporation and see that it is affixed to all documents to be executed on behalf of the Corporation under its seal; and, in general, shall perform all duties incident to the office of Secretary, and such other duties as may from time to time be assigned by the Board, the Executive Chairman or the Chief Executive Officer.

In the absence of the Secretary, the Assistant Secretary or an officer as designated by the Board shall perform the duties of the Secretary and such other duties as may from time to time be assigned to him by the Board.

Section 4.10. The Treasurer. The Treasurer or an Assistant Treasurer shall have or provide for the custody of the funds or other property of the Corporation; shall collect and receive or provide for the collection and receipt of moneys earned by or in any manner due to or received by the Corporation; shall deposit all funds in his or her custody as treasurer in such banks or other places of deposit as the Board may from time to time designate; shall, whenever so required by the Board, render an account showing all transactions as treasurer, and the financial condition of the Corporation; and, in general, shall discharge such other duties as may from time to time be assigned by the Board or the Executive Chairman or the Chief Executive Officer. The Treasurer may also be the Chief Financial Officer.

In the absence of the Treasurer, the Assistant Treasurer or an officer as designated by the Board shall perform the duties of the Treasurer and such other duties as may from time to time be assigned to him by the Board.

Section 4.11. Officers' Bonds. Any officer shall give a bond for the faithful discharge of the duties of the officer in such sum, if any, and with such surety or sureties as the Board may require.

Section 4.12. Salaries. The salaries of the officers elected by the Board shall be fixed from time to time by the Board or by such officer as may be designated by resolution of the Board. The salaries or other compensation of any other officers, employees and other agents shall be fixed from time to time by the officer or committee to which the power to elect such officers or to retain or appoint such employees or other agents has been delegated pursuant to Section 4.1 of this Article. No officer shall be prevented from receiving such salary or other compensation by reason of the fact that the officer is also a director of the Corporation.

**ARTICLE 5  
CERTIFICATES FOR SHARES**

Section 5.1. Share Certificates. Any or all classes and series of shares of the Corporation, or any part thereof, may be represented by uncertificated shares to the extent determined by the Board, except as otherwise required by law or the Articles. To the extent that certificates for shares of the Corporation are issued, such certificates shall be numbered and registered in a share register as they are issued. The share register shall exhibit the names and addresses of all registered holders and the number and class of shares and the series, if any, held by each. To the extent that certificates for shares of the Corporation are issued, each such certificate shall state that the Corporation is incorporated under the laws of the Commonwealth of Pennsylvania, the name of the registered holder and the number and class of shares and the series, if any, represented thereby. If, under its Articles, the Corporation is authorized to issue shares of the Corporation of more than one class or series and certificates for such shares are issued, each such certificate shall set forth, or shall contain a statement that the Corporation will furnish to any shareholder upon request and without charge, a full or summary statement of the designations, voting rights, preferences, limitations and special rights of the shares of each class or series authorized to be issued so far as they have been fixed and determined and the authority of the Board to fix and determine such rights.

Section 5.2. Execution of Certificates. Every share certificate shall be executed, by facsimile or otherwise, by or on behalf of the Corporation, by the Executive Chairman or the Chief Executive Officer and by the Secretary. In case any officer who has signed or whose facsimile signature has been placed upon any share certificate shall have ceased to be such officer, because of death, resignation or otherwise, before the certificate is issued, it may be issued by the Corporation with the same effect as if the officer had not ceased to be such at the time of issue.

**ARTICLE 6  
TRANSFER OF SHARES**

Section 6.1. Transfer. Transfers of shares shall be made on the share register of the Corporation only by the record holder of such shares, or by the appropriate person or accompanied by proper evidence of succession, assignment or authority to transfer, and, in the case of shares represented by a certificate, upon the presentation of the certificate therefore in the manner set forth herein. Upon presentation to the Corporation or its transfer agent of a share certificate endorsed by the appropriate person or accompanied by proper evidence of succession, assignment or authority to transfer, a new certificate shall be issued to the person entitled thereto and the old certificate canceled and the transfer registered upon the books of the Corporation, unless the Corporation has been served with a restraining order, injunction or other process from a court of competent jurisdiction enjoining it from registering the transfer.

**ARTICLE 7  
RECORD DATE; IDENTITY OF SHAREHOLDERS**

Section 7.1. Record Date. The Board may fix a time, prior to the date of any meeting of the shareholders, as a record date for the determination of the shareholders entitled to notice of, or to vote at, the meeting, which time, except in the case of an adjourned meeting, shall not be more than ninety (90) days prior to the date of the meeting. Except as otherwise provided in Section 7.2 of these Bylaws, only the shareholders of record at the close of business on the date so fixed shall be entitled to notice of, or to vote at, such meeting, notwithstanding any transfer of securities on the books of the Corporation after any record date so fixed. The Board may similarly fix a record date for the determination of shareholders for any other purpose. When a determination of shareholders of record has been made as herein provided for purposes of a meeting, the determination shall apply to any adjournment thereof unless the Board fixes a new record date for the adjourned meeting.

**ARTICLE 8  
REGISTERED SHAREHOLDERS**

Before due presentment for transfer of any shares, the Corporation shall treat the registered owner thereof as the person exclusively entitled to vote, to receive notifications and otherwise to exercise all the rights and powers of an owner, and shall not be bound to recognize any equitable or other claim or interest in such securities, whether or not it shall have express or other notice thereof, except as otherwise provided by the laws of the Commonwealth of Pennsylvania or Section 7.2 of these Bylaws.

**ARTICLE 9  
LOST CERTIFICATES**

If the owner of a share certificate claims that it has been lost, destroyed, or wrongfully taken, the Corporation shall issue a new certificate in place of the original certificate if the owner so requests before the Corporation has notice that the certificate has been acquired by a bona fide purchaser, and if the owner has filed with the Corporation an indemnity bond and an affidavit of the facts satisfactory to the Board or its designated agent, and has complied with such other reasonable requirements, if any, as the Board may deem appropriate.

**ARTICLE 10  
DISTRIBUTIONS**

Section 10.1. Distributions. Distributions upon the shares of the Corporation, whether by dividend, purchase or redemption or other acquisition of its shares subject to any provisions of the Articles related thereto, may be authorized by the Board at any regular or special meeting of the Board and may be paid directly or indirectly in cash, in property or by the incurrence of indebtedness by the Corporation.

Section 10.2. Reserves. Before the making of any distributions, there may be set aside out of any funds of the Corporation available for distributions such sum or sums as the Board from time to time, in its absolute discretion, deems proper as a reserve fund to meet contingencies, or for equalizing dividends, or for repairing or maintaining any property of the Corporation, or for such other purpose as the Board shall deem conducive to the interests of the Corporation, and the Board may abolish any such reserve in the manner in which it was created.

Section 10.3. Stock Dividends/Splits. Stock dividends or splits upon the shares of the Corporation, subject to any provisions of the Articles related thereto, may be authorized by the Board at any regular or special meeting of the Board.

**ARTICLE 11  
GENERAL PROVISIONS**

Section 11.1. Checks and Notes. All checks or demands for money and notes of the Corporation shall be signed by such officer or officers as the Board may from time to time designate.

Section 11.2. Fiscal Year. The fiscal year of the Corporation shall begin of January 1 of each year.

Section 11.3. Seal. The corporate seal, if any, shall have inscribed thereon the name of the Corporation and the words "Corporate Seal, Pennsylvania." Such seal may be used by causing it or a facsimile thereof to be impressed or affixed or in any manner reproduced. The affixation of the corporate seal shall not be necessary to the valid execution, assignment or endorsement of any instrument or other document by the Corporation.

Section 11.4. Notices. Whenever, under the provisions of the 1988 BCL or of the Articles or of these Bylaws or otherwise, written notice is required to be given to any person, it may be given to such person either personally or by sending a copy thereof by first class or express mail, postage prepaid, telegram (with messenger service specified), courier service (with charges prepaid), electronic mail, facsimile transmission or by any other means permitted by the 1988 BCL, to his, her or its address, (or to his, her or its electronic mail address, facsimile number or other place as specified in the 1998 BCL), appearing on the books of the Corporation or, in the case of directors, supplied by the director to the Corporation for the purpose of notice. If the notice is sent by mail, telegraph or courier service, it shall be deemed to have been given to the person entitled thereto when deposited in the United States mail or with a telegraph office or courier service for delivery to that person. A notice given by electronic mail or facsimile transmission shall be deemed to have been given when dispatched. Notice or other communications need not be sent to any shareholder with whom the Corporation has been unable to communicate for more than 24 consecutive months because communications to the shareholder are returned unclaimed or the shareholder has otherwise failed to provide the Corporation with a current address. Whenever such shareholder provides the Corporation with a current address, the Corporation shall commence sending notices and other communications to such shareholder in the same manner as to other shareholders.

Section 11.5. Waiver of Notice. Whenever any notice is required to be given by the 1988 BCL or by the Articles or these Bylaws, a waiver thereof in writing, signed by the person or persons entitled to the notice, whether before or after the time stated therein, shall be deemed equivalent to the giving of such notice. Neither the business to be transacted nor the purpose of a meeting need be specified in the waiver of notice of the meeting. Attendance of a person at any meeting shall constitute a waiver of notice of the meeting, except where any person attends a meeting for the express purpose of objecting to the transaction of any business because the meeting was not lawfully called or convened, and the person so objects at the beginning of the meeting.

## **ARTICLE 12 AMENDMENTS**

In furtherance and not in limitation of the powers conferred by the 1988 BCL, the Board is expressly authorized to make, alter, amend, change, add to or repeal any provision of these Bylaws by the affirmative vote of a majority of the total number of directors then in office, subject to the power of the holders of the then outstanding capital stock of the Corporation to alter, amend, change, add to or repeal any provision of these Bylaws made by the Board. Subject to Article 13 of these Bylaws, any alteration, amendment, change, addition to, adoption or repeal of any provision of these Bylaws will require the affirmative vote of a majority of the total number of directors then in office, or the affirmative vote of a majority of the combined voting power of all of the then outstanding shares of the Corporation entitled to vote on such alteration, amendment, change, addition to, adoption or repeal of such provision of these Bylaws.

**ARTICLE 13**  
**INDEMNIFICATION**

Section 13.1. Officers and Directors – Direct Actions. The Corporation shall indemnify any director or officer of the Corporation (as used herein, the phrase “director or officer of the Corporation” shall mean any person who is or was a director or officer of the Corporation, or is or was serving at the request of the Corporation as a director or officer of another domestic or foreign corporation for profit or not-for-profit, partnership, joint venture, trust or other enterprise), who was or is a party (other than a party plaintiff suing on his or her own behalf), or who is threatened to be made such a party, to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the Corporation) by reason of the fact that he or she is or was a director or officer of the Corporation, against expenses (including attorneys’ fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him or her in connection with such action, suit or proceeding if he or she met the standard of conduct of (a) acting in good faith and in a manner he or she reasonably believed to be in, or not opposed to, the best interests of the Corporation, and (b) with respect to any criminal proceeding, having no reasonable cause to believe his or her conduct was unlawful. The termination of any action or proceeding by judgment, order, settlement or conviction or upon a plea of nolo contendere or its equivalent shall not of itself create a presumption that the person (x) did not act in good faith and in a manner that he or she reasonably believed to be in, or not opposed to, the best interests of the Corporation, and (y) with respect to any criminal proceeding, had reasonable cause to believe that his or her conduct was unlawful.

Section 13.2. Officers and Directors – Derivative Actions. The Corporation shall indemnify any director or officer of the Corporation who was or is a party (other than a party suing in the right of the Corporation), or is threatened to be made a party, to any threatened, pending or completed action, suit or proceeding by or in the right of the Corporation to procure a judgment in the Corporation’s favor by reason of the fact that he or she is or was a director or officer of the Corporation, against expenses (including attorneys’ fees) actually and reasonably incurred by him or her in connection with the defense or settlement of the action, suit or proceeding if he or she met the standard of conduct of acting in good faith and in a manner he or she reasonably believed to be in, or not opposed to, the best interests of the Corporation. Indemnification shall not be made under this Section in respect of any claim, issue or matter as to which the person has been adjudged to be liable to the Corporation unless and only to the extent that the Court of Common Pleas of the judicial district embracing the county in which the registered office of the Corporation is located or the court in which the action, suit or proceeding was brought determines upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for the expenses that the Court of Common Pleas or other court deems proper.



Section 13.3. Employees and Agents. The Corporation may, to the extent permitted by the 1988 BCL, indemnify any employee or agent of the Corporation (as used in this Article 13, the phrase “employee or agent of the Corporation” shall mean any person who is or was an employee or agent of the Corporation, other than an officer, or is or was serving at the request of the Corporation as an employee or agent of another domestic or foreign corporation for profit or not-for-profit, partnership, joint venture, trust or other enterprise) who was or is a party, or who is threatened to be made such a party, to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, against expenses (including attorneys’ fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him or her in connection with such action, suit or proceeding by reason of the fact that he or she is or was an employee or agent of the Corporation, provided he or she has met the standard of conduct set forth in Sections 13.1 and 13.2, subject to the limitations set forth in Section 13.2 in the case of an action, suit or proceeding by or in the right of the Corporation to procure a judgment in the Corporation’s favor.

Section 13.4. Mandatory Indemnification. To the extent that a director or officer of the Corporation or any employee or agent of the Corporation has been successful on the merits or otherwise in defense of any action or proceeding referred to in Sections 13.1, 13.2 or 13.3 of this Article 13, or in defense of any claim, issue or matter therein, he or she shall be indemnified by the Corporation against expenses (including attorneys’ fees) actually and reasonably incurred by him or her in connection therewith.

Section 13.5. Advancing Expenses. Expenses (including attorneys’ fees) incurred by a director or officer of the Corporation or an employee or agent of the Corporation in defending any action or proceeding referred to in this Article 13 may be paid by the Corporation in advance of the final disposition of the action or proceeding upon receipt of an undertaking by or on behalf of such person to repay such amount if it is ultimately determined that he or she is not entitled to be indemnified by the Corporation as authorized in this Article 13.

Section 13.6. Procedure.

(a) Unless ordered by a court, any indemnification under Section 13.1, 13.2 or 13.3 or advancement of expenses under Section 13.5 of this Article 13 shall be made by the Corporation only as authorized in a specific case upon a determination that indemnification of the director, officer, employee or agent is proper in the circumstances because he or she has met the applicable standard of conduct set forth in Section 13.1, 13.2 or 13.3.

(b) All determinations under this Section 13.6 shall be made:

(i) With respect to indemnification under Section 13.3 and advancement of expenses to an employee or agent of the Corporation, other than an officer, by the Board.

(ii) With respect to indemnification under Section 13.1 or 13.2 and advancement of expenses to a director or officer of the Corporation,

(A) By the Board, by a majority vote of a quorum consisting of directors who were not parties to such action or proceeding, or

(B) If such a quorum is not obtainable, or, if obtainable and a majority vote of a quorum of disinterested directors so directs, by independent legal counsel in a written opinion, or

(C) By the shareholders.

Section 13.7. Nonexclusivity of Indemnification.

(a) The indemnification and advancement of expenses provided by, or granted pursuant to, this Article 13 shall not be deemed exclusive of any other rights to which a person seeking indemnification or advancement of expenses may be entitled under any bylaw, agreement, vote of shareholders or disinterested directors or otherwise, both as to actions in his or her official capacity and as to actions in another capacity while holding that office. Section 1728 (relating to interested directors; quorum) of the 1988 BCL, or any successor section, shall be applicable to any bylaw, contract or transaction authorized by the directors under this Section 13.7. The Corporation may create a fund of any nature, which may, but need not be, under the control of a trustee, or otherwise secure or insure in any manner its indemnification obligations, whether arising under or pursuant to this Article 13 or otherwise.

(b) Indemnification pursuant to Section 3.7(a) hereof shall not be made in any case where the act or failure to act giving rise to the claim for indemnification is determined by a court to have constituted self-dealing, willful misconduct or recklessness.

(c) Indemnification pursuant to Section 13.7(a) under any bylaw, agreement, vote of shareholders or directors or otherwise, may be granted for any action taken or any failure to take any action and may be made whether or not the Corporation would have the power to indemnify the person under any other provision of law except as provided in this Section 13.7 and whether or not the indemnified liability arises or arose from any threatened or pending or completed action by or in the right of the Corporation.

Section 13.8. Insurance. The Corporation shall have power to purchase and maintain insurance on behalf of any person who is or was a director or officer of the Corporation or an employee or agent of the Corporation, against any liability asserted against such person and incurred by him or her in any such capacity, or arising out of his or her status as such, whether or not the Corporation would have the power to indemnify him or her against that liability under the provisions of this Article 13 or otherwise.

Section 13.9. Past Officers and Directors. The indemnification and advancement of expenses provided by, or granted pursuant to, this Article 13 shall continue as to a person who has ceased to be a director, officer, employee or agent of the Corporation and shall inure to the benefit of the heirs and personal representatives of that person.

Section 13.10. Surviving or New Corporations. References to “the Corporation” in this Article 13 include all constituent corporations absorbed in a consolidation, merger or division, as well as the surviving or new corporation resulting therefrom, so that any director, officer, employee or agent of the constituent, surviving or new corporation shall stand in the same position under the provisions of this Article 13 with respect to the surviving or new corporation as he or she would if he or she had served the surviving or new corporation in the same capacity.

Section 13.11. Employee Benefit Plans.

(a) References in this Article 13 to “other enterprise” shall include employee benefit plans and references to “serving at the request of the Corporation” shall include any service as a director, officer, employee or agent of the Corporation that imposes duties on, or involves services by, the person with respect to an employee benefit plan, its participants or beneficiaries.

(b) Excise taxes assessed on a person with respect to an employee benefit plan pursuant to applicable law shall be deemed “fines.”

(c) Action with respect to an employee benefit plan taken or omitted in good faith by a director, officer, employee or agent of the Corporation in a manner he or she reasonably believed to be in the interest of the participants and beneficiaries of the plan shall be deemed to be action in a manner that is not opposed to the best interests of the Corporation.

Section 13.12. Amendment, Etc. Notwithstanding anything herein contained to the contrary, neither Section 3.18 nor this Article 13 may be amended or repealed, and no provision inconsistent herewith may be adopted, except by the affirmative vote of shareholders of the corporation entitled to cast at least eighty percent (80%) of the votes which all shareholders of the corporation are then entitled to cast thereon, except that, if the Pennsylvania Business Corporation Law of 1988, as amended, is amended or any other statute is enacted so as to decrease the exposure of directors to liability or increase the indemnification rights available to directors, officers or others, then Section 3.18 and this Article 13 and any other provisions of these Bylaws inconsistent with such decreased exposure or increased indemnification rights shall be amended, automatically and without any further action on the part of the shareholders or directors, to reflect such reduced exposure or increased indemnification rights, unless such legislation expressly requires otherwise. Any repeal or modification of Section 3.18 or of this Article 13 by the shareholders of the corporation shall be prospective only, and shall not adversely affect any limitation on the personal liability of a director of the corporation or any right to indemnification from the corporation with respect to any action or failure to take any action occurring prior to the time of such repeal or modification.

Section 13.13. Severability. If, for any reason, any provision of this Article 13 shall be held invalid, such invalidity shall not affect any other provision not held so invalid, and each such other provision shall, to the full extent consistent with law, continue in full force and effect. If any provision of this Article 13 shall be held invalid in part, such invalidity shall in no way affect the remainder of such provision, and the remainder of such provision, together with all other provisions of this Article 13 shall, to the fullest extent consistent with law, continue in full force and effect.

## EXCHANGEABLE PROMISSORY NOTE

Up to \$2,000,000

June 29, 2018

For value received **FEDERAL LIFE MUTUAL HOLDING COMPANY**, an Illinois corporation (the “**Company**”), promises to pay to Insurance Capital Group LLC or its assigns (“**Holder**”) the principal sum of up to TWO MILLION DOLLARS \$2,000,000 (the “**Maximum Amount**”) together with accrued and unpaid interest thereon, each due and payable on the date and in the manner set forth below.

This exchangeable promissory note (the “**Note**”) is issued in connection with that certain Standby Stock Purchase Agreement (as may be amended, the “**Purchase Agreement**”) dated as of the date hereof, among the Company, Federal Life Group, Inc. (“**ListCo**”), Federal Life Insurance Company (“**Federal Life**”) and Holder. Capitalized terms used herein without definition shall have the meanings given to such terms in the Purchase Agreement.

**1. Advances.** Advances under this Note (each, an “**Advance**” and, collectively, the “**Advances**”) shall be made within five (5) Business Days of the receipt by Holder of a written request from the Company, which request shall include the amount of the requested Advance and wire details of the Company’s bank account into which such Advance shall be paid. The Company may not request an Advance, and Holder shall have no obligation to fund an Advance (a) until Holder has received evidence satisfactory to it (in its sole and absolute discretion) of the proper filing of the Registration Statement, (b) if an Event of Default shall have occurred and be continuing, or (c) if the amount requested, when added to the aggregate amount of all prior Advances, would exceed the Maximum Amount. Nothing herein shall entitle the Company to re-borrow any Advances previously repaid.

**2. Payments Generally.** All payments of interest and principal shall be in lawful money of the United States of America. All payments shall be applied first to accrued interest, and thereafter to principal.

**(a) Payments of Interest.** Unless this Note has been previously exchanged in accordance with the terms of Section 4 below (or as otherwise agreed by the Company and Holder), commencing September 30, 2018 and continuing until all amounts due under the Note are paid in full, the Company shall make interest payments in arrears at the rate described in Section 3 hereof on the last day of each calendar quarter.

**(b) Payments of Principal.** Unless this Note has been previously exchanged in accordance with the terms of Section 4 below (or as otherwise agreed by the Company and Holder), the Company shall repay the outstanding Advances, together with any accrued and unpaid interest on the earlier to occur of (i) the date that is two (2) years following the date hereof, (ii) the date of the issuance of Shares in connection with the Community Offering, in which case the outstanding Advances shall be exchanged for Shares in the manner described in Section 4 on such date and (iii) the date on which payment of this Note is accelerated pursuant to Section 7 hereof (the “**Maturity Date**”).

**(c) Prepayments.** The Advances may not be prepaid prior to the date of the issuance of Shares in connection with the Community Offering.

**3. Interest Rate.** Interest shall accrue on the amount of the outstanding Advances during each calendar quarter following the date of this Note at a rate for such quarter equal to (a) from the date of this Note to the date that is twelve months (or, if the Outside Date is extended pursuant to Section 16(a)(iv) of the Purchase Agreement, eighteen months) following the date of this Note, three and three-quarters percent (3.75%) per annum and (b) thereafter, or anytime after the occurrence and during the continuation of an Event of Default (defined below), ten percent (10%) per annum. Interest shall be calculated on the basis of a 365-day year for the actual number of days elapsed.

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**4. Assumption and Exchange.** Upon the occurrence of the Conversion and the issuance of Shares in connection with the Community Offering, Listco shall automatically assume and be liable for the obligations of the Company hereunder and the outstanding Advances shall be exchanged and deemed to be repaid in full upon the issuance to Holder of a number of Shares equal to aggregate amount of the outstanding Advances divided by the Subscription Price.

**5. Expenses.** In the event of any default hereunder, the Company shall pay all reasonable attorneys' fees and court costs incurred by Holder in enforcing and collecting this Note.

**6. Covenants.** Until all of the obligations to pay principal and interest under this note shall have been satisfied (whether by payment or by exchange in accordance with Section 4), the Company shall not (a) incur or permit to exist any Indebtedness other than the Indebtedness under this Note, permit Listco to incur or permit to exist any Indebtedness other than the Indebtedness under this Note, or permit Federal Life to incur or permit to exist any Indebtedness other than Indebtedness that Federal Life is permitted to incur under the Purchase Agreement (notwithstanding the termination of the Purchase Agreement), (b) declare or pay any dividends or other distributions to its shareholders, (c) sell or dispose of any of its assets or cause or permit Federal Life to, directly or indirectly, sell or dispose of any of its assets outside of the ordinary course of Federal Life's business, or (d) without the prior written consent of Holder, make any investments or acquisitions of assets or cause or permit Federal Life to make any investments or acquisitions of assets outside of the ordinary course of its business.

**7. Default.** If there shall be any Event of Default hereunder, at the option and upon the declaration of Holder and upon written notice to the Company (which election and notice shall not be required in the case of an Event of Default under Section 7(c) or Section 7(d)), this Note shall accelerate and all principal and unpaid accrued interest shall become due and payable. For the purposes of this Note, an "**Event of Default**" shall mean the occurrence of any one or more of the following:

(a) The Company fails to pay timely any of the principal amount due under this Note on the date the same becomes due and payable or any accrued interest or other amounts due under this Note on the date the same becomes due and payable;

(b) The Company, ListCo or Federal Life shall default in its performance of any covenant under the Purchase Agreement or the Note;

(c) The Company files any petition or action for relief under any bankruptcy, reorganization, insolvency or moratorium law or any other law for the relief of, or relating to, debtors, now or hereafter in effect, or makes any assignment for the benefit of creditors or takes any corporate action in furtherance of any of the foregoing;

(d) An involuntary petition is filed against the Company (unless such petition is dismissed or discharged within 60 days under any bankruptcy statute now or hereafter in effect, or a custodian, receiver, trustee, assignee for the benefit of creditors (or other similar official) is appointed to take possession, custody or control of any property of the Company); or

**8. Waiver.** The Company hereby waives: (a) all presentments, demands for performance, notices of nonperformance (except to the extent required by the provisions of this Note), protests, notices of protest and notices of dishonor; (b) any requirement of diligence or promptness on the part of Holder in the enforcement of its rights hereunder; (c) any and all notices of every kind and description which may be required to be given by any statute or rule of law; and (d) any defense (other than indefeasible payment in full) which it may now or hereafter have with respect to its liability hereunder.

**9. Governing Law.** This Note shall be governed by and construed under the laws of the State of New York, without giving effect to conflicts of laws principles which would lead to the application of the laws of any other jurisdiction.

**10. Modification; Waiver.** Any term of this Note may be amended or waived with the written consent of the Company and Holder.

**11. Assignment.** This Note may be transferred only (i) upon its surrender to the Company for registration of transfer, duly endorsed, or accompanied by a duly executed written instrument of transfer in form reasonably satisfactory to the Company and (ii) unless the Purchase Agreement has been terminated in accordance with the terms thereof, in connection with an assignment of Holder's rights under the Purchase Agreement in accordance with Section 19 thereof. Thereupon, this Note shall be reissued to, and registered in the name of, the transferee, or a new Note for like principal amount and interest shall be issued to, and registered in the name of, the transferee. Interest and principal shall be paid solely to the registered holder of this Note. Such payment shall constitute full discharge of the Company's obligation to pay such interest and principal.

*[Signature Page Follows]*

IN WITNESS WHEREOF, the Company and ListCo have caused this Note to be duly executed and delivered as of the date first above written.

FEDERAL LIFE MUTUAL HOLDING COMPANY

By: /s/ William S. Austin  
William S. Austin  
President

FEDERAL LIFE GROUP, INC.

By: /s/ William S. Austin  
William S. Austin  
President

*[Signature Page to Exchangeable Promissory Note]*

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**AMENDMENT NUMBER ONE**

**to**

**REINSURANCE AGREEMENT**

NUMBER 308-16AY12

between

FEDERAL LIFE INSURANCE COMPANY  
3750 West Deerfield Road  
Riverwoods, Illinois 60015

(hereinafter referred to as "THE COMPANY")

and

OPTIMUM RE INSURANCE COMPANY

1345 River Bend Drive, Suite 100,

Dallas, TX 75247

(hereinafter referred to as "OPTIMUM RE")

Respecting reinsurance of a closed in-force block of Universal Life policies reinsured on YRT basis from October 1, 2017

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1. Effective October 1, 2017, this Agreement shall be amended as follows:

A. Article 1.1, Scope of Reinsurance Ceded and Accepted, shall be amended and replaced by the following to reflect the addition of a closed in-force block of Universal Life policies:

**1.1 Scope of Reinsurance Ceded and Accepted**

Effective July 1, 2016, OPTIMUM IRE hereby agrees to assume 100% of the amount in excess of THE COMPANY's retention, net of the existing amount of reinsurance, on THE COMPANY's closed in-force block of Level Term policies as per the attached in-force listing specified in Schedule E. It is understood that no additional policies are to be added to this block past the effective date of this Agreement without OPTIMUM RE's prior written approval.

Effective October 1, 2017, OPTIMUM RE hereby agrees to assume 100% of the amount in excess of THE COMPANY's retention, net of the existing amount of reinsurance, on THE COMPANY's closed in-force block of Universal Life policies as per the attached in-force listing specified in Schedule H. It is understood that no additional policies are to be added to this block past the effective date of this Agreement without OPTIMUM RE's prior written approval.

The maximum reinsurance amount per life that will be ceded to OPTIMUM RE is as described in Schedule A.

B. Article 3.2, Net Amount at Risk Basis, shall be amended and replaced by the following to reflect a change in A.2 due to the administration of the closed in-force block of Universal Life policies.

**3.2 Net Amount at Risk Basis**

When the reinsurer does not participate in the surrender values on a policy, as in reinsurance based on YRT or cost of insurance rates, the reinsurance amount at risk shall be based on the death benefit less a fund which represents the savings element in the policies.

The overriding principle involved is that OPTIMUM RE and THE COMPANY will each continue to insure their original proportionate share of the net amount at risk.

Net Amounts at Risk will be defined as follows:

A. Insurance With Cash Values

1. Scheduled Face Amount and Cash Value

Amounts at risk will be projected for 10 year intervals (or until there is a scheduled change in face amount if less than 10 years). Cash, values will be used to represent the fund at the end of an interval, and amounts at risk for each intervening year will be interpolated on a straight line basis.

2. Variable Face Amount or Variable Cash Value

The amount at risk applicable to each policy year will be the projected amount at risk at the beginning of that policy year. Amounts at risk will be recalculated when THE COMPANY periodically provides updated cash values. Upon recalculation, the amount at risk will remain level until THE COMPANY provides the subsequent updated cash values. The amount at risk on which reinsurance premiums were paid will be the basis for the reinsurance claim liability.

B. Insurance Without Cash Values

This category should include policies where the cash values never exceed 10% of the face amount.

1. Scheduled Face Amount

The amount at risk applicable to each policy year will be the face amount applicable at the beginning of the policy year.

2. Variable Face Amount

The amount at risk applicable to each policy year will be the face amount projected to be applicable at the beginning of that policy year. Face amounts will be projected for five year intervals. Where actual face amounts diverge from the originally projected face amounts by more than 10%, THE COMPANY may re-establish the projected schedule at the next policy anniversary for future face amounts. If the schedule is not amended, the existing established schedule will be used for determining premium and claims liabilities.

C. Article 4.2, Standard, Risks, shall be amended and replaced by the following to reflect the addition of a closed in-force block of Universal Life policies:

4.2 **Standard Risks**

**TERM BLOCK**

For policies issued prior to 2009, reinsurance premiums for standard risks are calculated based on the issue age and duration for that policy by applying the appropriate percentage as specified in Schedule B to the age nearest birthday mortality tables specified in Schedule C, exclusive of policy fees.

For policies issued in 2009 and afterwards, reinsurance premiums for standard risks are calculated based on the issue age and duration for that policy by applying the appropriate percentage as specified in Schedule B to the age last birthday mortality tables specified in Schedule D, exclusive of policy fees.

**UNIVERSAL LIFE BLOCK**

For policies issued on forms I-385, L-7620, and, L-7929, reinsurance premiums for standard risks are calculated based on the issue age and duration for that policy by applying the appropriate percentage as specified in Schedule B to the age nearest birthday mortality tables specified in Schedule F, exclusive of policy fees.

For policies issued on form L-8031, reinsurance premiums for standard risks are calculated based on the issue age and duration for that policy by applying the appropriate percentage as specified in Schedule B to the age last birthday mortality tables specified in Schedule G, exclusive of policy fees.

**TERM AND UNIVERSAL LIFE BLOCKS**

For the period from the effective date of the reinsurance coverage under this Agreement up to the next policy anniversary date, THE COMPANY shall pay a pro-rated reinsurance premium to OPTIMUM RE. Following the initial reinsurance premium, all reinsurance premiums shall be as described above and in Article 7.

D. Article 8.8, Recapture, shall be renumbered to Article 8.9, and a new Article 8.8, Reduced Paid Up and Extended Term, shall be included as shown below:

8.8 **Reduced Paid Up and Extended Term**

If a Reduced Paid Up or Extended Term option is selected by the policyholder, OPTIMUM RE will continue to reinsure its proportionate share of the policy.

For policies where OPTIMUM RE does not participate in surrender value accumulation, reinsurance premiums will be calculated on a point-in-scale basis using the same YRT rates that applied to the policy and the calculation of the Net Amount at Risk according to Article 3.

8 9     **Recapture**

Recapture will not be permitted under this Agreement unless explicitly approved by OPTIMUM RE, except as stated in Article 3.3.

E. Schedule B shall be amended and replaced with the attached.

F. Schedules F, G, and H shall be included as attached.

**2. Signatures**

The terms and conditions of this Agreement are not changed in any way except as stated herein.

IN WITNESS of the above, this Amendment is signed in duplicate on the dates indicated.

**FOR: FEDERAL LIFE INSURANCE COMPANY**

BY:     /s/ Paul R. Murphy    

DATE:                     01-10-2018                    

NAME:             Paul R. Murphy            

TITLE:             Actuary            

BY:     /s/ Dorothy M. Latuzek    

DATE:                     01-10-2018                    

NAME:             Dorothy M. Latuzek            

TITLE:             Director of Underwriting            

**FOR: OPTIMUM RE INSURANCE COMPANY**

BY:     /s/ Sebastien Blondeau    

DATE:                     12-20-2017                    

NAME:             Sebastien Blondeau            

TITLE:             President & COO            

BY:     /s/ Serge Goulet    

DATE:                     12-20-2017                    

NAME:             Serge Goulet            

TITLE:             Managing Director

**SCHEDULE B**

EFFECTIVE JULY 1, 2016  
REINSURANCE PREMIUM PERCENTAGES FOR THE  
CLOSED IN-FORCE BLOCK OF LEVEL TERM POLICIES

PREMIUM PERCENTAGES APPLIED TO THE APPLICABLE MORTALITY  
TABLES SPECIFIED IN SCHEDULE C AND SCHEDULE D

3-CLASS TERM PRODUCTS

<u>RISK CLASS</u>	<u>LEVEL TERM PERIOD</u>	<u>POST LEVEL TERM PERIOD</u>
MALE PREFERRED NONTOBACCO	43%	62%
MALE RESIDUAL NONTOBACCO	52%	82%
MALE STANDARD TOBACCO	109%	169%
FEMALE PREFERRED NONTOBACCO	47%	68%
FEMALE RESIDUAL NONTOBACCO	63%	99%
FEMALE STANDARD TOBACCO	140%	217%

2-CLASS & AGGREGATE TERM PRODUCTS,

<u>RISK CLASS</u>	<u>ART ONLY</u>	<u>ALL OTHER TERM PLANS</u>	
	<u>ALL DURATIONS</u>	<u>LEVEL TERM PERIOD</u>	<u>POST LEVEL TERM PERIOD</u>
MALE STANDARD NONTOBACCO	52%	52%	82%
MALE STANDARD TOBACCO	109%	109%	169%
MALE AGGREGATE	63%	63%	98%
FEMALE STANDARD NONTOBACCO	63%	63%	99%
FEMALE STANDARD TOBACCO	140%	140%	217%
FEMALE AGGREGATE	81%	81%	125%

\*AFTER APPLYING THE ABOVE PERCENTAGES TO THE MORTALITY TABLES SPECIFIED, MULTIPLY THESE BY THE NET AMOUNT AT RISK PER THOUSAND AND ROUND THE RESULTING REINSURANCE PREMIUMS TO TWO DECIMAL PLACES (I.E., NEAREST CENT).

**SCHEDULE B (Continued)**

EFFECTIVE JULY 1, 2016  
REINSURANCE PREMIUM PERCENTAGES FOR THE  
CLOSED IN-FORCE BLOCK OF LEVEL TERM POLICIES

PREMIUM PERCENTAGES APPLIED TO THE APPLICABLE MORTALITY  
TABLES SPECIFIED IN SCHEDULES F AND G

<u>RISK CLASS</u>	<u>ALL DURATIONS</u>
ALL CLASSES	115%

\*AFTER APPLYING THE ABOVE PERCENTAGES TO THE MORTALITY TABLES SPECIFIED, MULTIPLY THESE BY THE NET AMOUNT AT RISK PER THOUSAND AND ROUND THE RESULTING REINSURANCE PREMIUMS TO TWO DECIMAL PLACES (I.E., NEAREST CENT). FOR UNIVERSAL LIFE POLICIES, THE NET AMOUNT AT RISK SHALL BE DEFINED AS THE FACE AMOUNT MINUS THE CASH VALUE.

**SCHEDULE F**

SOA 2008 VBT, AGE NEAREST BIRTHDAY,  
SELECT & ULTIMATE, SMOKER AND  
GENDER DISTINCT MORTALITY TABLES

PART 1 - MALE RATES



**REINSURANCE AGREEMENT**

NUMBER: 308-16AY12

Between

FEDERAL LIFE INSURANCE COMPANY (MUTUAL)

3750 West Deerfield Road

Riverwoods, Illinois 60015

(hereinafter referred to as "THE COMPANY")

And

OPTIMUM RE INSURANCE COMPANY

1345 River Bend Drive, Suite 100

Dallas, TX 75247

(hereinafter referred to as "OPTIMUM RE")

Respecting reinsurance of a closed in-force block of Level Term policies reinsured on an Automatic YRT basis from July 1, 2016.

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**SCHEDULES**

- SCHEDULE A: RETENTION AND REINSURANCE LIMITS
- SCHEDULE B: REINSURANCE PREMIUM PERCENTAGES FOR THE CLOSED IN-FORCE BLOCK OF LEVEL TERM POLICIES
- SCHEDULE C: US 75-80, BASIC SELECT & ULTIMATE, AGGREGATE AGE NEAREST BIRTHDAY, GENDER DISTINCT MORTALITY TABLES
- PART 1 - MALE RATES
- PART 2 - FEMALE RATES
- SCHEDULE D: US 75-80, BASIC SELECT & ULTIMATE, AGGREGATE AGE LAST BIRTHDAY, GENDER DISTINCT MORTALITY TABLES
- PART 1 - MALE RATES
- PART 2 - FEMALE RATES
- SCHEDULE E: IN-FORCE LIST OF LEVEL TERM POLICIES

By this Agreement, FEDERAL LIFE INSURANCE COMPANY (MUTUAL), a corporation organized under the laws of the State of Illinois, hereinafter referred to as "THE COMPANY", and OPTIMUM RE INSURANCE COMPANY, a corporation organized under the laws of the State of Texas, hereinafter referred to as "OPTIMUM RE", mutually agree to reinsure on the following terms and conditions.

**DEFINITION OF TERMS USED IN THIS AGREEMENT**

<b>Compensatory Damages</b>	Shall mean the amounts awarded to compensate for the actual damages sustained, and not awarded as a penalty, nor fixed in amount by statute.
<b>Insolvency</b>	Shall mean the legal incapacity of a company to operate as declared by a court of competent jurisdiction.
<b>Policy</b>	Shall mean the contract(s) of insurance issued by THE COMPANY in respect of which reinsurance is applied for and/or placed in whole or in part.
<b>Punitive Damages</b>	Shall mean the damages awarded as a penalty, the amount of which is not governed, nor fixed by statute.
<b>Reinsurance Cession</b>	Shall mean the insurance transferred to OPTIMUM RE by THE COMPANY on a policy.
<b>Statutory Penalties</b>	Shall mean the amounts which are awarded as a penalty, but fixed in amount by statute.

**ARTICLE 1**  
**REINSURANCE CEDED AND ACCEPTED**

**1.1. Scope of Reinsurance Ceded and Accepted**

OPTIMUM RE hereby agrees to assume 100% of the amount in excess of THE COMPANY's retention, net of the existing amount of reinsurance, on THE COMPANY's closed in-force block of Level Term policies as per the attached in-force listing specified in Schedule E. It is understood that no additional policies are to be added to this block past the effective date of this Agreement without OPTIMUM RE's prior written approval.

The maximum reinsurance amount per life that will be ceded to OPTIMUM RE is as described in Schedule A.

**1.2. Currency**

Reinsurance will be in U.S. dollars. Any other currency requires specific agreement between THE COMPANY and OPTIMUM RE.

**ARTICLE 2**  
**LIABILITY**

OPTIMUM RE accepts liability for its share of the risks on eligible lives for deaths occurring on or after the effective date of the Agreement.

The liability of OPTIMUM RE on any policy shall commence on the effective date of this Agreement and end simultaneously with that of THE COMPANY.



**ARTICLE 3**  
**REINSURANCE AMOUNT AT RISK**

**3.1. Face Amount Basis**

When the reinsurer is participating in the accumulation of surrender values on a policy, or when there are no surrender values on a policy, the reinsurance amount shall be based on the face amount of the policy.

The overriding principle involved is that OPTIMUM RE and THE COMPANY will each continue to insure their original proportionate share of the initial face amount.

**3.2. Net Amount at Risk Basis**

When the reinsurer does not participate in the surrender values on a policy, as in reinsurance based on YRT or cost of insurance rates, the reinsurance amount at risk shall be based on the death benefit less a fund which represents the savings element in the policies.

The overriding principle involved is that OPTIMUM RE and THE COMPANY will each continue to insure their original proportionate share of the net amount at risk.

Net Amounts at Risk will be defined as follows:

**A. Insurance With Cash Values**

**1. Scheduled Face Amount and Cash Value**

Amounts at risk will be projected for 10 year intervals (or until there is a scheduled change in face amount if less than 10 years). Cash values will be used to represent the fund at the end of an interval, and amounts at risk for each intervening year will be interpolated on a straight line basis.

**2. Variable Face Amount or Variable Cash Value**

The amount at risk applicable to each policy year will be the projected amount at risk at the beginning of that policy year. Amounts at risk will be projected for five year intervals. Where an actual amount at risk diverges from an originally projected amount at risk by more than 10%, THE COMPANY may re-establish the projected Schedule at the next policy anniversary for future amounts at risk. If the Schedule is not amended, the existing established Schedule will be used for determining premium and claims liabilities.

**B. Insurance Without Cash Values**

This category should include policies where the cash values never exceed 10% of the face amount.

1. Scheduled Face Amount

The amount at risk applicable to each policy year will be the face amount applicable at the beginning of the policy year.

2. Variable Face Amount

The amount at risk applicable to each policy year will be the face amount projected to be applicable at the beginning of that policy year. Face amounts will be projected for five year intervals. Where actual face amounts diverge from the originally projected face amounts by more than 10%, THE COMPANY may re-establish the projected Schedule at the next policy anniversary for future face amounts. If the Schedule is not amended, the existing established Schedule will be used for determining premium and claims liabilities.

3.3. Minimum Reinsured Risk Amount

The minimum reinsured risk amount shall be \$1,000. In the event that the reinsured risk amount reduces below the minimum, THE COMPANY will automatically recapture the risk on that policy anniversary.

**ARTICLE 4**  
**REINSURANCE PREMIUMS**

**4.1. Life Premiums**

Until further notice, the reinsurance premiums shall be at the rates described in Articles 4.2 and 4.3.

Although OPTIMUM RE anticipates that the reinsurance premium rates in Schedule B shall apply indefinitely, it guarantees only that the reinsurance premium rates applicable to the business reinsured hereunder will not exceed the YRT net premiums at the applicable statutory minimum valuation select and ultimate mortality table and statutory maximum interest rate.

In the event THE COMPANY increases its premiums or cost-of-insurance charges on any block of policies, OPTIMUM RE reserves the right to review and modify its reinsurance premium rates. Any such increase in the reinsurance premium rates shall be in proportion to THE COMPANY's increase in premiums or cost-of-insurance charges.

The increase in the reinsurance premium rates shall become effective on the policy anniversary dates beginning no sooner than 30 days after OPTIMUM RE has given its written notice to THE COMPANY of its intent to increase the reinsurance premium rates and no sooner than the COMPANY's increase in its premiums or cost-of-insurance charges.

**4.2. Standard Risks**

For policies issued prior to 2009, reinsurance premiums for standard risks are calculated based on the issue age and attained duration for that policy by applying the appropriate percentage as specified in Schedule B to the age nearest mortality tables specified in Schedule C, exclusive of policy fees.

For policies issued in 2Q09 and afterwards, reinsurance premiums for standard risks are calculated based on the issue age and attained duration for that policy by applying the appropriate percentage as specified in Schedule B to the age last mortality tables specified in Schedule D, exclusive of policy fees.

For the period from the effective date of this Agreement up to the next policy anniversary date, THE COMPANY shall pay a pro-rated reinsurance premium to OPTIMUM RE. Following the initial reinsurance premium, all reinsurance premiums shall be as described above and in Article 7.

**4.3. Substandard Risks**

Substandard reinsurance premiums shall be paid on policies which have been underwritten as a substandard risk. The substandard extra premium rate per \$1,000 for one table (25% mortality) is 25% of the standard rate. The extra premium for additional tables is the corresponding multiple of the extra premium rate for one table.

When a flat extra premium is charged by THE COMPANY, a flat extra reinsurance premium is paid at the same rate and for the same period.

**ARTICLE 5**  
**ALLOWANCES**

5.1. **Allowances**

There are no allowances payable on the standard and substandard life premiums based on the YRT rates in Schedule B.

Allowances on Flat Extra Premiums

On permanent (6 years or more) flat extra premiums:

1st year	:	75%
Renewals	:	10%

On temporary (5 years or less) flat extra premiums:

All years	:	10%
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5.2. **Premium Taxes**

OPTIMUM RE shall not reimburse THE COMPANY for state premium tax or any other tax levied on THE COMPANY.

**ARTICLE 6**  
**GENERAL PROCEDURES**

**6.1. Inspection of Records**

OPTIMUM RE shall have the right to inspect, make copies of, or reproduce, at any reasonable time, at the office of THE COMPANY, all books and documents relating to reinsurance under this Agreement.

**6.2. Errors and Omissions**

It is expressly understood and agreed that if failure to comply with any terms of this Agreement is shown to be unintentional and the result of administrative errors or omissions on the part of either THE COMPANY or OPTIMUM RE, both THE COMPANY and OPTIMUM RE shall be restored to the position they would have occupied had no such error or omission occurred.

This provision shall apply only to oversights, misunderstandings or clerical errors relating to the administration of reinsurance covered by this Agreement and not to the administration of the insurance provided by THE COMPANY to its insured. Any negligent or deliberate acts or omissions by THE COMPANY regarding the insurance provided are the responsibility of THE COMPANY and its liability insurer, if any, but not that of OPTIMUM RE.

Furthermore, the deviating party will undertake to identify, through a prudent review of its records all other errors and omissions of the same or similar category and correct them within a mutually negotiated time frame.

If seven (7) years have elapsed since the error or oversight occurred, there will not be rectification as above, unless both OPTIMUM RE and THE COMPANY agree to such rectification.

**6.3. Reserves**

OPTIMUM RE will establish appropriate reserves in accordance with the Standard Valuation Law in effect in Texas, on the portion of policies reinsured, and in force, as reported to OPTIMUM RE under this Agreement.

**6.4. Reporting**

THE COMPANY shall promptly report all transactions to OPTIMUM RE. In particular, but not limited to, changes and terminations.

Should THE COMPANY encounter, or expect to encounter, delays in reporting its business; it shall promptly:

1. Notify OPTIMUM RE of the situation; and

2. Present OPTIMUM RE with a plan of action to correct the situation, including a time frame to solve the problem.

OPTIMUM RE, upon receipt of the above, may request that THE COMPANY:

1. Make modifications to the plan;
2. Pay estimated premiums for the duration of the reporting problem; and/or
3. Report larger individual exposures manually, until the situation is resolved.

In any case where the above is not met, or if the plan is not accepted by both OPTIMUM RE and THE COMPANY, or when the plan is not adhered to, OPTIMUM RE reserves the right to deny liability on claims or limit refunds of reinsurance premiums.

#### 6.5. **Confidentiality**

THE COMPANY and OPTIMUM RE agree that Customer and Proprietary Information will be treated as confidential. Customer Information includes, but is not limited to, medical, financial, and other personal information about proposed, current, and former policy owners, insureds, applicants, and beneficiaries of policies issued by THE COMPANY. Proprietary Information includes, but is not limited to, business plans, mortality and lapse studies, underwriting manuals and guidelines, applications and contract forms. Furthermore, the specific terms and conditions of this Agreement, cannot be disclosed to any other party for competitive use, unless prior written approval is obtained.

Customer and Proprietary Information will not include information that:

- a. is or becomes available to the general public through no fault of the party receiving the Customer or Proprietary Information (the "Recipient");
- b. is independently developed by the Recipient;
- c. is acquired by the Recipient from a third party not covered by a confidentiality agreement; or
- d. is disclosed under a court order, law or regulation.

The parties will not disclose such information to any other parties unless agreed to in writing, except as necessary for retrocession purposes, as requested by external auditors, as required by court order, or as required or allowed by law or regulation.

THE COMPANY acknowledges that OPTIMUM RE can aggregate data with other companies reinsured with OPTIMUM RE as long as the data cannot be identified as belonging to THE COMPANY.

**ARTICLE 7**  
**ACCOUNTING AND BILLING**

**7.1. Reinsurance Premiums**

For the period from the effective date of this Agreement up to the next policy anniversary date, the reinsurance premiums are due at the effective date of this Agreement. Following the initial payment of reinsurance premiums, reinsurance premiums are due on the policy anniversary date and payable to OPTIMUM RE on an annual basis regardless of how premiums are paid to THE COMPANY.

**7.2. Individual Cession Billing**

OPTIMUM RE will submit every month to THE COMPANY a listing of changes and terminations, and a statement of amounts payable.

The net balance is due to OPTIMUM RE within 30 days of receiving the statement. If a balance is due to THE COMPANY, OPTIMUM RE will remit its payment with the statement.

**7.3. Late Payment**

Any overdue balance bears interest from the end of a 30-day period following receipt of the monthly billing.

The interest for the period from 30 to 60 days will be the then current annual prime interest rate of the JP Morgan Chase Bank, Dallas, Texas calculated on a monthly basis.

For each additional month, after 60 days that a balance remains unpaid, interest will be calculated using the above annual rate plus 2%.

The payment of reinsurance premiums shall be a condition precedent to the liability of OPTIMUM RE under this Agreement. If any premium remains unpaid for more than 60 days after the due date, OPTIMUM RE may send to THE COMPANY a formal demand for immediate payment. If THE COMPANY does not comply with this demand within 30 days, then OPTIMUM RE may cancel any unpaid reinsurance cessions for nonpayment of premium; however, any unpaid premiums to the time of cancellation would be due with interest.

THE COMPANY will not force cancellation under the provisions of this Article solely to circumvent the provisions regarding recapture in Article 8.8., or to transfer the reinsured policies to another reinsurer.



**ARTICLE 8**  
**CHANGES AND ADJUSTMENTS**

**8.1. Change Information**

THE COMPANY will keep OPTIMUM RE informed of any changes or adjustments affecting a reinsured case. If a change affects either the reinsurance premiums or allowances, or amount at risk, THE COMPANY will provide OPTIMUM RE with the necessary information to complete a modified Reinsurance Cession Form.

**8.2. Reductions**

If a policy is changed in any way that results in a reduction in the amount of insurance on any policy, the amount of reinsurance on that policy will be reduced proportionately.

If a Life has multiple policies and one or more are terminated or reduced, the reinsurance on remaining policies for that same Life that are reinsured under this Agreement will not be reduced to allow THE COMPANY to fill its retention.

If more than one reinsurer has a cession on that policy, each reinsurer's cession will be reduced proportionately.

**8.3. Reinstatements**

If a policy reinsured with OPTIMUM RE lapses and is subsequently reinstated under THE COMPANY's regular rules, the reinsurance will automatically be reinstated for the same amount, upon receipt by OPTIMUM RE of written notice of the reinstatement. All other reinstatement requests shall be submitted to OPTIMUM RE for its approval before THE COMPANY can reinstate such policy.

THE COMPANY shall pay all reinsurance premiums in arrears for the same period THE COMPANY received premiums in arrears under its policy, including interest, if any.

**8.4. Conversions**

When a conversion right is contractually available under the original plan, provided the conversion occurs before age 65, OPTIMUM RE shall continue to reinsure its share of the policy. The reinsurance premiums shall be calculated on a point-in-scale basis using the same reinsurance factor specified in Schedule B, at the time of the policy conversion, for the conversion plan. The calculation of the Net Amount at Risk shall be as described in Article 3.

**8.5. Terminations**

At termination of a policy, other than death, all premiums and allowances, excluding cession fees, are adjusted pro rata for the period of coverage.

In the event of termination by death, there will be no adjustment of premiums.

8.6. **Cash Values**

OPTIMUM RE will not participate in the payment of cash values.

8.7. **Policy loans and Dividends**

OPTIMUM RE will not participate in policy loans or dividends.

8.8. **Recapture**

Recapture will not be permitted under this Agreement unless explicitly approved by OPTIMUM RE, except as stated in Article 3.3.

**ARTICLE 9**  
**CLAIMS**

**9.1. Claims Liability**

OPTIMUM RE will be liable to THE COMPANY for the benefits reinsured hereunder to the same extent as THE COMPANY is liable to the insured for such benefits, and all reinsurance will be subject to the terms and conditions of the policy under which THE COMPANY is liable. OPTIMUM RE will also be liable for its proportionate share of interest on payment of the claim at the usual interest rate allowed by THE COMPANY.

**9.2. Notice**

THE COMPANY will give OPTIMUM RE prompt notice of any claim. Copies of notification, claim papers and proofs will be furnished to OPTIMUM RE within ten (10) working days of having been received by THE COMPANY.

**9.3. Authorization for Payment**

On all claims, THE COMPANY must obtain the approval of OPTIMUM RE prior to acknowledgment of its liability to the claimant.

**9.4. Adjusted Amounts**

In the event the amount of insurance provided by a policy reinsured hereunder is increased or reduced because of a misstatement of age or sex established after the death of the insured, OPTIMUM RE will share in the increase or reduction in the proportion that the liability of OPTIMUM RE bore to the total liability under the policy immediately prior to such increase or reduction.

**9.5. Payment**

On death claims, OPTIMUM RE will pay its share in a lump sum to THE COMPANY without regard to the form of claim settlement. OPTIMUM RE is not responsible for usual claim expenses that THE COMPANY incurs in claim settlement such as compensation of employees and routine investigative expenses.

**9.6. Contest**

THE COMPANY will advise OPTIMUM RE of its intention to contest, compromise or litigate a claim or rescind a contract involving reinsurance. If after reviewing the complete file OPTIMUM RE agrees in writing with THE COMPANY's intention, then OPTIMUM RE agrees to pay a share of the expenses incurred by THE COMPANY in contesting or investigating a claim on a reinsured policy or in rescinding a reinsured policy, in proportion to the respective liabilities of OPTIMUM RE and THE COMPANY. Compensation of officers and employees of THE COMPANY is not deemed a claim expense.

If OPTIMUM RE declines to be a party to a claim contest, OPTIMUM RE will discharge any and all liability by payment of its full share of the claim to THE COMPANY according to the terms and conditions of this Agreement.

9.7. **Punitive Damages**

OPTIMUM RE will not participate in punitive, compensatory or statutory damages or penalties which are awarded against THE COMPANY as a result of an act, omission or course of conduct committed solely by THE COMPANY in connection with the insurance reinsured under this Agreement.

## **ARTICLE 10 ARBITRATION**

### **10.1. Principle**

The parties express their formal intention to resolve any differences arising from the interpretation or execution of this Agreement in accordance with equity and usage rather than according to strict legal rules. Any difference that cannot be resolved by the parties shall be submitted to arbitration by written notice sent by one party to the other. The location for arbitration shall be Dallas, Texas.

### **10.2. Arbitrators**

There shall be three disinterested arbitrators who shall be officers or retired officers of life insurance or reinsurance companies other than the parties to the Agreement or their subsidiaries. The arbitrators shall be disinterested parties and cannot be jurists, present or former employees of one of the parties or their affiliate or therefore related to the management of one of the parties or their affiliates. Each of the parties shall appoint one of the arbitrators and these two arbitrators shall select the third. In the event that either party should fail to choose an arbitrator within thirty days after the other party has given notice of its arbitrator appointment, that party may choose two arbitrators who shall in turn choose a third arbitrator before entering arbitration.

Any arbitrator who does not perform their duties or resigns will be replaced by the party who originally selected that arbitrator.

### **10.3. Matters In Dispute**

The parties will state together or separately the subjects in dispute and submit them in writing to the arbitrators along with the necessary documents.

### **10.4. Procedures**

The arbitrators must themselves establish the procedure to be followed: they are exempt from any judicial formality or rule. They can adjudicate and are empowered to act as mediators. They shall decide how the arbitration costs are apportioned.

### **10.5. Decision**

The award rendered by the majority, must be in writing, give the reasons for the decision and be signed by each arbitrator. The parties agree to abide by the decision rendered and to consider the award as final and binding on both parties.

### **10.6. Applicable Laws**

Should there be improprieties in the arbitration process or if one of the parties objects to the implementation of the arbitration process, the laws of the State of Texas shall then apply.

**ARTICLE 11**  
**INSOLVENCY**

**11.1. Payment of Claims**

In the event of insolvency of THE COMPANY, all claims under this Agreement will be paid by OPTIMUM RE directly to THE COMPANY, its liquidator, receiver or statutory successor. OPTIMUM RE's share of claims will be paid without diminution because of the insolvency of THE COMPANY, provided that all reinsurance premiums have been duly paid and subject to Article 11.4.

OPTIMUM RE shall be liable only for the claims actually paid by THE COMPANY to the insured or its beneficiary on amounts reinsured and shall not be or become liable for any amounts or reserves to be held by THE COMPANY on policies reinsured under this Agreement.

**11.2. Notice to OPTIMUM RE**

In the event of the insolvency of THE COMPANY, the liquidator, receiver, or statutory successor of THE COMPANY will give written notice of a pending claim against THE COMPANY on any policy reinsured, within a reasonable time after the claim is filed in the insolvency proceedings. While the claim is pending, OPTIMUM RE may investigate and interpose, at its own expense, in the proceedings where the claim is to be adjudicated, any defenses which it may deem available to THE COMPANY or its liquidator, receiver, or statutory successor.

**11.3. Expenses**

The expenses incurred by OPTIMUM RE will be charged, subject to court approval, against THE COMPANY as expenses of liquidation to the extent of a proportionate share of the benefit which accrues to THE COMPANY as a result of the defenses undertaken by OPTIMUM RE. Where two or more reinsurers are involved and a majority in interest elects to defend a claim, the expenses will be apportioned in accordance with the terms of the reinsurance agreements as if the expenses had been incurred by THE COMPANY.

**11.4. Right to Offset**

In the event of the insolvency of either OPTIMUM RE or THE COMPANY, any amounts owed by OPTIMUM RE to THE COMPANY and by THE COMPANY to OPTIMUM RE with respect to this and all other Reinsurance Agreements between OPTIMUM RE and THE COMPANY, shall be offset against each other with the balance to be paid by the appropriate party.

**ARTICLE 12**  
**DEFERRED ACQUISITION COST TAX**

THE COMPANY and OPTIMUM RE mutually agree to the following pursuant to Section 1.848-2(g)(8) of the Income Tax Regulations issued December 29, 1992 of the Internal Revenue Code of 1986.

1. The Party with net positive consideration for the Agreement(s) for each taxable year shall compute specified policy acquisition expenses without regard to the general deductions limitation of Section 848(c)(1).
2. THE COMPANY and OPTIMUM RE agree to exchange information pertaining to the amount of net consideration as determined for all reinsurance agreements in force between them to ensure consistency or as may otherwise be required by the Internal Revenue Service.
3. THE COMPANY will submit a Schedule to OPTIMUM RE by June 1st of its calculation of the net consideration for the preceding calendar year. This calculation shall be accompanied by a statement signed by an officer of THE COMPANY stating that THE COMPANY will report such net consideration in its tax return for the preceding calendar year.
4. OPTIMUM RE shall advise THE COMPANY if it disagrees with the amounts provided and OPTIMUM RE and THE COMPANY agree to amicably resolve any difference. The amounts provided by THE COMPANY shall be presumed correct if it does not receive a response from OPTIMUM RE at the latest 30 days after receipt by OPTIMUM RE of these amounts or by May 30th of the current year.

**ARTICLE 13**  
**EXECUTION**

**13.1. Duration**

This Agreement will be effective on July 1, 2016. Reinsurance for these policies shall remain in-force until termination of the original policy with THE COMPANY or as provided elsewhere within this Agreement.

**13.2. Parties to the Agreement**

This is an agreement solely between THE COMPANY and OPTIMUM RE. There will be no legal relationship between OPTIMUM RE and any person having an interest of any kind in any of THE COMPANY's insurance, or between OPTIMUM RE and any other reinsurer, or between OPTIMUM RE and any other third party.

**13.3. Written Agreement**

**A. Entirety**

This Agreement shall constitute the entire agreement between THE COMPANY and OPTIMUM RE with respect to the business reinsured hereunder. There are no understandings between THE COMPANY and OPTIMUM RE other than as expressed in this Agreement.

**B. Amendments**

Any change or modification to the Agreement shall be null and void unless made by amendment to the Agreement and signed by both parties.

**C. Waiver**

A waiver of any provision(s) of this Agreement shall constitute a waiver only with respect to the particular circumstance for which it is given and not a waiver for any future circumstances.

**D. Severability**

If any section or provision of this Agreement is determined to be invalid or unenforceable, such determination will not impact or affect the validity or the enforceability of the remaining sections or provisions of this Agreement.

**13.4. Change of Control/Assignment**

Neither THE COMPANY nor its liquidator, receiver, or statutory successor will, without the prior written consent of OPTIMUM RE, sell, assign, transfer, or otherwise dispose of this Agreement, or any interest in this Agreement, by voluntary or involuntary act.



**13.5. Compliance**

THE COMPANY represents that to the best of its knowledge and belief it is, and shall use its best efforts to continue to be, in substantial compliance in all material respects with all laws, regulations, and judicial and administrative orders applicable to the business reinsured under this Agreement, including but not limited to, privacy laws and the maintenance of an effective anti-money laundering policy, (collectively, the "Law"). Neither THE COMPANY nor OPTIMUM RE shall be required to take any action under this Agreement that would result in it being in violation of the Law, which shall include requirements enforced by the U.S. Treasury Department Office of Foreign Assets Control and Terrorist Financing Act. THE COMPANY and OPTIMUM RE acknowledge and agree that a claim under this Agreement is not payable if payment would cause OPTIMUM RE to be in violation of the Law. Should either party discover a reinsurance payment has been made in violation of the Law, it shall notify the other party and the parties shall cooperate in order to take all necessary corrective actions.

**13.6. Signatures**

IN WITNESS of the above, this Agreement is signed in duplicate on the dates indicated.

**FOR: FEDERAL LIFE INSURANCE COMPANY**

BY:  /s/ Paul R. Murphy

DATE:  08-29-16

NAME:  Paul R. Murphy

TITLE:  Actuary

BY:  /s/ Dorothy M. Latuszek

DATE:  08-29-16

NAME:  Dorothy M. Latuszek

TITLE:  Director of Underwriting

**FOR: OPTIMUM RE INSURANCE COMPANY**

BY:  /s/ Sebastien Blondeau

DATE:  8-26-2016

NAME:  Sebastien Blondeau

TITLE:  President & COO

BY:  /s/ Serge Goulet

DATE:  8-26-2016

NAME:  Serge Goulet

TITLE:  Managing Director

**SCHEDULE A  
RETENTION AND REINSURANCE LIMITS**

FEDERAL LIFE INSURANCE COMPANY (MUTUAL)

**LIFE**

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THE COMPANY'S Retention Limit per Life	20% retained on all ceded amounts.
Maximum Reinsurance Amount per Life	\$208,000
Minimum Cession	\$5,000

**SCHEDULE B**  
**REINSURANCE PREMIUM PERCENTAGES FOR THE CLOSED IN-FORCE BLOCK OF LEVEL TERM POLICIES**

PREMIUM PERCENTAGES APPLIED TO THE APPLICABLE MORTALITY  
TABLES SPECIFIED IN SCHEDULE C AND SCHEDULE D

3-CLASS TERM PRODUCTS

RISK CLASS	LEVEL TERM PERIOD	POST LEVEL TERM PERIOD
MALE PREFERRED NONTOBACCO	43%	62%
MALE RESIDUAL NONTOBACCO	52%	82%
MALE STANDARD TOBACCO	109%	169%
FEMALE PREFERRED NONTOBACCO	47%	68%
FEMALE RESIDUAL NONTOBACCO	63%	99%
FEMALE STANDARD TOBACCO	140%	217%

\*AFTER APPLYING THE ABOVE PERCENTAGES TO THE MORTALITY TABLES SPECIFIED IN SCHEDULE C OR SCHEDULE D, MULTIPLY THESE BY THE NET AMOUNT AT RISK PER THOUSAND AND ROUND THE RESULTING REINSURANCE PREMIUMS TO TWO DECIMAL PLACES (I.E., NEAREST CENT).

2-CLASS & AGGREGATE TERM PRODUCTS

RISK CLASS	ART ONLY	ALL OTHER TERM PLANS	
	ALL DURATIONS	LEVEL TERM PERIOD	POST LEVEL TERM PERIOD
MALE STANDARD NONTOBACCO	52%	52%	82%
MALE STANDARD TOBACCO	109%	109%	169%
MALE AGGREGATE	63%	63%	98%
FEMALE STANDARD NONTOBACCO	63%	63%	99%
FEMALE STANDARD TOBACCO	140%	140%	217%
FEMALE AGGREGATE	81%	81%	125%

\*AFTER APPLYING THE ABOVE PERCENTAGES TO THE MORTALITY TABLES SPECIFIED IN SCHEDULE C OR SCHEDULE D, MULTIPLY THESE BY THE NET AMOUNT AT RISK PER THOUSAND AND ROUND THE RESULTING REINSURANCE PREMIUMS TO TWO DECIMAL PLACES (I.E., NEAREST CENT).

SCHEDULE C

US 75-80, BASIC SELECT & ULTIMATE, AGGREGATE AGE NEAREST BIRTHDAY, GENDER DISTINCT MORTALITY TABLES

PART 1

- MALE RATES

**Extended Basic US 1975-80 Select and Ultimate Automatic YRT Rates**  
**Male Aggregate** **Age Nearest Birthday**

Age	Policy Year															Att. Age	
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15		16+
0	1.23	0.74	0.48	0.43	0.38	0.34	0.33	0.29	0.27	0.27	0.25	0.28	0.31	0.38	0.54	0.68	15
1	0.49	0.47	0.42	0.36	0.28	0.23	0.22	0.22	0.24	0.24	0.27	0.30	0.38	0.54	0.68	1.01	16
2	0.35	0.37	0.33	0.28	0.23	0.22	0.21	0.24	0.24	0.27	0.30	0.37	0.54	0.68	1.01	1.14	17
3	0.35	0.29	0.25	0.23	0.22	0.20	0.22	0.24	0.27	0.30	0.37	0.53	0.68	1.01	1.14	1.22	18
4	0.29	0.25	0.23	0.22	0.20	0.22	0.24	0.27	0.30	0.36	0.52	0.66	0.99	1.11	1.22	1.31	19
5	0.25	0.23	0.22	0.20	0.22	0.24	0.27	0.30	0.36	0.50	0.66	0.96	1.09	1.16	1.31	1.37	20
6	0.23	0.22	0.20	0.22	0.24	0.27	0.30	0.36	0.50	0.66	0.94	1.07	1.14	1.21	1.37	1.40	21
7	0.19	0.20	0.22	0.24	0.27	0.30	0.35	0.50	0.66	0.87	1.05	1.13	1.19	1.23	1.40	1.41	22
8	0.18	0.21	0.21	0.27	0.29	0.35	0.50	0.66	0.87	1.05	1.13	1.19	1.23	1.30	1.39	1.40	23
9	0.19	0.20	0.24	0.29	0.35	0.50	0.66	0.87	1.05	1.13	1.19	1.23	1.30	1.35	1.36	1.38	24
10	0.18	0.22	0.27	0.35	0.50	0.66	0.87	1.05	1.13	1.19	1.23	1.30	1.35	1.36	1.32	1.34	25
11	0.20	0.25	0.34	0.50	0.66	0.87	1.05	1.13	1.19	1.23	1.30	1.35	1.36	1.30	1.27	1.29	26
12	0.23	0.32	0.50	0.66	0.87	1.05	1.13	1.19	1.23	1.30	1.35	1.36	1.30	1.25	1.20	1.24	27
13	0.30	0.46	0.63	0.87	1.05	1.12	1.19	1.22	1.24	1.28	1.31	1.30	1.25	1.20	1.16	1.20	28
14	0.44	0.59	0.87	1.05	1.12	1.17	1.22	1.23	1.23	1.24	1.26	1.25	1.19	1.16	1.13	1.17	29
15	0.58	0.87	1.05	1.12	1.17	1.21	1.23	1.22	1.20	1.20	1.19	1.18	1.13	1.12	1.11	1.14	30
16	0.87	1.05	1.12	1.17	1.21	1.20	1.21	1.19	1.16	1.14	1.12	1.12	1.09	1.09	1.09	1.12	31
17	1.05	1.12	1.17	1.21	1.20	1.18	1.18	1.15	1.11	1.07	1.05	1.06	1.05	1.06	1.08	1.11	32
18	1.03	1.10	1.13	1.15	1.14	1.11	1.11	1.07	1.04	1.01	1.00	1.02	1.01	1.03	1.07	1.12	33
19	1.00	1.05	1.06	1.07	1.05	1.04	1.02	0.98	0.96	0.95	0.97	0.97	0.98	1.01	1.07	1.14	34
20	0.93	0.97	0.97	0.97	0.97	0.95	0.93	0.90	0.90	0.91	0.93	0.94	0.96	1.01	1.08	1.17	35
21	0.84	0.87	0.87	0.87	0.87	0.86	0.85	0.83	0.85	0.86	0.90	0.92	0.96	1.02	1.11	1.22	36
22	0.73	0.76	0.76	0.76	0.77	0.77	0.77	0.77	0.80	0.83	0.88	0.91	0.96	1.04	1.15	1.28	37
23	0.73	0.76	0.75	0.75	0.75	0.76	0.77	0.77	0.80	0.84	0.90	0.94	1.00	1.10	1.21	1.36	38
24	0.73	0.74	0.73	0.73	0.74	0.76	0.77	0.78	0.82	0.87	0.93	0.97	1.05	1.17	1.29	1.45	39
25	0.72	0.72	0.72	0.72	0.74	0.76	0.77	0.79	0.84	0.90	0.96	1.03	1.12	1.25	1.38	1.56	40
26	0.70	0.70	0.71	0.72	0.73	0.76	0.78	0.82	0.88	0.95	1.02	1.09	1.20	1.35	1.49	1.70	41
27	0.68	0.68	0.70	0.71	0.73	0.77	0.81	0.86	0.92	1.01	1.08	1.17	1.30	1.47	1.63	1.87	42
28	0.66	0.68	0.71	0.73	0.76	0.81	0.86	0.92	1.00	1.08	1.17	1.28	1.42	1.61	1.81	2.07	43
29	0.65	0.68	0.73	0.76	0.81	0.86	0.92	1.00	1.08	1.17	1.28	1.42	1.58	1.81	2.03	2.31	44
30	0.64	0.68	0.76	0.81	0.86	0.92	1.00	1.08	1.17	1.28	1.42	1.58	1.81	2.03	2.26	2.58	45
31	0.63	0.69	0.79	0.86	0.92	1.00	1.08	1.17	1.28	1.42	1.58	1.81	2.03	2.26	2.53	2.89	46
32	0.63	0.71	0.84	0.92	1.00	1.08	1.17	1.28	1.40	1.58	1.81	2.03	2.26	2.53	2.83	3.24	47
33	0.63	0.72	0.88	0.98	1.08	1.17	1.28	1.40	1.58	1.78	2.01	2.25	2.53	2.83	3.17	3.61	48
34	0.63	0.73	0.93	1.05	1.17	1.28	1.40	1.58	1.78	2.01	2.24	2.53	2.81	3.16	3.54	4.02	49

**Extended Basic US 1975-80 Select and Ultimate Automatic YRT Rates  
Male Aggregate**

**Age Nearest Birthday**

Age	Policy Year															Att. Age	
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15		16+
35	0.63	0.76	0.99	1.14	1.28	1.40	1.58	1.78	2.01	2.24	2.53	2.80	3.13	3.52	3.94	4.45	50
36	0.65	0.79	1.06	1.25	1.40	1.58	1.78	2.01	2.24	2.53	2.80	3.10	3.48	3.91	4.36	4.92	51
37	0.67	0.84	1.15	1.37	1.58	1.78	2.01	2.24	2.53	2.80	3.08	3.43	3.86	4.32	4.82	5.44	52
38	0.70	0.89	1.23	1.47	1.70	1.91	2.16	2.41	2.72	3.04	3.35	3.76	4.25	4.28	5.33	6.00	53
39	0.74	0.95	1.33	1.59	1.83	2.07	2.33	2.60	2.93	3.27	3.64	4.10	4.67	5.28	5.88	6.61	54
40	0.79	1.02	1.45	1.73	2.00	2.23	2.51	2.79	3.13	3.51	3.94	4.47	5.13	5.82	6.48	7.27	55
41	0.85	1.11	1.59	1.90	2.17	2.42	2.70	2.98	3.33	3.75	4.24	4.86	5.62	6.41	7.12	8.01	56
42	0.92	1.22	1.76	2.09	2.37	2.62	2.89	3.18	3.52	3.99	4.57	5.28	6.15	7.05	7.85	8.82	57
43	0.99	1.37	1.92	2.30	2.61	2.88	3.18	3.47	3.83	4.33	4.96	5.71	6.63	7.61	8.50	9.73	58
44	1.08	1.53	2.11	2.52	2.86	3.17	3.47	3.79	4.17	4.70	5.37	6.16	7.16	8.20	9.22	10.75	59
45	1.17	1.72	2.31	2.75	3.13	3.47	3.79	4.14	4.56	5.08	5.80	6.66	7.73	8.85	10.02	11.89	60
46	1.28	1.94	2.51	3.00	3.40	3.78	4.14	4.56	4.91	5.48	6.28	7.19	8.35	9.56	10.89	13.17	61
47	1.39	2.17	2.73	3.25	3.69	4.13	4.56	4.89	5.31	5.93	6.79	7.78	9.03	10.34	11.85	14.57	62
48	1.49	2.27	2.84	3.40	3.90	4.38	4.87	5.28	5.80	6.49	7.53	8.64	9.94	11.30	12.79	16.07	63
49	1.60	2.35	2.95	3.54	4.09	4.62	5.18	5.70	6.33	7.12	8.36	9.60	10.96	12.32	13.75	17.71	64
50	1.70	2.42	3.04	3.66	4.29	4.87	5.51	6.15	6.93	7.83	9.30	10.69	12.06	13.40	14.77	19.50	65
51	1.80	2.48	3.12	3.77	4.47	5.12	5.86	6.65	7.59	8.61	10.35	11.89	13.24	14.56	15.83	21.47	66
52	1.90	2.52	3.17	3.85	4.65	5.38	6.23	7.20	8.32	9.48	11.51	13.18	14.52	15.80	16.96	23.65	67
53	2.06	2.75	3.46	4.23	5.08	5.90	6.84	7.89	9.11	10.43	12.63	14.52	15.80	16.96	19.16	26.05	68
54	2.23	2.99	3.78	4.64	5.57	6.47	7.52	8.66	9.96	11.44	13.85	15.80	16.96	19.16	21.62	28.69	69
55	2.41	3.27	4.12	5.10	6.11	7.11	8.27	9.50	10.86	12.54	15.17	16.96	19.16	21.62	24.39	31.57	70
56	2.61	3.56	4.51	5.61	6.71	7.83	9.09	10.38	11.83	13.73	16.62	19.16	21.62	24.39	27.47	34.68	71
57	2.82	3.89	4.94	6.18	7.38	8.60	9.96	11.33	12.87	15.03	18.21	21.36	24.39	27.15	30.87	38.00	72
58	2.96	4.13	5.44	6.74	8.10	9.20	10.59	12.05	13.66	15.94	19.22	22.43	25.64	28.58	32.76	41.60	73
59	3.10	4.37	6.00	7.34	8.87	9.82	11.23	12.79	14.47	16.88	20.25	23.49	26.85	29.94	34.70	45.54	74
60	3.23	4.63	6.61	7.97	9.71	10.46	11.89	13.57	15.32	17.85	21.28	24.48	27.97	31.28	36.71	49.90	75
61	3.37	4.89	7.26	8.64	10.46	11.59	12.58	14.38	16.18	18.82	22.26	25.39	29.04	32.61	38.82	54.71	76
62	3.50	5.14	7.97	9.36	11.59	11.83	13.29	15.21	17.05	19.77	23.18	26.21	30.06	33.93	41.03	60.03	77
63	3.89	5.77	8.74	10.48	11.83	13.29	15.21	17.05	20.11	22.42	25.79	28.87	33.14	37.75	44.66	65.85	78
64	4.32	6.47	9.57	11.73	13.29	15.21	17.05	20.11	22.42	25.79	28.69	32.93	36.55	42.02	48.60	72.18	79
65	4.80	7.26	10.50	13.13	15.21	17.05	20.11	22.42	25.79	28.69	32.93	35.12	40.34	46.75	52.83	79.02	80
66	5.32	8.14	11.51	14.69	17.05	20.11	22.42	25.79	28.69	32.93	34.69	38.78	44.51	51.97	57.68	86.36	81
67	5.91	9.12	12.62	16.42	20.11	22.42	25.79	28.69	32.93	34.47	38.42	42.80	49.08	57.68	62.18	94.12	82
68	6.51	10.04	13.89	18.04	22.04	24.54	28.23	31.44	34.47	37.82	42.14	46.91	53.73	62.18	67.77	102.35	83
69	7.17	11.05	15.25	19.76	24.12	26.87	30.94	34.47	37.82	41.49	46.20	51.36	58.72	67.77	73.69	111.41	84

**Extended Basic US 1975-80 Select and Ultimate Automatic YRT Rates**  
**Male Aggregate** **Age Nearest Birthday**

Age	Policy Year															Att. Age	
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15		16+
70	7.89	12.14	16.72	21.64	26.41	29.44	33.92	37.82	41.49	45.48	50.57	56.13	64.00	73.69	80.22	121.31	85
71	9.53	14.60	19.60	24.97	29.44	34.32	41.78	48.80	57.45	65.58	74.61	84.52	95.47	107.84	121.31	132.05	86
72	11.40	16.64	22.87	28.77	34.15	39.89	48.34	56.16	65.58	74.61	84.52	95.39	107.67	121.31	132.05	143.63	87
73	13.52	19.13	26.61	33.20	39.52	46.21	55.72	64.40	74.61	84.52	95.39	107.62	121.31	132.05	143.63	156.05	88
74	15.94	22.46	30.70	38.25	45.60	53.35	64.01	73.58	84.52	95.39	107.62	121.31	132.05	143.63	156.05	169.12	89
75	18.71	26.26	35.35	43.95	52.45	61.35	73.23	83.67	95.39	107.62	121.31	132.05	143.63	156.05	169.12	182.61	90
76	21.88	30.62	40.61	50.35	60.12	70.26	83.39	94.78	107.62	121.31	132.05	143.63	156.05	169.12	182.61	196.52	91
77	25.51	34.90	46.52	57.51	68.66	80.09	94.57	107.29	121.31	132.05	143.63	156.05	169.12	182.61	196.52	210.85	92
78	29.63	40.42	53.12	65.47	78.04	90.90	107.18	121.31	132.05	143.63	156.05	169.12	182.61	196.52	210.85	225.60	93
79	34.65	46.62	60.45	74.20	88.36	103.10	121.31	132.05	143.63	156.05	169.12	182.61	196.52	210.85	225.60	240.77	94
80	40.30	53.54	68.50	83.78	99.99	116.79	132.05	143.63	156.05	169.12	182.61	196.52	210.85	225.60	240.77	256.36	95
81	46.63	61.18	77.33	94.56	113.02	132.05	143.63	156.05	169.12	182.61	196.52	210.85	225.60	240.77	256.36	272.37	96
82	53.65	69.60	87.27	106.64	127.54	143.63	156.05	169.12	182.61	196.52	210.85	225.60	240.77	256.36	272.37	288.80	97
83	61.41	79.10	98.40	120.07	143.63	156.05	169.12	182.61	196.52	210.85	225.60	240.77	256.36	272.37	288.80	305.65	98
84	72.42	89.77	110.78	134.94	156.05	169.12	182.61	196.52	210.85	225.60	240.77	256.36	272.37	288.80	305.65	322.92	99
85	84.92	104.82	124.48	151.33	169.12	182.61	196.52	210.85	225.60	240.77	256.36	272.37	288.80	305.65	322.92	340.61	100

SCHEDULE C

US 75-80, BASIC SELECT & ULTIMATE, AGGREGATE AGE NEAREST BIRTHDAY, GENDER DISTINCT MORTALITY TABLES

PART 2

- FEMALE RATES

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**Extended Basic US 1975-80 Select and Ultimate Automatic YRT Rates**  
**Female Aggregate** **Age Nearest Birthday**

Age	Policy Year															Att. Age	
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15		16+
0	0.93	0.34	0.30	0.27	0.24	0.22	0.20	0.18	0.18	0.18	0.19	0.21	0.24	0.27	0.32	0.36	15
1	0.34	0.30	0.27	0.24	0.22	0.20	0.18	0.18	0.18	0.19	0.21	0.24	0.27	0.32	0.36	0.40	16
2	0.28	0.27	0.24	0.22	0.20	0.18	0.18	0.18	0.19	0.21	0.24	0.27	0.32	0.36	0.40	0.44	17
3	0.24	0.24	0.22	0.20	0.18	0.18	0.18	0.19	0.21	0.24	0.27	0.32	0.36	0.40	0.44	0.47	18
4	0.22	0.22	0.20	0.18	0.18	0.18	0.19	0.21	0.24	0.27	0.32	0.36	0.40	0.44	0.47	0.49	19
5	0.20	0.20	0.18	0.18	0.18	0.19	0.21	0.24	0.27	0.32	0.36	0.40	0.44	0.47	0.49	0.51	20
6	0.19	0.18	0.18	0.18	0.19	0.21	0.24	0.27	0.32	0.36	0.40	0.44	0.47	0.49	0.51	0.52	21
7	0.17	0.18	0.18	0.19	0.21	0.24	0.27	0.32	0.36	0.40	0.44	0.47	0.49	0.51	0.52	0.53	22
8	0.16	0.18	0.19	0.21	0.24	0.27	0.32	0.36	0.40	0.44	0.47	0.49	0.51	0.52	0.53	0.53	23
9	0.16	0.19	0.21	0.24	0.27	0.32	0.36	0.40	0.44	0.47	0.49	0.51	0.52	0.53	0.53	0.53	24
10	0.16	0.21	0.24	0.27	0.32	0.36	0.40	0.44	0.47	0.49	0.51	0.52	0.53	0.53	0.53	0.53	25
11	0.17	0.24	0.27	0.32	0.36	0.40	0.44	0.47	0.49	0.51	0.52	0.53	0.53	0.53	0.53	0.53	26
12	0.18	0.27	0.32	0.36	0.40	0.44	0.47	0.49	0.51	0.52	0.53	0.53	0.53	0.53	0.53	0.53	27
13	0.21	0.31	0.35	0.38	0.42	0.45	0.47	0.49	0.52	0.53	0.53	0.53	0.53	0.53	0.53	0.53	28
14	0.25	0.33	0.37	0.40	0.43	0.45	0.47	0.48	0.53	0.53	0.53	0.53	0.53	0.53	0.53	0.54	29
15	0.28	0.35	0.39	0.41	0.43	0.45	0.46	0.48	0.53	0.53	0.53	0.53	0.53	0.53	0.54	0.55	30
16	0.32	0.37	0.39	0.41	0.42	0.43	0.45	0.46	0.53	0.53	0.53	0.53	0.53	0.54	0.55	0.58	31
17	0.36	0.37	0.39	0.40	0.41	0.42	0.43	0.44	0.53	0.53	0.53	0.53	0.54	0.55	0.58	0.61	32
18	0.36	0.37	0.39	0.40	0.41	0.42	0.43	0.44	0.51	0.52	0.53	0.54	0.55	0.58	0.61	0.65	33
19	0.36	0.37	0.39	0.40	0.41	0.42	0.43	0.44	0.50	0.50	0.54	0.55	0.58	0.61	0.65	0.70	34
20	0.35	0.36	0.38	0.39	0.41	0.41	0.43	0.44	0.48	0.50	0.55	0.58	0.61	0.65	0.70	0.77	35
21	0.34	0.36	0.37	0.39	0.40	0.41	0.43	0.44	0.47	0.49	0.58	0.61	0.65	0.70	0.77	0.84	36
22	0.32	0.34	0.36	0.38	0.40	0.41	0.43	0.45	0.46	0.50	0.61	0.65	0.70	0.77	0.84	0.93	37
23	0.32	0.34	0.37	0.39	0.41	0.42	0.45	0.46	0.50	0.55	0.65	0.70	0.77	0.84	0.93	1.03	38
24	0.31	0.34	0.38	0.40	0.42	0.45	0.46	0.50	0.55	0.59	0.70	0.77	0.84	0.93	1.03	1.15	39
25	0.31	0.35	0.39	0.41	0.44	0.46	0.50	0.55	0.59	0.63	0.77	0.84	0.93	1.03	1.15	1.29	40
26	0.30	0.35	0.39	0.43	0.46	0.50	0.55	0.59	0.63	0.69	0.84	0.93	1.03	1.15	1.29	1.45	41
27	0.30	0.35	0.41	0.45	0.50	0.55	0.59	0.63	0.66	0.76	0.93	1.03	1.15	1.29	1.45	1.62	42
28	0.31	0.36	0.42	0.48	0.53	0.59	0.63	0.66	0.76	0.86	1.03	1.15	1.29	1.45	1.62	1.79	43
29	0.32	0.37	0.44	0.51	0.57	0.63	0.66	0.76	0.86	0.97	1.15	1.29	1.45	1.62	1.79	1.96	44
30	0.33	0.39	0.47	0.54	0.62	0.66	0.76	0.86	0.97	1.08	1.29	1.45	1.62	1.79	1.96	2.14	45
31	0.35	0.41	0.50	0.59	0.66	0.76	0.86	0.97	1.08	1.19	1.45	1.62	1.79	1.96	2.14	2.33	46
32	0.38	0.44	0.54	0.65	0.76	0.86	0.97	1.08	1.19	1.31	1.62	1.79	1.96	2.14	2.33	2.52	47
33	0.39	0.46	0.57	0.69	0.82	0.93	1.07	1.19	1.31	1.48	1.77	1.94	2.12	2.33	2.52	2.72	48
34	0.41	0.49	0.60	0.74	0.88	1.02	1.18	1.31	1.48	1.64	1.92	2.10	2.30	2.51	2.72	2.93	49

**Extended Basic US 1975-80 Select and Ultimate Automatic YRT Rates  
Female Aggregate**

**Age Nearest Birthday**

Age	Policy Year																Att. Age
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16+	
35	0.43	0.51	0.63	0.79	0.95	1.12	1.30	1.48	1.64	1.81	2.07	2.27	2.46	2.71	2.92	3.17	50
36	0.45	0.54	0.67	0.85	1.04	1.23	1.43	1.63	1.81	2.00	2.23	2.43	2.64	2.92	3.16	3.43	51
37	0.48	0.58	0.71	0.92	1.13	1.35	1.56	1.77	1.98	2.19	2.39	2.60	2.82	3.15	3.42	3.71	52
38	0.51	0.64	0.80	1.04	1.26	1.49	1.70	1.92	2.14	2.35	2.56	2.78	3.02	3.38	3.66	4.04	53
39	0.55	0.72	0.89	1.16	1.39	1.63	1.85	2.08	2.30	2.52	2.74	2.98	3.23	3.62	3.94	4.40	54
40	0.60	0.80	1.00	1.28	1.52	1.78	2.01	2.24	2.46	2.69	2.94	3.19	3.46	3.91	4.25	4.80	55
41	0.65	0.89	1.10	1.41	1.66	1.94	2.17	2.41	2.63	2.89	3.15	3.42	3.72	4.23	4.58	5.23	56
42	0.70	0.98	1.20	1.54	1.80	2.10	2.33	2.58	2.83	3.10	3.38	3.69	4.01	4.57	4.94	5.70	57
43	0.76	1.05	1.29	1.63	1.90	2.20	2.45	2.74	3.01	3.31	3.64	3.98	4.34	4.94	5.37	6.22	58
44	0.81	1.12	1.39	1.71	2.00	2.30	2.59	2.90	3.21	3.55	3.92	4.30	4.69	5.37	5.85	6.78	59
45	0.86	1.19	1.48	1.79	2.10	2.42	2.73	3.07	3.43	3.82	4.23	4.64	5.07	5.83	6.36	7.37	60
46	0.91	1.26	1.58	1.86	2.22	2.53	2.88	3.28	3.67	4.11	4.55	5.01	5.49	6.32	6.89	8.00	61
47	0.96	1.33	1.68	1.95	2.34	2.65	3.06	3.49	3.94	4.41	4.90	5.41	5.94	6.84	7.46	8.67	62
48	1.00	1.39	1.76	2.04	2.45	2.82	3.27	3.76	4.20	4.70	5.23	5.77	6.31	7.25	7.88	9.38	63
49	1.05	1.46	1.83	2.13	2.58	3.00	3.50	4.04	4.48	5.02	5.57	6.13	6.70	7.67	8.30	10.15	64
50	1.10	1.53	1.91	2.24	2.72	3.20	3.74	4.35	4.78	5.34	5.92	6.50	7.09	8.09	8.75	10.99	65
51	1.15	1.60	2.01	2.35	2.86	3.40	4.00	4.68	5.09	5.67	6.28	6.88	7.49	8.53	9.21	11.91	66
52	1.20	1.68	2.10	2.47	3.01	3.61	4.28	5.03	5.40	6.01	6.64	7.27	7.91	9.00	9.70	12.92	67
53	1.26	1.76	2.22	2.65	3.23	3.87	4.57	5.34	5.77	6.41	7.05	7.75	8.47	9.68	10.50	14.03	68
54	1.32	1.85	2.35	2.84	3.47	4.15	4.87	5.65	6.15	6.81	7.49	8.26	9.07	10.43	11.37	15.25	69
55	1.38	1.93	2.48	3.05	3.72	4.43	5.18	5.97	6.55	7.25	7.96	8.81	9.72	11.24	12.33	16.63	70
56	1.45	2.02	2.62	3.27	3.97	4.72	5.50	6.29	6.97	7.71	8.46	9.40	10.43	12.13	13.41	18.21	71
57	1.51	2.11	2.76	3.49	4.24	5.02	5.82	6.62	7.42	8.21	9.00	10.04	11.20	13.13	14.65	20.04	72
58	1.63	2.29	2.99	3.76	4.54	5.34	6.18	7.03	7.88	8.71	9.76	10.86	12.11	14.18	15.84	22.17	73
59	1.75	2.48	3.24	4.04	4.85	5.69	6.57	7.46	8.36	9.25	10.60	11.79	13.14	15.40	17.21	24.65	74
60	1.88	2.68	3.50	4.34	5.18	6.06	6.98	7.93	8.89	9.83	11.55	12.85	14.33	16.80	18.78	27.53	75
61	2.01	2.90	3.77	4.66	5.54	6.45	7.42	8.43	9.45	10.47	12.64	14.08	15.70	18.42	20.59	30.86	76
62	2.15	3.12	4.07	5.01	5.93	6.88	7.90	8.97	10.07	11.19	13.90	15.50	17.30	20.28	22.64	34.96	77
63	2.27	3.27	4.26	5.24	6.21	7.22	8.30	9.49	10.75	12.11	15.04	16.80	18.79	22.08	24.73	39.07	78
64	2.40	3.43	4.46	5.48	6.50	7.57	8.75	10.07	11.53	13.17	16.34	18.28	20.47	20.49	27.05	44.00	79
65	2.59	3.59	4.66	5.73	6.80	7.95	9.24	10.72	12.43	14.38	17.83	19.94	22.34	26.30	29.55	49.48	80
66	2.67	3.76	4.88	5.99	7.12	8.37	9.80	11.47	13.45	15.78	19.51	21.81	24.41	28.69	32.20	55.51	81
67	2.82	3.94	5.10	6.27	7.48	8.85	10.43	12.32	14.61	17.37	21.40	23.87	26.64	31.21	34.98	62.09	82
68	3.06	4.28	5.56	6.87	8.23	9.79	11.60	13.76	16.38	19.53	23.87	26.64	29.96	34.98	39.13	69.22	83
69	3.33	4.67	6.09	7.56	9.11	10.89	12.95	15.42	18A1	21.99	26.64	29.96	33.61	39.13	43.62	76.90	84

**Extended Basic US 1975-80 Select and Ultimate Automatic YRT Rates  
Female Aggregate**

**Age Nearest Birthday**

Age	Policy Year															Att. Age	
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15		16+
70	3.63	5.11	6.70	8.36	10.13	12.16	14.52	17.34	20.73	24.77	29.96	33.61	37.59	43.62	48.46	85.18	85
71	5.01	7.70	10.44	13.52	16.24	19.36	24.15	28.95	35.02	41.07	47.96	55.76	64.57	74.44	85.13	93.91	86
72	6.01	8.87	12.38	15.87	19.26	23.05	28.68	34.23	41.07	47.96	55.76	64.51	74.32	85.13	93.91	103.24	87
73	7.20	10.35	14.68	18.73	22.84	27.42	33.97	40.33	47.96	55.76	64.51	74.28	85.13	93.91	103.24	113.12	88
74	8.63	12.39	17.32	22.10	27.06	32.52	40.08	47.30	55.76	64.51	74.28	85.13	93.91	103.24	113.12	123.55	89
75	10.32	14.81	20.43	26.07	31.97	38.41	47.07	55.20	64.51	74.28	85.13	93.91	103.24	113.12	123.55	134.53	90
76	12.34	17.69	24.09	30.69	37.65	45.16	55.01	64.10	74.28	85.13	93.91	103.24	113.12	123.55	134.53	146.06	91
77	14.74	20.71	28.36	36.01	44.13	52.83	63.96	74.06	85.13	93.91	103.24	113.12	123.55	134.53	146.06	158.14	92
78	17.58	24.64	33.26	42.08	51.48	61.48	73.98	85.13	93.91	103.24	113.12	123.55	134.53	146.06	158.14	170.77	93
79	21.12	29.19	38.86	48.95	59.76	71.17	85.13	93.91	103.24	113.12	123.55	134.53	146.06	158.14	170.77	183.95	94
80	25.23	32.42	45.19	56.66	69.02	81.96	93.91	103.24	113.12	123.55	134.53	146.06	158.14	170.77	183.95	197.68	95
81	29.98	40.36	52.30	65.27	79.31	93.91	103.24	113.12	123.55	134.53	146.06	158.14	170.77	183.95	197.68	211.96	96
82	35.39	47.07	60.24	74.83	90.70	103.24	113.12	123.55	134.53	146.06	158.14	170.77	183.95	197.68	211.96	226.79	97
83	41.53	54.60	69.05	85.39	103.24	113.12	123.55	134.53	146.06	158.14	170.77	183.95	197.68	211.96	226.79	242.17	98
84	49.99	63.00	78.78	97.00	113.12	123.55	134.53	146.06	158.14	170.77	183.95	197.68	211.96	226.79	242.17	258.10	99
85	59.59	74.19	89.47	109.70	123.55	134.53	146.06	158.14	170.77	183.95	197.68	211.96	226.79	242.17	258.10	274.58	100

**SCHEDULE D**

**US 75-80, BASIC SELECT & ULTIMATE, AGGREGATE AGE LAST BIRTHDAY, GENDER DISTINCT MORTALITY TABLES**

PART 1

- MALE RATES

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**Extended Basic US 1975-80 Select and Ultimate Automatic YRT Rates  
Male Aggregate**

Age	Policy Year															Att. Age	
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15		16+
<b>35</b>	0.65	0.79	1.03	1.20	1.35	1.49	1.66	1.86	2.10	2.33	2.63	2.96	3.34	3.75	4.19	4.69	<b>50</b>
<b>36</b>	0.67	0.83	1.12	1.31	1.49	1.66	1.86	2.10	2.33	2.63	2.92	3.28	3.70	4.16	4.63	5.18	<b>51</b>
<b>37</b>	0.70	0.88	1.21	1.44	1.66	1.86	2.10	2.33	2.63	2.92	3.23	3.62	4.09	4.59	5.12	5.72	<b>52</b>
<b>38</b>	0.74	0.94	1.29	1.55	1.78	2.01	2.27	2.52	2.84	3.16	3.52	3.96	4.49	5.06	5.64	6.31	<b>53</b>
<b>39</b>	0.78	1.00	1.40	1.68	1.93	2.18	2.45	2.72	3.06	3.41	3.82	4.31	4.92	5.37	6.22	6.94	<b>54</b>
<b>40</b>	0.83	1.09	1.53	1.83	2.11	2.36	2.65	2.93	3.27	3.67	4.12	4.69	5.39	6.13	6.82	7.64	<b>55</b>
<b>41</b>	0.89	1.20	1.68	2.01	2.29	2.56	2.86	3.14	3.49	3.92	4.45	5.09	5.90	6.72	7.50	8.42	<b>56</b>
<b>42</b>	0.97	1.32	1.86	2.21	2.50	2.77	3.06	3.35	3.70	4.18	4.79	5.53	6.44	7.38	8.25	9.28	<b>57</b>
<b>43</b>	1.05	1.46	2.02	2.41	2.74	3.04	3.35	3.66	4.03	4.55	5.21	5.99	6.96	7.97	8.93	10.24	<b>58</b>
<b>44</b>	1.14	1.62	2.20	2.63	2.98	3.32	3.66	3.98	4.39	4.94	5.66	6.30	7.54	8.60	9.67	11.32	<b>59</b>
<b>45</b>	1.23	1.81	2.39	2.85	3.24	3.61	3.98	4.34	4.77	5.35	6.15	7.06	8.16	9.30	10.49	12.53	<b>60</b>
<b>46</b>	1.33	2.00	2.58	3.08	3.51	3.92	4.34	4.73	5.17	5.80	6.68	7.66	8.83	10.06	11.39	13.87	<b>61</b>
<b>47</b>	1.44	2.21	2.77	3.31	3.79	4.26	4.73	5.12	5.61	6.29	7.26	8.32	9.58	10.89	12.36	15.32	<b>62</b>
<b>48</b>	1.55	2.32	2.90	3.48	4.02	4.53	5.06	5.54	6.13	6.89	8.04	9.23	10.57	11.94	13.41	16.89	<b>63</b>
<b>49</b>	1.66	2.42	3.03	3.64	4.24	4.81	5.41	5.99	6.69	7.55	8.91	10.26	11.67	13.06	14.53	18.61	<b>64</b>
<b>50</b>	1.77	2.51	3.15	3.80	4.46	5.09	5.78	6.48	7.31	8.30	9.90	11.41	12.85	14.25	15.72	20.49	<b>65</b>
<b>51</b>	1.88	2.59	3.26	3.94	4.69	5.39	6.18	7.02	8.01	9.13	10.99	12.65	14.12	15.54	16.98	22.56	<b>66</b>
<b>52</b>	1.99	2.66	3.35	4.08	4.92	5.70	6.60	7.61	8.78	10.04	12.18	14.00	15.51	16.94	18.35	24.85	<b>67</b>
<b>53</b>	2.15	2.89	3.66	4.47	5.38	6.22	7.22	8.32	9.57	10.98	13.29	15.31	16.94	18.35	20.53	27.37	<b>68</b>
<b>54</b>	2.31	3.13	4.00	4.90	5.89	6.81	7.90	9.09	10.42	11.98	14.48	16.73	18.35	20.53	22.96	30.13	<b>69</b>
<b>55</b>	2.49	3.40	4.37	5.37	6.47	7.46	8.65	9.91	11.31	13.06	15.77	18.29	20.53	22.85	25.67	33.13	<b>70</b>
<b>56</b>	2.68	3.70	4.78	5.91	7.10	8.16	9.44	10.78	12.26	14.23	17.18	19.99	22.70	25.23	28.65	36.34	<b>71</b>
<b>57</b>	2.89	4.02	5.24	6.50	7.80	8.92	10.29	11.72	13.29	15.50	18.71	21.85	24.96	27.83	31.89	39.80	<b>72</b>
<b>58</b>	3.05	4.30	5.78	7.12	8.58	9.62	11.05	12.58	14.24	16.56	19.88	23.10	26.39	29.47	33.93	43.57	<b>73</b>
<b>59</b>	3.22	4.60	6.37	7.78	9.42	10.36	11.84	13.48	15.26	17.68	21.09	24.35	27.80	31.11	36.05	47.72	<b>74</b>
<b>60</b>	3.40	4.91	7.01	8.49	10.34	11.15	12.69	14.45	16.34	18.85	22.31	25.55	29.18	32.79	38.29	52.31	<b>75</b>
<b>61</b>	3.57	5.22	7.69	9.25	11.15	12.44	13.59	15.48	17.47	20.04	23.51	26.72	30.56	34.52	40.66	57.37	<b>76</b>
<b>62</b>	3.74	5.54	8.44	10.07	12.44	12.89	14.54	16.56	18.64	21.24	24.70	27.87	31.96	36.31	43.15	62.94	<b>77</b>
<b>63</b>	4.15	6.18	9.21	11.19	12.89	14.50	16.42	18.63	21.03	23.56	27.15	30.60	35.16	40.29	47.22	69.02	<b>78</b>
<b>64</b>	4.59	6.88	10.04	12.43	14.50	16.29	18.52	20.91	23.56	26.17	29.85	33.67	38.70	44.72	51.64	75.60	<b>79</b>
<b>65</b>	5.08	7.66	10.96	13.82	16.29	18.27	20.82	23.41	26.17	29.29	33.67	36.95	42.60	49.60	56.42	82.69	<b>80</b>
<b>66</b>	5.63	8.53	11.96	15.34	18.27	20.62	23.35	26.17	29.29	33.67	36.18	40.63	46.88	54.95	61.55	90.24	<b>81</b>
<b>67</b>	6.23	9.50	13.04	17.02	20.62	22.82	26.17	29.29	33.67	35.69	39.85	44.66	51.53	60.78	66.99	98.24	<b>82</b>
<b>68</b>	6.86	10.46	14.34	18.67	22.58	24.98	28.66	32.11	35.69	39.16	43.70	48.92	56.36	66.33	72.93	106.88	<b>83</b>
<b>69</b>	7.55	11.50	15.73	20.45	24.72	27.36	31.42	35.21	39.16	42.94	47.87	53.51	61.51	72.21	79.34	116.36	<b>84</b>

**Extended Basic US 1975-80 Select and Ultimate Automatic YRT Rates  
Male Aggregate**

Age	Policy Year															Att. Age	
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15		16+
<b>70</b>	8.31	12.61	17.23	22.38	27.08	29.99	34.46	38.63	42.94	47.03	52.35	58.39	66.96	78.56	86.38	126.68	<b>85</b>
<b>71</b>	10.47	15.62	21.23	26.87	31.79	37.10	45.06	52.48	61.52	70.10	79.36	89.95	101.57	114.38	126.68	137.84	<b>86</b>
<b>72</b>	12.46	17.88	24.74	30.99	36.83	43.05	52.03	60.28	70.10	79.56	89.95	101.50	114.49	126.68	137.84	149.84	<b>87</b>
<b>73</b>	14.73	20.79	28.66	35.72	42.56	49.78	59.87	68.99	79.56	89.95	101.50	114.47	126.68	137.84	149.84	162.59	<b>88</b>
<b>74</b>	17.32	24.36	33.02	41.10	49.03	57.35	68.62	78.63	89.95	101.50	114.47	126.68	137.84	149.84	162.59	175.87	<b>89</b>
<b>75</b>	20.30	28.44	37.98	47.15	56.29	65.81	78.31	89.23	101.50	114.47	126.68	137.84	149.84	162.59	175.87	189.37	<b>90</b>
<b>76</b>	23.70	32.76	43.56	53.93	64.39	75.18	88.98	101.03	114.47	126.68	137.84	149.84	162.59	175.87	189.57	203.69	<b>91</b>
<b>77</b>	27.57	37.66	49.82	61.49	73.35	85.50	100.87	114.30	126.68	137.84	149.84	162.39	175.87	189.57	203.69	218.23	<b>92</b>
<b>78</b>	32.14	43.52	56.79	69.83	83.20	97.00	114.24	126.68	137.84	149.84	162.59	175.87	189.57	203.69	218.23	233.19	<b>93</b>
<b>79</b>	37.47	50.08	64.48	78.99	94.18	109.95	126.68	137.84	149.84	162.59	175.87	189.57	203.69	218.23	233.19	248.57	<b>94</b>
<b>80</b>	43.47	57.36	72.91	89.17	106.51	124.42	137.84	149.84	162.59	175.87	189.57	203.69	218.23	233.19	248.57	264.37	<b>95</b>
<b>81</b>	50.14	65.39	82.30	100.60	120.28	137.84	149.84	162.39	175.87	189.57	203.69	218.23	233.19	248.57	264.37	280.59	<b>96</b>
<b>82</b>	57.53	74.35	92.83	113.35	135.58	149.84	162.59	175.87	189.57	203.69	218.23	233.19	248.57	264.37	280.59	297.23	<b>97</b>
<b>83</b>	66.91	84.44	104.59	127.51	149.84	162.59	175.87	189.57	203.69	218.23	233.19	248.57	264.37	280.39	297.23	314.29	<b>98</b>
<b>84</b>	78.67	97.04	117.63	143.14	162.59	175.87	189.57	203.69	218.23	233.19	248.57	264.37	280.59	297.23	314.29	331.77	<b>99</b>
<b>85</b>	91.98	111.05	132.03	160.23	175.87	189.57	203.69	218.23	233.19	248.57	264.37	280.59	297.23	314.29	331.77	349.67	<b>100</b>

**SCHEDULE D**

**US 75-80, BASIC SELECT & ULTIMATE, AGGREGATE AGE LAST BIRTHDAY,  
GENDER DISTINCT MORTALITY TABLES**

PART 2 - FEMALE RATES

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**Extended Basic US 1975-80 Select and Ultimate Automatic YRT Rates**  
**Female Aggregate** **Age Nearest Birthday**

Age	Policy Year																Att. Age
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16+	
<b>0</b>	0.84	0.33	0.30	0.27	0.24	0.22	0.20	0.18	0.19	0.19	0.21	0.23	0.26	0.29	0.34	0.38	<b>15</b>
<b>1</b>	0.32	0.29	0.26	0.23	0.22	0.20	0.18	0.19	0.19	0.21	0.23	0.26	0.29	0.34	0.38	0.42	<b>16</b>
<b>2</b>	0.27	0.26	0.23	0.22	0.20	0.18	0.19	0.19	0.21	0.23	0.26	0.29	0.34	0.38	0.42	0.46	<b>17</b>
<b>3</b>	0.23	0.23	0.22	0.20	0.18	0.19	0.19	0.21	0.23	0.26	0.29	0.34	0.38	0.41	0.45	0.48	<b>18</b>
<b>4</b>	0.21	0.21	0.20	0.18	0.19	0.19	0.21	0.23	0.26	0.29	0.34	0.38	0.41	0.45	0.48	0.50	<b>19</b>
<b>5</b>	0.20	0.20	0.18	0.19	0.19	0.21	0.23	0.26	0.29	0.34	0.38	0.41	0.45	0.48	0.49	0.52	<b>20</b>
<b>6</b>	0.18	0.18	0.19	0.19	0.21	0.23	0.26	0.29	0.34	0.38	0.41	0.45	0.48	0.49	0.51	0.53	<b>21</b>
<b>7</b>	0.17	0.19	0.19	0.21	0.23	0.26	0.29	0.34	0.38	0.41	0.45	0.48	0.49	0.51	0.52	0.53	<b>22</b>
<b>8</b>	0.17	0.19	0.21	0.23	0.26	0.29	0.34	0.38	0.41	0.45	0.47	0.49	0.51	0.52	0.53	0.53	<b>23</b>
<b>9</b>	0.17	0.21	0.23	0.25	0.28	0.33	0.38	0.41	0.45	0.47	0.49	0.51	0.52	0.53	0.53	0.53	<b>24</b>
<b>10</b>	0.18	0.23	0.25	0.28	0.33	0.37	0.41	0.45	0.47	0.49	0.51	0.52	0.53	0.53	0.53	0.53	<b>25</b>
<b>11</b>	0.18	0.25	0.28	0.33	0.37	0.41	0.45	0.47	0.49	0.51	0.52	0.53	0.53	0.53	0.53	0.53	<b>26</b>
<b>12</b>	0.20	0.28	0.33	0.36	0.40	0.44	0.47	0.49	0.51	0.52	0.53	0.53	0.53	0.53	0.54	0.53	<b>27</b>
<b>13</b>	0.22	0.32	0.35	0.38	0.42	0.44	0.47	0.49	0.52	0.52	0.53	0.53	0.53	0.53	0.54	0.54	<b>28</b>
<b>14</b>	0.26	0.34	0.38	0.40	0.42	0.45	0.47	0.49	0.52	0.52	0.53	0.53	0.53	0.54	0.54	0.55	<b>29</b>
<b>15</b>	0.30	0.36	0.39	0.40	0.42	0.45	0.47	0.47	0.52	0.53	0.53	0.53	0.53	0.54	0.56	0.57	<b>30</b>
<b>16</b>	0.33	0.37	0.39	0.40	0.42	0.44	0.45	0.46	0.52	0.53	0.53	0.54	0.54	0.56	0.57	0.60	<b>31</b>
<b>17</b>	0.36	0.37	0.39	0.40	0.41	0.42	0.43	0.44	0.52	0.53	0.54	0.54	0.56	0.57	0.61	0.63	<b>32</b>
<b>18</b>	0.36	0.37	0.40	0.40	0.41	0.42	0.43	0.44	0.51	0.52	0.54	0.55	0.57	0.60	0.64	0.68	<b>33</b>
<b>19</b>	0.36	0.37	0.40	0.40	0.41	0.42	0.43	0.45	0.49	0.51	0.55	0.57	0.60	0.64	0.69	0.74	<b>34</b>
<b>20</b>	0.35	0.37	0.39	0.40	0.41	0.42	0.44	0.45	0.48	0.51	0.57	0.60	0.64	0.69	0.75	0.81	<b>35</b>
<b>21</b>	0.34	0.35	0.38	0.39	0.41	0.42	0.44	0.46	0.48	0.52	0.60	0.64	0.69	0.75	0.82	0.89	<b>36</b>
<b>22</b>	0.32	0.34	0.37	0.39	0.41	0.42	0.45	0.47	0.48	0.53	0.64	0.69	0.75	0.82	0.90	0.98	<b>37</b>
<b>23</b>	0.32	0.34	0.38	0.40	0.42	0.44	0.47	0.48	0.53	0.58	0.69	0.75	0.82	0.90	1.00	1.09	<b>38</b>
<b>24</b>	0.32	0.35	0.38	0.41	0.44	0.46	0.48	0.53	0.58	0.63	0.75	0.82	0.90	1.00	1.11	1.22	<b>39</b>
<b>25</b>	0.31	0.35	0.39	0.43	0.46	0.48	0.53	0.58	0.63	0.68	0.82	0.90	1.00	1.11	1.23	1.37	<b>40</b>
<b>26</b>	0.31	0.35	0.41	0.44	0.48	0.53	0.58	0.63	0.68	0.74	0.90	1.00	1.11	1.23	1.38	1.34	<b>41</b>
<b>27</b>	0.31	0.36	0.42	0.47	0.53	0.58	0.63	0.68	0.71	0.82	1.00	1.11	1.23	1.38	1.54	1.71	<b>42</b>
<b>28</b>	0.32	0.37	0.43	0.50	0.56	0.63	0.68	0.71	0.80	0.91	1.11	1.23	1.38	1.34	1.71	1.88	<b>43</b>
<b>29</b>	0.33	0.38	0.46	0.52	0.60	0.68	0.71	0.80	0.91	1.03	1.23	1.38	1.54	1.71	1.88	2.05	<b>44</b>
<b>30</b>	0.35	0.40	0.48	0.57	0.66	0.71	0.80	0.91	1.03	1.15	1.38	1.54	1.71	1.88	2.05	2.24	<b>45</b>
<b>31</b>	0.37	0.42	0.52	0.62	0.71	0.80	0.91	1.03	1.15	1.27	1.54	1.71	1.88	2.05	2.24	2.43	<b>46</b>
<b>32</b>	0.39	0.45	0.56	0.68	0.80	0.91	1.03	1.15	1.27	1.40	1.70	1.87	2.05	2.24	2.44	2.62	<b>47</b>
<b>33</b>	0.41	0.48	0.59	0.73	0.86	0.99	1.14	1.27	1.40	1.56	1.85	2.02	2.22	2.43	2.62	2.83	<b>48</b>
<b>34</b>	0.43	0.51	0.63	0.77	0.93	1.09	1.25	1.40	1.56	1.73	2.00	2.19	2.39	2.62	2.83	3.05	<b>49</b>

**Extended Basic US 1975-80 Select and Ultimate Automatic YRT Rates**  
**Female Aggregate** **Age Nearest Birthday**

Age	Policy Year															Att. Age	
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15		16+
<b>35</b>	0.45	0.54	0.66	0.83	1.01	1.20	1.39	1.56	1.73	1.90	2.17	2.36	2.36	2.82	3.05	3.30	<b>50</b>
<b>36</b>	0.47	0.58	0.71	0.90	1.10	1.32	1.52	1.71	1.90	2.09	2.33	2.53	2.75	3.04	3.30	3.57	<b>51</b>
<b>37</b>	0.50	0.62	0.76	0.98	1.20	1.43	1.64	1.85	2.07	2.28	2.49	2.71	2.94	3.29	3.57	3.88	<b>52</b>
<b>38</b>	0.54	0.69	0.85	1.10	1.33	1.57	1.78	2.01	2.23	2.44	2.67	2.89	3.15	3.53	3.84	4.22	<b>53</b>
<b>39</b>	0.58	0.76	0.95	1.22	1.45	1.70	1.93	2.17	2.39	2.62	2.85	3.10	3.37	3.80	4.13	4.60	<b>54</b>
<b>40</b>	0.63	0.85	1.05	1.33	1.58	1.86	2.08	2.32	2.56	2.80	3.06	3.33	3.62	4.10	4.46	5.02	<b>55</b>
<b>41</b>	0.68	0.94	1.15	1.45	1.71	2.01	2.23	2.49	2.74	3.01	3.28	3.58	3.90	4.44	4.81	5.47	<b>56</b>
<b>42</b>	0.73	1.02	1.25	1.58	1.85	2.16	2.40	2.67	2.94	3.23	3.53	3.86	4.20	4.80	5.19	5.96	<b>57</b>
<b>43</b>	0.78	1.09	1.35	1.67	1.95	2.27	2.53	2.83	3.13	3.46	3.79	4.16	4.54	5.19	5.62	6.50	<b>58</b>
<b>44</b>	0.83	1.16	1.44	1.74	2.26	2.37	2.67	3.01	3.34	3.70	4.08	4.49	4.89	5.61	6.09	7.08	<b>59</b>
<b>45</b>	0.89	1.23	1.53	1.83	2.16	2.49	2.83	3.20	3.57	3.97	4.39	4.83	5.28	6.07	6.60	7.69	<b>60</b>
<b>46</b>	0.93	1.30	1.62	1.91	2.28	2.61	3.00	3.41	3.82	4.26	4.72	5.20	5.70	6.55	7.12	8.34	<b>61</b>
<b>47</b>	0.98	1.37	1.72	2.00	2.41	2.75	3.18	3.64	4.09	4.57	5.07	5.60	6.14	7.06	7.68	9.03	<b>62</b>
<b>48</b>	1.03	1.43	1.80	2.10	2.54	2.92	3.40	3.91	4.36	4.87	5.41	5.97	6.53	7.50	8.14	9.77	<b>63</b>
<b>49</b>	1.07	1.50	1.88	2.21	2.68	3.11	3.64	4.20	4.65	5.20	5.77	6.35	6.94	7.94	8.61	10.57	<b>64</b>
<b>50</b>	1.12	1.56	1.97	2.32	2.82	3.32	3.89	4.51	4.96	5.54	6.13	6.74	7.36	8.41	9.10	11.45	<b>65</b>
<b>51</b>	1.17	1.64	2.07	2.44	2.98	3.53	4.15	4.84	5.28	5.88	6.50	7.14	7.79	8.89	9.63	12.42	<b>66</b>
<b>52</b>	1.23	1.72	2.17	2.57	3.13	3.75	4.43	5.19	5.60	6.23	6.88	7.55	8.24	9.41	10.20	13.48	<b>67</b>
<b>53</b>	1.29	1.81	2.30	2.76	3.36	4.02	4.73	5.51	5.98	6.63	7.33	8.06	8.84	10.14	11.03	14.64	<b>68</b>
<b>54</b>	1.36	1.91	2.44	2.96	3.61	4.31	5.04	5.83	6.37	7.06	7.81	8.62	9.49	10.93	11.94	15.94	<b>69</b>
<b>55</b>	1.43	2.01	2.58	3.18	3.87	4.60	5.36	6.16	6.78	7.50	8.33	9.23	10.20	11.80	12.96	17.42	<b>70</b>
<b>56</b>	1.50	2.11	2.74	3.41	4.13	4.90	5.69	6.51	7.22	7.99	8.89	9.88	10.96	12.76	14.12	19.13	<b>71</b>
<b>57</b>	1.57	2.21	2.89	3.64	4.41	5.21	6.03	6.86	7.69	8.51	9.49	10.59	11.81	13.85	15.45	21.11	<b>72</b>
<b>58</b>	1.69	2.39	3.12	3.91	4.71	5.54	6.40	7.28	8.17	9.05	10.28	11.45	12.76	14.97	16.71	23.41	<b>73</b>
<b>59</b>	1.82	2.58	3.36	4.19	5.02	5.88	6.79	7.74	8.69	9.63	11.16	12.42	13.25	16.25	18.16	26.09	<b>74</b>
<b>60</b>	1.94	2.77	3.61	4.48	5.35	6.25	7.21	8.22	9.24	10.27	12.16	13.55	15.11	17.72	19.83	29.20	<b>75</b>
<b>61</b>	2.08	2.98	3.28	4.80	5.70	6.65	7.67	8.74	9.84	10.99	13.31	14.84	16.55	19.42	21.73	32.78	<b>76</b>
<b>62</b>	2.22	3.20	4.17	5.14	6.09	7.08	8.15	9.31	10.52	11.81	14.65	16.34	18.23	21.37	23.87	36.88	<b>77</b>
<b>63</b>	2.36	3.38	4.40	5.42	6.42	7.47	8.61	9.88	14.24	12.74	15.86	17.73	19.83	23.30	26.11	41.54	<b>78</b>
<b>64</b>	2.51	3.58	4.65	5.72	6.77	7.89	9.12	10.52	12.06	13.80	17.25	19.31	21.63	25.45	28.57	46.74	<b>79</b>
<b>65</b>	2.67	3.79	4.91	6.03	7.15	8.35	9.70	11.24	13.00	15.01	18.83	21.08	23.62	27.79	31.21	52.50	<b>80</b>
<b>66</b>	2.84	4.01	5.19	6.37	7.57	8.88	10.36	12.07	14.06	16.40	20.61	23.04	25.79	30.30	34.00	58.80	<b>81</b>
<b>67</b>	3.03	4.24	5.49	6.75	8.04	9.48	11.10	13.00	15.26	17.95	22.58	25.19	28.11	32.93	36.89	65.66	<b>82</b>
<b>68</b>	3.29	4.62	6.00	7.41	8.87	10.51	12.37	14.55	17.13	20.20	25.19	28.11	31.57	36.88	41.19	73.06	<b>83</b>
<b>69</b>	3.58	5.05	6.59	8.18	9.84	11.72	13.85	16.33	19.27	22.75	28.11	31.57	35.36	41.18	45.84	81.02	<b>84</b>

**Extended Basic US 1975-80 Select and Ultimate Automatic YRT Rates  
Female Aggregate**

**Age Nearest Birthday**

<b>Age</b>	<b>Policy Year</b>															<b>Att. Age</b>	
	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>	<b>9</b>	<b>10</b>	<b>11</b>	<b>12</b>	<b>13</b>	<b>14</b>	<b>15</b>		<b>16+</b>
<b>70</b>	3.92	5.54	7.27	9.07	10.97	13.11	15.54	18.38	21.71	25.59	31.57	35.36	39.49	45.83	50.83	89.52	<b>85</b>
<b>71</b>	5.51	8.28	11.41	14.70	17.75	21.20	26.41	31.59	38.04	44.51	51.86	60.13	69.44	79.78	89.52	98.58	<b>86</b>
<b>72</b>	6.61	9.61	13.53	17.30	21.05	25.24	31.32	37.28	44.51	51.86	60.13	69.40	79.72	89.52	98.58	108.18	<b>87</b>
<b>73</b>	7.92	11.37	16.00	20.42	24.95	29.97	37.02	43.81	51.86	60.13	69.40	79.71	89.52	98.58	108.18	118.34	<b>88</b>
<b>74</b>	9.47	13.60	18.87	24.09	29.51	35.47	43.58	51.25	60.13	69.40	79.71	89.52	98.58	108.18	118.34	129.04	<b>89</b>
<b>75</b>	11.33	16.25	22.26	28.38	34.81	41.79	51.04	59.65	69.40	79.71	89.52	98.58	108.18	118.34	129.04	140.30	<b>90</b>
<b>76</b>	13.54	19.20	26.22	33.35	40.89	49.00	59.49	69.08	79.71	89.52	98.58	108.18	118.34	129.04	140.30	152.10	<b>91</b>
<b>77</b>	16.16	22.67	30.81	39.05	47.81	57.16	68.97	79.59	89.52	98.58	108.18	118.34	129.04	140.30	152.10	164.46	<b>92</b>
<b>78</b>	19.35	26.92	36.06	45.51	55.62	66.32	79.55	89.52	98.58	108.18	118.34	129.04	140.30	152.10	164.46	177.36	<b>93</b>
<b>79</b>	23.18	31.80	42.02	52.80	64.39	76.56	89.52	98.58	108.18	118.34	129.04	140.30	152.10	164.46	177.36	190.82	<b>94</b>
<b>80</b>	27.61	37.39	48.74	60.97	74.17	87.93	98.58	108.18	118.34	129.04	140.30	152.10	164.46	177.36	190.82	204.82	<b>95</b>
<b>81</b>	32.68	43.71	56.27	70.05	85.01	98.58	108.18	118.34	129.04	140.30	152.10	164.46	177.36	190.82	204.82	219.38	<b>96</b>
<b>82</b>	38.46	50.83	64.64	80.11	96.97	108.18	118.34	129.04	140.30	152.10	164.46	177.36	190.82	204.82	219.38	234.48	<b>97</b>
<b>83</b>	45.76	58.80	73.91	91.19	108.18	118.34	129.04	140.30	152.10	164.46	177.36	190.82	204.82	219.38	234.48	250.14	<b>98</b>
<b>84</b>	54.79	68.59	84.13	103.35	118.34	129.04	140.30	152.10	164.46	177.36	190.82	204.82	219.38	234.48	250.14	266.34	<b>99</b>
<b>85</b>	65.01	79.42	95.33	116.62	129.04	140.30	152.10	164.46	177.36	190.82	204.82	219.38	234.48	250.14	266.34	283.10	<b>100</b>

**SCHEDULE E**

**IN-FORCE LIST OF LEVEL TERM POLICIES**

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**STANDBY STOCK PURCHASE AGREEMENT**

This STANDBY STOCK PURCHASE AGREEMENT (this "Agreement"), dated as of March 8, 2018, is entered into by and among Federal Life Group, Inc., a Pennsylvania corporation (the "Company"), Federal Life Insurance Company, an Illinois insurance company ("Federal Life"), Federal Life Mutual Holding Company, an Illinois corporation ("FLMHC"), and Insurance Capital Group, LLC (the "Standby Purchaser").

WITNESSETH:

WHEREAS, the Board of Directors of FLMHC has adopted a Plan of Conversion (the "Plan of Conversion") pursuant to which FLMHC will convert from a mutual holding company to a stock holding company in accordance with Illinois law (the "Conversion"); and

WHEREAS, in accordance with the Plan of Conversion, FLMHC proposes, as soon as practicable after the Registration Statement, as defined herein, becomes effective, to distribute to Eligible Members, as defined herein, non-transferable rights (the "Rights") to subscribe for and purchase shares of Common Stock of the Company (the "Shares") at a subscription price (the "Subscription Price") of \$10.00 per share (such offering, the "Subscription Offering"); and

WHEREAS, contemporaneously with the Subscription Offering, the Company will offer the Shares to a limited group of persons at the Subscription Price (the "Community Offering"); and

WHEREAS, the Standby Purchaser is purchasing from FLMHC a promissory note of FLMHC in the form of Exhibit A hereto in the principal amount of up to \$2,000,000 that will be exchanged for Common Stock of the Company upon the effective date of the Conversion at a price per share equal to the Subscription Price (the "Exchangeable Note"); and

WHEREAS, the Company has requested the Standby Purchaser to agree to purchase from the Company in the Community Offering any shares remaining after completion of the Subscription Offering and any orders accepted in the Community Offering by persons other than the Standby Purchaser, and the Standby Purchaser is willing to purchase Shares in the Community Offering on the terms and conditions provided herein.

NOW THEREFORE, in consideration of the foregoing and the mutual covenants herein contained, and intending to be legally bound, the parties hereto hereby agree as follows:

Section 1. Certain Other Definitions. The following terms used herein shall have the meanings set forth below:

"90-Day Limit" shall have the meaning given to such term in Section 9(c)(i) hereof.

"Adjusted Stockholders' Equity" shall mean stockholders' equity as determined in accordance with GAAP (excluding the fixed income component of accumulated other comprehensive income).

“Affiliate” shall have the meaning set forth in Rule 12b-2 under the Exchange Act and shall include Persons who become Affiliates of any Person subsequent to the date hereof. In the case of the Standby Purchaser, its “Affiliates” shall include entities which are controlled by a principal of the Standby Purchaser.

“Agreement” shall have the meaning given to such term in the preamble hereof.

“ASE Event” shall mean, that, in any fiscal quarter, the Company’s consolidated GAAP financial statements for such fiscal quarter includes an Adjusted Stockholders’ Equity that is less than 85% of the Company’s Adjusted Stockholders’ Equity as of the Closing (as shown in the Company’s consolidated GAAP financial statements for the most recent fiscal quarter as of Closing).

“Associate” shall have the meaning set forth in Rule 12b-2 under the Exchange Act and shall include Persons who become Associates of any Person subsequent to the date hereof.

“Bankruptcy and Equity Exception” shall have the meaning given to such term in Section 3(b) hereof.

“Board” shall mean the board of directors of the Company.

“Burdensome Condition” shall have the meaning given to such term in Section 6(c) hereof.

“Business Day” shall mean any day that is not a Saturday, a Sunday or a day on which banks are required or permitted to be closed in the Commonwealth of Pennsylvania.

“Change of Control” shall mean any transaction or series of transactions (as a result of a tender offer, merger, consolidation or otherwise) that results in, or that is in connection with (a) any Third Party Purchaser or “group” (within the meaning of Section 13(d)(3) of the Exchange Act) of Third Party Purchasers acquiring beneficial ownership, directly or indirectly, of a majority of the then issued and outstanding Common Stock or (b) the sale, lease, exchange, conveyance, transfer, or other disposition (for cash, shares of stock, securities or other consideration) of all or substantially all of the property and assets of the Company and its Subsidiaries, on a consolidated basis, to any Third Party Purchaser or “group” (within the meaning of Section 13(d)(3) of the Exchange Act) of Third Party Purchasers (including any liquidation, dissolution, or winding up of the affairs of the Company, or any other distribution made in connection therewith).

“Closing” shall mean the closing of the purchase described in Section 2 hereof, which shall be held at 10:00 a.m. Eastern Time on the Closing Date at the offices of Stevens & Lee, 620 Freedom Business Center, King of Prussia, Pennsylvania 19406, or such other time and place as may be agreed to by the parties hereto.

“Closing Date” shall mean the date on which the closing of the sale of the Shares pursuant to the Offerings takes place.

“Commission” shall mean the United States Securities and Exchange Commission, or any successor agency thereto.

“Common Stock” shall mean the common stock of the Company, par value \$0.01 per share.

“Common Stock Equivalent” shall mean any convertible debt instrument, option, warrant or other right to acquire Common Stock and shall include the number of shares of Common Stock that may be acquired upon exercise or conversion of such Common Stock Equivalent.

“Company” shall have the meaning given to such term in the preamble hereof.

“Company Contracts” shall have the meaning given to such term in Section 3(f) hereof.

“Company Offer Notice” shall have the meaning given to such term in Section 13(a) hereof.

“Conversion Plan Approval” shall mean the approval of the Plan of Conversion by the Department and the requisite vote of the Voting Members.

“Department” shall mean the Illinois Insurance Department.

“Designated Securities” shall have the meaning given to such term in Section 11(b) hereof.

“Drag-along Notice” shall have the meaning given to such term in Section 14(b) hereof.

“Drag-along Sale” shall have the meaning given to such term in Section 14(a) hereof.

“Drag-along Stockholder” shall have the meaning given to such term in Section 14(a) hereof.

“Dragging Stockholder” shall have the meaning given to such term in Section 14(a) hereof.

“Eligible Members” shall mean the members of FLMHC eligible to purchase Shares in the Subscription Offering.

“Equity Securities” shall include (i) with respect to the Company, (a) any Common Stock, (b) any security convertible into or exercisable or exchangeable for, with or without consideration, shares of Common Stock (including any option to purchase such a convertible security), (c) any security carrying any warrant or right to subscribe to or purchase any shares of Common Stock, and (d) any such warrant or right and (ii) with respect to any Subsidiary of the Company, (a) any equity ownership interests, (b) any security convertible into or exercisable or exchangeable for, with or without consideration, equity ownership interests (including any option to purchase such a convertible security), (c) any security carrying any warrant or right to subscribe to or purchase any shares of equity ownership interests, and (d) any such warrant or right.

“Exchange Act” shall mean the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated by the Commission thereunder.

“Federal Life” shall have the meaning given to such term in the recitals hereof.

“FLMHC” shall have the meaning given to such term in the recitals hereof.

“Financial Statements” shall have the meaning given to such term in Section 3(g) hereof.

“First Offer Termination Event” shall mean the earliest to occur of (a) the fifth (5<sup>th</sup>) anniversary of the Closing Date, (b) the first date upon which the Standby Purchaser no longer beneficially owns shares of the Common Stock representing more than five percent (5%) of the issued and outstanding shares of the Common Stock, or (c) the occurrence of a Standstill Termination Event.

“GAAP” shall mean accounting principles generally accepted in the United States of America, consistently applied by the Company with prior practice.

“Griffin” shall mean Griffin Financial Group, LLC.

“Governmental Entity” shall mean any federal or state court, administrative agency or commission or other governmental authority or instrumentality, other than the Department.

“Gross Up Right” shall have the meaning given to such term in Section 11(a) hereof.

“Including” shall mean including, without limitation.

“Indebtedness” means, with respect to any Person, (a) all obligations for borrowed money, (b) any other obligations owed by such Person under any credit agreement or facility, or evidenced by any note, bond, debenture or other debt security or instrument made or issued by such Person, (c) all obligations for the deferred purchase price of property or services with respect to which such Person is liable, contingently or otherwise, as obligor or otherwise, (d) all capitalized lease obligations, synthetic lease obligations and sale leaseback obligations, whether secured or unsecured, (e) all obligations under interest rate cap, swap, collar or similar transactions or currency or commodity hedging transactions (valued at the termination value thereof), (f) all obligations under conditional sale or other title retention agreements relating to any purchased property, (g) all letters of credit or performance bonds issued for the account of such Person, (h) all guarantees of such Person with respect to any of the foregoing of any other Person, (i) all interest, premium and prepayment penalties due and payable in respect of any of the foregoing and (j) all indebtedness referred to in clauses (a) through (i) above secured by (or for which the holder of such indebtedness has an existing right, contingent or otherwise, to be secured by) any encumbrance upon or in property (including accounts and contract rights) owned by such Person, even though such Person may not have assumed or become liable for the payment of such indebtedness, and including in clauses (a) through (i) above any accrued and unpaid interest or penalties thereon.



“Law” shall have the meaning given to such term in Section 6(d) hereof.

“Liability” means any liability, debt, expense, claim, demand, loss, commitment, damage, deficiency, obligation or actions of any kind, character or description, whether asserted or not asserted, disputed or undisputed, known or unknown, joint or several, fixed or unfixed, liquidated or unliquidated, secured or unsecured, accrued or unaccrued, matured or unmatured, absolute, contingent, determined, determinable or otherwise, whenever or however arising (including, whether arising out of any contract or tort based on negligence or strict liability) and whether or not the same would be required by SAP to be reflected in financial statements or disclosed in the notes thereto, including all costs and expenses related thereto.

“Liens” means all pledges, liens (statutory or other), encumbrances, charges, claims, community property interests, conditions, deeds of trust, equitable interests, options, hypothecations, mortgages, easements, encroachments, burdens, rights of others, rights of way, rights of first refusal, rights of first offer, title defects, title retention agreements, leases, subleases, licenses, occupancy agreements, covenants, voting trust agreements, interests, negotiations or refusals, security interests of any kind, proxies or restrictions of any kind, including any restriction on use, voting, transfer, receipt of income or exercise of any other attribute of ownership or any applicable insurance Laws.

“Material Action” shall mean (a) incurring Indebtedness or any other material Liability or contracting for the extension or ability to incur Indebtedness (even if not yet incurred), (b) modifying or amending Company Contracts, (c) adopting of a plan of complete or partial liquidation, rehabilitation or entering into any merger agreement, (d) creating or acquiring of Subsidiaries, (e) undertaking or committing to make any capital expenditures, (f) mortgaging, pledging or otherwise encumbering or subjecting to a Lien any material assets or properties, tangible or intangible, other than Permitted Liens, (g) defaulting under any Indebtedness, or cancelling or compromising any Indebtedness or waiving any material rights with respect thereto without receiving a realizable benefit of similar or greater value, (h) paying or prepaying any Liability, or discharging or satisfying any Lien, or settling any Liability, claim, dispute, proceeding, suit or appeal, pending or threatened against it or any of its assets or properties, other than short-term liabilities which have been paid prior to the contractual due date therefor in the ordinary course of business, (i) effecting any employee profit-sharing, stock option, stock purchase, pension, bonus, incentive, retirement, medical reimbursement, life insurance, deferred compensation, severance or termination agreements, (j) entering into any new line of business, introduced any new products or services or changed in any material respect existing products or services, except as may be required by applicable Law, (k) abandoning, modifying, failing to renew, waiving, terminating or letting lapse any Permits or failing to timely file with any Governmental Entity all required annual and quarterly statutory financial statements and other insurance regulatory reports, statements, documents, registrations, filings or submissions or (l) entering into any agreement or commitment, whether in writing or otherwise, to do any of the forgoing.

“Material Adverse Effect” shall mean (a) a material adverse effect on the financial condition, or on the earnings, operations, assets, business or prospects of the Company, Federal Life and their respective subsidiaries taken as a whole, or (b) the failure of either Joseph D. Austin or William S. Austin to serve as Chief Executive Officer of the Company; *provided, however*, that in determining whether a Material Adverse Effect has occurred under clause (a), there shall be excluded any effect to the extent resulting from (i) actions or omissions of the Company or Federal Life expressly required or contemplated by the terms of this Agreement, (ii) changes after the date hereof in general economic conditions in the United States, including financial market volatility or downturn, (iii) changes after the date hereof affecting generally the life insurance business in the United States, (iv) acts of war, sabotage or terrorism, military actions or the escalation thereof, or outbreak of hostilities, (v) any changes after the date hereof in applicable laws or accounting rules or principles, including changes in GAAP, or (vi) the announcement or pendency of the transactions contemplated by this Agreement; *provided further, however*, that any circumstance, event, change, development or effect referred to in clauses (ii), (iii), (iv) and (v) shall be taken into account in determining whether a Material Adverse Effect has occurred or would reasonably be expected to occur to the extent that such circumstance, event, change, development or effect has a disproportionate effect on the Company and Federal Life compared to other participants in the industries or markets in which the Company and Federal Life operate.

“Maximum of the Valuation Range” has the meaning given to such term in the Plan of Conversion.

“Minimum of the Valuation Range” has the meaning given to such term in the Plan of Conversion.

“Non-public information” shall have the meaning given to such term in Section 6(d) hereof.

“Offer Period” shall have the meaning given to such term in Section 11(b) hereof.

“Offered Shares” shall have the meaning given to such term in Section 9(d) hereof.

“Offerings” shall mean, collectively, the Subscription Offering and the Community Offering.

“Offering Expiration Date” shall mean the date on which the Offerings expire.

“Organizational Documents” of a Person means, as applicable, the declaration and charter, certificate of incorporation, articles of incorporation, certificate of designation, bylaws, certificate of formation, operating agreement or any similar organizational or governing document or instrument of a Person.

“Permits” shall have the meaning given to such term in Section 3(f) hereof.

“Permitted Liens” means (a) Liens for taxes that are not yet due and payable or are not delinquent and are being contested in good faith by appropriate proceedings for which adequate reserves are maintained, or (b) mechanics’, materialmens’, carriers’, workmens’, repairmens’, contractors’ and warehousemens’ Liens imposed by applicable Law, arising or incurred in the ordinary course of business.

“Person” shall mean individual, a limited liability company, a partnership, a joint venture, a corporation, a trust, an unincorporated organization and a Governmental Entity.

“Plan of Conversion” shall mean the plan of conversion adopted by FLMHC in connection with its conversion from a mutual insurance holding company to a stock insurance holding company pursuant to Section 59.1 of the Illinois Insurance Code, 215 ILCS 5/59.1.

“Potential Sale Notice” shall have the meaning given to such term in Section 13(a) hereof.

“Proposed Transferee” shall have the meaning given to such term in Section 15(a).

“Prospectus” shall mean the final Prospectus included in the Registration Statement for use in connection with the Offerings.

“Public Sale Notice” shall have the meaning given to such term in Section 9(d) hereof.

“Purchased Shares” shall have the meaning given to such term in Section 2(b) hereof.

“Qualifying Offer” shall have the meaning given to such term in Section 13(c) hereof.

“Registration Statement” shall mean the Company’s Registration Statement on Form S-1 or such other appropriate form under the Securities Act, pursuant to which the shares of Common Stock to be issued in the Offerings will be registered pursuant to the Securities Act.

“Rights” shall have the meaning given to such term in the recitals hereof.

“ROFO Termination Date” shall mean (a) if the Standstill Period terminates as scheduled on the fifth (5<sup>th</sup>) anniversary of the Closing Date, the date that is two (2) years following the end of the Standstill Period and (b) if the Standstill Period terminates for any other reason, the date of the occurrence of a Standstill Termination Event.

“Sale Notice” has the meaning given to such term in Section 15(b) hereof.

“SAP” shall mean the accounting practices prescribed or permitted by the Department.

“Securities Act” shall mean the Securities Act of 1933, as amended, and the rules and regulations promulgated by the Commission thereunder.

“Selling Stockholder” shall have the meaning given to such term in Section 15(a) hereof.

“Senior Management Shareholders” shall mean the Executive Chairman, the Chief Executive Officer, the President, the Chief Financial Officer and any Executive Vice President.

“Shares” shall have the meaning given to such term in the recitals hereof.

“Standby Purchaser” shall have the meaning given to such term in the preamble hereof.

“Standstill Period” means the period commencing on the Closing Date and ending on the occurrence of a Standstill Termination Event.

“Standstill Termination Event” shall mean the earliest to occur of (a) the fifth (5<sup>th</sup>) anniversary of the Closing Date, (b) the failure of either Joseph D. Austin or William S. Austin to serve as Chief Executive Officer of the Company unless a new Chief Executive Officer acceptable to the Standby Purchaser is appointed by the Board within a reasonable time thereafter, or (c) the occurrence of an ASE Event.

“Statutory Financial Statements” shall have the meaning given to such term in Section 3(h) hereof.

“Stockholder” shall mean any Person who is a record holder of Common Stock or any Common Stock Equivalent.

“Strategic Direction” shall have the meaning given to such term in Section 13(d) hereof.

“Strategic Investor” shall have the meaning given to such term in the Plan of Conversion.

“Subscription Agent” shall have the meaning given to such term in Section 6(a)(vi) hereof.

“Subscription Offering” shall have the meaning given to such term in the recitals hereof.

“Subscription Price” shall have the meaning given to such term in the recitals hereof.

“Subsidiary” means, with respect to any Person, any corporation, limited liability company, general or limited partnership, limited liability partnership, joint venture, association or other Person that is a business entity, trust or estate of which (a) if a corporation, a majority of the total voting power of shares of stock entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof is at the time owned or controlled, directly or indirectly, by that Person or one or more of the other Subsidiaries of that Person or a combination thereof or (b) if a limited liability company, partnership, association or other business entity (other than a corporation), a majority of the partnership or other similar ownership interests thereof is at the time owned or controlled, directly or indirectly, by that Person or one or more Subsidiaries of that Person or a combination thereof and for this purpose, a Person or Persons own a majority ownership interest in such a business entity (other than a corporation) if such Person or Persons shall be allocated a majority of such business entity’s gains or losses or shall be or control any managing director or general partner of such business entity (other than a corporation). The term “Subsidiary” shall include all Subsidiaries of such Subsidiary.

“Tag-along Notice” shall have the meaning given to such term in Section 15(c) hereof.

“Tag-along Period” shall have the meaning given to such term in Section 15(c) hereof.

“Tag-along Sale” shall have the meaning given to such term in Section 15(a) hereof.

“Tag-along Stockholder” shall have the meaning given to such term in Section 15(a) hereof.

“Third Party Purchaser” shall mean any Person who, immediately prior to the contemplated transaction does not directly or indirectly own or have the right to acquire any outstanding Common Stock.

“Transfer” shall have the meaning given to such term in Section 9(a) hereof.

“Unsubscribed Shares” shall mean the number of Shares not purchased in connection with the Subscription Offering.

“Voting Members” shall mean the members of FLMHC eligible to vote to adopt and approve the Plan of Conversion.

“VWAP Price” shall mean the average of daily volume weighted average price of the Common Stock on the NASDAQ Stock Market for the 20 trading days immediately preceding the date of the Public Sale Notice.

## Section 2. Standby Purchase Commitment.

(a) On the date of the filing of the Registration Statement, the Standby Purchaser shall purchase from FLMHC at a price of up to \$2,000,000, and FLMHC shall issue to the Standby Purchaser, the Exchangeable Note, and FLMHC shall deliver to the Standby Purchaser the original Exchangeable Note executed by FLMHC. The Standby Purchaser shall pay the purchase price for the Exchangeable Note to FLMHC by a wire transfer of immediately available funds as and when Advances (as defined in the Exchangeable Note) are requested in accordance with the terms thereof, to an account designated by FLMHC.

(b) Subject to the terms, conditions and limitations of this Agreement and to the availability of Shares after purchases made in the Subscription Offering, the Standby Purchaser agrees to purchase from the Company in the Community Offering, at the Subscription Price, the greater of (i) such number of Shares as shall result in the sale of Shares in the Offering equal to the number of Shares at the Minimum of the Valuation Range, or (ii) at least the lesser of: (A) 2,800,000 Shares (including any Shares issued as a result of the exchange of the Exchangeable Note), or (B) such number of Shares, that when added to (x) any Shares for which subscriptions have been accepted in the Subscription Offering, plus (y) any Shares for which orders have been accepted in the Community Offering from other than the Standby Purchaser, shall equal the number of Shares at the Maximum of the Valuation Range in the Offering. With the consent of the Company, the Standby Purchaser may purchase such additional Shares above the maximum number of Shares offered in the Offering as shall result in the Standby Investor owning 2,800,000 Shares (the number of Shares purchased by the Standby Purchaser are referred to herein as the “Purchased Shares”).

(c) Payment of the purchase price for the Purchased Shares shall be made by the Standby Purchaser, on the Closing Date, against delivery of certificates or a book entry statement evidencing the Purchased Shares, in United States dollars by means of a wire transfer of immediately available funds to the escrow account for the Offerings.

Section 3. Representations and Warranties of the Company. The Company, Federal Life, and FLMHC represent and warrant as of the date hereof and as of the Closing Date (except for the representations and warranties that are as of a specific date, which shall be made as of such date) to the Standby Purchaser as follows:

(a) The Company is a corporation duly organized, validly existing and in good standing under the laws of the Commonwealth of Pennsylvania and has all requisite corporate power and authority to carry on its business as now conducted and as proposed to be conducted. Federal Life is a stock insurance company duly organized, validly existing and in good standing under the laws of the State of Illinois and has all requisite corporate power and authority to carry on its business as now conducted and as proposed to be conducted. FLMHC is a corporation duly organized, validly existing and in good standing under the laws of the State of Illinois and has all requisite corporate power and authority to carry on its business as now conducted and as proposed to be conducted. The copies of the Organizational Documents of the Company, FLMHC, and Federal Life that have been provided to the Standby Purchaser are complete and correct and in full force and effect. The Company has no joint venture or similar arrangement, no subsidiaries, no significant assets or liabilities, and it is not engaged in any business.

(b) This Agreement has been duly and validly authorized, executed and delivered by each of the Company, Federal Life and FLMHC and constitutes a binding obligation of each of the Company, Federal Life, and FLMHC enforceable against each of them in accordance with its terms, subject to (i) the application of bankruptcy, receivership, conservatorship, reorganization, insolvency and similar laws affecting creditors' rights generally and (ii) equitable principles being applied at the discretion of a court before which any proceeding may be brought (clauses (i) and (ii) collectively, the "Bankruptcy and Equity Exception").

(c) The authorized capital of the Company consists of (i) 10,000,000 shares of Common Stock, none of which shares were issued and outstanding as of the date of this Agreement, and (ii) 1,000,000 shares of preferred stock, none of which preferred stock has been issued, as of the date hereof. Except for equity awards to be granted to management upon completion of the Offerings as described in the Registration Statement, there are no options, warrants, subscriptions, calls, rights, convertible securities or other agreements or commitments obligating the Company to issue, transfer, sell, redeem, repurchase or otherwise acquire any shares of its capital stock. The authorized capital stock of Federal Life consists of 25,000,000 shares of common stock, of which 2,500,000 shares are issued and outstanding. FLMHC owns all of the outstanding shares of capital stock of Federal Life. As of the date of this Agreement there are no authorized shares of capital stock of FLMHC. At the Closing Date, all of the authorized capital stock of FLMHC will be issued to and will be owned by the Company. There are no options, warrants, subscriptions, calls, rights, convertible securities or other agreements or commitments obligating either Federal Life or FLMHC to issue, transfer, sell, redeem, repurchase or otherwise acquire any shares of its capital stock.

(d) At the time the Registration Statement becomes effective, the Registration Statement will comply in all material respects with the requirements of the Securities Act and will not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading. The Prospectus, at the time the Registration Statement becomes effective and at the Closing Date, will not include an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading; *provided, however*, that the representations and warranties in this subsection shall not apply to statements in or omissions from the Registration Statement or the Prospectus made in reliance upon and in conformity with the information furnished to the Company in writing by the Standby Purchaser for use in the Registration Statement or in the Prospectus.

(e) All of the Shares, including the Purchased Shares, will have been duly authorized for issuance prior to the Closing (assuming the Conversion Plan Approval has been obtained), and, when issued and distributed as set forth in the Prospectus, will be validly issued, fully paid and non-assessable; and none of the Shares will have been issued in violation of the preemptive rights of any security holders of the Company arising as a matter of law or under or pursuant to the Company's Articles of Incorporation, the Company's bylaws, or any agreement or instrument to which the Company is a party or by which it is bound.

(f) Neither the execution, delivery or performance of this Agreement or the Plan of Conversion by the Company, FLMHC or Federal Life, nor the consummation by the Company, Federal Life or FLMHC of the transactions contemplated hereby or thereby, will: (i) conflict with or result in any breach of any provisions of the Organizational Documents of the Company, FLMHC or Federal Life; (ii) result in a violation or breach of, or constitute (with or without due notice or lapse of time or both) a default (or give rise to any right of termination, cancellation, vesting, payment, exercise, acceleration, suspension or revocation) under, any of the terms, conditions or provisions of any note, bond, mortgage, deed of trust, security interest, indenture, license, contract, agreement, plan or other instrument or obligation to which the Company, FLMHC or Federal Life is a party or by which it or any of their properties or assets may be bound (collectively, the "Company Contracts"); (iii) violate any order, writ, injunction, decree, statute, rule or regulation applicable to the Company, FLMHC, Federal Life or any of their properties or assets; (iv) result in the creation or imposition of any Lien on any asset of the Company, FLMHC or Federal Life; or (v) cause the suspension or revocation of any permit, license, governmental authorization, consent or approval necessary for the Company, FLMHC or Federal Life to conduct its business as currently conducted (collectively, the "Permits"), except in the case of clauses (ii), (iii), (iv) and (v) for violations, breaches, defaults, terminations, cancellations, accelerations, creations, impositions, suspensions or revocations which would not individually or in the aggregate have or be reasonably likely to result in a Material Adverse Effect. Except for the Conversion Plan Approval, no vote of any member or holder of any other interest in FLMHC or Federal Life (equity or otherwise), is required to consummate the transactions contemplated by this Agreement or the Plan of Conversion.

(g) Federal Life has delivered to the Standby Purchaser complete and correct copies of the Financial Statements. The Financial Statements have been derived from the accounting books and records of FLMHC and Federal Life and have been prepared on a basis consistent with GAAP, subject, in the case of interim unaudited Financial Statements, only to normal recurring year-end adjustments. The Financial Statements present fairly in all material respects the consolidated financial position of FLMHC and Federal Life as at the respective dates thereof, and the consolidated statements of income, cash flow and equity included in the Financial Statements present fairly in all material respects the consolidated results of operations, cash flows and consolidated equity of FLMHC and Federal Life, as applicable, for the respective periods indicated. The term “Financial Statements” means the unaudited consolidated financial statements of FLMHC and Federal Life as at and for the nine-month period ended September 30, 2017 and the audited consolidated financial statements of FLMHC and Federal Life as at and for the year ended December 31, 2016, including in each case a consolidated balance sheet and consolidated statements of income, cash flow and equity, as previously made available to the Standby Purchaser.

(h) The annual statements of Federal Life for the years ended December 31, 2017, December 31, 2016 and December 31, 2015 and the quarterly statements of Federal Life for the quarters ended March 31, June 30, and September 30, 2017 as filed with the Department (collectively, together with all exhibits and schedules thereto, the “Statutory Financial Statements”) have been prepared in accordance with SAP, and such accounting practices have been applied on a consistent basis throughout the periods involved, except to the extent permitted by the Department and as expressly set forth in the notes, exhibits or schedules thereto, and the Statutory Financial Statements present fairly in all material respects the financial position and the results of operations for Federal Life as of the dates and for the periods therein in accordance with such accounting practices. Federal Life has made available to the Standby Purchaser true and complete copies of all examination reports of the Department and any insurance regulatory agencies since January 1, 2014, relating to Federal Life. Federal Life has delivered to the Standby Purchaser true and complete copies of the Statutory Financial Statements.

(i) As of the date of this Agreement, since December 31, 2017, there has been no event or condition that, individually or in the aggregate, has had (or is reasonably likely to result in) a Material Adverse Effect, and Federal Life and FLMHC have in all material respects conducted their respective businesses in the ordinary course consistent with past practice. Except (x) for actions taken in the ordinary course of business (including the settlement of undisputed claims) and (y) for such actions as are necessary for the completion of the Offerings and the transactions contemplated by this Agreement and the Plan of Conversion, since December 31, 2017, none of the Company, Federal Life or FLMHC has taken any Material Action that resulted, or could reasonably result, in the payment of an amount, or the incurrence of a liability of, more than \$100,000.

(j) Except for insurance claims litigation arising in the ordinary course of business for which adequate reserves have been established, there is no suit, action, proceeding or investigation (whether at law or equity, before or by any Government Entity or before any arbitrator) pending or, to the knowledge of Federal Life, FLMHC or the Company, threatened against or affecting any of them, the outcome of which would individually or in the aggregate have or be reasonably likely to result in a Material Adverse Effect, nor is there any judgment, decree, injunction, rule or order of any Government Entity or arbitrator outstanding against Federal Life, FLMHC or the Company that would individually or in the aggregate have or be reasonably likely to result in a Material Adverse Effect.



(k) The aggregate reserves of Federal Life as recorded in the Financial Statements and Statutory Financial Statements have been determined in accordance with generally accepted actuarial principles consistently applied or the requirements of the State of Illinois (except as permitted by the State of Illinois and as set forth therein). The insurance reserving practices and policies of Federal Life have not changed, in any material respect, since December 31, 2017, and the results of the application of such practices and policies are reflected in the Financial Statements and Statutory Financial Statements. All reserves of Federal Life set forth in the Financial Statements and Statutory Financial Statements are fairly stated in accordance with sound actuarial principles and meet the requirements of the insurance laws of the State of Illinois, except where the failure to so state such reserves or meet such requirements would not have or be reasonably likely to result in a Material Adverse Effect.

Section 4. Representations and Warranties of the Standby Purchaser. The Standby Purchaser represents and warrants as of the date hereof and as of the Closing Date (except for the representations and warranties that are as of a specific date, which shall be made as of such date) to the Company as follows:

(a) The Standby Purchaser is duly organized, validly existing and in good standing under the laws of the jurisdiction in which it is organized and has the requisite organizational power and authority to enter into and perform its obligations under this Agreement and to consummate the transactions contemplated hereby. Assuming the correctness of the representations and warranties made by the Company in Section 3 hereof, the execution and delivery of this Agreement by the Standby Purchaser and performance by the Standby Purchaser of the transactions contemplated hereby have been duly authorized by all necessary limited liability company action on the part of the Standby Purchaser, and no further consent or authorization in connection therewith is required by the Standby Purchaser, its board of directors or its members. This Agreement has been duly executed by the Standby Purchaser, and when delivered by the Standby Purchaser in accordance with the terms of this Agreement and thereof, will constitute the legal, valid and binding obligations of the Standby Purchaser, enforceable against it in accordance with its respective terms, subject to the Bankruptcy and Equity Exception.

(b) The Standby Purchaser was contacted by the Company or Griffin with respect to a potential investment in the Shares. The Standby Purchaser understands that the Standby Purchaser is acquiring the Purchased Shares in the ordinary course of its business directly from the Company (and not from Griffin), as principal for its own account, with no present intention of dividing its participation with others or reselling or otherwise distributing the same in violation of the Securities Act or any applicable state securities laws. The Standby Purchaser does not presently have any agreement or understanding, directly or indirectly, with any Person to: (i) distribute any of the Purchased Shares; (ii) hold or to dispose of the Purchased Shares; or (iii) acquire any Shares from any other Person other than from the Company pursuant to this Agreement. Notwithstanding the foregoing, except as otherwise set forth in this Agreement, by making the representations herein, the Standby Purchaser does not agree to hold any of the Purchased Shares for any minimum or other specific term.

(c) The Standby Purchaser is an “accredited investor” as that term is defined in Rule 501(a) of Regulation D. The Standby Purchaser is not a registered broker-dealer under Section 15 of the Exchange Act, or an unregistered broker-dealer engaged in the business of being a broker-dealer. The Standby Purchaser is an experienced institutional investor, is knowledgeable regarding the life insurance industry, and has experience in investing in life insurance companies and life insurance holding companies.

(d) The Standby Purchaser is not purchasing the Purchased Shares as a result of any advertisement, article, notice or other communication regarding the Purchased Shares published in any newspaper, magazine or similar media or broadcast over television or radio or presented at any seminar or any other general advertisement. The Standby Purchaser did not learn about Federal Life or the Offerings as a result of the Registration Statement.

(e) The Standby Purchaser understands that the Purchased Shares are being offered and sold to it in reliance on specific exemptions from the registration requirements of United States federal and state securities laws and regulations.

Section 5. Deliveries at Closing.

(a) At the Closing, the Company shall deliver to the Standby Purchaser the following:

(i) a certificate or certificates or a book entry statement representing the number of shares of Common Stock issued to the Standby Purchaser pursuant to Section 2 hereof; and

(ii) a certificate of an officer of the Company certifying on its behalf to the effect that the conditions set forth in Sections 8(a) and 8(c) have been satisfied on and as of the Closing Date.

(b) At the Closing, the Standby Purchaser shall deliver to the Company the following:

(i) payment of the Subscription Price of the Shares purchased by the Standby Purchaser, as set forth in Section 2(b) hereof; and

(ii) a certificate of the Standby Purchaser certifying to the effect that the conditions set forth in Sections 8(b) and 8(c) have been satisfied on and as of the Closing Date.

Section 6. Covenants.

(a) The Company, Federal Life and FLMHC, as applicable, agree as follows between the date hereof and the Closing Date:

(i) to as soon as reasonably practical file with the Commission the Registration Statement;

(ii) to use reasonable best efforts to cause the Registration Statement and any amendments thereto to become effective as promptly as practical;

(iii) to use reasonable best efforts to effectuate the Offerings;

(iv) as soon as reasonably practical after the Company is advised or obtains knowledge thereof, to advise the Standby Purchaser with a confirmation in writing, of (A) the time when the Registration Statement or any amendment thereto has been filed or declared effective or the Prospectus or any amendment or supplement thereto has been filed, (B) the issuance by the Commission of any stop order, or of the initiation or threatening of any proceeding suspending the effectiveness of the Registration Statement or any amendment thereto or any order preventing or suspending the use of any preliminary prospectus or the Prospectus or any amendment or supplement thereto, (C) the issuance by any state securities commission of any notice of any proceedings for the suspension of the qualification of the Shares for offering or sale in any jurisdiction or of the initiation, or the threatening, of any proceeding for that purpose, (D) the receipt of any comments from the Commission, and (E) any request by the Commission for any amendment to the Registration Statement or any amendment or supplement to the Prospectus or for additional information. The Company will use its reasonable best efforts to prevent the issuance of any such order or the imposition of any such suspension and, if any such order is issued or suspension is imposed, to obtain the withdrawal thereof as promptly as practical;

(v) to operate the business of Federal Life, the Company and FLMHC in the ordinary course of business consistent with past practice;

(vi) to notify, or to cause the subscription agent for the Subscription Offering (the "Subscription Agent") to notify, the Standby Purchaser on each Friday during the exercise period of the Rights, or more frequently if reasonably requested by the Standby Purchaser, of the aggregate number of Shares known by the Company or the Subscription Agent to have been subscribed for or ordered in the Subscription Offering as of the close of business on the preceding Business Day or the most recent practical time before such request, as the case may be;

(vii) not to issue any shares of capital stock of the Company, or options, warrants, purchase rights, subscription rights, conversion rights, exchange rights, securities convertible into or exchangeable for capital stock of the Company, or other agreements or rights to purchase or otherwise acquire capital stock of the Company, except for the Exchangeable Note, shares of Common Stock issuable in the Offerings, and equity awards to management as described in the Registration Statement;

(viii) not to authorize any stock split, stock dividend, stock combination or similar transaction affecting the number of issued and outstanding shares of Common Stock or shares of the Company's preferred stock;

(ix) except for dividends payable to FLMHC or Federal Life, not to declare or pay any dividends or repurchase any shares of Common Stock or shares of the Company's preferred stock;

(x) except for the Exchangeable Note, not to incur any Indebtedness other than (A) trade payables or other similar Indebtedness incurred in the ordinary course of business consistent with past practice and (B) other Indebtedness not in excess of \$1,000,000 in the aggregate;

(xi) to discuss the orders received in the Community Offering (other than, for avoidance of doubt, any orders from the Standby Purchaser) with the Standby Purchaser and only accept such orders and in such amounts as are agreed to by both the Standby Purchaser, on the one hand, and the Company and FLMHC, on the other hand;

(xii) to not, without the prior written consent of the Standby Purchaser exercise the Company's right to increase or decrease the purchase limitations set forth in the Plan of Conversion pursuant to Section 10.01(f) thereof;

(xiii) to not exercise the Company's or FLMHC's right under Section 11.02 of the Plan of Conversion to reject order for Shares placed by the Standby Purchaser in accordance with the terms of this Agreement and the Plan of Conversion; and

(xiv) to not enter into any other Standby Purchase Agreement (as defined in the Plan of Conversion) with any other Standby Purchaser (as defined in the Plan of Conversion).

(b) The Standby Purchaser agrees as follows between the date hereof and the Closing Date:

(i) it shall be a condition precedent to the obligations of the Company to complete the registration or qualification pursuant to Section 6(a) hereof that the Standby Purchaser shall timely furnish to the Company in writing such information regarding itself as shall be reasonably requested by the Company and as shall be required to effect such registration or qualification and shall timely execute such documents in connection with such registration as the Company may reasonably request; and

(ii) to cooperate with the Company as reasonably requested by the Company in connection with the preparation and filing of the Registration Statement and the qualification of the Shares offered for sale in the Offerings under applicable "blue sky" laws hereunder.

(c) Each of the Standby Purchaser and the Company will cooperate with the other and use commercially reasonable efforts to promptly prepare all necessary documentation, to effect all necessary filings and to obtain all necessary permits, consents, waivers, approvals and authorizations of the Commission, the Department and any other third parties or Governmental Entities, necessary or desirable to consummate the purchase of the Shares by the Standby Purchaser contemplated by this Agreement. The Standby Purchaser and the Company will furnish each other and each other's counsel with all information concerning themselves, their subsidiaries, directors, officers and shareholders and such other matters as may be necessary or advisable in connection with any application, petition or any other statement or application made by or on behalf of the Standby Purchaser or the Company to the Department or any Governmental Entity in connection with the purchase of the Shares by the Standby Purchaser contemplated by this Agreement. The Standby Purchaser shall notify the Company promptly of the receipt of any comments of the Department or any Governmental Entity with respect to such filings. Notwithstanding anything to the contrary contained herein, between the date of this Agreement and the Closing Date, the Standby Purchaser shall not be obligated to take or refrain from taking or to agree to it or its Affiliates taking or refraining from any action or to suffer to exist any condition, limitation, restriction or requirement that, individually or in the aggregate with any other actions, conditions, limitations, restrictions or requirements, would or would reasonably be likely to result in a Burdensome Condition, and the Standby Purchaser shall not be required to seek review by a court, administrative or regulatory authority, agency, commission, board, tribunal or similar adjudicative body of any determination of any insurance regulatory authority, including in their capacity as a rehabilitator, conservator, liquidator or similar capacity. As used herein, "Burdensome Condition" means any condition that would: (A) have a material negative effect on the business or the Permits, assets, liabilities, properties, operations, results of operations or condition (financial or otherwise) of the Standby Purchaser, its Affiliates or the Company; (B) impose any material requirement relating to the contribution of capital, keep-well or capital maintenance arrangements or maintaining risk-based capital level or any material restrictions on dividends or distributions or the ability of the Company to operate its business, in each case, excluding any changes in applicable Law or the effects of any actions, conditions, limitations, restrictions or requirements that are customary for the applicable Governmental Entity to impose in transactions of the type of transaction contemplated hereby; or (C) impose any requirement to modify this Agreement, the Plan of Conversion or other agreement entered or to be entered into in connection herewith or therewith in any manner that materially changes the rights, liabilities or obligations of the parties hereto or thereto.

(d) After the Closing, if and for so long as the Standby Purchaser beneficially owns more than five percent (5.0%) of the issued and outstanding shares of the Common Stock, the Company shall provide the Standby Purchaser with reasonable opportunities upon reasonable notice and during regular business hours to discuss with the senior management of the Company at least on a quarterly basis, the business and operations of the Company, with at least one of those meetings each year to be held, if requested by the Standby Purchaser, in-person at the Company's offices or such other mutually agreeable location. The Standby Purchaser hereby acknowledges that it is aware, and it agrees that it will advise its representatives, agents, advisors, Affiliates and Associates who are informed as to the matters which are the subject of this provision (collectively, its "Representatives"), that the United States securities laws prohibit any Person who has received material, non-public information concerning the Company or the matters which are the subject of this provision from purchasing or selling securities of the Company or from communicating such information to any other Person. The Standby Purchaser agrees, and shall instruct its Representatives, to (i) keep such non-public information provided by the Company strictly confidential, (ii) use the same degree of care to protect such non-public information as each would use to protect its own non-public information of a similar nature, but in no event with less than reasonable care, and (iii) not disclose the non-public information in any manner whatsoever to any Person, except with the specific prior written consent of the Company. As used in this Section 6(d), "non-public information" shall not include information which (a) is or becomes public knowledge other than as a result of a breach of the obligations of the Standby Purchaser or its Representatives; (b) was known to the Standby Purchaser prior to the date of this Agreement, except as provided to the Standby Purchaser pursuant to a confidentiality agreement with Federal Life; (c) becomes available without restriction from a third party not known by the Standby Purchaser to be under any confidentiality obligation to the Company with respect thereto; or (d) is developed by the Standby Purchaser or its Representatives without use of the Company's non-public information. In the event that the Standby Purchaser or any of its Representatives are requested or required by law, regulation, deposition, interrogatory, request for documents, subpoena, civil investigative demand, administrative regulatory requirement, order, decree or the rules of any applicable stock exchange or similar legal process (collectively, "Law") to disclose any of the foregoing non-public information, the Standby Purchaser shall (or will direct its Representatives to) provide the Company with prompt prior written notice of such requirement to the extent permissible under applicable Law and reasonably practicable under the circumstances in order to enable the Company to (A) seek, at its own cost, an appropriate protective order or other remedy or (B) waive compliance, in whole or in part, with the terms of this Agreement; and the Standby Purchaser or such Representative shall consult and reasonably cooperate with the Company, at the Company's expense and upon its written request, with respect to taking steps to resist or narrow the scope of such request or requirement. If, in the absence of a protective order, the Standby Purchaser or such Representative are nonetheless, on the advice of counsel of such Standby Purchaser or such Representative, as applicable, required by applicable Law to disclose the foregoing non-public information, the Standby Purchaser or such Representative shall (I) furnish only that portion of the foregoing non-public information that, based upon advice of legal counsel, is legally required, (II) give advance notice to the Company of the information to be disclosed as far in advance as is legally permissible and practical, and (III) exercise commercially reasonable efforts, at the Company's expense and upon its written request, to obtain reliable assurance that confidential treatment will be accorded such non-public information. Notwithstanding anything to the contrary herein, without satisfying the other obligations of this paragraph, Standby Purchaser and its Representative may disclose such non-public information to the extent such disclosure is requested or required in connection with routine audits or examinations by, or blanket document requests from, a Governmental Entity that does not specifically target the other parties, this Agreement or the transactions contemplated hereby.

(e) The Company shall at all times reserve and hold available sufficient number of shares of Common Stock to satisfy its obligations under this Agreement.

(f) After the Closing, if and for so long as the Standby Purchaser beneficially owns more than five percent (5.0%) of the issued and outstanding shares of the Common Stock and a Standstill Termination Event has not occurred, the Company and Federal Life shall nominate election to the Board of Directors of the Company and Federal Life either (i) Matthew T. Popoli and Jay Novik or either of them, to the extent that the Standby Purchaser notifies the Company that such individuals are to be elected to the Board or (ii) if either Mr. Popoli or Mr. Novick are not selected by the Standby Purchaser, such individuals who are mutually and reasonably acceptable to the Company and the Standby Purchaser.

(g) As soon as eligible to register Shares for resale on a Form S-3 registration statement, or, if earlier, upon the occurrence of a Standstill Termination Event, the Company shall register the Purchased Shares and the Common Stock held by the Senior Management Shareholders for resale under the Securities Act in accordance with the provisions of Exhibit B attached hereto, at which time the legend described in Section 9(b) hereof shall be removed from the Purchased Shares and the Common Stock held by the Senior Management Shareholders and the restrictions set forth in Section 9(b) hereof shall be of no further force or effect.

Section 7. Public Statements. Neither the Company nor the Standby Purchaser shall issue any public announcement, statement or other disclosure with respect to this Agreement or the transactions contemplated hereby without the prior consent of the other party hereto, which consent shall not be unreasonably withheld or delayed, except if such public announcement, statement or other disclosure is required by applicable law or applicable stock market rules, in which case the disclosing party shall consult in advance with respect to such disclosure with the other parties to the extent reasonably practicable.

Section 8. Conditions to Closing.

(a) The obligations of the Standby Purchaser to consummate the transactions contemplated hereunder are subject to the fulfillment, prior to or on the Closing Date, of the following conditions:

(i) the representations and warranties of the Company, FLMHC, and Federal Life in Section 3 shall be true and correct in all respects as of the date hereof and at and as of the Closing Date as if made on such date, except where the failure to be true and correct (without regard to any materiality or Material Adverse Effect qualifications contained therein), would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect (and except that (1) representations and warranties made as of a specified date shall be true and correct as of such date and (2) the representations and warranties of the Company set forth in Sections 3(a), 3(b), 3(c), 3(e), 3(f)(i) and 3(i) shall be true and correct in all respects);

(ii) the Company, FLMHC, and Federal Life shall have performed in all material respects all of their respective obligations under this Agreement required to be performed on or prior to the Closing Date;

(iii) as of the Closing Date, none of the following events shall have occurred and be continuing: (A) trading in the Common Stock shall have been suspended by the Commission or trading in securities generally on The New York Stock Exchange or The Nasdaq Stock Market shall have been suspended or limited or minimum prices shall have been established on either such exchange, (B) a banking moratorium shall have been declared either by U.S. federal or New York State authorities, or (C) there shall have occurred any material outbreak or material escalation of hostilities, declaration by the United States of a national emergency or war or other calamity or crisis which has a material adverse effect on the U.S. financial markets;

(iv) the gross proceeds from the Offerings, including the purchase of the Purchased Shares by the Standby Purchaser, is equal to at least the Minimum of the Valuation Range;

(v) since the date of this Agreement, a Material Adverse Effect shall not have occurred and no change or other event shall have occurred that would reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect; and

(vi) Senior Management Shareholders shall have agreed to be bound by transfer restrictions on Shares of Common Stock of the Company held by such Persons which are no less restrictive than the restrictions set forth in Section 9 hereof, and to be bound by tag along rights no less restrictive than those set forth in Section 15 hereof, in each case, pursuant to an agreement in form and substance satisfactory to Standby Purchaser; *provided, however*, that the Senior Management Shareholders shall be permitted to make transfers (x) for estate planning purposes, (y) of shares that in the aggregate are less than 50% of the number of shares owned by Senior Management Shareholders immediately after the Closing Date, or (z) to pay the exercise price upon the exercise of any stock options held by one of the Senior Management Shareholders.

(b) The obligations of the Company to consummate the transactions contemplated hereunder are subject to the fulfillment, prior to or on the Closing Date, of the following conditions:

(i) The representations and warranties of the Standby Purchaser in Section 4 shall be true and correct in all material respects as of the date hereof and at and as of the Closing Date as if made as of such date (except for representations and warranties made as of a specified date, which shall be true and correct in all material respects as of such specified date); and

(ii) the Standby Purchaser shall have performed in all material respects all of its obligations under this Agreement required to be performed on or prior to the Closing Date.

(c) The obligations of each of the Company and the Standby Purchaser to consummate the transactions contemplated hereunder in connection with the Offerings are subject to the fulfillment, prior to or on the Closing Date, of the following conditions:

(i) no judgment, injunction, decree or other legal restraint shall be outstanding, nor shall any action, suit, claim, investigation or other legal proceeding be pending that would reasonably be expected to prohibit, or have the effect of rendering unachievable, the consummation of the Offerings or the transactions contemplated by this Agreement;

(ii) the Registration Statement shall have been filed with the Commission and declared effective; no stop order suspending the effectiveness of the Registration Statement or any part thereof shall have been issued and no proceeding for that purpose shall have been initiated or threatened by the Commission; and any request of the Commission for inclusion of additional information in the Registration Statement or otherwise shall have been complied with;



(iii) at least two-thirds of the votes cast by the Voting Members voting at the meeting of the Voting Members called for such purpose shall have voted to adopt and approve the Plan of Conversion and the transactions contemplated thereunder;

(iv) all consents and approvals of the Department and any other regulatory body or agency necessary to consummate the transactions contemplated by this Agreement shall have been obtained and all notice and waiting periods required by law to pass after receipt of such approvals or consents shall have passed; and

(v) the Shares shall have been authorized for listing on the Nasdaq Capital Market.

Section 9. Restrictions on Transfer.

(a) Except as set forth in Section 9(c), the Standby Purchaser shall not, and shall ensure that its Affiliates do not, directly or indirectly, purchase, sell, transfer, assign, lend, convey, gift, mortgage, pledge, encumber, hypothecate or otherwise dispose of, directly or indirectly ("Transfer"), any shares of Common Stock. Any purported Transfers of shares of Common Stock in violation of this Section 9 shall be null and void and no right, title or interest in or to such shares shall be Transferred to the purported transferee, buyer, donee, assignee or encumbrance holder. The Company will not give, and will not permit the Company's transfer agent to give, any effect to such purported Transfer in its stock records.

(b) The Standby Purchaser understands and agrees that the Purchased Shares will bear a legend substantially similar to the legend set forth below in addition to any other legend that may be required by applicable law or by any agreement between the Company and the Standby Purchaser. The legend shall be removed to permit Transfers made in accordance with Sections 9(c)(i), 9(c)(ii) and 9(c)(iii) unless prohibited by the Securities Act. Alternatively, upon receipt of certifications from the Standby Purchaser reasonably satisfactory to the Company's counsel, the Company shall cause the legend to be removed in accordance with, and pursuant to, Rule 144 promulgated under the Securities Act and any other applicable federal and state securities laws.

THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR REGISTERED AND/OR QUALIFIED UNDER ANY STATE SECURITIES LAWS. THE SECURITIES REPRESENTED BY THIS CERTIFICATE MAY NOT BE TRANSFERRED EXCEPT (A) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND REGISTRATION AND/OR QUALIFICATION UNDER APPLICABLE STATE SECURITIES LAWS, (B) IN A TRANSACTION WHICH IS EXEMPT FROM REGISTRATION UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND REGISTRATION AND/OR QUALIFICATION UNDER APPLICABLE STATE SECURITIES LAWS PROVIDED THAT AT THE ISSUER'S REQUEST, THE TRANSFEROR THEREOF SHALL HAVE DELIVERED TO THE ISSUER AN OPINION OF COUNSEL (WHICH OPINION SHALL BE IN FORM, SUBSTANCE AND SCOPE REASONABLY SATISFACTORY TO THE ISSUER) TO THE EFFECT THAT SUCH SECURITIES MAY BE SOLD OR TRANSFERRED PURSUANT TO AN EXEMPTION FROM SUCH REGISTRATION, OR (C) SUCH SECURITIES MAY BE SOLD PURSUANT TO RULE 144 PROMULGATED UNDER THE SECURITIES ACT OF 1933, AS AMENDED.

(c) The provisions of Section 9(a) hereof shall not apply to any of the following Transfers by the Standby Purchaser of any shares of Common Stock:

(i) beginning on the third anniversary of the Closing Date, by offering or selling to Persons (other than to Persons party hereto or pursuant to clause (iii) below) shares of Common Stock pursuant to Section 9(d) hereof not more than six and one-quarter percent (6-1/4%) of the number equal to the Purchased Shares every ninety (90) days (the “90-Day Limit”);

(ii) pursuant to a tender or exchange offer to an acquiror seeking to acquire 100% of the Common Stock of the Company that has been approved by the Board prior to such sale;

(iii) to one or more members or Affiliates of the Standby Purchaser, provided that such member or Affiliate executes a written agreement in a form reasonably satisfactory to the Company to be bound by the terms and conditions hereof; and

(iv) occurring after the occurrence of a Standstill Termination Event.

(d) If and for so long as the Standby Purchaser beneficially owns any shares of the Common Stock and a First Offer Termination Event has not occurred, the Standby Purchaser shall provide the Company with not less than fifteen (15) Business Days prior written notice (the “Public Sale Notice”) on each occasion before offering to sell to Persons (other than to Persons party hereto or pursuant to Section 9(c)(ii) or 9(c)(iii) above) any shares of Common Stock that it is permitted to sell under the Securities Act (the “Offered Shares”). The Company shall have a right to notify the Standby Purchaser of the Company’s intent to purchase on or before the expiration of such fifteen (15) Business Days, all or any portion of such Offered Shares at a price per share equal to the greater of (i) the VWAP Price, or (ii) 95% times the Company’s then book value as calculated in accordance with GAAP (determined without regard to its accumulated other comprehensive income) for the most recent quarter preceding the date of the Public Sale Notice by at least forty-five (45) days.

If the Company fails (A) to exercise the foregoing right with respect to such Offered Shares within fifteen (15) Business Days after receipt of the Public Sale Notice and (B) to complete the purchase of such Offered Shares within ten (10) Business Days after receipt of all required regulatory approvals, the Standby Purchaser may sell such Offered Shares in the market in accordance with Section 9(c)(i) hereof.

Any repurchase by the Company pursuant to this Section 9(d) is subject to the prior approval of the Department, to the extent required under applicable Illinois law governing mutual-to-stock conversions or distributions by Federal Life. In the event that the Company exercises its right to purchase the Shares pursuant to this Section 9(d), (i) the Company shall use commercially reasonable efforts to obtain all required regulatory approvals of the purchase of the Shares as soon as practical and (ii) closing upon the purchase of the Shares will occur within ten (10) Business Days after all required regulatory approvals have been received.

(e) If, at any time while the Common Stock is listed on any public exchange, the per share price of the Common Stock exceeds 250% of the per share price as of Closing, the Company shall, at the written request of the Standby Purchaser, register the Offered Shares for resale under the Securities Act in accordance with the provisions of Exhibit B attached hereto, following which registration the restrictions of Section 9(a) through Section 9(d) shall terminate and be of no further force or effect.

(f) If the Standby Purchaser sells more than 5% of the outstanding shares of Common Stock to any Person prior to the occurrence of a Standstill Termination Event, then such Person must enter into a standstill agreement reasonably acceptable to the Company containing provisions similar to those in Section 9(f), Section 10 and Section 12(a) of this Agreement.

Section 10. Post-Closing Standstill Provision. If and for so long as the Standby Purchaser beneficially owns more than five percent (5.0%) of the issued and outstanding shares of the Common Stock and a Standstill Termination Event has not occurred, the Standby Purchaser agrees that, without the prior written consent of the Board as specifically expressed in a resolution adopted by a majority of the entire membership of the Board (other than a designee of the Standby Purchaser), neither the Standby Purchaser, nor any of its Affiliates or Associates nor any Person acting at their direction or on their behalf, will, directly or indirectly:

(a) with respect to the Company or Common Stock, make, engage or in any way participate in, directly or indirectly, any “solicitation” (as such term is used in the proxy rules of the Commission) of proxies or consents (whether or not relating to the election or removal of directors); seek to advise, encourage or influence any Person with respect to the voting of any Common Stock (other than Affiliates or Associates); initiate, propose or otherwise “solicit” (as such term is used in the proxy rules of the Commission) shareholders of the Company for the approval of shareholder proposals whether made pursuant to Rule 14a-8 or Rule 14a-4 under the Exchange Act, or otherwise, or cause or encourage or attempt to cause or encourage any other Person to initiate any such shareholder proposal; otherwise communicate with the Company’s shareholders or others pursuant to Rule 14a-1(l)(2)(iv) under the Exchange Act; or participate in, or take any action pursuant to, any “shareholder access” proposal which may be adopted by the Commission, whether in accordance with previously proposed Rule 14a-11 or otherwise;

(b) take any action to cause the Company or any of its subsidiaries to be merged with or into or otherwise acquired (including any purchase of all of the stock or substantially all of the assets of the Company or any of its subsidiaries or any loss portfolio transfer involving any subsidiary of the Company) by Prosperity Life Insurance Company or any other insurance company or affiliate of an insurance company owned or controlled by the Standby Purchaser or any affiliate of the Standby Purchaser.

(c) seek, propose, or make any statement with respect to any merger, consolidation, business combination, tender or exchange offer, sale or purchase of assets, sale or purchase of securities, dissolution, liquidation, restructuring, recapitalization or similar transactions of or involving the Company or any of its Affiliates or Associates;

(d) except as otherwise permitted by this Agreement, acquire, offer or propose to acquire, or agree to acquire (except by way of stock dividends, stock splits, reverse stock splits or other distributions or offerings made available to holders of any shares of Common Stock generally), directly or indirectly, whether by purchase, tender or exchange offer, through the acquisition of control of another Person, by joining a partnership, limited partnership, syndicate or other “group” (within the meaning of Section 13(d)(3) of the Exchange Act) or otherwise, any shares of Common Stock, Equity Securities, or any loans, debt securities, or assets of the Company or any of its subsidiaries, or rights or options to acquire interests in any of the loans, debt securities, equity securities or assets of the Company or any of its subsidiaries;

(e) form, join or in any way participate in a “group” (within the meaning of Section 13(d)(3) of the Exchange Act) with respect to any shares of Common Stock;

(f) deposit any shares of Common Stock in any voting trust or subject any shares of Common Stock to any arrangement or agreement with respect to the voting of any shares of Common Stock;

(g) act alone or in concert with others to control or seek to control, or influence or seek to influence, the management, the Board or policies of the Company;

(h) make any demand or request for any shareholder list, or any related material, or for the books and records of the Company or its Affiliates;

(i) seek, alone or in concert with others, election or appointment to or representation on, or nominate or propose the nomination of any candidate to, the Board, or seek the removal of any member of the Board, in a manner inconsistent with this Agreement;

(j) have any discussions or communications, or enter into any arrangements, understanding or agreements (whether written or oral) with, or knowingly instigate, advise, finance, assist or encourage, any other Person in connection with any of the foregoing (including by granting any waiver to any legal, financial, public relations, proxy solicitation or other firm that represented or was engaged by the Standby Purchaser, its Affiliates, Associates or any of their legal counsel with respect to the Company, which waiver would permit any such firm to represent any Person in connection with matters relating to the Company), or make any investment in or enter into any arrangement with any other Person that engages, or offers or proposes to engage, in any of the foregoing;

(k) make or disclose any statement regarding any intent, purpose, plan or proposal with respect to the Board, the Company, its management, policies or affairs or any of its securities or assets or this Agreement that is inconsistent with the provisions of this Agreement, including any intent, purpose, plan or proposal that is conditioned on, or would require waiver, amendment, nullification or invalidation of, any provision of this Agreement or take any action that could require the Company to make any public disclosure relating to any such intent, purpose, plan, proposal or condition; or

(l) otherwise take, or solicit, cause or encourage others to take, any action inconsistent with any of the foregoing; *provided, however*, that the act of requesting that the Board consider any of the foregoing acts or actions taken in preparation of a privatization of the Company shall not constitute a breach of this Section 10.

#### Section 11. Post-Closing Pre-Emptive Rights.

(a) Subject to applicable securities laws, other than the Offerings, following the Closing Date, the Standby Purchaser shall have the right to purchase (its "Gross Up Right") its pro rata share of all Equity Securities that the Company or any Subsidiary of the Company may, from time to time, propose to sell and issue after the date of this Agreement, other than the Equity Securities excluded by Sections 11(d) and 11(e) hereof. The Standby Purchaser's pro rata share is equal to the ratio of (i) the total number of outstanding shares of the Common Stock that the Standby Purchaser is deemed to be a holder of immediately prior to the issuance of such Equity Securities to (ii) the total number of shares of the outstanding Common Stock (including all shares of the Common Stock issued or issuable upon conversion of any securities convertible into the Common Stock or upon the exercise of any outstanding warrants or options) immediately prior to the issuance of the Equity Securities.

(b) If the Company or a Subsidiary of the Company proposes to issue any Equity Securities, the Company shall give the Standby Purchaser written notice of its intention, describing the Equity Securities and the price and the terms and conditions upon which the Company or such Subsidiary proposes to issue the same. The Standby Purchaser shall have twenty (20) days from the receipt of such notice (the "Offer Period") to notify the Company in writing that it intends to exercise its Gross Up Right and as to the amount of Equity Securities the Standby Purchaser intends to purchase, up to the maximum calculated in accordance with Section 11(a) hereof (the "Designated Securities"); *provided, however*, that if providing the Standby Purchaser twenty (20) days' notice to respond is not practicable, the Company may provide an earlier deadline for the Standby Purchaser to respond to such notice by giving the Standby Purchaser the maximum number of days to respond as is practicable but in any event no fewer than five (5) days' notice. Such notice from the Standby Purchaser shall constitute a non-binding indication of interest of the Standby Purchaser to purchase the amount of Designated Securities specified by the Standby Purchaser (or a proportionately lesser amount if the amount of Equity Securities to be offered if such offering of Equity Securities is subsequently reduced) at the price (or range of prices) and other terms set forth in the Company's notice to it. The failure to respond during the Offer Period constitutes a waiver of its Gross Up Right in respect of such offering. The Standby Purchaser shall execute a binding agreement to purchase any such Equity Securities within thirty (30) days after expiration of the Offer Period, and any Equity Securities that the Standby Purchaser indicated it would purchase but that are not covered by a binding purchase agreement at such time may be sold to other Persons, unless the failure to execute such an agreement is attributable to actions of the Company or a Subsidiary of the Company, in which case the Company or such Subsidiary shall have the right to sell the Equity Securities to other Persons if the Standby Purchaser shall not have executed such an agreement within the later of (i) five (5) Business Days after the reason for such delay has been resolved or (ii) thirty (30) days after expiration of the Offer Period. Notwithstanding the foregoing, neither the Company nor such Subsidiary shall be required to offer or sell such Equity Securities to the Standby Purchaser if it would cause the Company or such Subsidiary to be in violation of applicable federal securities or insurance regulatory laws by virtue of such offer or sale.

(c) The Company or such Subsidiary shall have 90 days after expiration of the Offer Period to sell any Equity Securities in respect of which the Standby Purchaser's Gross Up Rights were not exercised, at a price and upon general terms and conditions not materially more favorable to the purchasers thereof than specified in the Company's notice to the Standby Purchaser pursuant to Section 11(b) hereof. If the Company or such Subsidiary has not sold such Equity Securities within such 90-day period, neither the Company nor such Subsidiary shall thereafter issue or sell any Equity Securities without first offering such Equity Securities to the Standby Purchaser in the manner provided above.

(d) The Gross Up Rights provided by this Section 11 shall not apply to, and shall terminate upon the earlier of (a) the first date upon which the Standby Purchaser no longer beneficially owns shares of the Common Stock representing more than five percent (5%) of the issued and outstanding shares of the Common Stock immediately prior to an issuance contemplated under Section 11(a) hereof, (b) the date of any breach by the Standby Purchaser of any material obligation under this Agreement that remains uncured after thirty (30) days' notice thereof, or (c) the end of the Standstill Period.

(e) The provisions in this Section 11 shall not apply to any issuance of Equity Securities by the Company (i) to employees, consultants, officers or directors of the Company or any of its subsidiaries for the primary purpose of soliciting or retaining their employment or services or in a transaction or pursuant to management or employee agreements, incentive programs or stock purchase or equity compensation plans approved by the Board (including any such programs or plans in existence on the date hereof), (ii) to a third party as consideration in connection with (but not in connection with raising capital to fund) (A) a strategic business combination or other merger, acquisition or disposition transaction, partnership, joint venture, strategic alliance or investment by the Company or similar non-capital raising transaction approved by the Board, or (B) an investment by the Company or its subsidiaries approved by the Board in any party which is not prior to such transaction an Affiliate of the Company (whether by merger, consolidation, sale or exchange of stock, sale of assets or securities, or otherwise), (iii) as part of any offering registered under the Securities Act; provided, that the Standby Purchaser shall not be precluded by the Company, its underwriter(s) or its agent(s) in connection with such offering from purchasing in such offering, and the Company shall use commercially reasonable efforts to cause its underwriter(s) or agent(s) engaged in connection with such offering to allocate shares, on the same terms and conditions offered to the public, a sufficient number of Designated Securities, so as to maintain the Standby Purchaser's pro rata share of all Equity Securities, (iv) upon the exercise, conversion or exchange of options, warrants or similar rights or other convertible securities, (v) the issuance of Equity Securities by a Subsidiary of the Company to the Company or one of its direct or indirect Subsidiaries and (vi) in connection with any stock split, stock dividend paid on a proportionate basis to all holders of the affected class of capital stock or recapitalization approved by the Board.

Section 12. Post-Closing Voting. If and for so long as the Standby Purchaser beneficially owns more than five percent (5.0%) of the shares of the Common Stock outstanding and a Standstill Termination Event has not occurred:

(a) subject to the final proviso of this paragraph, the Standby Purchaser shall vote and cause to be voted all shares of Common Stock beneficially owned by the Standby Purchaser (i) for persons nominated and recommended by the Board for election as directors of the Board and against any Person nominated for election as a director by any other Person and (ii) as directed or recommended by the Board with respect to any proposal presented at any meeting of the Company's shareholders, including, but not limited to (A) the entire slate of directors recommended for election by the Board to the shareholders of the Company at any meeting of the Company's shareholders at which any directors are elected, (B) any shareholder proposal submitted for a vote at any meeting of the Company's shareholders, and (C) any proposal submitted by the Company for a vote at any meeting of the Company's shareholders relating (x) to the appointment of the Company's accountants or (y) an equity compensation plan of the Company and/or any material revisions thereto; *provided, however*, that the Standby Purchaser shall not be bound to vote in accordance with the foregoing provisions if the Company is in violation of a material obligation of this Agreement that remains uncured after fifteen (15) days' notice thereof or if such proposal (1) would have a disproportionate effect on the Standby Purchaser compared to all of the other holders of the Common Stock as a group, (2) (other than the matters specified in clause (i)) requires approval of a related party transaction between the Company and one or more of its Affiliates other than as set forth in clauses (i), (ii)(A) and (ii)(C)(y), or (3) would result in nominees of the Standby Purchaser being removed from the Board.

(b) Notwithstanding the foregoing, so long as the Standby Purchaser owns 25% or more of the outstanding shares of Common Stock, without the affirmative vote or written approval of the Standby Purchaser, none of the Company, Federal Life, or FLMHC shall cause or permit, take or decide, or agree or commit to take any of the actions set forth on Exhibit C, and the Standby Purchaser shall have the right to vote its shares (or provide or withhold its written approval) with respect to such actions in its sole and absolute discretion.

### Section 13. Exit Provisions.

(a) If, at any time prior to the ROFO Termination Date, the Standby Purchaser provides a written notice to the Company that the Standby Purchaser and those of its Affiliates who own Common Stock desire to sell the Common Stock held by such Persons (a "Potential Sale Notice") the Company or its designee may, by written notice to the Standby Purchaser (a "Company Offer Notice") delivered by the date that is the earlier of (i) the date that is six (6) months following the date of the Potential Sale Notice and (ii) the ROFO Termination Date, make a Qualifying Offer to purchase all, but not less than all, of the Common Stock held by the Standby Purchaser and its Affiliates. If the Standby Purchaser or such Affiliate accepts the Qualifying Offer contained in the Company Offer Notice, the Standby Purchaser shall notify the Company of such acceptance within ten (10) Business Days of receipt of such Company Offer Notice, and the closing of the sale of the Offered Shares to the Company or such designee shall occur on the later to occur of (x) thirty (30) days of such election and (y) ten (10) Business Days after any required regulatory approvals for such sale are received.

(b) If either (i) the Company confirms in writing that the Company will not provide a Company Offer Notice, (ii) the Company does not deliver a Company Offer Notice to the Standby Purchaser in the manner set forth in Section 13(a), (iii) the Company delivers a Company Offer Notice to the Standby Purchaser and fails to close on the purchase described in such Company Offer Notice for reasons other than the default by the Standby Purchaser or its Affiliates, or (iv) the Standby Purchaser or its applicable Affiliate does not accept the offer contained in the Company Offer Notice, then the Standby Purchaser and its Affiliates may (A) sell all or any portion of the Common Stock held by the Standby Purchaser or its Affiliates to a third party (subject to applicable Law) or (B) require the Company to register such Common Stock for resale under the Securities Act in accordance with the provisions of Exhibit B attached hereto; provided, that until the ROFO Termination Date, if the Company has delivered a Company Offer Notice to the Standby Purchaser, any such sale must be for a price that is not less than the price contained in the Company Offer Notice.

(c) For the purposes of this Section 13, a “Qualifying Offer” shall mean an offer for all but not less than all of the Common Stock owned by the Standby Purchaser and its Affiliates which (i) provides payment of the purchase price at closing in immediately available funds, (ii) is not subject to any contingency except receipt by the buyer of all required regulatory approvals, and (iii) is accompanied by commitment letters or other evidence, in each case, in form and substance reasonably acceptable to the Standby Purchaser, that the proposed buyer for such Common Stock will have the funds available to purchase such Common Stock in accordance with the terms set forth in the applicable Company Offer Notice.

(d) If (x) the Standby Purchaser disagrees with any material corporate action taken or proposed to be taken by the Company or Federal Life or (y) the Company or Federal Life fails to take any material corporate action proposed by the Standby Purchaser (either, a “Strategic Direction”) and the Standby Purchaser gives written notice thereof to the Company, the Company shall have ninety (90) days to rescind or terminate such Strategic Direction that is proposed to be taken, if such action is capable of being terminated or rescinded or, upon a failure to take action proposed by the Standby Purchaser, to take the action which is the subject of such Strategic Direction within one year after receipt of such written notice from the Standby Purchaser. If the Company fails to rescind or terminate such Strategic Direction or take the action which is the subject of such Strategic Direction within the applicable time period, upon receipt by the Company of written notice from the Standby Purchaser, then within six (6) months after receipt by the Company of such written notice from the Standby Purchaser, the Company shall either:

(i) Purchase or cause another Person to offer to purchase all of the Shares using the price set forth in Section 9(d) hereof; or



(ii) if such Shares have not been registered previously, register the Shares owned by the Standby Purchaser for resale under the Securities Act in accordance with the provisions of Exhibit B attached hereto, following which registration the restrictions of Section 9(a) through Section 9(d) shall terminate and be of no further force or effect.

In the event that the Company exercises its right to purchase the Shares pursuant to Section 13(d)(i) above, (i) the Company or its applicable designee shall use commercially reasonable efforts to obtain all required regulatory approvals of the purchase of the Shares as soon as practical and (ii) closing upon the purchase the Shares will occur within ten (10) Business Days after all required regulatory approvals have been received.

(e) On the occurrence of an ASE Event, (i) the Company shall, promptly upon the request of the Standby Purchaser, remove any restrictive legend on the shares of Common Stock owned by the Standby Purchaser, (ii) the restrictions on transfer in Section 9 hereof (other than the provisions of Section 9(f) hereof) shall terminate and be of no further force or effect, and (iii) the Standby Purchaser shall be permitted to sell such shares at any time and from time to time without any notice to the Company.

#### Section 14. Drag Along Rights.

(a) After the occurrence of a Standstill Termination Event, if a Stockholder who holds no less than 51% of the outstanding Common Stock of the Company (a "Dragging Stockholder"), receives a bona fide offer from a non-affiliated Third Party Purchaser to consummate, in one transaction, or a series of related transactions, a Change of Control (a "Drag-along Sale"), the Dragging Stockholder shall have the right to require that each other Stockholder (each, a "Drag-along Stockholder") participate in such Transfer in the manner set forth in this Section 14, *provided, however*, that no Drag-along Stockholder shall be required to participate in the Drag-along Sale if the consideration for the Drag-along Sale is other than cash or registered securities listed on an established U.S. securities exchange or traded on the NASDAQ Stock Market. Notwithstanding anything to the contrary in this Agreement, each Drag-along Stockholder shall vote in favor of the transaction and take all actions to waive any dissenters, appraisal or other similar rights.

(b) The Dragging Stockholder shall exercise its rights pursuant to this Section 14 by delivering a written notice (the "Drag-along Notice") to the Company and each Drag-along Stockholder no later than 20 Business Days prior to execution of an agreement to effect a Drag-along Sale. The Drag-along Notice shall make reference to the Dragging Stockholder's rights and obligations hereunder and shall describe in reasonable detail:

(i) the number of shares of Common Stock to be sold by the Dragging Stockholder, if the Drag-along Sale is structured as a Transfer of Common Stock;

(ii) the identity of the Third Party Purchaser;

(iii) the proposed date, time and location of the closing of the Drag-along Sale;

(iv) the per share purchase price and the other material terms and conditions of the Transfer, including a description of any non-cash consideration in sufficient detail to permit the valuation thereof; and

(v) a copy of any form of agreement proposed to be executed in connection therewith.

(c) If the Drag-along Sale is structured as a Transfer of Common Stock, then, subject to Section 14(d), the Dragging Stockholder and each Drag-along Stockholder shall Transfer the number of shares equal to the product of (x) the aggregate number of shares of Common Stock the Third Party Purchaser proposes to buy as stated in the Drag-along Notice and (y) a fraction (A) the numerator of which is equal to the number of shares of Common Stock and Common Stock Equivalents then held by such Dragging Stockholder or Drag-along Stockholder, as the case may be, and (B) the denominator of which is equal to the number of shares of Common Stock and Common Stock Equivalents then held by all of the Stockholders (including, for the avoidance of doubt, the Dragging Stockholder).

(d) The consideration to be received by a Drag-along Stockholder shall be the same form and amount of consideration per share of Common Stock to be received by the Dragging Stockholder (or, if the Dragging Stockholder is given an option as to the form and amount of consideration to be received, the same option shall be given) and the terms and conditions of such Transfer shall, except as otherwise provided in the immediately succeeding sentence, be the same as those upon which the Dragging Stockholder Transfers its Common Stock. Each Drag-along Stockholder shall make or provide the same representations, warranties, covenants, and agreements as the Dragging Stockholder makes or provides in connection with the Drag-along Sale (except that in the case of representations, warranties, covenants, and agreements pertaining specifically to the Dragging Stockholder, the Drag-along Stockholder shall make the comparable representations, warranties, covenants, and agreements pertaining specifically to itself); *provided, that* all representations, warranties, covenants and indemnities shall be made by the Dragging Stockholder and each Drag-along Stockholder severally and not jointly *and further provided that* no Drag-along Stockholder shall be required to provide any indemnification to the Third Party Purchaser other than in respect of actions taken or defaults caused by such Drag-along Stockholder.

(e) The fees and expenses of the Dragging Stockholder incurred in connection with a Drag-along Sale shall be paid by the Dragging Stockholder to the extent not paid or reimbursed by the Company or the Third Party Purchaser.

(f) Each Drag-along Stockholder shall take all actions as may be reasonably necessary to consummate the Drag-along Sale, including entering into agreements and delivering certificates and instruments, in each case consistent with the agreements being entered into and the certificates being delivered by the Dragging Stockholder.

(g) The Dragging Stockholder shall have 120 days following the date of the Drag-along Notice in which to consummate the Drag-along Sale, on the terms set forth in the Drag-along Notice (which such 120 day period may be extended for a reasonable time not to exceed 180 days to the extent reasonably necessary to obtain any Government Approvals). If at the end of such period, the Dragging Stockholder has not completed the Drag-along Sale, the Dragging Stockholder may not then effect a transaction subject to this Section 14 without again fully complying with the provisions of this Section 14.

#### Section 15. Tag Along Rights.

(a) After the occurrence a Standstill Termination Event, except for transfers effected on an Exchange, if a Senior Management Shareholder or a Stockholder who holds no less than 51% of the outstanding Common Stock of the Company (the "Selling Stockholder") proposes to Transfer any shares of its Common Stock to a Third Party Purchaser (the "Proposed Transferee") and the Selling Stockholder cannot or has not elected to exercise its drag-along rights set forth in Section 14, each other Stockholder (each, a "Tag-along Stockholder") shall be permitted to participate in such Transfer (a "Tag-along Sale") on the terms and conditions set forth in this Section 15.

(b) Prior to the consummation of any such Transfer of Common Stock described in Section 15(a), the Selling Stockholder shall deliver to the Company and each other Stockholder a written notice (a "Sale Notice") of the proposed Tag-along Sale subject to this Section 15 no later than 10 Business Days prior to the execution of an agreement for a Tag-along Sale. The Sale Notice shall make reference to the Tag-along Stockholders' rights hereunder and shall describe in reasonable detail:

(i) the aggregate number of shares of Common Stock the Proposed Transferee has offered to purchase.

(ii) the identity of the Proposed Transferee;

(iii) the proposed date, time and location of the closing of the Tag-along Sale;

(iv) the per share purchase price and the other material terms and conditions of the Transfer, including a description of any non-cash consideration in sufficient detail to permit the valuation thereof; and

(v) a copy of any form of agreement proposed to be executed in connection therewith.

(c) Each Tag-along Stockholder shall exercise its right to participate in a Transfer of Common Stock by the Selling Stockholder subject to this Section 15 by delivering to the Selling Stockholder a written notice (a "Tag-along Notice") stating its election to do so and specifying the number of shares of Common Stock to be Transferred by it no later than five Business Days after receipt of the Sale Notice (the "Tag-along Period"). The offer of each Tag-along Stockholder set forth in a Tag-along Notice shall be irrevocable, and, to the extent such offer is accepted, such Tag-along Stockholder shall be bound and obligated to Transfer in the proposed Transfer on the terms and conditions set forth in this Section 15. The Selling Stockholder and each Tag-along Stockholder shall have the right to Transfer in a Transfer subject to this Section 15 the number of shares of Common Stock equal to the product of (x) the aggregate number of shares of Common Stock the Proposed Transferee proposes to buy as stated in the Sale Notice and (y) a fraction (A) the numerator of which is equal to the number of shares of Common Stock and Common Stock Equivalents then held by the Selling Stockholder or such Tag-along Stockholder, as the case may be, and (B) the denominator of which is equal to the number of shares of Common Stock and Common Stock Equivalents then held by all of the Stockholders (including, for the avoidance of doubt, the Selling Stockholder).

(d) Each Tag-along Stockholder who does not deliver a Tag-along Notice in compliance with Section 15(c) above shall be deemed to have waived all of such Tag-along Stockholder's rights to participate in such Transfer, and the Selling Stockholder shall (subject to the rights of any participating Tag-along Stockholder) thereafter be free to Transfer to the Proposed Transferee its shares of Common Stock at a per share price that is no greater than the per share price set forth in the Sale Notice and on terms and conditions which are not materially more favorable to the Selling Stockholder than those set forth in the Sale Notice without any further obligation to the non-accepting Tag-along Stockholders.

(e) Each Tag-along Stockholder participating in a Transfer pursuant to this Section 15 shall receive the same consideration per share as the Selling Stockholder after deduction of such Tag-along Stockholder's proportionate share of the related expenses in accordance with Section 15(g) below.

(f) Each Tag-along Stockholder shall make or provide the same representations, warranties, covenants, and agreements as the Selling Stockholder makes or provides in connection with the Tag-along Sale (except that in the case of representations, warranties, covenants, and agreements pertaining specifically to the Selling Stockholder, the Tag-along Stockholder shall make the comparable representations, warranties, covenants, indemnities and agreements pertaining specifically to itself); *provided, that* all representations, warranties, and covenants shall be made by the Selling Stockholder and each Tag-along Stockholder severally and not jointly *and provided further that* no Tag-along Stockholder shall have any indemnification obligation to the Proposed Transferee other than in respect of actions taken or defaults caused by such Tag-along Stockholder.

(g) The Selling Stockholder and each Tag-along Stockholder shall be responsible for its own expenses.

(h) Each Tag-along Stockholder shall take all actions as may be reasonably necessary to consummate the Tag-along Sale, including entering into agreements and delivering certificates and instruments, in each case consistent with the agreements being entered into and the certificates being delivered by the Selling Stockholder.

(i) The Selling Stockholder shall have 120 Business Days following the expiration of the Tag-along Period in which to Transfer the shares of Common Stock described in the Sale Notice, on the terms set forth in the Sale Notice (which such 120 Business Day period may be extended for a reasonable time not to exceed 180 Business days to the extent reasonably necessary to obtain any Government Approvals). If at the end of such 120 Business day period, the Selling Stockholder has not completed such Transfer, the Selling Stockholder may not then effect a Transfer of Common Stock subject to this Section 15 without again fully complying with the provisions of this Section 15.

(j) If the Selling Stockholder Transfers to the Proposed Transferee any of its shares of Common Stock in breach of this Section 15, then each Tag-along Stockholder shall have the right to Transfer to the Selling Stockholder, and the Selling Stockholder undertakes to purchase from each Tag-along Stockholder, the number of shares of Common Stock that such Tag-along Stockholder would have had the right to Transfer to the Proposed Transferee pursuant to this Section 15, for a per share amount and form of consideration and upon the terms and conditions on which the Proposed Transferee bought such Common Stock from the Selling Stockholder, and without indemnity being granted by any Tag-along Stockholder to the Selling Stockholder; *provided, that*, nothing contained in this Section 15 shall preclude any Stockholder from seeking alternative remedies against such Selling Stockholder as a result of its breach of this Section 15. The Selling Stockholder shall also reimburse each Tag-along Stockholder for any and all reasonable and documented out-of-pocket fees and expenses, including reasonable legal fees and expenses, incurred pursuant to the exercise or the attempted exercise of the Tag-along Stockholder's rights.

Section 16. Termination.

(a) This Agreement may be terminated at any time prior to the Closing Date:

(i) by the Company on one hand or the Standby Purchaser on the other hand by written notice to the other party hereto, if there is a material breach of this Agreement by the other party that is not cured within fifteen (15) days after receipt of written notice of such breach by such breaching party;

(ii) if, by action of FLMHC's board of directors, FLMHC shall have decided to abandon the Plan of Conversion;

(iii) if the Plan of Conversion shall have been proposed for approval and adoption at a meeting of the Voting Members and shall have failed to receive approval at such meeting or any adjournment thereof or if the Department shall have stated in writing that it does not approve or intend to approve the Plan of Conversion;

(iv) the Closing has not occurred by December 31, 2018 (the "Outside Date"), provided that the party seeking to terminate this Agreement pursuant to this clause (iv) shall not have failed to perform the covenants, agreements and conditions to be performed by it which has been the primary cause of, or resulted in, the failure of the Closing to occur by the Outside Date, and further provided that if any approvals necessary to proceed with or complete the Conversion or the Offerings have not been received by December 1, 2018, either the Company or the Standby Purchaser may extend the Outside Date for up to six months by giving written notice thereof to the other party, so long as, in the case of an extension sought by the Company, each of the Company, FLMHC and Federal Life shall have performed the covenants, agreements and conditions to be performed by it; or

(v) if any Governmental Entity shall have issued an order, decree or ruling or taken any other action permanently restraining, enjoining or otherwise prohibiting the transactions contemplated by this Agreement and such order, decree, ruling or other action shall have become final and nonappealable or if the removal or reversal of such order, decree, ruling or other action should constitute a Burdensome Condition.

(b) In the event of termination of this Agreement pursuant to Section 16(a), written notice thereof shall as promptly as practicable be given to the other parties to this Agreement and this Agreement shall terminate and the transactions contemplated hereby shall be abandoned, without further action by any of the parties hereto. If this Agreement is terminated pursuant to Section 16(a):

(i) there shall be no liability or obligation on the part of the parties hereto or their respective officers and directors, and all obligations of the parties hereto shall terminate, except for (A) the obligations of the parties pursuant to this Section 17(b), and the provisions of Sections 17 through 23 and Section 25, and (B) any liabilities for any breach by the parties of the terms and conditions of this Agreement prior to such termination; and

(ii) all filings, applications and other submissions made pursuant to the transactions contemplated by this Agreement shall, to the extent practicable, be withdrawn from any Governmental Entity to which made.

Section 17. Survival. The representations and warranties of the Company and the Standby Purchaser contained in this Agreement or in any certificate delivered hereunder shall survive the Closing hereunder.

Section 18. Notices. All notices, communications and deliveries required or permitted by this Agreement shall be made in writing signed by the party making the same, shall specify the Section of this Agreement pursuant to which it is given or being made and shall be deemed given or made (i) on the date delivered if delivered by hand, (ii) on the third (3rd) Business Day after it is mailed if mailed by United States registered or certified mail (return receipt requested) (with postage and other fees prepaid), or (iii) on the day after it is delivered, prepaid, to an overnight express delivery service promising next business day delivery that confirms to the sender delivery to the recipient on such day, as follows:

(a) If to the Company, at:

Federal Life Insurance Company  
3750 Deerfield Road  
Riverwoods, Illinois 60015  
Attention: William Austin, President

(b) If to the Standby Purchaser, at:

Insurance Capital Group, LLC  
767 5<sup>th</sup> Avenue  
New York, New York 10153  
Attention: Matthew T. Popoli

or to such other representative or at such other address of a party as such party hereto may furnish to the other parties in writing in accordance with this Section 18. If notice is given pursuant to this Section 18 of any assignment to a permitted successor or assign of a party hereto, the notice shall be given as set forth above to such successor or permitted assign of such party.

Section 19. Assignment. This Agreement will be binding upon, and will inure to the benefit of and be enforceable by, the parties hereto and their respective successors and assigns. No party to this Agreement may assign this Agreement or any of its rights or obligations under this Agreement without the prior written consent of the other party hereto; provided that the Standby Purchaser may assign its rights and obligations hereunder to an Affiliate of the Standby Purchaser (excluding Prosperity Life Insurance Group or any subsidiary thereof) if the Standby Purchaser gives written notice of such assignment to the Company within five (5) Business Days thereof and the Standby Purchaser guarantees performance by such Affiliate of the Standby Purchaser's obligations under this Agreement.

Section 20. Entire Agreement. This Agreement embodies the entire agreement and understanding between the parties hereto in respect of the subject matter contained herein. There are no restrictions, promises, warranties, or undertakings, other than those set forth or referred to herein, with respect to the transactions contemplated by this Agreement. This Agreement supersedes all prior agreements and understandings between the parties with respect to the subject matter of this Agreement.

Section 21. Governing Law; Venue. This Agreement shall be governed by and construed in accordance with the laws of the Commonwealth of Pennsylvania (other than its rules of conflict of laws to the extent the application of the laws of another jurisdiction would be required thereby). The state courts of the County of Philadelphia, Pennsylvania and the United States District Court for the Eastern District of Philadelphia shall have the exclusive jurisdiction over any and all claims, lawsuits and litigation relating to or arising out of this Agreement, the subject matter hereof or the transactions contemplated hereby. Each party hereto hereby irrevocably (a) submits to the personal jurisdiction of such courts over such party in connection with any litigation, proceeding or other legal action arising out of or in connection with this Agreement, and (b) waives to the fullest extent permitted by law any objection to the venue of any such litigation, proceeding or action which is brought in any such court.

Section 22. Severability. If any provision of this Agreement or the application thereof to any Person or circumstances is determined by a court of competent jurisdiction to be invalid, void or unenforceable, the remaining provisions hereof, or the application of such provision to Persons or circumstances other than those as to which it has been held invalid or unenforceable, shall remain in full force and effect and shall in no way be affected, impaired or invalidated thereby, so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner adverse to any party. Upon such determination, the parties shall negotiate in good faith in an effort to agree upon a suitable and equitable substitute provision to effect the original intent of the parties.

Section 23. Extension or Modification of Rights Offering. Without the prior written consent of the Standby Purchaser, the Company may (a) waive irregularities in the manner of exercise of the Rights, and (b) waive conditions relating to the method (but not the timing) of the exercise of the Rights.

Section 24. Most Favored Nation. Except as disclosed or set forth herein, during the period from the date of this Agreement through the Closing Date, neither the Company nor its subsidiaries shall enter into any additional, or modify any existing, agreements with any existing or future investors in the Company or any of its subsidiaries that have the effect of establishing rights, imposing restrictions or otherwise benefiting such investor in a manner more favorable in any material respect to such investor than the rights, restrictions and benefits established with respect to the Standby Purchaser in this Agreement, unless, in any such case, this Agreement has been amended to provide the Standby Purchaser with such additional rights and benefits or reduced restrictions.

Section 25. Miscellaneous.

(a) The obligations of the Company, FLMHC, and Federal Life under this Agreement shall be joint and several.

(b) The Company shall not after the date of this Agreement enter into any agreement with respect to its securities which is inconsistent with or violates the rights granted to the Standby Purchaser in this Agreement.

(c) The headings in this Agreement are for purposes of reference only and shall not limit or otherwise affect the meaning of this Agreement.

(d) This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original, but all of which, when taken together, shall constitute one and the same instrument. In the event that any signature is delivered by facsimile transmission, or by e-mail delivery of a “.pdf” format data file, such signature shall create a valid and binding obligation of the party executing (or on whose behalf such signature is executed) with the same force and effect as if such facsimile signature page were an original thereof.

*[Remainder of this page intentionally left blank.]*



IN WITNESS WHEREOF, the parties have caused this Agreement to be duly executed and delivered as of the date first above written.

FEDERAL LIFE GROUP, INC.

By: /s/ William S. Austin  
\_\_\_\_\_  
William S. Austin  
President

FEDERAL LIFE MUTUAL HOLDING  
COMPANY

By: /s/ William S. Austin  
\_\_\_\_\_  
William S. Austin  
President

FEDERAL LIFE INSURANCE COMPANY

By: /s/ William S. Austin  
\_\_\_\_\_  
William S. Austin  
President

INSURANCE CAPITAL GROUP, LLC

By: /s/ Matthew T. Popoli  
\_\_\_\_\_  
Matthew T. Popoli  
Senior Managing Director

EXHIBIT A

Proposed Note Terms:

Issuer: FLMHC

Advances: The Note will be structured as a line of credit facility and the Standby Purchaser will make advances to the Issuer within five (5) days after the Issuer has made a written request to the Standby Purchaser for such advance, provided that the outstanding aggregate balance of all advances shall not exceed \$2,000,000.

Maturity: 24 months from issuance

Rate: Interest shall accrue on the outstanding principal balance of the Note at a fixed rate of 3.75% per annum for the first 12 months (provided that such 12-month period shall be extended for up to six additional months if the Closing has been delayed in the manner described in the second proviso to Section 16(a) (iv)), and then a fixed rate of 10% per annum thereafter

Default Rate: Fixed rate of 10% per annum

Interest payment: Interest accrued each quarter will be paid on the last day of each quarter

Defaults: Non-payment, bankruptcy, non-compliance with covenants in Standby Purchase Agreement

Other terms: To be assumed by the Company upon closing of the Offerings, and the principal converted into shares of Common Stock on the completion of the Conversion at the Subscription Price.

## EXHIBIT B

### 1. Definitions.

Capitalized terms used in this Exhibit B that are not defined in this Exhibit B shall have the meaning given to such terms in the Standby Stock Purchase Agreement. As used in this Agreement, the following capitalized defined terms shall have the following meanings:

“1933 Act” shall mean the Securities Act of 1933, as amended from time to time.

“1934 Act” shall mean the Securities Exchange Act of 1934, as amended from time to time.

“Company” shall mean Federal Life Group, Inc. and shall also include the Company’s successors.

“Depository” shall mean The Depository Trust Company, or any other depository appointed by the Company, *provided, however*, that such depository must have an address in the Borough of Manhattan, in the City of New York.

“Person” shall mean an individual, partnership (general or limited), corporation, limited liability company, trust or unincorporated organization, or a government or agency or political subdivision thereof.

“Prospectus” shall mean the prospectus included in a Registration Statement, including any preliminary prospectus, and any such prospectus as amended or supplemented by any prospectus supplement, including any such prospectus supplement with respect to the terms of the offering of any portion of the Shares covered by a Shelf Registration Statement, and by all other amendments and supplements to a prospectus, including post-effective amendments, and in each case including all material incorporated by reference therein.

“Registration Expenses” shall mean any and all expenses incident to performance of or compliance by the Company with this Agreement, including without limitation: (i) all SEC, stock exchange or Financial Industry Regulatory Authority (“FINRA”) registration and filing fees, (ii) all fees and expenses incurred in connection with compliance with state securities or blue sky laws and compliance with the rules of FINRA (including reasonable fees and disbursements of counsel for any underwriters or the Standby Purchaser in connection with blue sky qualification of any of the Shares and any filings with FINRA), (iii) all expenses of any Persons in preparing or assisting in preparing, word processing, printing and distributing any Registration Statement, any Prospectus, any amendments or supplements thereto, any underwriting agreements, securities sales agreements and other documents relating to the performance of and compliance with this Agreement, (iv) all fees and expenses incurred in connection with the listing, if any, of any of the Shares on any securities exchange or exchanges, (v) the fees and disbursements of counsel for the Company and the fees and expenses of the independent registered public accounting firm of the Company, including the expenses of any special audits or “comfort” letters required by or incident to such performance and compliance, and (vi) any fees and disbursements of the underwriters customarily required to be paid by issuers or sellers of securities and the fees and expenses of any special experts retained by the Company in connection with any Registration Statement, but excluding underwriting discounts and commissions and transfer taxes, if any, relating to the sale or disposition of Shares by the Standby Purchaser.

“SEC” shall mean the United States Securities and Exchange Commission or any successor agency or government body performing the functions currently performed by the United States Securities and Exchange Commission.

“Shares” shall mean all shares of common stock owned by the Standby Purchaser that were acquired in the Community Offering.

“Shelf Registration” shall mean a registration effected pursuant to Section 2.1 of this Agreement.

“Shelf Registration Statement” shall mean a “shelf” registration statement of the Company pursuant to the provisions of Section 2.1 of this Agreement which covers all of the Shares on an appropriate form under Rule 415 under the 1933 Act, or any similar rule that may be adopted by the SEC, and all amendments and supplements to such registration statement, including post-effective amendments, in each case including the Prospectus contained therein, all exhibits thereto and all material incorporated by reference therein.

## 2. Registration Under the 1933 Act.

2.1 Registration of Shares. The Company shall, for the benefit of the Standby Purchaser, at the Company’s cost, (A) prepare and file with the SEC a Shelf Registration Statement within 120 days after receipt of a written request of the Standby Purchaser on or after the end of the Solicitation Period, on an appropriate form under the 1933 Act with respect to offers and sales of the Shares, and (B) use all commercially reasonable efforts to cause the Shelf Registration Statement to be declared effective under the 1933 Act within 120 days of the date of filing of the Shelf Registration Statement. The Company will:

(a) Use all commercially reasonable efforts to keep the Shelf Registration Statement continuously effective in order to permit the Prospectus forming part thereof to be usable by the Standby Purchaser for a period of two years from the date the Shelf Registration Statement becomes effective under the 1933 Act, or for such shorter period that will terminate when all Shares covered by the Shelf Registration Statement have been sold pursuant to the Shelf Registration Statement or cease to be owned by the Standby Purchaser (the “Effectiveness Period”); *provided, however*, that the Effectiveness Period in respect of the Shelf Registration Statement shall be extended to the extent required to permit dealers to comply with the applicable prospectus delivery requirements of Rule 174 under the 1933 Act and as otherwise provided herein.

(b) Notwithstanding any other provisions hereof, use all commercially reasonable efforts to ensure that (i) any Shelf Registration Statement and any amendment thereto and any Prospectus forming part thereof and any supplement thereto complies in all material respects with the 1933 Act and the rules and regulations thereunder, (ii) any Shelf Registration Statement and any amendment thereto does not, when it becomes effective, contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading and (iii) any Prospectus forming part of any Shelf Registration Statement, and any supplement to such Prospectus (as amended or supplemented from time to time), does not include an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements, in light of the circumstances under which they were made, not misleading.

The Company shall not permit any securities other than the Shares to be included in the Shelf Registration Statement. The Company further agrees, if necessary, to supplement or amend the Shelf Registration Statement, as required by Section 3(b) below, and to furnish to the Standby Purchaser copies of any such supplement or amendment promptly after its being used or filed with the SEC.

2.2 Expenses. The Company shall pay all Registration Expenses in connection with the registration pursuant to Section 2.1. The Standby Purchaser shall pay all underwriting discounts and commissions and transfer taxes, if any, relating to the sale or disposition of the Shares pursuant to the Shelf Registration Statement.

2.3 Effectiveness. (a) The Company will be deemed not to have used all commercially reasonable efforts to cause the Shelf Registration Statement to become, or to remain, effective during the requisite period if the Company voluntarily takes any action that would, or omits to take any action which omission would, result in any such Registration Statement not being declared or becoming effective or in the Standby Purchaser not being able to offer and sell the Shares during that period as and to the extent contemplated hereby, unless such action is required by applicable law.

(b) A Shelf Registration Statement pursuant to Section 2.1 hereof will not be deemed to have become effective unless it has been declared effective by the SEC or has otherwise become effective under the 1933 Act; *provided, however*, that if, after it has been declared or has otherwise become effective, the offering of Shares pursuant to a Shelf Registration Statement is interfered with by any stop order, injunction or other order or requirement of the SEC or any other governmental agency or court, such Registration Statement will be deemed not to have become effective during the period of such interference, until the offering of the Shares pursuant to such Registration Statement may legally resume.

### 3. Registration Procedures.

In connection with the obligations of the Company pursuant to Section 2.1, the Company shall:

(a) prepare and file with the SEC a Registration Statement on the appropriate form under the 1933 Act, which form (i) shall be selected by the Company, (ii) shall be available for the sale of the Shares by the Standby Purchaser, (iii) shall comply as to form in all material respects with the requirements of the applicable form and include or incorporate by reference all financial statements required by the SEC to be filed therewith or incorporated by reference therein, and (iv) shall comply in all material respects with the requirements of Regulation S-T under the 1933 Act, and use all commercially reasonable efforts to cause such Registration Statement to become effective and remain effective in accordance with Section 2 hereof;

(b) prepare and file with the SEC such amendments and post-effective amendments to such Registration Statement as may be necessary under applicable law to keep such Registration Statement effective for the applicable period; and cause the Prospectus to be supplemented by any required prospectus supplement, and as so supplemented to be filed pursuant to Rule 424 (or any similar provision then in force) under the 1933 Act and comply with the provisions of the 1933 Act, the 1934 Act and the rules and regulations thereunder applicable to them with respect to the disposition of all Shares covered by such Registration Statement during the applicable period in accordance with the intended method or methods of distribution by the Standby Purchaser;

(c) (i) notify the Standby Purchaser at least ten business days prior to filing, that a Shelf Registration Statement with respect to the Shares is being filed and advising the Standby Purchaser that the distribution of such Shares will be made in accordance with the method selected by Standby Purchaser; (ii) furnish to the Standby Purchaser and to each underwriter of an underwritten offering of such Shares, if any, without charge, as many copies of each Prospectus, including each preliminary Prospectus, and any amendment or supplement thereto and such other documents as the Standby Purchaser or underwriter may reasonably request, including financial statements and schedules and, if the Standby Purchaser so requests, all exhibits in order to facilitate the public sale or other disposition of such Shares; and (iii) hereby consents to the use of the Prospectus or any amendment or supplement thereto by the Standby Purchaser in connection with the offering and sale of the Shares covered by the Prospectus or any amendment or supplement thereto;

(d) use all commercially reasonable efforts to register or qualify the Shares under all applicable state securities or "blue sky" laws of such jurisdictions as the Standby Purchaser and each underwriter of an underwritten offering of Shares shall reasonably request by the time the applicable Registration Statement is declared effective by the SEC, and do any and all other acts and things which may be reasonably necessary or advisable to enable the Standby Purchaser and each underwriter to consummate the disposition in each such jurisdiction of the Shares; *provided, however*, that the Company shall not be required to (i) qualify as a foreign corporation or as a dealer in securities in any jurisdiction where it would not otherwise be required to qualify but for this Section 3(d), or (ii) take any action which would subject it to general service of process or taxation in any such jurisdiction where it is not then so subject;

(e) notify promptly the Standby Purchaser and, if requested by the Standby Purchaser, confirm such advice in writing promptly (i) when a Registration Statement has become effective and when any post-effective amendments and supplements thereto become effective, (ii) of any request by the SEC or any state securities authority for post-effective amendments and supplements to a Registration Statement and Prospectus or for additional information after the Registration Statement has become effective, (iii) of the issuance by the SEC or any state securities authority of any stop order suspending the effectiveness of a Registration Statement or the initiation of any proceedings for that purpose, (iv) if, between the effective date of a Registration Statement and the closing of any sale of Shares covered thereby, the representations and warranties of the Company contained in any underwriting agreement, securities sales agreement or other similar agreement, if any, relating to the offering cease to be true and correct in all material respects, (v) of the happening of any event or the discovery of any facts during the period a Registration Statement is effective which makes any statement made in such Registration Statement untrue in any material respect or which requires the making of any changes in such Registration Statement in order to make the statements therein not misleading, (vi) of the happening of any event or the discovery of any facts during the period a Registration Statement is effective which makes any statement in the related Prospectus untrue in any material respect or which requires the making of any changes in such Prospectus in order to make the statements therein, in light of the circumstances under which they were made, not misleading, (vii) of the receipt by the Company of any notification with respect to the suspension of the qualification of the Shares for sale in any jurisdiction or the initiation or threatening of any proceeding for such purpose and (viii) of any determination by the Company that a post-effective amendment to such Registration Statement would be appropriate;

(f) use all commercially reasonable efforts to obtain the withdrawal of any order suspending the effectiveness of a Registration Statement at the earliest possible moment;

(g) furnish to the Standby Purchaser, and each underwriter, if any, without charge, at least one conformed copy of each Registration Statement and any post-effective amendment thereto, including financial statements and schedules (without documents incorporated therein by reference and all exhibits thereto, unless requested);

(h) cooperate with the Standby Purchaser to facilitate the timely preparation and delivery of certificates representing such Shares (or statements of Shares owned, if the Company's shares of common stock are issued in book entry only form) to be sold and not bearing any restrictive legends and registered in such names as the Standby Purchaser or the underwriters, if any, may reasonably request at least three business days prior to the closing of any sale of Shares;

(i) upon the occurrence of any event or the discovery of any facts, each as contemplated by Sections 3(e)(v), 3(e)(vi) and 3(e)(vii) hereof, as promptly as practicable after the occurrence of such an event, use all commercially reasonable efforts to prepare a supplement or post-effective amendment to the Registration Statement or the related Prospectus or any document incorporated therein by reference or file any other required document so that, as thereafter delivered to the purchasers of the Shares, such Prospectus will not contain at the time of such delivery any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading or will remain so qualified. At such time as such public disclosure is otherwise made or the Company determines that such disclosure is not necessary, in each case to correct any misstatement of a material fact or to include any omitted material fact, the Company agrees promptly to notify the Standby Purchaser of such determination and to furnish the Standby Purchaser such number of copies of the Prospectus as amended or supplemented, as the Standby Purchaser may reasonably request;

(j) a reasonable time prior to the filing of any Registration Statement, any Prospectus, any amendment to a Registration Statement or amendment or supplement to a Prospectus or any document which is to be incorporated by reference into a Registration Statement or a Prospectus after initial filing of a Registration Statement, provide copies of such document to the Standby Purchaser; and make representatives of the Company as shall be reasonably requested by the Standby Purchaser available for discussion of such document;

(k) if not previously received, obtain a CUSIP number for all Shares not later than the effective date of a Registration Statement;

(l) enter into agreements (including underwriting agreements) and take all other customary and appropriate actions in order to expedite or facilitate the disposition of such Shares and in such connection whether or not an underwriting agreement is entered into and whether or not the registration is an underwritten registration:

(i) make such representations and warranties to the Standby Purchaser and the underwriters, if any, in form, substance and scope as are customarily made by issuers to underwriters in similar underwritten offerings as may be reasonably requested by them;

(ii) obtain opinions of counsel to the Company and updates thereof (which counsel and opinions (in form, scope and substance) shall be reasonably satisfactory to the managing underwriters, if any, and the Standby Purchaser) addressed to the Standby Purchaser and the underwriters, if any, covering the matters customarily covered in opinions requested in sales of securities or underwritten offerings and such other matters as may be reasonably requested by the Standby Purchaser and underwriters;

(iii) obtain “comfort” letters and updates thereof from the Company’s independent registered public accounting firm (and, if necessary, any other independent registered public accounting firm of any subsidiary of the Company or of any business acquired by the Company for which financial statements are, or are required to be, included in the Registration Statement) addressed to the underwriters, if any, and use all commercially reasonable efforts to have such letter addressed to the Standby Purchaser (in accordance with AS 6101: Letters for Underwriters and Certain other Requesting Parties of the Public Company Accounting Oversight Board), such letters to be in customary form and covering matters of the type customarily covered in “comfort” letters to underwriters in connection with similar underwritten offerings;

(iv) enter into a securities sales agreement with the Standby Purchaser and an agent of the Standby Purchaser providing for, among other things, the appointment of such agent for the Standby Purchaser for the purpose of soliciting purchases of Shares, which agreement shall be in form, substance and scope customary for similar offerings;



(v) if an underwriting agreement is entered into, cause the same to set forth indemnification provisions and procedures substantially equivalent to the indemnification provisions and procedures set forth in Section 4 hereof with respect to the underwriters and all other parties to be indemnified pursuant to said Section or, at the request of any underwriters, in the form customarily provided to such underwriters in similar types of transactions; and

(vi) deliver such documents and certificates as may be reasonably requested and as are customarily delivered in similar offerings to the Standby Purchaser and the managing underwriters, if any.

The above shall be done at (i) the effectiveness of such Registration Statement (and each post-effective amendment thereto) and (ii) each closing under any underwriting or similar agreement as and to the extent required thereunder;

(m) make available for inspection by representatives of the Standby Purchaser, any underwriters participating in any disposition pursuant to a Shelf Registration Statement, and any counsel or accountant retained by any of the foregoing, all financial and other records, pertinent corporate documents and properties of the Company reasonably requested by any such persons, and cause the respective officers, directors, employees, and any other agents of the Company to supply all information reasonably requested by any such representative, underwriter, special counsel or accountant in connection with a Registration Statement, and make such representatives of the Company available for discussion of such documents as shall be reasonably requested by any such representative, underwriter, special counsel or accountant; provided that information which the Company determines in good faith, to be confidential and which it notifies such parties is confidential shall not be disclosed by such parties unless (i) such parties reasonably determine that the disclosure of such information is necessary to avoid or correct a material misstatement or omission in the applicable Registration Statement or the related Prospectus, (ii) such party reasonably determines, based on the advice of counsel, that disclosure of such information is required pursuant to a subpoena or other order for a court of competent jurisdiction or any other administrative agency or is otherwise required by applicable law, in which case each such party shall promptly notify, if permitted by applicable law, the Company, or (iii) such information has been made generally available to the public;

(n) a reasonable time prior to filing any Shelf Registration Statement, any Prospectus forming a part thereof, any amendment to such Shelf Registration Statement or amendment or supplement to such Prospectus, provide copies of such document to the Standby Purchaser, to counsel for the Standby Purchaser and to the underwriter or underwriters of an underwritten offering of Shares, if any, make such changes in any such document prior to the filing thereof as the counsel to the Standby Purchaser the underwriter or underwriters reasonably request and not file any such document in a form to which the Standby Purchaser, counsel for the Standby Purchaser or any underwriter shall not have previously been advised and furnished a copy of or to which the Standby Purchaser, counsel to the Standby Purchaser or any underwriter shall reasonably object, and make the representatives of the Company available for discussion of such document as shall be reasonably requested by the Standby Purchaser, counsel for the Standby Purchasers of Purchaser or any underwriter;

(o) use all commercially reasonable efforts to cause all Shares to be listed on any securities exchange on which shares of common stock of the Company are then listed if requested by the Standby Purchaser, or if requested by the underwriter or underwriters of an underwritten offering of Shares, if any;

(p) otherwise comply with all applicable rules and regulations of the SEC and make available to its security the Standby Purchasers, as soon as reasonably practicable, an earnings statement covering at least 12 months which shall satisfy the provisions of Section 11(a) of the 1933 Act and Rule 158 thereunder;

(q) cooperate and assist in any filings required to be made with FINRA and in the performance of any due diligence investigation by any underwriter and its counsel (including any “qualified independent underwriter” that is required to be retained in accordance with the rules and regulations of FINRA); and

(r) the Company may (as a condition to the Standby Purchaser’s participation in the Shelf Registration) require the Standby Purchaser to furnish to the Company such information regarding the Standby Purchaser and the proposed distribution by the Standby Purchaser of the Shares as the Company may from time to time reasonably request in writing.

The Standby Purchaser agrees that, upon receipt of any notice from the Company of (i) the happening of any event or the discovery of any facts, each of the kind described in Section 3(e)(v) or 3(e)(vi) hereof, or (ii) the good faith determination of the Board of Directors or the Chief Executive Officer and Chief Financial Officer of the Company that the continued effectiveness of the applicable Registration Statement and use of the Prospectus would require disclosure of confidential information related to a material acquisition or divestiture of assets or a material corporate transaction, event or development, the Standby Purchaser will forthwith discontinue disposition of Shares pursuant to a Registration Statement until the Standby Purchaser’s receipt of the copies of the supplemented or amended Prospectus contemplated by Section 3(k) hereof, and, if so directed by the Company, the Standby Purchaser will deliver to the Company (at its expense) all copies in the Standby Purchaser’s possession, other than permanent file copies then in the Standby Purchaser’s possession, of the Prospectus covering Shares current at the time of receipt of such notice; *provided* that the Company shall not allow the applicable Registration Statement to fail or cease to be effective or allow the Prospectus to be unusable pursuant to the provisions of this paragraph for more than 45 days during any year of effectiveness contemplated by Section 2 hereof. It is understood and agreed that the provisions of this paragraph shall not affect the Company’s obligations under Section 2.5 of this Agreement.

The Standby Purchaser hereby agrees with the Company that the Standby Purchaser of will not participate in any underwritten offering hereunder unless the Standby Purchaser completes and executes all questionnaires, powers of attorney, indemnities, underwriting agreements and other documents required under the terms of such underwriting arrangements.

#### 4. Indemnification; Contribution.

(a) With respect to the Securities, the Company agrees to indemnify and hold harmless the Standby Purchaser, each Person who participates as an underwriter (any such Person being an “Underwriter”) and each Person, if any, who controls any such Person within the meaning of Section 15 of the 1933 Act or Section 20 of the 1934 Act with respect to the Securities as follows:

(i) against any and all loss, liability, claim, damage and expense whatsoever, as incurred, arising out of any untrue statement or alleged untrue statement of a material fact contained in any Registration Statement (or any amendment or supplement thereto) pursuant to which Shares were registered under the 1933 Act, including all documents incorporated therein by reference, or the omission or alleged omission therefrom of a material fact required to be stated therein or necessary to make the statements therein not misleading, or arising out of any untrue statement or alleged untrue statement of a material fact contained in any Prospectus (or any amendment or supplement thereto) or the omission or alleged omission therefrom of a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading;

(ii) against any and all loss, liability, claim, damage and expense whatsoever, as incurred, to the extent of the aggregate amount paid in settlement of any litigation, or any investigation or proceeding by any governmental agency or body, commenced or threatened, or of any claim whatsoever based upon any such untrue statement or omission, or any such alleged untrue statement or omission; provided that (subject to Section 4(d) below) any such settlement is effected with the written consent of the Company; and

(iii) against any and all expense whatsoever, as incurred (including the reasonable fees and disbursements of counsel chosen by any indemnified party), reasonably incurred in investigating, preparing or defending against any litigation, or any investigation or proceeding by any governmental agency or body, commenced or threatened, or any claim whatsoever based upon any such untrue statement or omission, or any such alleged untrue statement or omission, to the extent that any such expense is not paid under subparagraph (i) or (ii) above; *provided, however*, that this indemnity agreement shall not apply to any loss, liability, claim, damage or expense to the extent arising out of any untrue statement or omission or alleged untrue statement or omission made in reliance upon and in conformity with written information furnished to the Company by the Standby Purchaser or Underwriter expressly for use in a Registration Statement (or any amendment thereto) or any Prospectus (or any amendment or supplement thereto).

(b) The Standby Purchaser agrees to indemnify and hold harmless the Company, each Underwriter, and each of their respective directors and officers, and each Person, if any, who controls the Company or any Underwriter within the meaning of Section 15 of the 1933 Act or Section 20 of the 1934 Act, against any and all loss, liability, claim, damage and expense described in the indemnity contained in Section 4(a) hereof, as incurred, but only with respect to untrue statements or omissions, or alleged untrue statements or omissions, made in the Shelf Registration Statement (or any amendment thereto) or any Prospectus included therein (or any amendment or supplement thereto) in reliance upon and in conformity with written information with respect to such the Standby Purchaser furnished to the Company by such the Standby Purchaser expressly for use in the Shelf Registration Statement (or any amendment thereto) or such Prospectus (or any amendment or supplement thereto); *provided, however*, that the Standby Purchaser shall not be liable for any claims hereunder in excess of the amount of net proceeds received by the Standby Purchaser from the sale of Shares pursuant to such Shelf Registration Statement.

(c) Each indemnified party shall give notice as promptly as reasonably practicable to each indemnifying party of any action or proceeding commenced against it in respect of which indemnity may be sought hereunder, but failure so to notify an indemnifying party shall not relieve such indemnifying party from any liability hereunder to the extent it is not materially prejudiced as a result thereof and in any event shall not relieve it from any liability which it may have otherwise than on account of this indemnity agreement. An indemnifying party may participate at its own expense in the defense of such action; *provided, however*, that counsel to the indemnifying party shall not (except with the consent of the indemnified party) also be counsel to the indemnified party. No indemnifying party shall, without the prior written consent of the indemnified parties, settle or compromise or consent to the entry of any judgment with respect to any litigation, or any investigation or proceeding by any governmental agency or body, commenced or threatened, or any claim whatsoever in respect of which indemnification or contribution could be sought under this Section 4 (whether or not the indemnified parties are actual or potential parties thereto), unless such settlement, compromise or consent (i) includes an unconditional release of each indemnified party from all liability arising out of such litigation, investigation, proceeding or claim and (ii) does not include a statement as to or an admission of fault, culpability or a failure to act by or on behalf of any indemnified party.

(d) If at any time an indemnified party shall have requested an indemnifying party to reimburse the indemnified party for fees and expenses of counsel, such indemnifying party agrees that it shall be liable for any settlement of the nature contemplated by Section 4(a)(ii) effected without its written consent if (i) such settlement is entered into more than 45 days after receipt by such indemnifying party of the aforesaid request, (ii) such indemnifying party shall have received notice of the terms of such settlement at least 30 days prior to such settlement being entered into and (iii) such indemnifying party shall not have reimbursed such indemnified party in accordance with such request prior to the date of such settlement.

(e) If the indemnification provided for in this Section 4 is for any reason unavailable to or insufficient to hold harmless an indemnified party in respect of any losses, liabilities, claims, damages or expenses referred to therein, then each indemnifying party shall contribute to the aggregate amount of such losses, liabilities, claims, damages and expenses incurred by such indemnified party, as incurred, in such proportion as is appropriate to reflect the relative fault of the Company on the one hand and the Standby Purchaser, and Underwriters on the other hand in connection with the statements or omissions which resulted in such losses, liabilities, claims, damages or expenses, as well as any other relevant equitable considerations.

The relative fault of the Company on the one hand and the Standby Purchaser, and Underwriters on the other hand shall be determined by reference to, among other things, whether any such untrue or alleged untrue statement of a material fact or omission or alleged omission to state a material fact relates to information supplied by the Company, the Standby Purchasers, or Underwriters and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission.

The Company, the Standby Purchasers, and Underwriters agree that it would not be just and equitable if contribution pursuant to this Section 4 were determined by pro rata allocation or by any other method of allocation which does not take account of the equitable considerations referred to above in this Section 4. The aggregate amount of losses, liabilities, claims, damages and expenses incurred by an indemnified party and referred to above in this Section 4 shall be deemed to include any legal or other expenses reasonably incurred by such indemnified party in investigating, preparing or defending against any litigation, or any investigation or proceeding by any governmental agency or body, commenced or threatened, or any claim whatsoever based upon any such untrue or alleged untrue statement or omission or alleged omission.

Notwithstanding the provisions of this Section 4, neither the Standby Purchaser nor any Underwriter shall be required to contribute any amount in excess of the amount by which the net proceeds received by the Standby Purchaser from the sale of the Shares exceeds the amount of any damages which the Standby Purchaser or Underwriter has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission with respect to the Shares from the sale of the Shares.

No Person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the 1933 Act) shall be entitled to contribution from any Person who was not guilty of such fraudulent misrepresentation.

For purposes of this Section 4, each Person, if any, who controls the Standby Purchaser or any Underwriter within the meaning of Section 15 of the 1933 Act or Section 20 of the 1934 Act shall have the same rights to contribution as the Standby Purchaser or Underwriter and each director of the Company, and each Person, if any, who controls the Company within the meaning of Section 15 of the 1933 Act or Section 20 of the 1934 Act shall have the same rights to contribution as the Company.

#### 5. Miscellaneous.

5.1 Rule 144 and Rule 144A. For so long as the Company is subject to the reporting requirements of Section 13 or 15 of the 1934 Act, the Company covenants that it will file the reports required to be filed by it under the 1933 Act and Section 13(a) or 15(d) of the 1934 Act and the rules and regulations adopted by the SEC thereunder. If the Company ceases to be so required to file such reports, the Company covenants that it will upon the request of the Standby Purchaser (a) make publicly available such information as is necessary to permit sales pursuant to Rule 144 under the 1933 Act, (b) deliver such information to a prospective purchaser as is necessary to permit sales pursuant to Rule 144A under the 1933 Act and it will take such further action as the Standby Purchaser may reasonably request, and (c) take such further action that is reasonable in the circumstances, in each case, to the extent required from time to time to enable the Standby Purchaser to sell its Shares without registration under the 1933 Act within the limitation of the exemptions provided by (i) Rule 144 under the 1933 Act, as such Rule may be amended from time to time, (ii) Rule 144A under the 1933 Act, as such Rule may be amended from time to time, or (iii) any similar rules or regulations hereafter adopted by the SEC. Upon the request of the Standby Purchaser, the Company will deliver to the Standby Purchaser a written statement as to whether it has complied with such requirements.

5.2 Notices. All notices and other communications provided for or permitted hereunder shall be made in writing by hand delivery, registered first-class mail, email, or any courier guaranteeing overnight delivery (a) if to Standby Purchaser, initially at the Standby Purchaser's address set forth in the Agreement, and thereafter at the most current address given by Standby Purchaser to the Company by means of a notice given in accordance with the provisions of this Section 5.4; and (b) if to the Company, initially at the Company's address set forth in the Agreement, and thereafter at such other address of which notice is given in accordance with the provisions of this Section 5.4.

All such notices and communications shall be deemed to have been duly given: at the time delivered by hand, if personally delivered; two business days after being deposited in the mail, postage prepaid, if mailed; when receipt is acknowledged, if emailed; and on the next business day if timely delivered to an air courier guaranteeing overnight delivery.

Copies of all such notices, demands, or other communications shall be concurrently delivered by the person giving the same to the Trustee under the Indenture, at the address specified in such Indenture.

5.3 Specific Enforcement. Without limiting the remedies available to the Standby Purchaser, the Company acknowledges that any failure by the Company to comply with its obligations under Sections 2.1 through 2.4 hereof may result in material irreparable injury to the Standby Purchaser for which there is no adequate remedy at law, that it would not be possible to measure damages for such injuries precisely and that, in the event of any such failure, the Standby Purchaser may obtain such relief as may be required to specifically enforce the Company's obligations under Sections 2.1 through 2.4 hereof.

EXHIBIT C

Major Decisions

- Use of Proceeds – making use of the net proceeds of the Offerings (including the contribution or loan of such net proceeds to Federal Life or FLMHC); other than a contribution of at least \$12,500,000 of such net proceeds, which shall be contributed to Federal Life immediately after the Closing.
- Merger, Consolidation, Sale of Assets or Sale of a Controlling Stake in the Company – the merger or consolidation of the Company or Federal Life with any Person or the sale, lease or other transfer of all or substantially all of the Company’s or Federal Life’s assets to any Person, or entry into any agreement to do any of the foregoing.
- Material Affiliate transactions - the entry into any material transaction with any Affiliate of the Company, FLMHC or Federal Life.

**EXECUTIVE AGREEMENT**

Agreement made this 3rd day of March 2010 between FEDERAL LIFE INSURANCE COMPANY (MUTUAL), an Illinois mutual life insurance company (hereinafter referred to as the "Company"), and JOSEPH D. AUSTIN (hereinafter sometimes referred to as the "Chairman").

Joseph D. Austin is presently employed by the Company as its Chairman and Chief Executive Officer.

The Board of Directors of the Company recognizes that his contribution to the growth and success of the Company since his election as Chief Executive Officer of the Company on June 21, 1977 has been most substantial. The Board desires to provide for the continued employment of the Chairman which the Board has determined will be in the best interests of the Company and its policyholders and will enforce and encourage the continued attention and dedication to the Company of the Chairman as its Chief Executive Officer. The Chairman is willing to commit himself to continue to serve the Company on the terms and conditions herein provided.

In order to effect the foregoing, the Company and the Chairman wish to enter into an agreement on the terms and conditions set forth below.

Accordingly, in consideration of the promises and the respective covenants and agreements herein contained, in further consideration of services performed and to be performed by the Chairman and intending to be legally bound, the parties hereto agree as follows:

1. Employment.

A. The Company agrees to employ the Chairman as Chief Executive Officer of the Company and the Chairman agrees to serve as the Chief Executive Officer of the Company during the term of employment as set forth in this Agreement. The Chairman shall report only to the Board of Directors of the Company and his powers and authority shall be superior to those of any officers or employees of the Company or of any subsidiaries thereof. The Chairman agrees to serve as a Director and as Chairman of the Board of Directors of the Company as well as serving as chairman or as a member of various committees of the Board of Directors as provided in the Company's By-Laws.

B. If at any time during the term of employment, the Board of Directors of the Company fails to re-elect the Chairman as the Chief Executive Officer and the policyholders fail to elect him as a Director of the Company, or removes the Chairman from such office or from such directorship, or if at any time during the term of this agreement, the Chairman shall fail to be vested by the Company with the powers and authority of the Chief Executive Officer of the Company, except in connection with a termination for material breach or just cause as hereinafter set forth in this Agreement, or if the ownership or control of the Company, including illustratively the power and right to elect a majority of the Board of Directors of the Company becomes vested directly or indirectly in persons other than persons who currently, as of the effective date hereof, have such power and right, the Chairman shall have the right, by written notice to the Company, to terminate his services hereunder effective as of the last day of the month following the receipt by the Company of any such written notice and the Chairman shall have no other obligations under this Agreement. The Chairman's termination of services under this Paragraph shall be treated as a termination of employment by the Company other than for material breach or just cause on the Chairman's part and, accordingly, shall be governed by the provisions of Paragraph 7A of this Agreement.



2. Term of Employment.

The initial term of employment, as this phrase is used throughout this Agreement, shall be for the period beginning on the date of this Agreement and ending three (3) years thereafter consistent with the provisions of Chapter 215 ILCS 5/245, as it exists at the time this Agreement is executed. This agreement is automatically extended each day for an additional day except that a notice of non-extension may be given at any time by the Board of Directors in which case the term of employment will expire at the end of its then current term.

3. Chairman's Duties During Term of Employment.

The Chairman shall devote his full business time (with allowances for vacations and sick leave) and attention and best efforts to the affairs of the Company and its subsidiaries and affiliates during the term of employment; provided, however, that he may serve as a director of other corporations and entities and may engage in other activities to the extent that they do not inhibit the performance of his duties hereof or conflict with the business of the Company or its subsidiaries and affiliates.

4. Compensation.

The Chairman's base salary will be determined each year by the Board of Directors at its annual meeting and will be paid in substantially equal monthly installments plus a bonus determined annually by the Board of Directors based upon the Board of Director's determination as to the Performance of the Chairman.

5. Other Benefits.

In addition to the compensation provided for herein, the Chairman shall be entitled to participate in any and all employee benefit programs of the Company as currently in effect. Further, the Chairman shall be entitled to receive prompt reimbursement for all expenses which he deems reasonably incurred by him in performing services hereunder provided such expenses are incurred and accounted for in accordance with the policies and procedures presently established by the Company.

6. Counsel Fees and Indemnification.

A. In the event that: (1) the Company terminates or seeks to terminate this Agreement alleging as justification for such termination a material breach by the Chairman or causes hereinafter set forth; the Chairman disputes such termination or attempted termination; and/or (2) the Chairman elects to terminate his services hereunder pursuant to Paragraph 1B of this Agreement; the Company disputes its obligations to pay to the Chairman that portion of his compensation as hereinafter provided; the Company shall pay or reimburse to the Chairman all reasonable costs incurred by him in such dispute, including attorney's fees and costs providing the Chairman shall prevail in such action.

B. The Company further represents and warrants: (1) that the Chairman is and shall continue to be covered and insured up to the maximum limits provided by all insurance that the Company maintains to indemnify its directors and officers (and to indemnify the Company for any obligations which it incurs as a result of its undertaking to indemnify its officers and directors) and (2) that the Company will exert its best efforts to maintain such insurance at least at its present limits in effect throughout the term of the Chairman's employment.

C. The Company hereby warrants and represents that the undertakings of payment indemnification and maintenance of such insurance coverage for the Chairman set out above are not in conflict with the charter of the Company or its By-Laws or with any validly existing agreement or other proper corporate action of the Company.

7. Termination.

A. Termination by the Company other than for Material or Just Cause.

If the Company shall terminate the Chairman's employment during the term of employment for other than a material breach of this Agreement or "just cause", as herein defined, the Chairman shall have no obligation to seek other employment in mitigation of damages in respect of any period following the date of such termination and the Chairman shall be entitled to receive from the Company \$515,000 per annum which shall be payable to the Chairman in monthly installments without regard to, or reduction because of, any other compensation or income which the Chairman receives or is entitled to receive whether from the Company or otherwise. It is stipulated that any payments made in accordance with the foregoing shall be paid to and received by the Chairman as liquidated damages for the unwarranted termination of his employment and not as penalties and he shall be entitled to receive no further sums under this Agreement except as such that have accrued as of the date of termination or as otherwise specifically provided in this Agreement. In view of the fact that the term of this Agreement is for three (3) years pursuant to the provisions of the aforesaid described Chapter 215 ILCS 5/245, it is contemplated that the payments provided to be made by virtue of this provision shall be completed at the expiration of three (3) years from the date of such termination.

B. Termination by the Company for Material Breach or for Just Cause.

"Just cause" shall mean willful misconduct, dishonesty, conviction of a felony, habitual drunkenness or excessive absenteeism not related to illness. Should the Chairman's employment be terminated for a material breach of this Agreement or for "just cause", the Company shall be obligated to pay the Chairman his then base salary only through the end of the month during which such termination occurs plus such other sums as are payable to the Chairman under this Agreement and which have accrued as of the end of such month.

C. Termination by the Chairman.

Without prejudice to the provisions of Paragraph 1B of this Agreement, it is agreed that if during the term of employment the Chairman concludes because of changes in the composition of the Board of Directors of the Company or of other events or occurrences of material effect that he can no longer properly and effectively discharge his responsibilities as Chief Executive Officer of the Company, he may at any time resign as Director of the Company and from his position as Chairman and Chief Executive Officer of the Company after giving the Company not less than sixty (60) days prior written notice of the effective date of his resignation. Any such resignation shall not be deemed to be a material breach by the Chairman of this Agreement.

It is further agreed that upon such resignation, except for obligations of either party to the other which have accrued as of the date of the Chairman's resignation or as otherwise specifically provided in this Agreement, the Chairman shall be entitled to receive the compensation provided under Paragraph 7A of this Paragraph 7 as if such termination was by the Company other than for material breach or other just cause. It is provided, however, that the Chairman's obligation of non-disclosure as provided in Paragraph 11 of this Agreement shall remain undiminished and in full force and effect and the obligation of the Chairman under Paragraph 8 of this Agreement not to compete shall continue for the period during which payments continue to be made to the Chairman under the provisions of Paragraph 7A.

8. Non-Competition.

A. Except as is otherwise provided in Paragraph 7C, it is agreed that during the term of employment and during any period in which the Chairman is receiving compensation as provided in Paragraphs 4 and 7, the Chairman will not without the prior approval of the Board of Directors of the Company become an officer, employee, agent, partner or director of any business enterprise which is in substantial direct competition (as defined below) with the Company or any subsidiary or affiliate of the Company, as the business of the Company or any subsidiary or affiliate may be constituted during the term of employment or at the termination thereof.

B. If the Chairman's employment by the Company is terminated by the Chairman during the term of employment, the Chairman shall not during the period in which he is compensated under the provisions of Paragraphs 7A and 7C following such termination become an officer, employee, agent, partner or director of any business enterprise in substantial direct competition with the Company or any subsidiaries of the Company as the business of the Company or any said subsidiaries may be constituted at the time of such termination.

C. For the purpose of this Paragraph 8, a business enterprise with which the Chairman becomes associated as an officer, employee, agent, partner or director shall be considered in "substantial direct competition" if during a year when such competition is prohibited its sales of any product or service which is competitive with a product or service furnished by the Company or any subsidiary of the Company amount to more than ten percent (10%) of the Company's and subsidiaries' total combined sales of its product or services. This provision shall be effective during the period in which the Chairman is receiving payments from the Company under the provisions of Paragraphs 7A and 7C.

9. Effect of Death and Disability.

A. In the event of death of the Chairman during the period of employment, the legal representative of the Chairman shall be entitled to \$515,000 to be paid in twelve (12) equal monthly installments beginning at the end of the month in which death occurs. These payments are in lieu of any other life insurance provided by the Company for the Chairman at the Company's expense. If other life insurance is provided to the Chairman at the Company's expense the payments provided for in this Paragraph will be reduced by the amount of the other life insurance. The period of employment shall be deemed to have ended as of the close of business on the last day of the month in which death shall have occurred but without prejudice to any payments due in respect to the Chairman's death.

B. If, as a result of the Chairman's incapacity due to physical or mental illness, the Chairman shall have been absent from his duties hereunder on a full-time basis for the entire period of nine (9) consecutive months, the period of employment shall be deemed to have ended as of the close of business on the last day of such nine (9) month period but without prejudice to any payments due to the Chairman in respect to disability.

In the event of disability of the Chairman during the period of employment, the Chairman shall be entitled to the base salary provided of in Paragraph 4 above at the rate being paid at the time of the commencement of disability for the first nine (9) month period of such disability. Thereafter, the President shall receive fifty percent (50%) of such rate being paid at the time of the commencement of disability for the remaining term provided for in this Agreement; provided however, that this Agreement after the expiration of the nine (9) month period shall be reduced by any payments to which the Chairman may be entitled for the payment period because of disability under any disability plan of the Company or of any subsidiary or affiliate thereof.

10. Successors or Assigns.

Any successor or assign (whether direct or indirect by purchase, merger, consolidation or change of control) shall absolutely and unconditionally assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no succession or assignment had taken place. The Company agrees that it will require any successor, or assign, under the circumstances herein above set forth, to expressly, absolutely and unconditionally assume and agree to perform this Agreement. Any failure of the Company to obtain such agreement prior to the effectiveness of any such succession or assignment shall be a material breach of this Agreement and shall entitle the Chairman to terminate under the provisions of Paragraph 7A. As used in this Paragraph, Company shall mean the Company as herein before defined and any successor of its business and/or assets as aforesaid which executes and delivers the agreement provided for in this Paragraph or which otherwise becomes bound by the terms and conditions of this Agreement by operation of law.

This Agreement shall inure to the benefit of and be enforceable by the Chairman's legal representative, executors, administrators, successors, heirs, devisees, designees and legatees. If the Chairman should die while any amounts are still payable to him hereunder such amounts unless otherwise provided for herein shall be paid in accordance with the terms of this Agreement to the Chairman's devisees, legatees, or other designees, or, if there be no such designees, to the Chairman's estate.

11. Non-Disclosure.

The Chairman agrees that he shall not at any time during or following his employment with the Company disclose or use, except in the course of his employment with the Company in the pursuit of the business of the Company or any of its subsidiaries and affiliates, any confidential information or proprietary data of the Company or any of its subsidiaries and affiliates whether such information or proprietary data is in his memory or embodied in writing or other physical form.

12. Conflicts.

Any paragraph, sentence, phrase or other provision of this Executive Agreement which is in conflict with any applicable statute, rule or other law shall be deemed, if possible, to be modified or altered to conform thereto or, if not possible, to be omitted herefrom. The invalidity of any portion hereof shall not affect the form and effect of the remaining valid portions hereof. Paragraph headings are included herein for convenience and are not intended to affect in any way the interpretation of any remaining paragraphs of this Agreement.

13. Governing Law.

This Executive Agreement is governed by and is to be construed in accordance with the laws of the State of Illinois.

14. Notice.

All notices shall be in writing and shall be deemed effective when delivered in person, or 48 hours after deposit thereof in the U.S. mails, postage pre-paid, for delivery as registered mail, return-receipt requested, addressed in the case of the Chairman to his last known address as carried on the personnel records of the Company and in the case of the Company to the corporate headquarters to the attention of the Secretary or to such other address as the parties to be notified may specify by notice to the other party.

15. Arbitration.

A. Any controversy or claim arising out of or relating to this Agreement or any breach thereof shall be settled by arbitration before three (3) arbitrators, as provided below, and judgment of the award rendered which the arbitrators, or at least a majority of the arbitrators, may be entered in any court having jurisdiction thereof,

B. Each party shall appoint a disinterested and neutral arbitrator and the two thus appointed shall appoint a third disinterested and neutral arbitrator. If the two arbitrators so chosen cannot agree on the appointment of a third arbitrator then such arbitrator shall be appointed by the then Chief Judge of the United States District Court of Illinois,

16. Modification.

Wherever necessary this Agreement will be modified to comply with IRS Code Section 409A.

Otherwise, no provision of this Agreement may be modified, waived or discharged unless such modification, waiver or discharge is agreed to in writing signed by the Chairman and the Company. No waiver by either party hereto at any time by any breach of any part hereto of any compliance with any conditions or provisions of this Agreement to be performed by such party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time.

IN WITNESS WHEREOF, the Company, by order of its Board of Directors, has caused this Agreement, consisting of seven (7) pages, to be signed in its corporate name by its duly authorized Director and impressed with its corporate seal, attested by its Secretary and the Director has hereunto set his hand on the day and year first above written.

FEDERAL LIFE INSURANCE COMPANY (MUTUAL)

By: /s/ James H. Stacke  
Director - Authorized

[corporate seal]

ATTEST:

/s/ Judy A. Manning  
Secretary

/s/ Joseph D. Austin  
Joseph D. Austin

**EXECUTIVE AGREEMENT**

Agreement made this 30th day of November 2017 between FEDERAL LIFE INSURANCE COMPANY, an Illinois stock life insurance company (hereinafter referred to as the "Company"), and WILLIAM S. AUSTIN (hereinafter sometimes referred to as the "President").

William S. Austin is presently employed by the Company as its President and Chief Operating Officer.

The Board of Directors of the Company desires to provide for the continued employment of the President which the Board has determined will be in the best interests of the Company and its policyholders and will enforce and encourage the continued attention and dedication to the Company of the President. The President is willing to commit himself to continue to serve the Company on the terms and conditions herein provided.

In order to effect the foregoing, the Company and the President wish to enter into an agreement on the terms and conditions set forth below.

Accordingly, in consideration of the promises and the respective covenants and agreements herein contained, in further consideration of services performed and to be performed by the President and intending to be legally bound, the parties hereto agree as follows:

1. Employment.

A. The Company agrees to employ the President as President and Chief Operating Officer of the Company or in a capacity whose functions require an equivalent level of knowledge and responsibility to those now being performed. If at any time Joseph D. Austin retires, or otherwise terminates his employment then William S. Austin will be elected Chairman and Chief Executive Officer of the Company.

B. If at any time William S. Austin is not employed as an officer as provided in Paragraph 1A, he shall have the right, by written notice to the Company, to terminate his services hereunder effective as of the last day of the month following the receipt by the Company of any such written notice and he shall have no other obligations under this Agreement. His termination of services under this Paragraph shall be treated as a termination of employment by the Company other than for material breach or just cause on his part and accordingly, shall be governed by the provisions of Paragraph 7A of this Agreement.

2. Term of Employment.

The initial term of employment, as this phrase is used throughout this Agreement, shall be for the period beginning on the date of this Agreement and ending three (3) years thereafter consistent with the provisions of Chapter 215 ILCS 5/245, as it exists at the time this Agreement is executed. This agreement is automatically extended each day for an additional day except that a notice of non-extension may be given at any time by the Board of Directors in which case the term of employment will expire at the end of its then current term.

3. President's Duties During Term of Employment.

The President shall devote his full business time (with allowances for vacations and sick leave) and attention and best efforts to the affairs of the Company and its subsidiaries and affiliates during the term of employment; provided, however, that he may serve as a director of other corporations and entities and may engage in other activities to the extent that they do not inhibit the performance of his duties hereof or conflict with the business of the Company or its subsidiaries and affiliates.

4. Compensation.

The President's base salary will be determined each year by the Board of Directors at its annual meeting and will be paid in substantially equal monthly installments plus a bonus determined annually by the Board of Directors based upon the Board of Directors' determination as to the performance of the President.

5. Other Benefits.

In addition to the compensation provided for herein, the President shall be entitled to participate in any and all employee benefit programs of the Company as currently in effect. Further, the President shall be entitled to receive prompt reimbursement for all expenses which he deems reasonably incurred by him in performing services hereunder provided such expenses are incurred and accounted for in accordance with the policies and procedures presently established by the Company.

6. Counsel Fees and Indemnification.

A. In the event that: (1) the Company terminates or seeks to terminate this Agreement alleging as justification for such termination a material breach by the President or causes hereinafter set forth; the President disputes such termination or attempted termination; and/or (2) the President elects to terminate his services hereunder pursuant to Paragraph 1B of this Agreement; the Company disputes its obligations to pay to the President that portion of his base salary as hereinafter provided; the Company shall pay or reimburse to the President all reasonable costs incurred by him in such dispute, including attorney's fees and costs providing the President shall prevail in such action.

B. The Company further represents and warrants: (1) that the President is and shall continue to be covered and insured up to the maximum limits provided by all insurance that the Company maintains to indemnify its directors and officers (and to indemnify the Company for any obligations which it incurs as a result of its undertaking to indemnify its officers and directors) and (2) that the Company will exert its best efforts to maintain such insurance at least at its present limits in effect throughout the term of the President's employment.

C. The Company hereby warrants and represents that the undertakings of payment indemnification and maintenance of such insurance coverage for the President set out above are not in conflict with the charter of the Company or its By-Laws or with any validly existing agreement or other proper corporate action of the Company.



7. Termination.

A. Termination by the Company other than for Material or Just Cause.

If the Company shall terminate the President's employment during the term of employment for other than a material breach of this Agreement or "just cause", as herein defined, the President shall have no obligation to seek other employment in mitigation of damages in respect of any period following the date of such termination and the President shall be entitled to receive from the Company the full base salary to which he is then entitled to the end of the term of employment which shall be payable to the President in monthly installments without regard to, or reduction because of, any other compensation or income which the President receives or is entitled to receive whether from the Company or otherwise. It is stipulated that any payments made in accordance with the foregoing shall be paid to and received by the President as liquidated damages for the unwarranted termination of his employment and not as penalties and he shall be entitled to receive no further sums under this Agreement except as such that have accrued as of the date of termination or as otherwise specifically provided in this Agreement. In view of the fact that the term of this Agreement is for three (3) years pursuant to the provisions of the aforesaid described Chapter 215 ILCS 5/245, it is contemplated that the payments provided to be made by virtue of this provision shall be completed at the expiration of three (3) years from the date of such termination.

It is further understood that coverage under the Home Office Employees' Group Health Plan during the period when payments are being made under this Paragraph or Paragraph 7C will continue at the same price as if employment had continued.

B. Termination by the Company for Material Breach or for Just Cause.

"Just cause" shall mean willful misconduct, dishonesty, conviction of a felony, habitual drunkenness or excessive absenteeism not related to illness. Should the President's employment be terminated for a material breach of this Agreement or for "just cause", the Company shall be obligated to pay the President his then base salary only through the end of the month during which such termination occurs plus such other sums as are payable to the President under this Agreement and which have accrued as of the end of such month.

C. Termination by the President.

Without prejudice to the provisions of Paragraph 1B of this Agreement, it is agreed that if during the term of employment the President's duties are materially diminished he may at any time resign from his position as President and Chief Operating Officer of the Company after giving the Chief Executive Officer not less than sixty (60) days prior written notice of the effective date of his resignation. Any such resignation shall not be deemed to be a material breach by the President of this Agreement.

It is further agreed that upon such resignation, except for obligations of either party to the other which have accrued as of the date of the President's resignation or as otherwise specifically provided in this Agreement, the President shall be entitled to receive the compensation provided under Paragraph 7A of this Paragraph 7 as if such termination was by the Company other than for material breach or other just cause. It is provided, however, that the President's obligation of non-disclosure as provided in Paragraph 11 of this Agreement shall remain undiminished and in full force and effect and the obligation of the President under Paragraph 8 of this Agreement not to compete shall continue for the period during which payments continue to be made to the President under the provisions of Paragraph 7A.

8. Non-Competition.

A. Except as is otherwise provided in Paragraph 7C, it is agreed that during the term of employment and during any period in which the President is receiving compensation as provided in Paragraphs 4 and 7, the President will not without the prior approval of the Chairman of the Board become an officer, employee, agent, partner or director of any business enterprise which is in substantial direct competition (as defined below) with the Company or any subsidiary or affiliate of the Company, as the business of the Company or any subsidiary or affiliate may be constituted during the term of employment or at the termination thereof.

B. If the President's employment by the Company is terminated by the President during the term of employment, the President shall not during the period in which he is compensated under the provisions of Paragraphs 7A and 7C following such termination become an officer, employee, agent, partner or director of any business enterprise in substantial direct competition with the Company or any subsidiaries of the Company as the business of the Company or any said subsidiaries may be constituted at the time of such termination.

C. For the purpose of this Paragraph 8, a business enterprise with which the President becomes associated as an officer, employee, agent, partner or director shall be considered in "substantial direct competition" if during a year when such competition is prohibited its sales of any product or service which is competitive with a product or service furnished by the Company or any subsidiary of the Company amount to more than ten percent (10%) of the Company's and subsidiaries' total combined sales of its product or services. This provision shall be effective during the period in which the President is receiving payments from the Company under the provisions of Paragraphs 7A and 7C.

9. Effect of Death and Disability.

A. In the event of death of the President during the period of employment, the legal representative of the President shall be entitled to the base salary provided for in Paragraph 4 for the month in which death shall have taken place at the rate being paid at the time of death and the period of employment shall be deemed to have ended as of the close of business on the last day of the month in which death shall have occurred but without prejudice to any payments due in respect to the President's death.

It is further understood that the foregoing shall not foreclose the Board of Directors from voting to continue the compensation of the President to his widow for a reasonable period after his death.

B. If, as a result of the President's incapacity due to physical or mental illness, the President shall have been absent from his duties hereunder on a full-time basis for the entire period of nine (9) consecutive months, the period of employment shall be deemed to have ended as of the close of business on the last day of such nine (9) month period but without prejudice to any payments due to the President in respect to disability.

In the event of disability of the President during the period of employment, the President shall be entitled to the base salary provided of in Paragraph 4 above at the rate being paid at the time of the commencement of disability for the first nine (9) month period of such disability. Thereafter, the President shall receive fifty percent (50%) of such rate being paid at the time of the commencement of disability for the remaining term provided for in this Agreement; provided, however, that this Agreement after the expiration of the nine (9) month period shall be reduced by any payments to which the President may be entitled for the payment period because of disability under any disability plan of the Company or of any subsidiary or affiliate thereof.

10. Successors or Assigns.

Any successor or assign (whether direct or indirect by purchase, merger, consolidation or change of control) shall absolutely and unconditionally assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no succession or assignment had taken place. The Company agrees that it will require any successor, or assign, under the circumstances herein above set forth, to expressly, absolutely and unconditionally assume and agree to perform this Agreement. Any failure of the Company to obtain such agreement prior to the effectiveness of any such succession or assignment shall be a material breach of this Agreement and shall entitle the President to terminate under the provisions of Paragraph 7A. As used in this Paragraph, Company shall mean the Company as herein before defined and any successor of its business and/or assets as aforesaid which executes and delivers the agreement provided for in this Paragraph or which otherwise becomes bound by the terms and conditions of this Agreement by operation of law.

This Agreement shall inure to the benefit of and be enforceable by the President's legal representative, executors, administrators, successors, heirs, devisees, designees and legatees. If the President should die while any amounts are still payable to him hereunder such amounts unless otherwise provided for herein shall be paid in accordance with the terms of this Agreement to the President's devisees, legatees, or other designees, or, if there be no such designees, to the President's estate.

11. Non-disclosure.

The President agrees that he shall not at any time while receiving compensation from the Company disclose or use, except in the course of his employment with the Company in the pursuit of the business of the Company or any of its subsidiaries and affiliates, any confidential information or proprietary data of the Company or any of its subsidiaries and affiliates whether such information or proprietary data is in his memory or embodied in writing or other physical form.

12. Conflicts.

Any paragraph, sentence, phrase or other provision of this Executive Agreement which is in conflict with any applicable statute, rule or other law shall be deemed, if possible, to be modified or altered to conform thereto or, if not possible, to be omitted here from. The invalidity of any portion hereof shall not affect the form and effect of the remaining valid portions hereof. Paragraph headings are included herein for convenience and are not intended to affect in any way the interpretation of any remaining Paragraphs of this Agreement.

13. Governing Law.

This Executive Agreement is governed by and is to be construed in accordance with the laws of the State of Illinois.

14. Notice.

All notices shall be in writing and shall be deemed effective when delivered in person, or 48 hours after deposit thereof in the U.S. mails, postage pre-paid, for delivery as registered mail, return-receipt requested, addressed in the case of the President to his last known address as carried on the personnel records of the Company and in the case of the Company to the corporate headquarters to the attention of the Chief Executive Officer or to such other address as the parties to be notified may specify by notice to the other party.

15. Arbitration.

A. Any controversy or claim arising out of or relating to this Agreement or any breach thereof shall be settled by arbitration before three (3) arbitrators, as provided below, and judgment of the award rendered which the arbitrators, or at least a majority of the arbitrators, may be entered in any court having jurisdiction thereof.

B. Each party shall appoint a disinterested and neutral arbitrator and the two thus appointed shall appoint a third disinterested and neutral arbitrator. If the two arbitrators so chosen cannot agree on the appointment of a third arbitrator then such arbitrator shall be appointed by the then Chief Judge of the United States District Court of Illinois.

16. Representation and Warranties.

The Company represents and warrants that the execution of this Agreement by the Company has been duly authorized by resolution of its Board of Directors.

17. Modification.

Wherever necessary this Agreement will be modified to comply with IRS Code Section 409A.

Otherwise, no provision of this Agreement may be modified, waived or discharged unless such modification, waiver or discharge is agreed to in writing signed by the President and the Company. No waiver by either party hereto at any time by any breach of any part hereto of any compliance with any conditions or provisions of this Agreement to be performed by such party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time.

IN WITNESS WHEREOF, the Company, by order of its Board of Directors, has caused this Agreement, consisting of ten (10) pages, to be signed in its corporate name by its duly authorized Director and impressed with its corporate seal, attested by its Secretary and the Director has hereunto set his hand on the day and year first above written.

FEDERAL LIFE INSURANCE COMPANY (MUTUAL)

By: /s/ James H. Stacke  
Director - Authorized

[corporate seal]

ATTEST:

/s/ Judy A. Manning  
Secretary

/s/ William S. Austin  
William S. Austin

**EXECUTIVE AGREEMENT**

Agreement made this 3rd day of March 2010 between FEDERAL LIFE INSURANCE COMPANY (MUTUAL), an Illinois mutual life insurance company (hereinafter referred to as the "Company"), and MICHAEL AUSTIN (hereinafter sometimes referred to as the "Executive Vice President").

Michael Austin is presently employed by the Company as its Executive Vice President and Chief Marketing Officer.

The Board of Directors of the Company desires to provide for the continued employment of the Executive Vice President which the Board has determined will be in the best interests of the Company and its policyholders and will enforce and encourage the continued attention and dedication to the Company of the Executive Vice President. The Executive Vice President is willing to commit himself to continue to serve the Company on the terms and conditions herein provided.

In order to effect the foregoing, the Company and the Executive Vice President wish to enter into an agreement on the terms and conditions set forth below.

Accordingly, in consideration of the promises and the respective covenants and agreements herein contained, in further consideration of services performed and to be performed by the Executive Vice President and intending to be legally bound, the parties hereto agree as follows:

1. Employment.

A. The Company agrees to employ the Executive Vice President as Executive Vice President and Chief Marketing Officer of the Company or in a capacity whose functions require an equivalent level of knowledge and responsibility to those now being performed.

B. If at any time during the term of employment, the Board of Directors of the Company fails to re-elect the Executive Vice President, or removes the Executive Vice President from such office at any time during the term of this agreement, the Executive Vice President shall have the right, by written notice to the Company, to terminate his services hereunder effective as of the last day of the month following the receipt by the Company of any such written notice and the Executive Vice President shall have no other obligations under this Agreement. The Executive Vice President's termination of services under this Paragraph shall be treated as a termination of employment by the Company other than for material breach or just cause on the Executive Vice President's part and, accordingly, shall be governed by the provisions of Paragraph 7A of this Agreement.

2. Term of Employment.

The initial term of employment, as this phrase is used throughout this Agreement, shall be for the period beginning on the date of this Agreement and ending three (3) years thereafter consistent with the provisions of Chapter 215 ILCS 5/245, as it exists at the time this Agreement is executed. This agreement is automatically extended each day for an additional day except that a notice of non-extension may be given at any time by the Board of Directors in which case the term of employment will expire at the end of its then current term.

3. Executive Vice President's Duties During Term of Employment.

The Executive Vice President shall devote his full business time (with allowances for vacations and sick leave) and attention and best efforts to the affairs of the Company and its subsidiaries and affiliates during the term of employment; provided, however, that he may serve as a director of other corporations and entities and may engage in other activities to the extent that they do not inhibit the performance of his duties hereof or conflict with the business of the Company or its subsidiaries and affiliates.

4. Compensation.

The Executive Vice President's base salary will be determined each year by the Board of Directors at its annual meeting and will be paid in substantially equal monthly installments plus a bonus determined annually by the Board of Directors based upon the Board of Directors' determination as to the performance of the Executive Vice President.

5. Other Benefits.

In addition to the compensation provided for herein, the Executive Vice President shall be entitled to participate in any and all employee benefit programs of the Company as currently in effect. Further, the Executive Vice President shall be entitled to receive prompt reimbursement for all expenses which he deems reasonably incurred by him in performing services hereunder provided such expenses are incurred and accounted for in accordance with the policies and procedures presently established by the Company.

6. Counsel Fees and Indemnification.

A. In the event that: (1) the Company terminates or seeks to terminate this Agreement alleging as justification for such termination a material breach by the Executive Vice President or causes hereinafter set forth; the Executive Vice President disputes such termination or attempted termination; and/or (2) the Executive Vice President elects to terminate his services hereunder pursuant to Paragraph 1B of this Agreement; the Company disputes its obligations to pay to the Executive Vice President that portion of his base salary as hereinafter provided; the Company shall pay or reimburse to the Executive Vice President all reasonable costs incurred by him in such dispute, including attorney's fees and costs providing the Executive Vice President shall prevail in such action.

B. The Company further represents and warrants: (1) that the Executive Vice President is and shall continue to be covered and insured up to the maximum limits provided by all insurance that the Company maintains to indemnify its directors and officers (and to indemnify the Company for any obligations which it incurs as a result of its undertaking to indemnify its officers and directors) and (2) that the Company will exert its best efforts to maintain such insurance at least at its present limits in effect throughout the term of the Executive Vice President's employment.

C. The Company hereby warrants and represents that the undertakings of payment indemnification and maintenance of such insurance coverage for the Executive Vice President set out above are not in conflict with the charter of the Company or its By-Laws or with any validly existing agreement or other proper corporate action of the Company.

7. Termination.

A. Termination by the Company other than for Material or Just Cause.

If the Company shall terminate the Executive Vice President's employment during the term of employment for other than a material breach of this Agreement or "just cause", as herein defined, the Executive Vice President shall have no obligation to seek other employment in mitigation of damages in respect of any period following the date of such termination and the Executive Vice President shall be entitled to receive from the Company the full base salary to which he is then entitled to the end of the term of employment which shall be payable to the Executive Vice President in monthly installments without regard to, or reduction because of, any other compensation or income which the Executive Vice President receives or is entitled to receive whether from the Company or otherwise. It is stipulated that any payments made in accordance with the foregoing shall be paid to and received by the Executive Vice President as liquidated damages for the unwarranted termination of his employment and not as penalties and he shall be entitled to receive no further sums under this Agreement except as such that have accrued as of the date of termination or as otherwise specifically provided in this Agreement. In view of the fact that the term of this Agreement is for three (3) years pursuant to the provisions of the aforesaid described Chapter 215 ILCS 5/245, it is contemplated that the payments provided to be made by virtue of this provision shall be completed at the expiration of three (3) years from the date of such termination.

It is further understood that coverage under the Home Office Employees' Group Health Plan during the period when payments are being made under this Paragraph or Paragraph 7C will continue at the same price as if employment had continued.

B. Termination by the Company for Material Breach or for Just Cause.

"Just cause" shall mean willful misconduct, dishonesty, conviction of a felony, habitual drunkenness or excessive absenteeism not related to illness. Should the Executive Vice President's employment be terminated for a material breach of this Agreement or for "just cause", the Company shall be obligated to pay the Executive Vice President his then base salary only through the end of the month during which such termination occurs plus such other sums as are payable to the Executive Vice President under this Agreement and which have accrued as of the end of such month.

C. Termination by the Executive Vice President.

Without prejudice to the provisions of Paragraph 1B of this Agreement, it is agreed that if during the term of employment the Executive Vice President's duties are materially diminished he may at any time resign from his position as Executive Vice President -Marketing of the Company after giving the Chief Executive Officer not less than sixty (60) days prior written notice of the effective date of his resignation. Any such resignation shall not be deemed to be a material breach by the Executive Vice President of this Agreement.



It is further agreed that upon such resignation, except for obligations of either party to the other which have accrued as of the date of the Executive Vice President's resignation or as otherwise specifically provided in this Agreement, the Executive Vice President shall be entitled to receive the compensation provided under Paragraph 7A of this Paragraph 7 as if such termination was by the Company other than for material breach or other just cause. It is provided, however, that the Executive Vice President's obligation of non-disclosure as provided in Paragraph 11 of this Agreement shall remain undiminished and in full force and effect and the obligation of the Executive Vice President under Paragraph 8 of this Agreement not to compete shall continue for the period during which payments continue to be made to the Executive Vice President under the provisions of Paragraph 7A.

8. Non-Competition.

A. Except as is otherwise provided in Paragraph 7C, it is agreed that during the term of employment and during any period in which the Executive Vice President is receiving compensation as provided in Paragraphs 4 and 7, the Executive Vice President will not without the prior approval of the Chairman of the Board become an officer, employee, agent, partner or director of any business enterprise which is in substantial direct competition (as defined below) with the Company or any subsidiary or affiliate of the Company, as the business of the Company or any subsidiary or affiliate may be constituted during the term of employment or at the termination thereof.

B. If the Executive Vice President's employment by the Company is terminated by the Executive Vice President during the term of employment, the Executive Vice President shall not during the period in which he is compensated under the provisions of Paragraphs 7A and 7C following such termination become an officer, employee, agent, partner or director of any business enterprise in substantial direct competition with the Company or any subsidiaries of the Company as the business of the Company or any said subsidiaries may be constituted at the time of such termination.

C. For the purpose of this Paragraph 8, a business enterprise with which the Executive Vice President becomes associated as an officer, employee, agent, partner or director shall be considered in "substantial direct competition" if during a year when such competition is prohibited its sales of any product or service which is competitive with a product or service furnished by the Company or any subsidiary of the Company amount to more than ten percent (10%) of the Company's and subsidiaries' total combined sales of its product or services. This provision shall be effective during the period in which the Executive Vice President is receiving payments from the Company under the provisions of Paragraphs 7A and 7C.

9. Effect of Death and Disability.

A. In the event of death of the Executive Vice President during the period of employment, the legal representative of the Executive Vice President shall be entitled to the base salary provided for in Paragraph 4 for the month in which death shall have taken place at the rate being paid at the time of death and the period of employment shall be deemed to have ended as of the close of business on the last day of the month in which death shall have occurred but without prejudice to any payments due in respect to the Executive Vice President's death.

It is further understood that the foregoing shall not foreclose the Board of Directors from voting to continue the compensation of the Executive Vice President to his widow for a reasonable period after his death.

B. If, as a result of the Executive Vice President's incapacity due to physical or mental illness, the Executive Vice President shall have been absent from his duties hereunder on a full-time basis for the entire period of nine (9) consecutive months, the period of employment shall be deemed to have ended as of the close of business on the last day of such nine (9) month period but without prejudice to any payments due to the Executive Vice President in respect to disability,

In the event of disability of the Executive Vice President during the period of employment, the Executive Vice President shall be entitled to the base salary provided of in Paragraph 4 above at the rate being paid at the time of the commencement of disability for the first nine (9) month period of such disability. Thereafter, the Executive Vice President shall receive fifty percent (50%) of such rate being paid at the time of the commencement of disability for the remaining term provided for in this Agreement; provided, however, that this Agreement after the expiration of the nine (9) month period shall be reduced by any payments to which the Executive Vice President may be entitled for the payment period because of disability under any disability plan of the Company or of any subsidiary or affiliate thereof.

10. Successors or Assigns,

Any successor or assign (whether direct or indirect by purchase, merger, consolidation or change of control) shall absolutely and unconditionally assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no succession or assignment had taken place. The Company agrees that it will require any successor, or assign, under the circumstances herein above set forth, to expressly, absolutely and unconditionally assume and agree to perform this Agreement. Any failure of the Company to obtain such agreement prior to the effectiveness of any such succession or assignment shall be a material breach of this Agreement and shall entitle the Executive Vice President to terminate under the provisions of Paragraph 7A. As used in this Paragraph, Company shall mean the Company as herein before defined and any successor of its business and/or assets as aforesaid which executes and delivers the agreement Page 7 provided for in this Paragraph or which otherwise becomes bound by the terms and conditions of this Agreement by operation of law.

This Agreement shall inure to the benefit of and be enforceable by the Executive Vice President's legal representative, executors, administrators, successors, heirs, devisees, designees and legatees. If the Executive Vice President should die while any amounts are still payable to him hereunder such amounts unless otherwise provided for herein shall be paid in accordance with the terms of this Agreement to the Executive Vice President's devisees, legatees, or other designees, or, if there be no such designees, to the Executive Vice President's estate.

11. Non-Disclosure.

The Executive Vice President agrees that he shall not at any time while receiving compensation from the Company disclose or use, except in the course of his employment with the Company in the pursuit of the business of the Company or any of its subsidiaries and affiliates, any confidential information or proprietary data of the Company or any of its subsidiaries and affiliates whether such information or proprietary data is in his memory or embodied in writing or other physical form.

12. Conflicts.

Any paragraph, sentence, phrase or other provision of this Executive Agreement which is in conflict with any applicable statute, rule or other law shall be deemed, if possible, to be modified or altered to conform thereto or, if not possible, to be omitted here from. The invalidity of any portion hereof shall not affect the form and effect of the remaining valid portions hereof. Paragraph headings are included herein for convenience and are not intended to affect in any way the interpretation of any remaining Paragraphs of this Agreement.

13. Governing Law.

This Executive Agreement is governed by and is to be construed in accordance with the laws of the State of Illinois.

14. Notice.

All notices shall be in writing and shall be deemed effective when delivered in person, or 48 hours after deposit thereof in the U.S. mails, postage pre-paid, for delivery as registered mail, return-receipt requested, addressed in the case of the Executive Vice President to his last known address as carried on the personnel records of the Company and in the case of the Company to the corporate headquarters to the attention of the Chief Executive Officer or to such other address as the parties to be notified may specify by notice to the other party.

15. Arbitration.

A. Any controversy or claim arising out of or relating to this Agreement or any breach thereof shall be settled by arbitration before three (3) arbitrators, as provided below, and judgment of the award rendered which the arbitrators, or at least a majority of the arbitrators, may be entered in any court having jurisdiction thereof.

B. Each party shall appoint a disinterested and neutral arbitrator and the two thus appointed shall appoint a third disinterested and neutral arbitrator. If the two arbitrators so chosen cannot agree on the appointment of a third arbitrator then such arbitrator shall be appointed by the then Chief Judge of the United States District Court of Illinois.

16. Representation and Warranties.

The Company represents and warrants that the execution of this Agreement by the Company has been duly authorized by resolution of its Board of Directors.

17. Modification.

Wherever necessary this Agreement will be modified to comply with IRS Code Section 409A.

Otherwise, no provision of this Agreement may be modified, waived or discharged unless such modification, waiver or discharge is agreed to in writing signed by the Executive Vice President and the Company. No waiver by either party hereto at any time by any breach of any part hereto of any compliance with any conditions or provisions of this Agreement to be performed by such party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time.

IN WITNESS WHEREOF, the Company, by order of its Board of Directors, has caused this Agreement, consisting of ten (10) pages, to be signed in its corporate name by its duly authorized Director and impressed with its corporate seal, attested by its Secretary and the Director has hereunto set his hand on the day and year first above written.

FEDERAL LIFE INSURANCE COMPANY (MUTUAL)

By: /s/ James H. Stacke  
Director - Authorized

[corporate seal]

ATTEST:

/s/ Judy A. Manning  
Secretary

/s/ Michael Austin  
Michael Austin

## ESCROW AGREEMENT

This ESCROW AGREEMENT (as the same may be amended or modified from time to time pursuant hereto, this "Agreement") is made and entered into as of September 12, 2018, by and among Griffin Financial Group, LLC, a Pennsylvania limited liability company (the "Placement Agent"), Federal Life Group, Inc., a Pennsylvania corporation (the "Company"), and together with the Placement Agent, sometimes referred to individually as "Party" or collectively as the "Parties"), Federal Life Insurance Company ("Federal Life"), and Computershare Trust Company, N.A. (the "Escrow Agent").

**WHEREAS**, the Company will offer to sell shares of its common stock, par value \$0.01 per share (the "Shares"), to certain persons in a public offering registered under the Securities Act of 1933, as amended, pursuant to a registration statement and prospectus filed with the United States Securities and Exchange Commission (the "Prospectus"); and

**WHEREAS**, the Company has engaged the Placement Agent to assist the Company in connection with the sale of Shares pursuant to the terms of that certain letter agreement, dated as of July 27, 2017 (the "Engagement Letter"), by and between the Company and the Placement Agent; and

**WHEREAS**, potential purchasers of the Shares (the "Investors") will submit subscriptions and orders to purchase Shares together with payment of the purchase price for such Shares; and

**WHEREAS**, the Company must receive and accept subscriptions and orders for at least 3,400,000 Shares in order to complete the offering;

**WHEREAS**, the Parties desire to use an escrow agent to provide certain escrow functions in connection with such offer and sale; and

**WHEREAS**, the Parties wish to engage the Escrow Agent to act, and the Escrow Agent is willing to act, as escrow agent hereunder and, in that capacity, to hold, administer and distribute the amounts deposited in escrow hereunder in accordance with, and subject to, the terms of this Agreement.

**NOW THEREFORE**, in consideration of the foregoing and of the mutual covenants hereinafter set forth, intending to be legally bound, the parties hereto agree as follows:

**1. Appointment.** The Parties hereby appoint the Escrow Agent as their escrow agent for the purposes set forth herein, and the Escrow Agent hereby accepts such appointment under the terms and conditions set forth herein.

**2. Fund.** Pursuant to the Prospectus, the Investors are directed to submit orders and payment for Shares they wish to purchase to the Escrow Agent. The Placement Agent and the Company hereby authorize the Escrow Agent to accept checks, money orders, and wire transfers from the Investors (collectively, the "Escrow Deposit"). The Escrow Agent shall hold the Escrow Deposit and, subject to the terms and conditions hereof, shall invest and reinvest the Escrow Deposit and the proceeds thereof (the "Fund") as directed in Section 3.

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### 3. Investment of Fund.

(a) If the Escrow Agent shall have received specific written investment instructions from the Placement Agent and the Company (which shall include instruction as to term to maturity, if applicable), on a timely basis, the Escrow Agent shall invest the Fund at one or more of the banks listed in Schedule 4 to this Agreement, each of which shall be a commercial bank with capital exceeding \$500,000,000 (each such bank, an “Approved Bank”). Escrow Agent shall be entitled to retain for its own benefit, as partial compensation or benefit for its services hereunder, including reduced bank charges, any amount of interest earned on the Escrow Deposit that is not payable pursuant to this Section 3(b) or herein. If no such instructions are received by the Escrow Agent, then the Fund shall remain uninvested. The Escrow Agent will not provide any investment advice in connection with this Agreement.

(b) The amounts held in custody by the Escrow Agent pursuant to this Agreement are at the sole risk of the Parties and, without limiting the generality of the foregoing, the Escrow Agent shall have no responsibility or liability for any diminution of the Escrow Amount that may result from any deposits made pursuant to this Agreement, including any losses resulting from a default by an Approved Bank or any other credit losses (whether or not resulting from such default) or other losses on any deposit required to be liquidated in order to make a payment required hereunder. The Parties acknowledge and agree that the Escrow Agent is acting prudently and at their direction when depositing the Escrow Amount at any Approved Bank, and the Escrow Agent is not required to make any further inquiries in respect of any Approved Bank.

### 4. Claims and Payment; Release from Escrow

(a) As soon as the Escrow Agent receives joint written instructions substantially in the form of Schedule 1 as to the disbursement of the Fund (the “Joint Written Instructions”) signed by both an officer of the Company and an officer of the Placement Agent, the Escrow Agent shall transfer the Fund to the Company, the Placement Agent and any third party indicated in such notice, in the amounts specified by the Company and the Placement Agent in such Joint Written Instructions. Except as otherwise provided in this Agreement, the Escrow Agent shall rely conclusively on any Joint Written Instructions and shall have no responsibility to determine whether the information set forth therein, including the amount of the payment of the Fund, is accurate or correct.

(b) Rejection. If at any time prior to the release of an Investor’s subscription or order pursuant to the terms of this Agreement, the Company shall deliver to the Escrow Agent a written notice to the effect that any or all of the subscription or order of such Investor has been rejected (the “Rejected Subscription Amount”) by the Company, the Escrow Agent shall, promptly after receipt of such written notice, return to such Investor the amount of such Rejected Subscription Amount without any interest that may have accrued on such amount.

(c) Failure to Close. If at any time prior to the release of a Investor’s subscription pursuant to the terms of this Agreement, the Placement Agent shall deliver to the Escrow Agent a written notice stating that the closing conditions to the offering contemplated by this Agreement have not been satisfied, then the Escrow Agent shall, promptly after receipt of such written notice, return to each Investor indicated in such notice the amount of its subscription as specified in such notice without any interest that may have accrued on such amount.

(d) Reporting. The Escrow Agent shall provide the Placement Agent and the Company with an electronic statement on a daily basis showing the amount of funds received and posted, as well as any transfers made by the Escrow Agent. The Escrow Agent shall provide the Company and the Placement Agent with a list of the Investors, including the amount of funds received from each Investor, on a daily basis. After receiving a check or money order from an Investor, the Escrow Agent shall deposit such funds into the Escrow Account as soon as the funds clear. The Placement Agent and the Company shall be entitled to inquire by telephone as to the balance of the Escrow Account from time to time.

(e) Notwithstanding anything to the contrary in this Agreement, if any amount to be released at any time or under any circumstances exceeds the balance in the Fund, the Escrow Agent shall release the balance in the Fund and shall have no liability or responsibility to the Parties for any deficiency.

(f) All Escrow Deposits received by the Escrow Agent are subject to clearance time, and the funds represented cannot be drawn until such time as the same constitutes good and collected funds.

(g) Upon delivery of any and all remaining balance in the Fund by the Escrow Agent, this Agreement shall terminate, subject to the provisions of Section 8.

#### **5. Escrow Agent.**

(a) The Escrow Agent represents and warrants to the Parties that the Escrow Agent is a “bank” as defined in Paragraph (A) of Section 3(a)(6) of the Securities Exchange Act of 1934, as amended. The deposit accounts of each Approved Bank is insured by the FDIC to the maximum amount permitted by law.

(b) All funds received from Investors by the Company or the Placement Agent in payment for the Shares (“Investor Funds”) will be delivered to the Escrow Agent by noon Eastern Time on the next business day following the day upon which such Investor Funds are received by the Company or the Placement Agent, and shall, upon receipt of good and collected funds by the Escrow Agent, be retained in the Escrow Account by the Escrow Agent and invested as provided in Section 3(a) hereof. During the term of this Escrow Agreement, the Company and the Placement Agent shall instruct Investors to make all checks payable to the order of “Computershare Trust Company, N.A. as Escrow Agent for Federal Life Group, Inc.” and shall cause all checks received by each of them in payment for the Shares to be endorsed in favor of the Escrow Agent and delivered to the Escrow Agent for deposit in the Escrow Account. Investor Funds also may be wired directly to the Escrow Account using wire instructions provided by the Escrow Agent.

(c) The Escrow Agent shall have only those duties as are specifically and expressly provided herein, which shall be deemed purely ministerial in nature, and no other duties shall be implied. The Escrow Agent shall neither be responsible for, nor chargeable with, knowledge of, nor have any requirements to comply with, the terms and conditions of any other agreement, instrument or document between the Company, the Placement Agent and the Investors, in connection herewith, if any, nor shall the Escrow Agent be required to determine if any person or entity has complied with any such agreements, nor shall any additional obligations of the Escrow Agent be inferred from the terms of such agreements, even though reference thereto may be made in this Agreement. In the event of any conflict between the terms and provisions of this Agreement, any schedule or exhibit attached to this Agreement, or any other agreement among the Company, the Placement Agent and the Investors, the terms and conditions of this Agreement shall control. The Escrow Agent may rely upon and shall not be liable for acting or refraining from acting upon any written notice, document, instruction or request furnished to it hereunder and believed by it to be genuine and to have been signed or presented by the proper Party or Parties without inquiry and without requiring substantiating evidence of any kind. The Escrow Agent shall not be liable to any Party, any beneficiary or other person for refraining from acting upon any instruction setting forth, claiming, containing, objecting to, or related to the transfer or distribution of the Fund, or any portion thereof, unless such instruction shall have been delivered to the Escrow Agent in accordance with Section 11 below and the Escrow Agent has been able to satisfy any applicable security procedures as may be required hereunder and as set forth in Section 11. The Escrow Agent shall be under no duty to inquire into or investigate the validity, accuracy or content of any such document, notice, instruction or request. The Escrow Agent shall have no duty to solicit any payments which may be due it or the Fund, including, without limitation, the Escrow Deposit nor shall the Escrow Agent have any duty or obligation to confirm or verify the accuracy or correctness of any amounts deposited with it hereunder.

(d) The Escrow Agent shall not be liable for any action taken, suffered or omitted to be taken by it except to the extent that a final adjudication of a court of competent jurisdiction determines that the Escrow Agent's gross negligence or willful misconduct was the primary cause of any loss to either Party. The Escrow Agent may execute any of its powers and perform any of its duties hereunder directly or through affiliates or agents. The Escrow Agent may consult with counsel, accountants and other skilled persons to be selected and retained by it. The Escrow Agent shall not be liable for any action taken, suffered or omitted to be taken by it in accordance with, or in reliance upon, the advice or opinion of any such counsel, accountants or other skilled persons. In the event that the Escrow Agent shall be uncertain or believe there is some ambiguity as to its duties or rights hereunder or shall receive instructions, claims or demands from any Party hereto which, in its opinion, conflict with any of the provisions of this Agreement, it shall be entitled to refrain from taking any action and its sole obligation shall be to keep safely all property held in escrow until it shall be given a direction in writing by the Parties which eliminates such ambiguity or uncertainty to the satisfaction of Escrow Agent or by a final and non-appealable order or judgment of a court of competent jurisdiction. The Parties agree to pursue any redress or recourse in connection with any dispute without making the Escrow Agent a party to the same. Anything in this Agreement to the contrary notwithstanding, in no event shall the Escrow Agent be liable for special, incidental, punitive, indirect or consequential loss or damage of any kind whatsoever (including but not limited to lost profits), even if the Escrow Agent has been advised of the likelihood of such loss or damage and regardless of the form of action.



## 6. Succession.

(a) The Escrow Agent may resign and be discharged from its duties or obligations hereunder by giving thirty (30) days advance notice in writing of such resignation to the Parties specifying a date when such resignation shall take effect. If the Parties have failed to appoint a successor escrow agent prior to the expiration of thirty (30) days following receipt of the notice of resignation, the Escrow Agent may petition any court of competent jurisdiction for the appointment of a successor escrow agent or for other appropriate relief, and any such resulting appointment shall be binding upon all of the Parties hereto. Escrow Agent's sole responsibility after such thirty (30) day notice period expires shall be to hold the Fund (without any obligation to reinvest the same) and to deliver the same to a designated substitute escrow agent, if any, or in accordance with the directions of a final order or judgment of a court of competent jurisdiction, at which time of delivery Escrow Agent's obligations hereunder shall cease and terminate, subject to the provisions of Section 8 hereunder.

(b) Any entity into which the Escrow Agent may be merged or converted or with which it may be consolidated, or any entity to which all or substantially all the escrow business may be transferred, shall be the Escrow Agent under this Agreement without further act.

**7. Compensation and Reimbursement.** Federal Life agrees to (a) pay the Escrow Agent all reasonable compensation for the services to be rendered hereunder as described in Schedule 3 attached hereto, and (b) pay or reimburse the Escrow Agent upon request for all expenses, disbursements and advances, including, without limitation reasonable attorney's fees and expenses, incurred or made by it in connection with the entry into, performance, modification and termination of this Agreement. The Escrow Agent shall have no lien on, or right to deduct from, the Fund, or proceeds thereof, for any sums owed to it under this Agreement.

## 8. Indemnity.

(a) Subject to Section 8(c) below, Escrow Agent shall be liable for any losses, damages, claims, liabilities, penalties, judgments, settlements, actions, suits, proceedings, litigations, investigations, costs or expenses (including without limitation, the fees and expenses of outside counsel and experts and their staffs and all expenses of document location, duplication and shipment)(collectively "Losses") only to the extent such Losses are determined by a court of competent jurisdiction to be a result of Escrow Agent's gross negligence or willful misconduct; provided, however, that any liability of the Escrow Agent will be limited in the aggregate to the balance of the Escrow Deposit placed with the Escrow Agent at the time of such Losses.

(b) The Company and Federal Life shall jointly and severally indemnify and hold Escrow Agent harmless from and against, and Escrow Agent shall not be responsible for, any and all Losses arising out of or attributable to Escrow Agent's duties under this Agreement or this appointment, including the reasonable costs and expenses of defending itself against any Losses or enforcing this Agreement, except to the extent of liability described in Section 8(a) above.

(c) Without limiting the indemnification obligations set forth in Section 8(b) above, none of Federal Life, the Parties, or the Escrow Agent shall be liable for any incidental, indirect, special or consequential damages of any nature whatsoever, including, but not limited to, loss of anticipated profits, occasioned by a breach of any provision of this Agreement even if apprised of the possibility of such damages.

(d) This Section 8 shall survive termination of this Agreement or the resignation, replacement or removal of the Escrow Agent for any reason.

**9. Patriot Act Disclosure/Taxpayer Identification Numbers/Tax Reporting.**

(a) **Patriot Act Disclosure.** Section 326 of the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (“USA PATRIOT Act”) requires the Escrow Agent to implement reasonable procedures to verify the identity of any person that opens a new account with it. Accordingly, the Parties acknowledge that Section 326 of the USA PATRIOT Act and the Escrow Agent’s identity verification procedures require the Escrow Agent to obtain information which may be used to confirm the Parties identity including without limitation name, address and organizational documents (“identifying information”). The Parties agree to provide the Escrow Agent with and consent to the Escrow Agent obtaining from third parties any such identifying information required as a condition of opening an account with or using any service provided by the Escrow Agent.

(b) **Certification and Tax Reporting.** The Parties agree to provide the Escrow Agent with their respective fully executed Internal Revenue Service (“IRS”) Form W-8 or Form W-9 upon the execution of this Agreement. The Parties understand that, in the event their tax identification numbers are not certified to the Escrow Agent, the Internal Revenue Code, as amended from time to time, may require withholding of a portion of any interest or other income earned on the investment of the Fund. Each of the Parties agrees to instruct the Escrow Agent in writing with respect to the Escrow Agent’s responsibility for withholding and other taxes, assessments or other governmental charges, and to instruct the Escrow Agent with respect to any certifications and governmental reporting that may be required under any laws or regulations that may be applicable in connection with its acting as Escrow Agent under this Agreement. The Parties hereby represent and warrant to the Escrow Agent that (i) there is no sale or transfer of a United States Real Property Interest as defined under IRC Section 897(c) in the underlying transaction giving rise to this Agreement; and (ii) such underlying transaction does not constitute an installment sale requiring any tax reporting or withholding of imputed interest or original issue discount to the IRS or other taxing authority.

**10. Notices.** All communications hereunder shall be in writing and except for communications from the Parties setting forth, claiming, containing, objecting to, or in any way related to the transfer or distribution of funds, including but not limited to funds transfer instructions (all of which shall be specifically governed by Section 11 below), shall be deemed to be duly given after it has been received and the receiving party has had a reasonable time to act upon such communication if it is sent or served:

(a) by facsimile or email;

(b) by overnight courier; or

(c) by prepaid registered mail, return receipt requested;

to the appropriate notice address set forth below or at such other address as any party hereto may have furnished to the other parties in writing by registered mail, return receipt requested.

If to the Company: Federal Life Group, Inc.  
3750 West Deerfield Road  
Riverwoods, Illinois 60015  
Attention: William S. Austin, President

With a copy to: Stevens & Lee, P.C.  
111 North 6th Street  
Reading, PA 16103  
Attention: Wesley R. Kelso, Esq.

If to Placement Agent: Griffin Financial Group LLC  
620 Freedom Business Center  
Suite 200  
King of Prussia, PA 19406  
Attention: Jeffrey P. Waldron

If to the Escrow Agent: Computershare Trust Company, N.A.  
8742 Lucent Boulevard, Suite 225  
Highlands Ranch, CO 80129  
Attention: Rose Stroud  
Facsimile No. (303) 262-0608  
Email: rose.stroud@computershare.com  
cc: corporate.trust@computershare.com

With a copy to: Computershare Trust Company, N.A.  
480 Washington Boulevard  
Jersey City, NJ 07310  
Attn: General Counsel  
Facsimile No.: (201) 680-4610

Notwithstanding the above, in the case of communications delivered to the Escrow Agent, such communications shall be deemed to have been given on the date received by an officer of the Escrow Agent or any employee of the Escrow Agent who reports directly to any such officer at the above-referenced office. In the event that the Escrow Agent, in its sole discretion, shall determine that an emergency exists, the Escrow Agent may use such other means of communication as the Escrow Agent deems appropriate. For purposes of this Agreement, "Business Day" shall mean any day other than a Saturday, Sunday or any other day on which the Escrow Agent located at the notice address set forth above is authorized or required by law or executive order to remain closed.

## 11. Security Procedures.

(a) Notwithstanding anything to the contrary as set forth in Section 10, any instructions setting forth, claiming, containing, objecting to, or in any way related to the transfer or distribution of funds, including but not limited to the Joint Written Instructions described in Section 4 of this Agreement, may be given to the Escrow Agent only by confirmed facsimile or email and no instruction for or related to the transfer or distribution of the Fund, or any portion thereof, shall be deemed delivered and effective unless the Escrow Agent actually shall have received such instruction by email or by facsimile at the number provided to the Parties by the Escrow Agent in accordance with Section 10 and as further evidenced by a confirmed transmittal to that number.

(b) In the event funds transfer instructions are so received by the Escrow Agent by facsimile or email, the Escrow Agent is authorized to seek confirmation of such instructions by telephone call-back to the person or persons designated on Schedule 2 hereto, and the Escrow Agent may rely upon the confirmation of anyone purporting to be the person or persons so designated. The persons and telephone numbers for call-backs may be changed only in a writing actually received and acknowledged by the Escrow Agent. If the Escrow Agent is unable to contact any of the authorized representatives identified in Schedule 2, the Escrow Agent is hereby authorized both to receive written instructions from and seek confirmation of such instructions by telephone call-back to any one or more of the Parties' respective executive officers, ("Executive Officers"), as the case may be, which shall include the titles of President, Chief Executive Officer, Controller, General Counsel and Chief Financial Officer, as the Escrow Agent may select. Such Executive Officer shall deliver to the Escrow Agent a fully executed incumbency certificate, and the Escrow Agent may rely upon the confirmation of anyone purporting to be any such officer.

(c) The Parties acknowledge that the security procedures set forth in this Section 11 are commercially reasonable.

**12. Compliance with Court Orders.** In the event that any escrow property shall be attached, garnished or levied upon by any court order, or the delivery thereof shall be stayed or enjoined by an order of a court, or any order, judgment or decree shall be made or entered by any court order affecting the property deposited under this Agreement, the Escrow Agent is hereby expressly authorized, in its sole discretion, to obey and comply with all writs, orders or decrees so entered or issued, which it is advised by legal counsel of its own choosing is binding upon it, whether with or without jurisdiction, and in the event that the Escrow Agent obeys or complies with any such writ, order or decree it shall not be liable to any of the parties hereto or to any other person, entity, firm or corporation, by reason of such compliance notwithstanding such writ, order or decree be subsequently reversed, modified, annulled, set aside or vacated.

**13. Miscellaneous.** The provisions of this Agreement may be waived, altered, amended or supplemented, in whole or in part, only by a writing signed by the Escrow Agent and the Parties. Neither this Agreement nor any right or interest hereunder may be assigned in whole or in part by the Escrow Agent or any Party, except as provided in Section 6, without the prior consent of the Escrow Agent and the other parties. This Agreement shall be governed by and construed under the laws of the Commonwealth of Massachusetts. Each Party and the Escrow Agent irrevocably waives any objection on the grounds of venue, forum non-conveniens or any similar grounds and irrevocably consents to service of process by mail or in any other manner permitted by applicable law and consents to the jurisdiction of any court of the Commonwealth of Massachusetts or United States federal court, in each case, sitting in Massachusetts. The Parties and the Escrow Agent further hereby waive any right to a trial by jury with respect to any lawsuit or judicial proceeding arising or relating to this Agreement. No party to this Agreement is liable to any other party for losses due to, or if it is unable to perform its obligations under the terms of this Agreement because of, acts of God, fire, war, terrorism, floods, strikes, electrical outages, equipment or transmission failure, or other causes reasonably beyond its control. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. All signatures of the parties to this Agreement may be transmitted by facsimile, and such facsimile will, for all purposes, be deemed to be the original signature of such party whose signature it reproduces, and will be binding upon such party. If any provision of this Agreement is determined to be prohibited or unenforceable by reason of any applicable law of a jurisdiction, then such provision shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions thereof, and any such prohibition or unenforceability in such jurisdiction shall not invalidate or render unenforceable such provisions in any other jurisdiction. A person who is not a party to this Agreement shall have no right to enforce any term of this Agreement. The Parties represent, warrant and covenant that each document, notice, instruction or request provided by such Party to Escrow Agent shall comply with applicable laws and regulations. Where, however, the conflicting provisions of any such applicable law may be waived, they are hereby irrevocably waived by the parties hereto to the fullest extent permitted by law, to the end that this Agreement shall be enforced as written. Except as expressly provided in Section 8 above, nothing in this Agreement, whether express or implied, shall be construed to give to any person or entity other than the Escrow Agent and the Parties any legal or equitable right, remedy, interest or claim under or in respect of this Agreement or any funds escrowed hereunder.

\* \* \* \* \*

IN WITNESS WHEREOF, the parties hereto have executed this Escrow Agreement as of the date set forth above.

**FEDERAL LIFE GROUP, INC.**

By: /s/ William S. Austin

Name: William S. Austin

Title: President and Chief Operating Officer

**GRIFFIN FINANCIAL GROUP, LLC**

By: /s/ Jeffrey P. Waldron

Name: Jeffrey P. Waldron

Title: Senior Managing Director

**COMPUTERSHARE TRUST COMPANY, N.A.**

**as Escrow Agent**

By: /s/ Jaddiel Ramos

Name: Jaddiel Ramos

Title: Trust Officer

**FEDERAL LIFE INSURANCE COMPANY**

By: /s/ William S. Austin

Name: William S. Austin

Title: President and Chief Operating Officer

[Signature Page to Escrow Agreement]

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**SCHEDULE 1**

**JOINT WRITTEN INSTRUCTIONS  
FOR RELEASE OF ESCROW FUNDS**

Pursuant to Section 4(a) of the Escrow Agreement dated as of September 12, 2018, by and among Griffin Financial Group, LLC (the "Placement Agent"), Federal Life Group, Inc. (the "Company"), Federal Life Insurance Company ("Federal Life"), and Computershare Trust Company, N.A. (the "Escrow Agent"), the Placement Agent and the Company hereby instruct the Escrow Agent to release \$[\_\_\_\_\_] from the Escrow Account in accordance with the following instructions:

**Wire Instructions:**

Account Name: \_\_\_\_\_  
Account Number: \_\_\_\_\_  
Bank Name: \_\_\_\_\_  
Bank ABA Number: \_\_\_\_\_  
Bank Address: \_\_\_\_\_  
\_\_\_\_\_  
For credit to: \_\_\_\_\_  
Special Instructions: \_\_\_\_\_  
\_\_\_\_\_

**Bank Check:**

Payee Name: \_\_\_\_\_  
Mailing Address: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Federal Life Group, Inc.

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

Griffin Financial Group, LLC

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

Date: \_\_\_\_\_

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**SCHEDULE 2**

**Telephone Number(s) and authorized signature(s) for  
Person(s) Designated to give and confirm Funds Transfer Instructions**

If from the Company:

<b>Name</b>	<b>Telephone Number</b>	<b>Cell Number</b>	<b>Signature</b>
1. William S. Austin	(847) 520-1900		
2. Anders Raaum	(847) 520-1900		
3. _____	_____	_____	_____

If from Placement Agent:

<b>Name</b>	<b>Telephone Number</b>	<b>Cell Number</b>	<b>Signature</b>
1. Jeffrey P. Waldron	(610) 205-6028	(610) 223-8675	
2. _____	_____	_____	_____
3. _____	_____	_____	_____

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**SCHEDULE 3**

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**SCHEDULE 4**

**APPROVED BANKS**

Bank of America

BMO Harris Bank, N.A.

Citibank, N.A.

Bank of the West

PNC Bank NA

Huntington Bank

BB&T

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