2018 ANNUAL REPORT

Momentum

FUNERAL DIRECTORS LIFE

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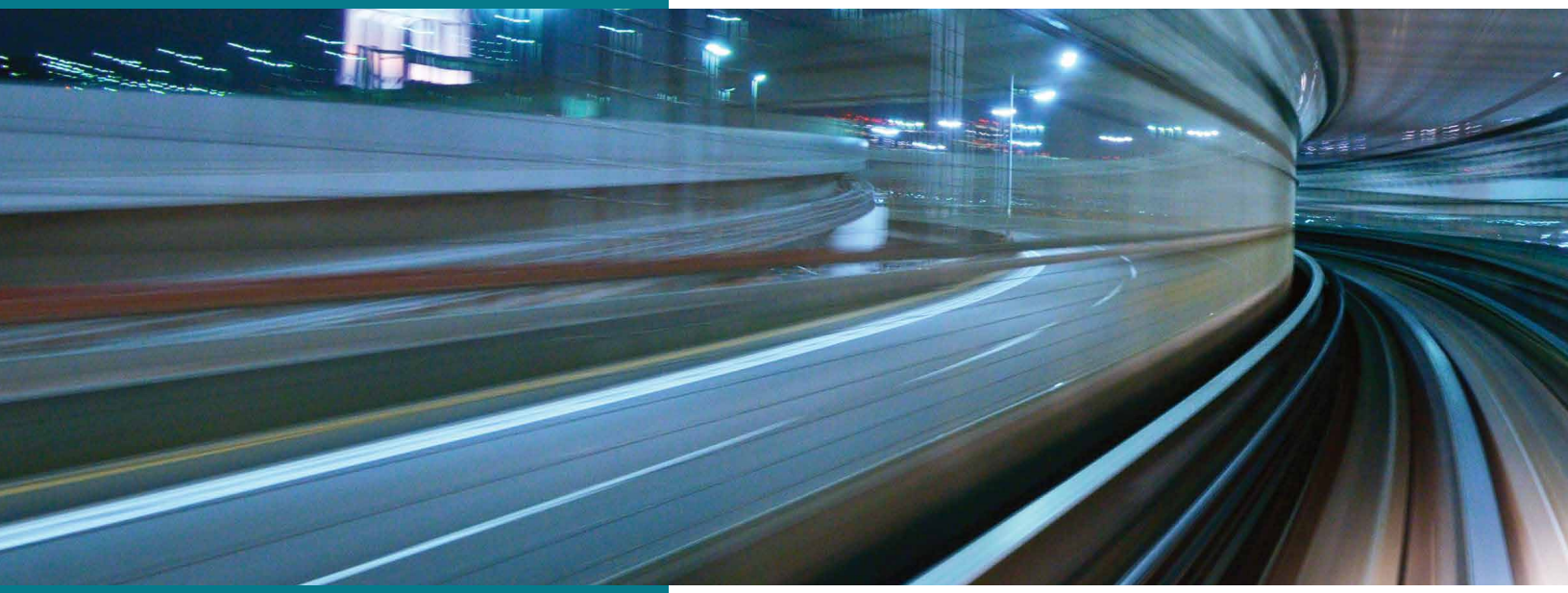


Momentum = forward motion

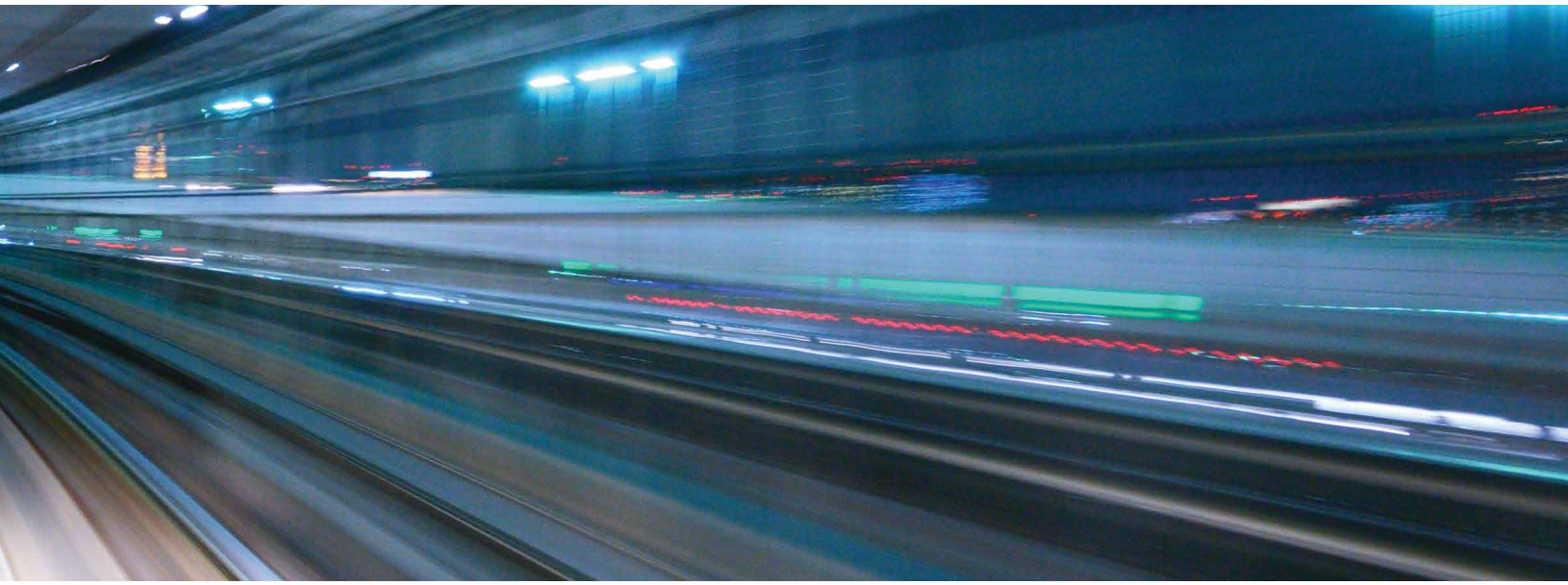
fueled by a series of wins.

ANDY STANLEY

KRIS SEALE

President & Chief Executive Officer

Letter to the Stakeholders



If you don't have it, you really want it! If you have it, you don't want to lose it! It's MOMENTUM! Andy Stanley defines momentum as forward motion fueled by a series of wins. And who doesn't like to win?

For 2018, Funeral Directors Life regained momentum! After several years of slow growth and no real momentum, we refocused on our vision – "To be the best, most-respected provider of service to the funeral industry." By refocusing on our mission statement, we developed plans and strategies in 2018 to move us forward, and all of a sudden, we started winning again. Let's talk about how we regained momentum – Passion, Purpose, Progress!

Passion

Oftentimes, when it feels like you're struggling and success doesn't come as easily as it has in the past, it doesn't take long to lose your passion for what you're doing. You lose your focus on what's important and why you got into this business to start with. These seasons of struggle can last a few months, a few years, or they can bring you down completely if you don't realize the season you're in and work to regain your passion.

The funeral profession, as a whole, has been feeling this lack of momentum and the pressure of increasing: a) cremation rates, b) price shoppers, c) secularism, d) consumer cynicism, e) competition from low value providers, and f) bad advice from clergy and hospice workers – all of this leading to decreasing profitability, low morale among staff, and a general negative feeling.

All these shifting market trends are driven by dissatisfaction among changing funeral consumers. We finally woke up and realized that we are in the middle of a generational shift, which has created a gap between what the funeral profession has traditionally offered and what today's families actually want. In fact, a recent study found that 63% of Americans were dissatisfied with the way funeral homes were communicating with them, and 48% were dissatisfied with funeral service as a whole.

With these kinds of challenges, it's no wonder that our company and so many funeral professionals have been feeling stressed out and underappreciated – lacking momentum. The worst part is that we know how much value there is in planning and delivering a healing and meaningful funeral. A funeral experience, when planned and performed well, can bring a family together, help them grieve in a healthy way, and even bring healing to the community.

Essentially, the problems we have had to address and are continuing to address are: 1) funeral consumers are changing and their needs are evolving and 2) they don't understand the value of a healing funeral.

We determined that in order to remain relevant to our customers, we had to change the way we communicate with them and start educating them on the value of a funeral in a way they can understand.

Purpose

For the past several years, we knew that Funeral Directors Life was in a season of struggle, and momentum was nowhere to be found. However, we recognized that we had lost our momentum in 2016, and we began to work diligently to regain it – and in 2018, we started having a series of wins!

We determined that our profession did not have a true thought leader, and it desperately needed one! Consequently, we made the conscious decision to become that thought leader by pushing funeral homes toward increased technology, better staff education, vastly improved consumer information, and positive public relations. We saw the need to tout the importance and the relevance of funeral service not only to the public, but also to our profession. Basically, we determined that our purpose was to redefine the funeral experience for both our funeral home clients and the families they serve – an extremely daunting goal!

We realized that in order for Funeral Directors Life to be the best, most-respected provider of service in the funeral industry, our funeral home clients needed to be the best, most-respected provider of service in their respective markets.

Progress

As I said earlier, all of our work since 2016 began paying off in 2018 – we started seeing some big wins! I have noted a "few" of the highlights from 2018 below:

- Sales were 12.2% greater than sales recorded in 2017!
- Interest rates moved higher, and we achieved better than expected investment returns!
- FDLIC stepped up the focus on enterprise risk management (ERM), and we established a new executive position, Chief Information Security Officer!
- Profit margins for new business increased considerably – to levels not seen since 2008!
- Over $70 million in mortgage loans were made to funeral home clients in 2018 – our budget was $24 million!
- The development of Home Office Customer Ambassadors for our funeral home clients and sales management team helped improve operational efficiency and overall customer satisfaction!
- The Wellness Center at our Home Office proved to be an incredible asset – we had NO increase in the premium cost for health insurance for 2019!
- Our program to convert preneed funeral trust funds to FDLIC insurance and annuity products gained momentum with $10 million in signed agreements in 2018!
- We developed the first-ever online preneed funeral contract – for implementation in 2019!
- Recruiting for sales professionals improved considerably – we attracted 63 new qualified candidates in 2018!
- We contracted with a third party to deliver an innovative and never-seen-before text message lead generation system!
- We continued to build on our consulting arrangement with Dr. Alan Wolfelt. We developed advanced preneed sales training that we call THE WOLFELT EXPERIENCE!

- CLAIMCHECK (formerly known as DCAS) – our insurance assignment business – improved significantly in 2018, showing approximately 30% growth in 2018!
- Funeralbasics.org, our funeral consumer-oriented educational website, exploded in 2018 with more than 30,000 unique visitors to the site each month!
- We deployed a new imaging and workflow software, OnBase, which has improved efficiencies in every department of the company!
- We developed a career advancement process in our Operations department, which has improved morale, led to the advancement of several people, and improved the quality of new hires!
- Funeral Directors Life saw significant advancement in DIGicare services, and in fact, all our DIGicare services made a profit for the company in 2018!
- We continued to improve and advance our digital marketing services to funeral homes – including our highly successful social media content management and audio/visual solutions!
- Our Learning & Development department implemented Lessonly, an easy-to-use learning platform for DIG University.
- Funeral Directors Life was again recognized as one of the Best Companies to Work for in Texas by *Texas Monthly* magazine and one of the Best Places to Work in the United States by *FORTUNE* magazine!

As you can see, 2018 was truly a year of momentum! All our accomplishments for the year showed progress toward becoming the thought leader in our profession and the best, most-respected provider of service to the funeral industry!

Conclusion

As I consider our years of struggle and the lack of momentum that we had, I'm reminded of the words from James 1:2-4, "Consider it pure joy, my brothers and sisters, whenever you face trials of many kinds, because you know that the testing of your faith produces perseverance. Let perseverance finish its work so that you may be mature and complete, not lacking anything." We should consider our times of struggle as PURE JOY because the trial leads to perseverance, and perseverance pays off in the end – we will not lack anything, including momentum!

I continue to be blessed with the team of people who work here with me at Funeral Directors Life. Their drive, dedication, and determination have pushed me to become a better leader and have restored momentum to our company and to our profession! I consider it PURE JOY to work with, struggle with, and celebrate with my team each day.

Finally, we continue to appreciate the confidence you have shown in our company – thank you! All of us at Funeral Directors Life remain committed to you and to our vision – To be the best, most-respected provider of service to the funeral industry!

Blessings,

Kris Seale
President & Chief Executive Officer

Momentum is never triggered by tweaking something old. It is triggered by introducing something new.

ANDY STANLEY

2018 has been a year of momentum for Funeral Directors Life and for the funeral homes we serve.

This last year, as we showed funeral directors from across the nation all of the new services that we have begun to offer, we heard time and time again, "This is amazing. No one else is doing what you are doing for the funeral profession."

It all began out of a desire to help busy funeral directors gain momentum in their own businesses. We asked ourselves:

"What is keeping our clients from being the kind of funeral directors they want to be?"

For most, the answer is time. All the behind-the-scenes tasks that must be done around the funeral home leave funeral

Momentum

directors feeling overwhelmed, stretched too thin, and unable to spend the kind of quality time they would like to with the families they serve.

Over the years, Funeral Directors Life began to develop and expand our services beyond preneed products to include solutions for every area of the funeral home's business.

We believe that running a successful funeral business shouldn't keep funeral directors from doing what they love: serving families in their time of need. That is why we provide our clients with a one-stop shop solution for almost all of their funeral home's business needs, from preneed program management to marketing, recruiting and training, social media management, lending, accounting and payroll, insurance assignments, time-saving software solutions, and so much more.

We have found that by helping funeral directors in every area of their business, they can spend more of their time serving families and growing their business, which, in turn, helps us grow our business.

All of these solutions have led to unprecedented momentum in our clients' businesses, our employees' productivity and morale, and our company's growth as a whole. So, it is with pride that we present the results of our efforts throughout 2018. And the best is yet to come!

The Select Producer Program

Approach each customer with the idea of helping him or her to solve a problem or achieve a goal, not of selling a product or service.

BRIAN TRACY

Momentum for the Select Producer program has never been higher. In 2018, 7 of the top 10 sales professionals for the company were Select Producers. As a group, 39 Select Producers achieved $36.13 million in sales for the year in 2018, averaging nearly $1 million in production per person for the year.

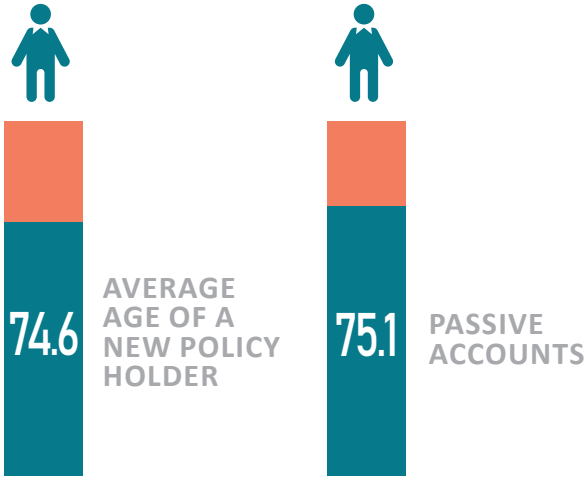
In addition, Select Producers continue to write high quality business based on key performance indicators:

1. DIGicon® sales are consistent at 97.4%
2. Average contract is $6,181 (vs. $5,426 for passive accounts)
3. Average age of a new policy holder is 74.6 (vs. 75.1 for passive accounts)
4. Persistency is at 90.7%

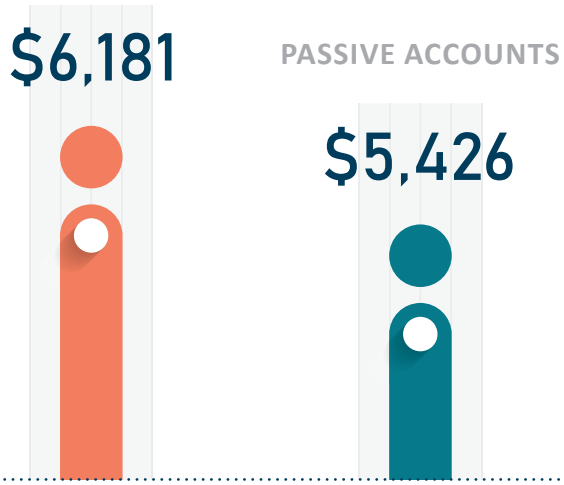
The progress made by the Select Producer team is a credit to our recruiting, training, and sales management departments. Select Producers are not only helping our company grow, they are also helping our clients grow their businesses and gain momentum in their own communities through active

97.4%

DIGicon® Sales



AVERAGE CONTRACT



PERSISTENCY

marketing and quality sales programs.

For 2019, the company has added an additional full-time recruiter to our staff as well as three new Active Sales Directors of Sales Development to support future growth of the program.

Marketing & DIGicare Services

Change before you have to.

JACK WELCH

In 2018, our Marketing and DIGicare services grew at a tremendous pace. As a team, we ran over 750 Facebook campaigns and generated nearly 7000 preneed leads for client funeral homes, making Facebook the fastest-growing lead source for the company!

In addition, over 200 funeral home clients have purchased at least one of our DIGicare services, most of those being Social Media Management clients. The Social Media Management team helps our clients engage with their communities through high quality, relevant posts, boosts, and video content.

In fact, in 2018, the Audio/Visual department increased its number of completed funeral home projects by 27% over 2017. In September, a third staff member was added to the team to help manage increasing video production demands from new Gold and Platinum Social Media Management accounts.

Our team also continued to expand upon the content offered on Funeralbasics.org, a consumer-oriented website developed by Funeral Directors Life to offer educational articles focusing on funeral-related content. In 2018, we saw our Funeral Basics monthly visitors grow from 8,500 to 35,000!

Overall, the momentum going into 2019 is strong while exponentially increasing with new Facebook campaigns, new Gold and Platinum clients, and streamlined processes for managing marketing campaigns through Online Access.

By offering leading-edge digital marketing services and support, Funeral Directors Life has been able to help hundreds of active clients gain momentum in their own businesses throughout the year.

Operations

Every success story is a tale of constant adaption, revision and change.

RICHARD BRANSON

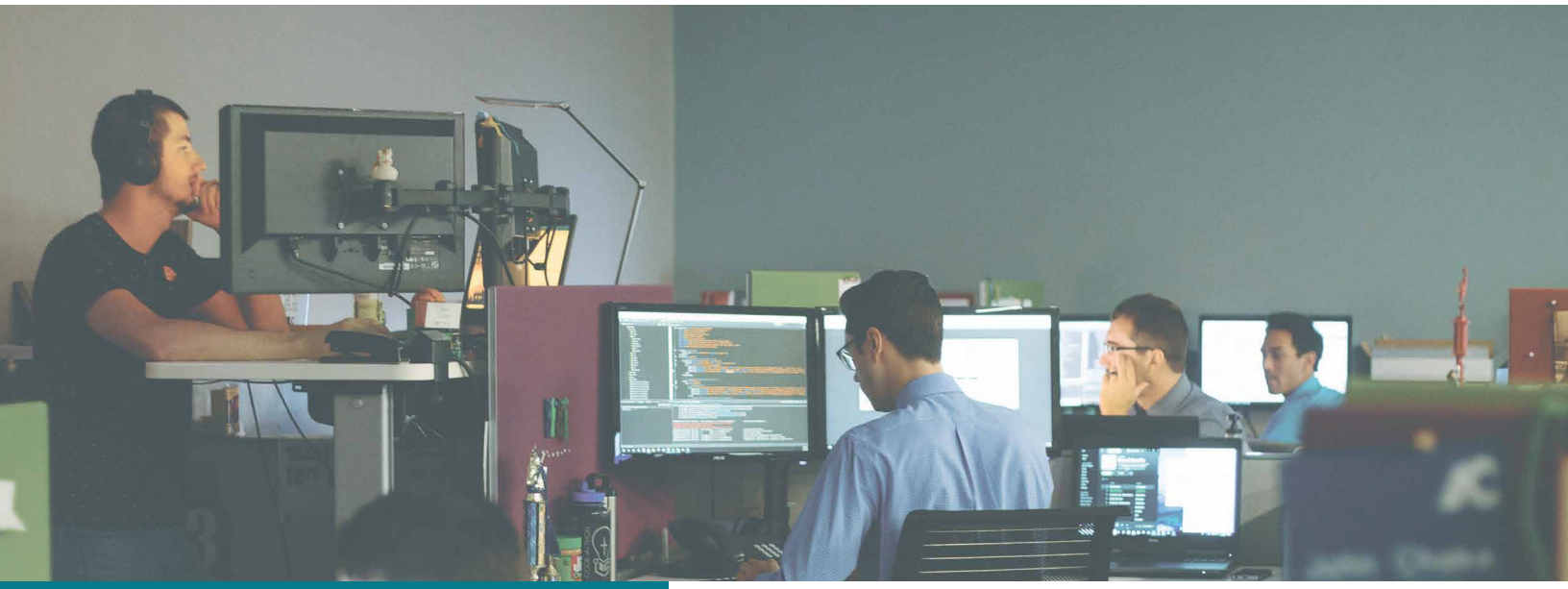
2018 was a great year for our Operations team! We started the year off with a question for our employees: "What can we do to make your life easier?" By asking this simple question, we uncovered many areas for improvement, and by the end of the year, we had increased productivity per employee by 20% and decreased staffing needs by 10% simply by streamlining inefficient processes, standardizing training, and restructuring roles within departments.

These improvements were driven by technology enhancements. This year, Operations implemented OnBase® to help us manage and streamline over 50 workflows within our departments. In addition, DIGiclaim has experienced tremendous adoption rates with 70% of our funeral homes outside of Texas and 50% in Texas submitting claims through DIGiclaim. These technology solutions help us not only decrease time spent on claims and other processes, they also help us provide quick and efficient service to our customers.

Finally, in 2018, among many other improvements, the company expanded the Customer Ambassador program, which creates a single point of contact for our funeral homes and sales managers needing assistance. This program is relieving our sales managers of administrative tasks that were time-consuming and difficult to manage on the road, which means that they are now able to spend more time in front of funeral home clients and prospective clients.

Overall, every minute we can save frees our team up to offer our clients the best, most-respected service in the funeral profession. As we help our clients access the tools and support they need, they can become more efficient and spend more quality time with the families they serve.

Technology



Great things are done by a series of small things done together.

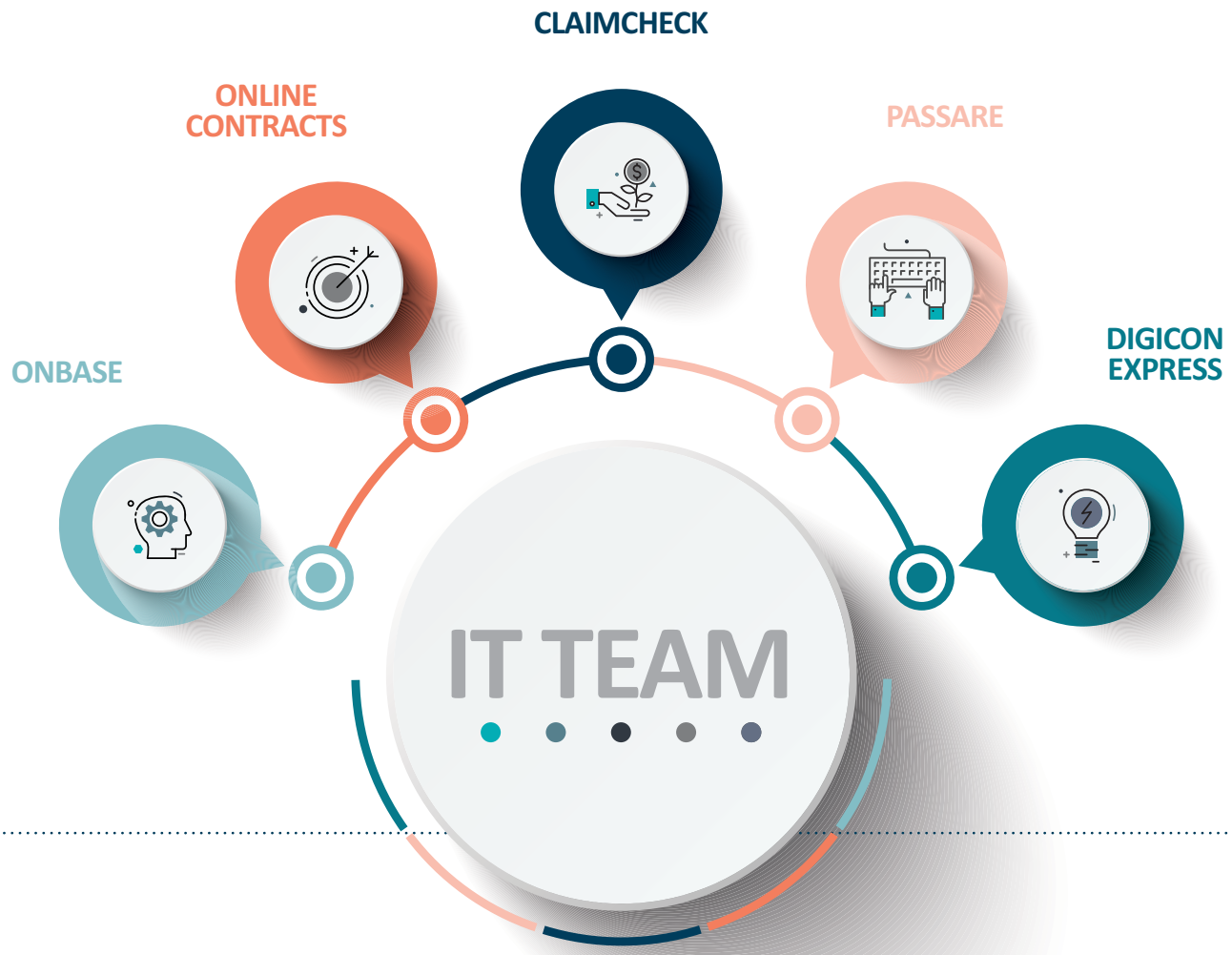
VINCENT VAN GOGH

Throughout 2018, the IT team gained momentum with projects such as automated campaign management through OnBase, Online Contracts, CLAIMCHECK 2.0, enhanced intergration with Passare, and DIGicon Express, among others.

These major accomplishments have helped the company gain efficiencies, improve service to customers, and become the first-ever provider of an online preneed contract solution.

Our award-winning campaign management system allows our sales managers and funeral homes to submit and track the progress of lead generation campaigns from any connected device. In addition, the new system automates many internal processes for our Marketing department, handling all outbound emails to customers, the creation of invoices and purchase orders, and full reporting of sales analytics on campaign results.

DIGicon Express is our in-house version of DIGicon, used by Operations staff to process paper contracts quickly and efficiently, converting those contracts into a treasure trove of data. DIGicon Express has helped us improve reporting across



the company and gives our customers access to the same type of data from paper contracts as we have available on DIGicon contracts.

Online Contracts provides a completely online buying experience from start to finish for consumers who may wish to complete a preneed contract online. In its first iteration, the system is designed to serve a segment of clients offering low-priced cremations. The system is simple to use with helpful tips, FAQs, and links to educational materials along the way. The web-based application will expand as adoption rates increase to get us closer to a fully developed online sales system that is equivalent to DIGicon on the web.

Looking ahead to 2019, we want to bring the momentum of all our DIG technology efforts together in a new area called DIG Development. This area will create a synergistic approach to our strategic plans by combining FD's development team with those of our affiliates to create a super team that can help us achieve our vision of one convenient platform that allows our customers to manage their business and access all of our services. Our development teams will share in these efficiency gains since they will be cutting down duplication of efforts on a variety of features.

CLAIMCHECK®

Don't be afraid to give up the good to go for the great.

JOHN D. ROCKEFELLER

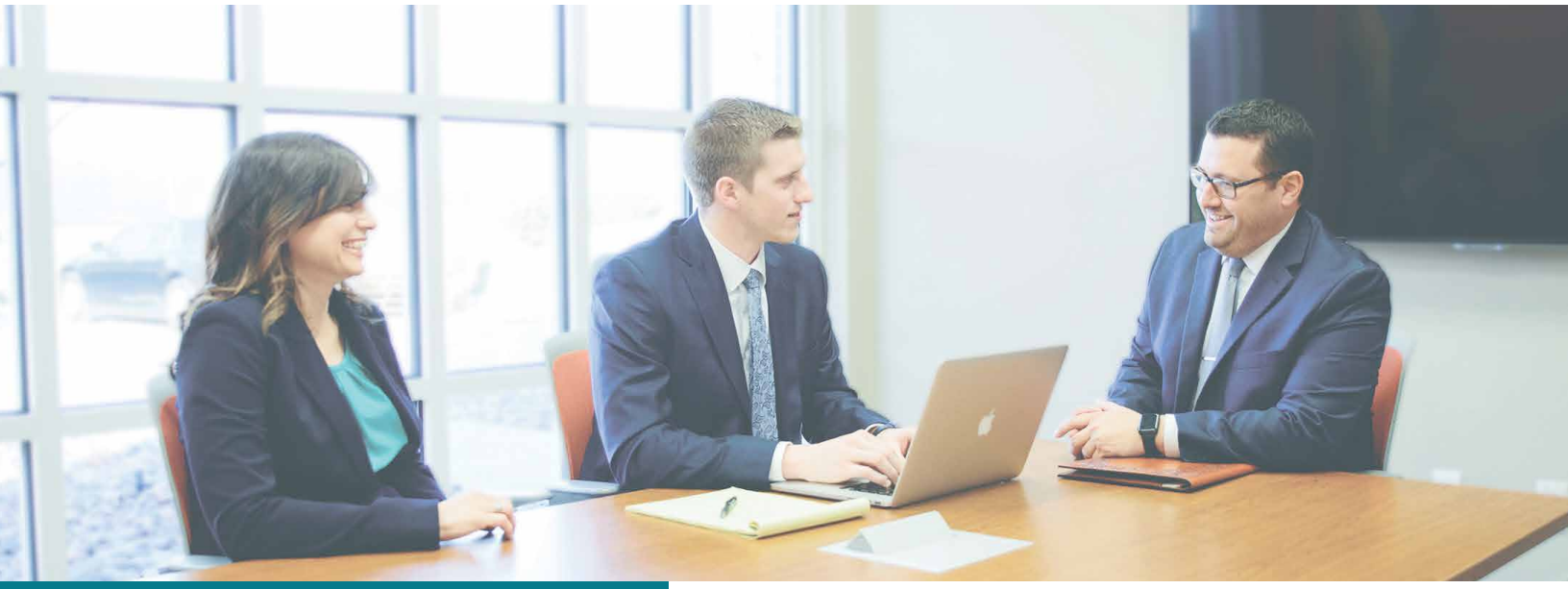
CLAIMCHECK experienced a record-breaking year in 2018 with over 30% growth in assignments processed over 2017. After launching a new submission system, fee structure, brand name and look, CLAIMCHECK began to see increasing growth. The changes implemented made it faster, easier, and more affordable for clients to use CLAIMCHECK's services, and overall, CLAIMCHECK's ROI for the year increased from 10.88% to 16.43%!

CLAIMCHECK's momentum is continuing into 2019. The team is breaking records practically every month not only in assignments but in reduction of average collection period, lower accounts receivable, faster processing times, and enhanced team morale. Looking forward, CLAIMCHECK will soon offer a seamless integration with Passare®, allowing us to reach more potential funeral home customers while offering a fast, convenient service. We're looking forward to another banner year in 2019!


ROI GROWTH
16.43%
10.88%
2017
2018


30%
GROWTH IN
ASSIGNMENTS

Directors Business Solutions



You will get all you want in life, if you help enough other people get what they want.

ZIG ZIGLAR

Since the inception of Directors Business Solutions (DBS), Funeral Directors Life has offered our clients lending, accounting, payroll, and valuation services. To date, DBS has grown from one accounting and payroll client to 18 and counting!

Mortgage loans to funeral homes make up the majority of DBS's activities and revenue, and they are an important aspect of Funeral Directors Life's investment strategy, as loans provide steady income above market returns. In addition, mortgage loans allow our clients to work with an industry expert who can help them expand and grow their business in the best, most-respected way, making this offering a win-win for the company and our clients.

Throughout 2018, DBS made approximately $72 million in mortgage loans to funeral homes, which eclipsed the $24 million budget for the year. The program continues to grow and gain traction in 2019. In addition, going forward, DBS will focus exclusively on serving Passare clients through our accounting solution in order to streamline processes and make

2018 ACTUAL MORTGAGE LOANS

$72 MILLION

2018 MORTGAGE LOAN BUDGET

$24 MILLION

the most of our time and resources. This narrowed focus will continue to drive momentum forward and keep us focused on serving clients with speed and efficiency.

Learning & Development

Education is the most powerful weapon which you can use to change the world.

NELSON MANDELA

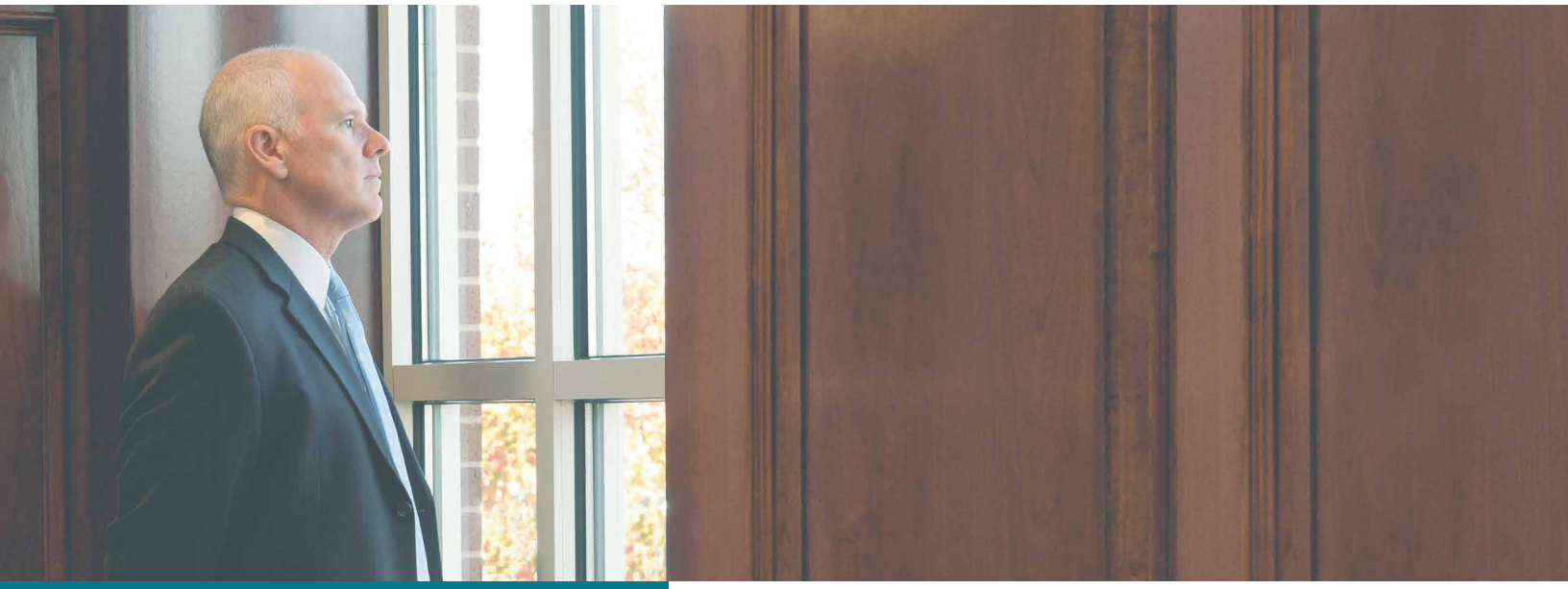
In 2018, the Learning & Development team experienced continued momentum and demonstrated the thought leadership of the company through valuable programs such as the Wolfelt Experience training, CE courses, WeCare training, Burial Space Item training, and so much more.

Throughout the year, existing programs were enhanced and expanded, and a new learning platform called "Lessonly" was implemented to make learning easier and more engaging for employees, sales professionals, and funeral home clients.

Our WeCare virtual training program provided timely training to sales professionals, helped reduce resource drain, and allowed us to offer more customized training based on assessments. Our hope is to continue to expand virtual training opportunities throughout 2019.

Since rolling out the Wolfelt Experience training in 2016 with a soft launch, and as of this writing, we have had 147 attend the course in 20 states. 111 of those attendees have received their Certified Professional in Funeral Planning (CPFP) designation with 43 being non-FD employees! Overall, this program is gaining enormous traction with funeral professionals across the nation, mortuary schools, and even parallel professions such as clergy members and hospice workers. Based on response surveys from program participants, the Wolfelt Experience training is one of the most significant and impactful training sessions available to our industry today, and its reach is only continuing to grow!

A Look Ahead to 2019



It's not the big things that add up in the end; it's the hundreds, thousands, or millions of little things that separate the ordinary from the extraordinary.

DARREN HARDY

As we look ahead to 2019, we are already seeing the fruit of our labor by taking a systematic approach and working toward our goals, one step at a time. In the book, *The Compound Effect*, Darren Hardy talks about the small, everyday choices that can add up to make a huge difference in the lives of individuals and organizations. His formula for success is essentially, "Small, Smart Choices + Consistency + Time = RADICAL DIFFERENCE." Throughout 2019, we are concentrating our efforts by making smart choices consistently, and the result is continually growing momentum for our company and for our customers. As we position our company to become a thought leader in our profession, merge our technology offerings into a single platform, and empower our people to offer the best, most-respected service, we are slowly but surely moving our company into a space where there is no competition. We have a saying around here at the office: "You can't boil the ocean," said with a Texas twang, of course. The point is, we can't do everything at once. But we can take small, strategic steps that make a big difference over time.

MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2018

ANALYSIS OF FINANCIAL POSITION

For 2018, the financial position of Funeral Directors Life Insurance Company (FDLIC) remained strong as the Company maintained an A.M. Best Insurance Company Rating of A- (Excellent). The significant increase in year-over-year new business sales production and improved interest rates resulted in a combined increase in premium and investment income of $24 million. While claims paid exceeded 2017, they were much lower than projected, and with higher new business sales, reserve increases were approximately 15% higher than the previous year. Throughout the year, the Company continued to reduce operating expenses via the use of technology. Finally, with the significant decrease in the federal income tax rate, net income exceeded 2017 by $5.6 million and the Company ended the year with a strong ratio of Capital and Surplus to Assets of 9.22%. No material transactions occurred outside the normal scope of business during 2018.

ASSETS

The Total Assets of Funeral Directors Life Insurance Company (FDLIC) grew to $1.410 billion, an increase of $89.4 million or 6.77% from year-end 2017 to year-end 2018. As of December 31, 2018, FDLIC's assets were distributed as follows: 97.73% in investments, 1.14% in investment income due and accrued, .47% in deferred and uncollected life insurance premiums and annuity considerations, .28% in deferred tax assets and .38% in various other assets.

Invested Assets: For 2018, the primary investment held by FDLIC was bonds (government, agency, and corporate), representing 85.21% of invested assets or $1.174 billon. The emphasis regarding the investment portfolio has consistently involved maximizing book yield, limiting risk, achieving appropriate liquidity, and matching the cash inflow of invested assets with the projected cash outflow of the Company's insurance liabilities. This is known as an Asset Liability Management (ALM) strategy. Throughout 2018, FDLIC maintained this approach to matching the expected cash flows. This conservative approach to managing assets has been consistent since 1993 and was designed to reduce risk and provide assurance that the cash flow of assets is appropriate to provide for the claims of the Company. Additionally, in 2018, FDLIC took advantage of improved short-term bond rates by repositioning investments shorter on the curve in order to enhance the asset cash flows from an ALM standpoint.

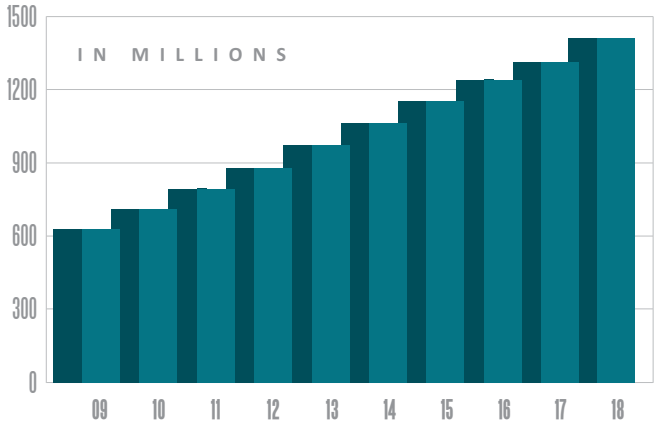
The growth in Company assets has allowed FDLIC to "average into the market" over many different interest rate environments and in all areas of the yield curve. In combination with a disciplined approach to investing, this has enabled FDLIC to lower the market value volatility of the portfolio to interest rate fluctuations. During the year, FDLIC increased the diversification of its portfolio by both asset class and number of issues. Therefore, risk related to individual securities and single asset sectors has been reduced. Treasury yields rose all across the yield curve during 2018 although the curve still flattened. Specifically, the short-end rose about 100 basis points and the long end of the curve rose approximately 27. FDLIC invested throughout the year over various parts of the curve. We took advantage of the flattening of the yield curve by investing in the "sweet spot," where the best value on the curve could be found at various times throughout the year. Additionally, due to the nature and characteristics of the products sold by FDLIC, we positioned cash flows inside of ten years to maturity in order to best uphold the ALM picture. This enabled FDLIC to achieve good yield at various parts of the curve while best positioning the asset cash inflows for the expected liability outflows.

At year-end 2018, there were no preferred stocks in the portfolio. FDLIC may consider investing in selective preferred securities going forward but only on a limited basis and consistent with the following parameters: a) dividends must be cumulative, b) the yield must be greater than or equal to the average sector yield of a thirty-year bond less a deduction of one year's asset valuation reserve requirement created by the asset, c) the purchase of preferred stocks below an SVO 2 rating will be restricted, and d) the total amount invested in preferred stocks will not exceed 5% of the total assets of the Company.

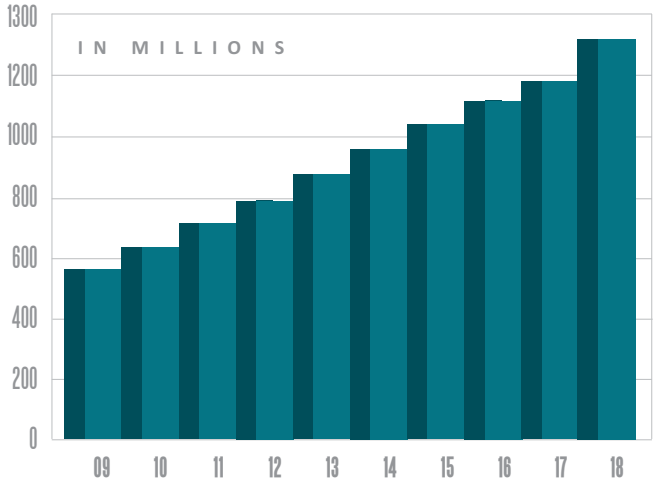
FDLIC's total common stock portfolio was $12.6 million, representing .92% of invested assets. The Company's investment in Kentucky Funeral Directors Life Insurance Company, a wholly-owned subsidiary domiciled in the state of Kentucky, represents $6 million of the total. The remaining $6.6 million was invested in public stocks, mostly in the last quarter of the year, based upon a new momentum-based equity strategy. In December, the Company recorded a $763.7 thousand reduction in market value of the publicly-held stocks that was subsequently recovered in its entirety in January of 2019. All but $1.4 million in stocks were sold at a small gain in February of 2019.

During 2018, FDLIC's mortgage loan portfolio increased by $59.7 million for new loans of approximately $71.9 million offset by $12.2

TOTAL ASSETS



AGGREGATE LIFE RESERVES



million of loans disposed of or repaid during the year. The mortgage loan portfolio represented 11.76% of invested assets as opposed to 7.94% in 2017. Virtually all mortgage loans made and retained by FDLIC are made to funeral home customers and have consistently performed. As of year-end, the Company had no mortgage loans over 30 days past due.

At year-end 2018, real estate represented 1.21% of invested assets compared to 1.33% in 2017. The $533.3 thousand decrease year over year was due entirely to normal depreciation.

Cash and short-term investments represented .55% of invested assets at $7.6 million compared to $831.8 thousand at year-end 2017. The unusually high balance was held in anticipation of mortgage loan investments scheduled in the early months of 2019.

Other Invested Assets consist of loans to parent that were issued in the first quarter of 2007, which comprised .35% of invested assets. Principal reduction on these loans was $369.0 thousand for the year.

The portfolio is conservatively positioned to allow for continued improvements during 2019. New cash flows during 2019 are expected to be reinvested at slightly higher levels than 2018 as yields slowly increase. The overall book yield did decrease during 2018, but the portfolio remains diversified and in a positive position to move forward in 2019 and the years to come. FDLIC will continue to invest to optimize ALM while seeking to invest for the long term in assets. Diversification will continue in order to reduce exposure to single portfolio issues, and FDLIC will diligently invest to provide for the historical investment objectives of the Company.

Other assets remained consistent with the previous year with the exception of a $1.305 million increase in the net deferred tax asset (following the previous year's decrease brought about by the legislative change in the corporate federal income tax rate), and a $1.486 million decrease in federal income tax recoverable that was applied to the 2018 tax liability.

LIABILITIES

At year-end 2018, FDLIC's liabilities were distributed as follows: 98.09% in Aggregate Reserve for Life Contracts, .81% in Asset Valuation Reserve, .27% in Accrued Commissions, .26% in Premiums and Annuity Consideration Received in Advance, .12% in Interest Maintenance Reserve Payable, 10% in Policy Claims, .09% in Provision for Policyholders' Dividends and Coupons Payable, and .26% in all other liabilities.

The life insurance and annuity reserves are primarily medium to long term in nature. Life insurance reserves are calculated on a conservative basis, with 93.5% of the reserves being calculated using an interest factor of 4% or less. Annuity reserves are equal to the current cash surrender value of the annuities plus additional reserves required by Actuarial Guideline 33. The terms of the annuity contracts are conservative, offering interest guarantees of 1% to 5% and no bailout provisions.

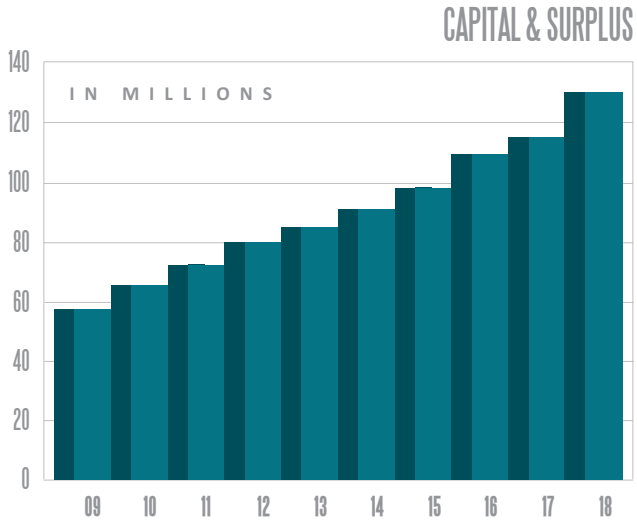
Provision for policyholder dividends remained consistent with 2017. Essentially, a policyholder dividend is the growth rate applied to preneed products and credited to funeral home customers.

The Interest Maintenance Reserve increased $1.402 million from year-end 2017 for net realized capital gains of $1.721 million less amortization of $319.2 thousand. The Asset Valuation Reserve increased $1.076 million or 11.55% consistent with the $1.071 million increase from year-end 2016 to year-end 2017. The increase in reserve is due to the overall increase in investments year-over-year.

Generally, the differences between years in the other liability categories did not result from any significant changes in liability trends but were the result of normal business.

CAPITAL AND SURPLUS

Total Capital and Surplus increased $13.7 million for 2018 as compared to the increase of $5.9 million in 2017. The increase in 2018 consisted of net income of $14.2 million and a $1.257 million increase in deferred income tax offset by an AVR increase of $1.076 million, $316.9 thousand of unrealized losses in common stock and a $405.7 thousand increase in non-admitted assets. The ratio of Capital and Surplus to Total Assets was 9.22% at year-end 2018 compared to 8.81% at year-end 2017. No other material favorable or unfavorable trends existed in FDLIC's Capital and Surplus accounts.



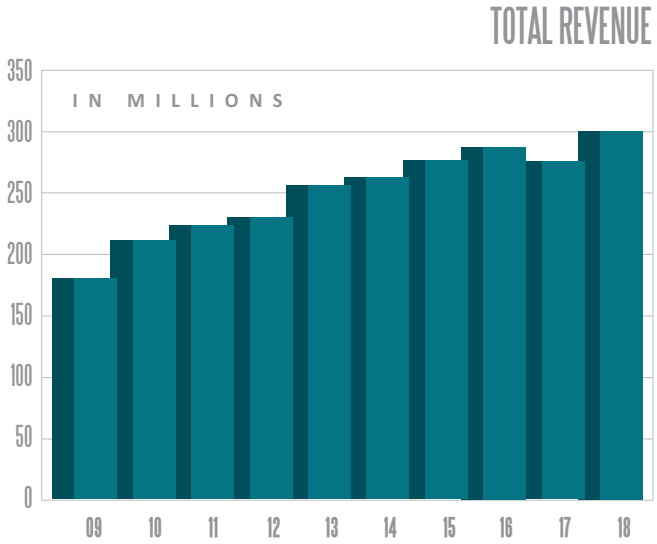
RESULTS OF OPERATIONS

REVENUE

New business issued for 2018 was approximately 12.2% above 2017 production, resulting in significantly improved premium income as well as increased new money to invest. As reported in last year's Annual Report, during 2017, FDLIC provided a 30-day sabbatical to all employees of the Company, including approximately 80 sales managers and employed active sales agents, which resulted in lower than anticipated new business sales production, and therefore, lower premium income as well as less new money to invest.

Annuity premium income increased 10.66% from 2017 to 2018 while Ordinary Life, Group Life, and Industrial Life premiums increased 6.58% year over year for a total increase between years of $19.44 million, or 9.15%, compared to a 5.65% decrease from 2016 to 2017. In 2018, single pay decreased slightly to 72.8% of new business sales production compared to 73.9% in 2017.

Net investment income increased $4.9 million from year-end 2017 to year-end 2018 compared to the $1.1 million increase from year-end 2016 to year-end 2017. During 2017, FDLIC executed an investment strategy to better align cash flows in accordance with its investing philosophy. While the strategy resulted in significant improvement to the matchup of cash inflows and outflows in the five- to ten-year range, it also reduced annual investment returns in an already low interest rate environment. The significant improvement in 2018 was due to increased new money to invest, improved bond yields, and an increase in mortgage loan investments. The average yield on new bond purchases in 2018 increased approximately 50 basis points from 2017 while the yield on the total bond portfolio dropped from 5.07% at year-end 2017 to 4.99% at year-end 2018 due to calls and maturities of higher-yielding securities and increased investment in mortgage loans. The average yield on new mortgage loans increased 39 basis points year over year and was approximately 130 basis points higher than bond yields. Net new dollars invested for 2018 were $89.1 million compared to $70.1 million for 2017.



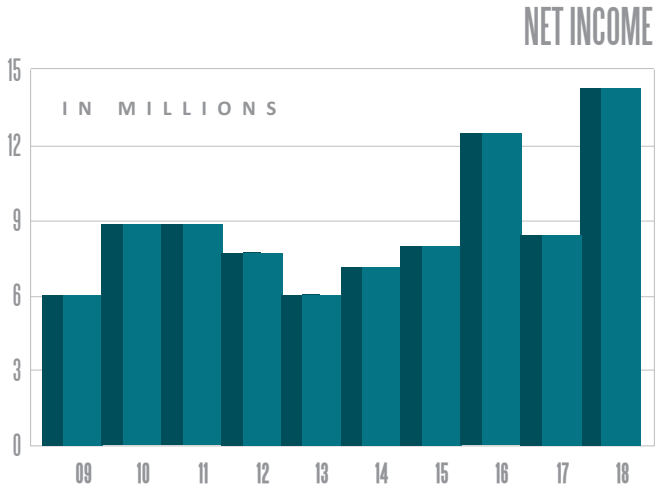
EXPENSES

For 2018, total benefits and expenses increased $16.23 million or 6.12% from the previous year compared to the $4.32 million or 1.60% decrease from year-end 2016 to year-end 2017. Death and annuity benefits paid during the year exceeded 2017 by $7.1 million but were nearly $4 million less than expected. Monthly claims expenses averaged $13.2 million in 2018 compared to $12.6 million in 2017. With the increase in

new business sales and the increase in claims, the increase in aggregate reserves from year to year was up $10.0 million or 15.5% from 2017. Commissions were up approximately $711.7 thousand or 3.4%. General insurance expenses were down $2.034 or 8.8% million due to increased efficiencies afforded through the use of technology as well as the fact that the Company accelerated approximately $1 million of 2018 proposed expenses into 2017 in an effort to reduce federal income tax expense under the higher tax rate and improve future earnings. No other material expense changes occurred during 2018.

NET INCOME

For 2018, net income was $14.2 million – up approximately $5.8 million from 2017 net income of $8.4 million. While net gain from operations was up $6.6 million from 2017, the Company recorded net realized capital losses compared to gains in the previous year. For 2018, capital losses recognized in the income statement were the result of a bond sale early in the year. The following facts are relevant when reviewing the difference in net income between 2017 and 2018: 1) a 12.2% increase in new business production positively impacted both premium income and investment income; 2) improved bond rates and increased mortgage loan investments (yielding approximately 130 basis points higher than bond purchases) increased investment returns; 3) significantly reduced general expenses; and 4) the reduction in the federal income tax rate.



CASH FLOW AND LIQUIDITY

Through the consistency of premium income and the growth of investment income, FDLIC has continued to maintain extremely positive cash flow. Premium and investment income have allowed FDLIC to meet all obligations and invest a considerable amount of the remainder. This trend is expected to continue for 2019 and beyond. However, FDLIC has made appropriate plans for the future by continuing the investment strategy of matching asset maturities with liability cash flow projections.

FDLIC continues to be positively positioned from a portfolio structure as well as a reporting standpoint. Moreover, the diversification, structure of the investment portfolio, and limited exposure to troubled securities has afforded FDLIC the opportunity to benefit versus competition. New cash flows during 2019 are expected to be reinvested at slightly higher levels than that of 2018 as yields on Treasuries increase and spreads widen. The Federal Reserve continued to raise short-term borrowing rates with four quarter point increases in the federal funds rate in 2018. The Fed has stated that they will continue to increase rates in 2019, targeting 1-2 additional 25 basis point hikes. This is expected to continue increasing shorter-term Treasury yields.

FDLIC has maintained considerable liquidity over the years and will continue to do so in the future. As stated above, current cash flow has always been sufficient to meet maturing insurance and annuity obligations, as well as operating expenses; however, if FDLIC is required, by some catastrophic event, to generate cash flow, it may do so by liquidating its marketable securities.

CONCLUSION

FDLIC has experienced steady and consistent growth over the last five years despite the continued low interest rate environment. As expected, the strategies implemented at year-end 2017 and carried into 2018 were successful in increasing net income, and therefore, capital and surplus. For 2019, FDLIC will continue its expansion into states outside of Texas, which now provides the majority of the Company's new business production. As discussed above, FDLIC will continue to invest in accordance with its long-standing investment philosophy and fully expects to maintain its portfolio book yield and income. As long as interest rates remain at or above current levels, the Company anticipates comparable financial results for 2019.

FINANCIAL HIGHLIGHTS

In Thousands		*Year Ended December 31*		
		2018	**2017**	**% CHANGE**
OPERATIONS	Revenues	$ 300,229.4	$ 275,890.2	8.82%
	Net Earnings	$ 14,232.6	$ 8,402.9	69.38%
FINANCIAL				
	Total Assets	$ 1,409,755.4	$ 1,320,343.6	6.77%
	Reserves	$ 1,255,314.2	$ 1,181,182.2	6.28%
	Shareholder's Equity	$ 130,008.2	$ 116,317.1	11.77%
EMPLOYEES		182	167	8.98%
POLICYHOLDERS		320,064	304,248	5.20%

SELECTED FINANCIAL AND STATISTICAL DATA (FIVE-YEAR SUMMARY)

In Thousands	*Year Ended December 31*				
	2018	**2017**	**2016**	**2015**	**2014**
New Business Issued	$ 242,905.6	$ 215,592.7	$ 231,390.9	$ 231,774.2	$ 220,076.7
Premium Income	$ 231,867.8	$ 212,428.6	$ 225,161.1	$ 218,088.0	$ 209,010.4
Insurance In Force	$ 1,633,121.9	$ 1,536,323.8	$ 1,457,870.7	$ 1,362,311.2	$1,253,591.9
Aggregate Life Reserves	$ 1,255,314.2	$ 1,181,182.2	$ 1,117,010.8	$ 1,039,849.3	$ 958,108.2
Capital & Surplus	$ 130,008.2	$ 116,317.1	$ 110,424.5	$ 99,103.2	$ 91,897.3
Net Income	$ 14,232.6	$ 8,402.9	$ 12,460.9	$ 7,961.6	$ 7,116.1
Total Assets	$ 1,409,755.4	$ 1,320,343.6	$ 1,248,024.5	$ 1,159,081.0	$1,068,899.2
Net Investment Income	$ 67,226.9	$ 62,317.8	$ 61,174.8	$ 56,969.5	$ 53,048.7
A. M. Best Rating	A-	A-	A-	A-	A-
Ratio of Capital & Surplus to Total Assets	9.22%	8.81%	8.85%	8.55%	8.60%

INVESTED ASSET MIX

Bonds	85.2%	89.8%	89.8%	89.1%	89.0%
Stocks	1.1%	0.4%	0.4%	0.5%	0.5%
Mortgage Loans on Real Estate	11.8%	7.9%	7.9%	8.1%	7.7%
Real Estate	1.2%	1.3%	1.3%	1.7%	1.8%
Cash or Short-term Investments	0.6%	0.1%	0.1%	0.1%	0.4%
Other Invested Assets	0.2%	0.4%	0.4%	0.5%	0.6%

BALANCE SHEET

In Thousands	*Year Ended December 31*	
	2018	**2017**
ASSETS		
Bonds	$ 1,174,014.5	$ 1,157,349.0
Stocks-Common/Public	6,628.7	-
Stocks-Subsidiaries	5,985.4	5,699.1
Mortgage Loans	161,983.8	102,330.4
Real Estate	16,632.1	17,165.4
Policy Loans	5.9	10.7
Cash and Short Term Investments	7,630.7	831.8
Other Invested Assets	4,842.7	5,211.7
Total Invested Assets	$ 1,377,723.8	$ 1,288,598.1
Furniture and Equipment	829.1	1,224.8
Deferred Premiums	6,607.7	6,328.2
Accrued Investment Income	16,115.9	15,633.9
Deferred Tax Asset	3,953.4	2,648.2
ClaimCheck Receivables	2,956.4	3,219.8
Other Assets	1,569.1	2,690.6
Total Assets	$ 1,409,755.4	$ 1,320,343.6
LIABILITIES		
Policy Reserves	$ 1,255,314.2	$ 1,181,182.2
Policy Claims	1,262.0	1,450.9
Provision For Policyholder Dividends	1,200.0	1,250.0
Premiums Received in Advance	3,294.4	3,193.0
Interest Maintenance Reserve	1,482.2	79.9
Accrued Commissions	3,473.9	4,956.4
Accounts Payable	402.3	357.7
Other Liabilities	2,924.5	2,238.8
Asset Valuation Reserve	10,393.7	9,317.6
Total Liabilities	$ 1,279,747.2	$ 1,204,026.5
SHAREHOLDER'S EQUITY		
Common Stock	2,500.0	2,500.0
Additional Paid-In Capital	3,031.0	3,031.0
Surplus	124,477.2	110,786.1
Total Shareholder's Equity	130,008.2	116,317.1
Total Liabilities and Shareholder's Equity	$ 1,409,755.4	$ 1,320,343.6

SUMMARY OF OPERATIONS

In Thousands	*Year Ended December 31*	
	2018	**2017**
REVENUE		
Life Premiums and Annuity Payments	$ 231,867.8	$ 212,428.6
Net Investment Income	67,226.9	62,317.8
Other Income	1,134.7	1,143.8
Total Revenue	300,229.4	275,890.2
BENEFITS & EXPENSES		
Death and Annuity Benefits	158,788.8	151,712.7
Other Benefits	1,027.9	1,014.4
Increase in Aggregate Reserves	74,110.8	64,153.6
Operating Expenses and Commissions	45,605.8	46,278.3
Dividends to Policyholders	1,634.2	1,775.2
Total Benefits and Expenses	281,167.5	264,934.2
Income Before Capital Gains & Income Taxes	19,061.9	10,956.0
Capital Gains (Losses) Net of Income Taxes	(13.7)	784.6
Income Before Income Taxes	19,048.2	11,740.6
Less Provision for Income Taxes	4,815.6	3,337.7
NET INCOME	$ $14,232.6	$ 8,402.9

STATEMENT OF SHAREHOLDER'S EQUITY

In Thousands	*Year Ended December 31*	
	2018	**2017**
CAPITAL & SURPLUS		
Shareholder's Equity Beginning Balance	$ 116,317.1	$ 110,424.5
Net Income	14,232.6	8,402.9
Unrealized Gain (Loss) on Investments	(316.9)	269.0
Change in Deferred Tax	1,257.2	(1,618.6)
Change in Non-Admitted Assets	(405.7)	(89.9)
Change in Asset Valuation Reserve	(1,076.1)	(1,070.8)
Shareholder's Equity Ending Balance	$ 130,008.2	$ 116,317.1

STATEMENT OF CASH FLOW

In Thousands	*Year Ended December 31*	
	2018	**2017**
CASH FLOW FROM OPERATING ACTIVITIES		
Premiums and Annuity Payments	$ 231,364.8	$ 212,288.6
Investment Income Received	69,690.3	64,679.6
Other Income Received	815.6	668.1
Benefits and Loss Related Payments	(159,994.4)	(152,532.6)
Operating Expenses Paid	(44,805.8)	(44,664.1)
Policyholder Dividends Paid	(1,689.7)	(1,778.2)
Income Taxes Paid	(3,783.9)	(6,924.5)
Net Cash Provided By Operating Activities	91,596.9	71,736.9
CASH FLOW FROM INVESTING ACTIVITIES		
Proceeds from Investments Sold	85,704.1	86,058.2
Other Cash Provided (Applied)	(546.4)	(100.3)
Acquisition of Investments:		
Bonds	(90,676.3)	(141,092.1)
Stocks	(7,392.4)	-
Mortgage Loans	(71,858.9)	(16,510.3)
Real Estate	(26.3)	(124.2)
Other Invested Assets	(1.8)	1.5
Net Cash Used In Investing Activities	(84,798.0)	(71,767.2)
NET INCREASE (DECREASE) IN CASH AND SHORT-TERM INVESTMENTS	6,798.9	(30.3)
CASH AND SHORT-TERM INVESTMENTS		
Beginning of Year	831.8	862.1
End of Year	$ 7,630.7	$ 831.8

Directors Investment Group

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Robert Hamil	Abilene, TX
Jeff Harper	San Angelo, TX
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Leslie Branon Montz	Lamesa, TX
Darrell Rains	Austin, TX
Kris Seale	Abilene, TX
Kasi Welch Baker	Midland, TX

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Bob White	Weatherford, TX

Funeral Directors Life Insurance Company


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TERRY GROBAN


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TODD CARLSON


PAUL LOVELACE


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TERRI BANNISTER


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Terry Groban
Executive Vice President & Chief Financial Officer, Secretary, Treasurer
Dwayne McGraw
Executive Vice President & Chief Actuary
Dawson Rodriguez
Executive Vice President & Chief Information Security Officer
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Executive Vice President of Sales & Chief Sales Officer
Paul Lovelace
Executive Vice President of Corporate Development
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Executive Vice President & Chief Marketing Officer
Terri Bannister
Executive Vice President of Learning & Development
Addison Templeton
Executive Vice President & Chief Operations Officer

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Vice President of Finance
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