Dear Fellow Shareholders,

March 15, 2021

The year 2020 will no doubt be remembered as the year of the COVID-19 pandemic. As it swept across the globe, it created a public health crisis that abruptly threw the world into a recession. The word "**uncertainty**" quickly became the most popular word in business—and for good reason. These were truly "**unprecedented**" times (possibly the second most oft-used word).

Initial Responses to the Pandemic

Amidst this "unprecedented uncertainty," our team responded admirably. Thanks to the efforts of our crack team of I.T. wizards and the adaptability of our staff, **our business did not miss a beat as nearly all of our team began working from home**.

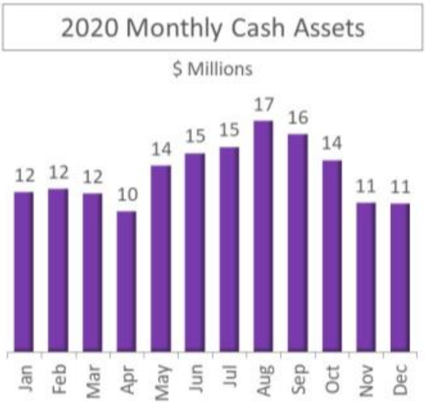
Since the majority of the Company's investments are in commercial real estate loans, we were particularly concerned about the potential impact of the nationwide shutdowns on our loan portfolio. How would it impact our borrowers' ability to make their loan payments? How much would commercial real estate values decline? Should we continue lending or wait until there was less uncertainty?

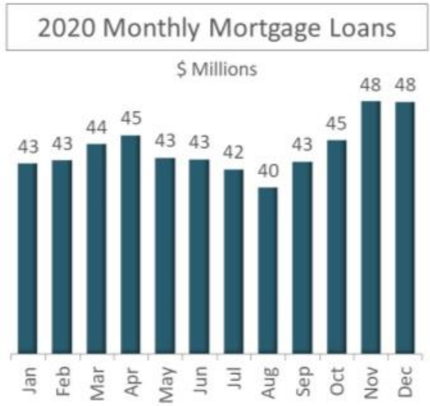
Although we wanted to continue lending, **our conservative nature led us to anticipate the worst** and we became ultra conservative in the loan terms we offered. I like to think that this "better safe than sorry" approach was rational, given the prevailing uncertainty of the future, but it resulted in several months of very little interest in the more conservative loans we were offering.

We were pleasantly surprised by an unexpected development during this time. Instead of loans defaulting, we received an **unusually large number of loan payoffs**. Furthermore, instead of the real estate market freezing up, we **sold a number of our REO (real estate owned) properties**. Both of these welcome surprises increased our cash to exceptionally high levels.

We were shocked that we did not see any of the after-effects we expected would follow the global shutdown. Even more surprising, **we have not had a single new loan delinquency** during this time period. It was as if the pandemic did not even exist! It appears that the government's decisive action to inject billions and even trillions of dollars into the economy was working. The economy managed to avoid falling into a major recession.

We were grateful things were going so well with our mortgages, and having **24% of our total assets in cash** kept us exceptionally secure. But this did cause a problem for us. Historically low bank interest rates meant that we were earning little interest on this excess cash, considerably reducing our investment income. This was not sustainable in the long-run, so we needed to offer more competitive loan terms.





Instead of simply lowering our lending standards to be more competitive, we continued to underwrite our loans conservatively but **lowered our loan interest rates.** This was a winning strategy. Within a short period of time, we began investing our excess cash in new mortgage loans.

Although our average loan interest rate decreased from 9.2% the first 8 months of 2020 to 8.3% in the last 4 months, it was vitally important to get the millions of dollars sitting in cash reinvested into mortgages.

Our mortgages dropped from $45 million at the beginning of the pandemic to $40 million by August. But during the last four months of 2020, our **loan portfolio grew to a record $48 million**. (As of the writing of this letter, it has since grown to over $51 million, with several more million scheduled to close within the next few weeks.)

Lemon Juice on a Papercut

The loss of interest income resulting from our elevated cash holdings during the first six months of the pandemic was significant, but unfortunately it was not the only blow to our financial performance.

The effects of an unprofitable investment made in 2013 were felt in 2020. Between 2011 and 2013, we made three investments totaling $2.3 million with a reputable real estate investment group. Initially, we realized a gain of $470,000 on the first two investments (totaling $1,420,000). But unfortunately, the last $880,000 investment ended up losing $520,000. The last $165,000 of that loss was written off this year. This reduced our after-tax profit in 2020 by $130,000.

A third large hit to this year's profitability was a $137,000 **increase in our annuity reserves due to lower interest rates**. The lower market interest rates require us to hold higher reserves. To be clear, this is not an actual cash expense, but we are required to set aside more funds as reserves in case we earn lower interest in the future. And since an increase in reserves is recorded as an expense, this change further reduced 2020's after-tax profit by $108,000.

A final challenge that hurt our 2020 income was an unusually **high amount of life insurance death claims** on young people insured with our Youth Life Plan insurance policies. 2020 death claims were approximately $75,000 greater than our 10-year average annual amount. None of these death claims, however, were related to COVID-19.

Bright Spots to Celebrate

Fortunately, we did have some wonderful successes in 2020.

In the last four months of the year, we originated a record $10 million in new loans. In addition to growing our loan portfolio to end the year at $48 million (as mentioned before), these loans also generated over $200,000 in loan fee income. This momentum has continued into 2021. We expect soon to have all of our excess cash fully invested in mortgages.

An unfortunate reality of our lending business is that a small part of our mortgage loans result in foreclosures which become real estate owned (REO) that we then have to sell. Fortunately, because of the conservative loan amounts we lend (on average only 55% of a property's value), we usually make a profit when we sell the foreclosed properties. This year **we sold four REO properties for a combined after-tax realized gain of $530,000**.

We were also successful in **earning $70,000 in a loan broker fee**. This came from a loan that did not fit the Company's underwriting but we were able to refer the loan to a lender who funded it. This was a great start on one of our 2021 strategic initiatives.

Strategic Initiatives for 2021

We have several exciting initiatives for the year 2021 on both sides of our business (life insurance and real estate lending).

First for the insurance side, we are finally **launching our new <u>Remembrance</u> life insurance policy.** Due to the uncertainty of the pandemic, we delayed the launch until the beginning of 2021. This is a very exciting policy that offers certainty for passing on funds to one's heirs, while providing chronic illness benefits, if needed. We expect this policy will be the source of major growth of our life insurance sales over the next many years.

We are also **creating a Company insurance agency** that will let us to offer other companies' products to our customers and stockholders. Richard Unangst, a recently retired Company employee of 22 years will head up this initiative and we look forward to the increase in service this will provide.

On the lending side, we have four strategic growth initiatives.

1) **Grow our network of commercial loan brokers and business bankers** and regularly connect with them through a myriad of methods; from "old school" phone calls, personalized letters, and in-person meetings, to the more modern methods of emails, social network messages, and social media posts.

2) **Grow fee income from brokering loans that come to us but are not a fit for our lending program**. We anticipate this will become a profitable part of our lending business that will allow us to grow our loan fee income while also providing a valuable service to borrowers that do not qualify for our own loan programs.

3) **Grow the number of online loan requests we receive** by aggressively enhancing our online presence. The number of internet searches for loans continues to grow every year, so it is vital that we develop an effective strategy to capture as many of these as possible. Frankly, this is an area where we have been seriously underperforming. I am very optimistic about the benefits this initiative will provide over time.

4) **Grow the number of loan participations we sell to other life insurance companies**. A loan participation is when we sell part of a loan and we currently only sell participations to other insurance companies. Loan participations are profitable for us because they allow us to make more loans than we could if we were limited to only our funds. These additional loans generate fee income for us and increase our interest income by offering a lower yield to the participating company and retaining the difference.

To be clear, loan participations are also a win to the participating company because they earn much higher interest on these loans than they otherwise would if they instead invested the funds in bonds. This is a situation where our unique expertise and experience making our profitable, yet low risk *Not So Hard Money®* loans can be a valuable investment opportunity for other insurance companies, while enabling us to grow our loan volume and earn greater income.

Your Stock's Performance and Cash Dividends

OK, let's look at how the Company fared financially during the year of COVID-19:

- **EBITDA** (Earnings Before Interest & Depreciation) up $109,000 **+7%**
- **Net Income** down $123,000 **-9%**
- **Comprehensive Income Attributable to Shareholders** down $71,000 **-5%**
- **Dividend Yield =** **4.7%**
- **Total Shareholder Return =** **7.4%**

Shareholders received two 10¢ per share cash dividends in 2020. Together, these dividends equal a 4.7% yield on the 12/31/2019 stock book value.

In addition to the cash dividends, your stock's book value also increased 2.7%, for a combined Total Shareholder Return of 7.4%.

Although the last four months of 2020 were more profitable months, the Board decided to leave the

April 2021 dividend at 10¢ per share, wanting to see a sustained duration of higher profitability before raising the dividend.

Therefore, **the first semi-annual 2021 dividend will be 10¢ per share, to be paid on April 10, 2021** to all shareholders of record as of March 31st. The Board intends to declare a second semi-annual dividend in August, to be paid in October. **2021 will be the 39th consecutive year that we have paid cash dividends**.

Reflections and Projections

2020 was a year that impacted each of the world's 7.8 billion people. With sincere sorrow we acknowledge that even though we are very grateful for COVID-19's low mortality rate, for those families who lost a loved one, it was still too high. And for the many business owners who lost their life's work and life's savings when they lost their business, the pandemic was also very tragic. Our hearts goes out to all of them.

Despite these tragedies, it was also a year that brought new insights. For instance, before the pandemic I could have never imagined that our Company could successfully operate with the majority of its employees working from home full-time, yet here we are doing just that.

Will there still be repercussions from the major disruption the pandemic has caused to the economy? Time will only tell. As of the writing of this letter, all indications are that we are already in the midst of a strong recovery. Nevertheless, it seems reasonable to expect that there must be some fallout at some point.

Whenever that may occur, I am confident about our Company's long-term future. Our investment model (graphically described on pages 11-12) has proven to be successful for many decades now. We have a unique and profitable niche within our industry; one that we believe will continue to benefit all of the Company stakeholders through economic ups and downs.

We continue to make progress toward our long-term strategy to grow and diversify income sources from both our life insurance business and our lending business. Our ultimate objective in this growth is to provide greater long-term shareholder value while also lowering our exposure to risk.

On behalf of the board of directors and the amazingly talented and dedicated staff, I earnestly thank you for your trust and support. I look forward to sharing this great Company's continued and increasing success with you!

Sincerely yours,

Byron Frihoff Allen, President