Federal Life Insurance Company

Producers Guide to

Anti-Money Laundering

September 2018

The USA PATRIOT Act was enacted in order to better protect the financial services industry from potential abuse by criminals and terrorists. Among other things, the act requires all insurance companies to integrate their agents into their anti-money laundering (AML) program and to set up a system to detect and report "suspicious activities". Under these regulations, all agents selling "covered products" (in general, individual permanent life insurance and annuities) must receive training regarding money laundering and terrorist financing.

Company Statement

It is Federal Life's policy to prohibit money laundering and any activity which facilitates money laundering or the funding of terrorist or criminal activities. Federal Life's management and staff is firmly committed to complying with all laws and regulations designed to combat money laundering activity, including those rules and regulations requiring the reporting of transactions involving currency, certain monetary instruments, and suspicious activity. It is the responsibility of every employee and agent to protect the Company from exploitation by money launderers. Non-compliance with the applicable laws and Company policy ensuing from any association with money laundering activity can result in significant criminal, civil and disciplinary penalties and reputational harm.

The Company's Anti-Money Laundering Compliance Officer is:
Kenneth Wallach 847-520-1900, extension 285
kwallach@federallife.com.

Training for Agents and Brokers

Agents and brokers will be trained in the Company's AML program as follows:

1) They may take the Federal Life AML training course by either reading this guide or viewing it on-line at our web site (www.federallife.com); and signing the certification form.

2) If the agent is also a registered representative of a broker/dealer, an agent with another insurance company, or a representative of a bank, with its own AML course, the Company may accept, in lieu of its training, training by the other financial institution.

3) The Company may also accept training administered by a third party vendor.

All agents must certify to the Company that they have completed AML training. Such certification will be done using the Company's AML Training Certification Form or submitting certification forms from other financial institutions or third party vendors.

What is Money Laundering and Terrorist Financing?

Money Laundering: Money laundering is a varied and often complicated process that can, but does not always, involve cash transactions. Illegally-obtained money is filtered through a series of transactions that eventually make the money appear to be obtained from "clean", or legal, activities. The money laundering process has been described as having three phases that often overlap:

Placement—Injecting ill-gotten proceeds, including cash, into the financial system through transactions such as bank deposits

Layering—Separating illicit proceeds from their criminal source through complex financial transactions

Integration—Putting the proceeds back into circulation in the economy, with the appearance of legality

Terrorist Financing: Terrorist financing involves the use of money, which may be lawfully obtained, to fund illegal activities. Because the transactions often have a legitimate origin and can often involve small amounts of money, terrorist financing can be more difficult to identify than money-laundering activities. However, an effective anti-money laundering program can help prevent the use of legal funds for terrorism activities.

What are the "Covered Products"?

The rules are not applicable to all insurance products. Rather, the Treasury Department identified categories of "covered products" that in its judgment presented sufficient AML risk to justify regulation. "Covered products" are defined to include:

- A permanent life insurance policy, other than a group life insurance policy;
- An annuity contract, other than a group annuity contract; or
- Any other insurance product with features of cash value or investment.

Accordingly, property-casualty coverage, health insurance, and term life insurance, among other kinds of products, need not be included in an insurance company's AML programs.

Federal Life's "covered products" include:

- Current Interest Tradition (CIT)
- Express Plan
- Graded Benefit Whole Life
- The Estate Builder
- Ultra-Flex Life
- All annuity plans

Agent's and Broker's Responsibilities

As an insurance producer, your skills and services help your clients achieve financial success and security. Because you are on the front lines of a multi-billion dollar industry, you are in a unique position not only to serve your clients, but also to serve the country by helping prevent money laundering and the financing of terrorist activities.

You have an important role to play in Federal Life's AML program. As a person who deals directly with customers, you will often be in a critical position to obtain information regarding the customer, the customer's source of funds for the products you sell, and the customer's reasons for purchasing an insurance product.

To make best use of your perspective in the company's AML program, agents and brokers have responsibilities in four principal areas.

• Information Gathering: Effective customer due diligence is based on appropriate and accurate information about the client. Agents are responsible for obtaining this information at point of sale.

• Methods of Payment: Federal Life has established standards for acceptable and unacceptable forms of payment. Agents are responsible for ensuring that appropriate payment guidelines are followed, and that attempts to engage in inappropriate payment behavior are reported to the Company.

• Communication: Agents are the first line of defense in the detection of suspicious activity. They are responsible for bringing potentially suspicious behavior that they are best positioned to observe to the Company's attention and cooperate with Company requests for information in the course of reviews of clients and client activities.

• Training: Agents that sell “covered products” must receive appropriate anti-money laundering training, either from Federal Life, another financial institution or from a third party, in accordance with company guidelines.

Failure to comply with these responsibilities will be grounds for discipline up to and including termination of your contract. In addition, violations of anti-money laundering laws expose those involved to substantial penalties under Federal law.

The next section of this guide will go into these responsibilities in more detail.

INFORMATION GATHERING

Customer Due Diligence
Agents and brokers are responsible for obtaining and providing complete and accurate information in all applications and other documentation required for the issuance of a covered product or a transaction involving a covered product.

Agents and brokers should notify the Company’s AML Compliance Officer of any instance in which a customer has resisted providing information, appears to have provided false or misleading information, or has provided information that cannot be verified.

Customer Identification
Knowing our customers is an important step in preventing money laundering. For customers who are natural persons or the sole proprietor of a business, the agent or broker must obtain and record the following information before a policy can be issued:

- Name
- Tax Identification Number
- Address
- Date of Birth

To facilitate verification of identity, the agent or broker should:

- Request an unexpired government-issued form of identification bearing a photograph
- Confirm that the photograph matches the customer
- Confirm address, date of birth, and other personal information
- Record the identifying information from the identification and file this information in your client files.

For business customers, the agent or brokers must obtain and record the following information before a policy can be issued:

- Name
- Tax Identification Number
- Mailing Address of Business

To facilitate verification of identity, the agent or broker should:

- Obtain a copy of the business' Articles of Incorporation
- Obtain a copy of the executed buy-sell agreement (if applicable)

Agents and brokers are also responsible, in cooperation with the AML Compliance Officer, for performing any due diligence necessitated by the presence of any red flags that may arise in the course of your information gathering. See below for examples of red flags.

Recordkeeping Responsibilities

After meeting with a customer, agents should keep copies of the following:

- Application and illustration,
- Check for premium payment,
- EFT form and notes of any other payment method,
- Current address and phone number of the client/s, which should match up with the application's record of address and phone number.

Agents should also keep any notes made during the selling process, including but not limited to conversations during the sale, any suspicious language or activity by the client, methods of payment, initial point of sale meetings with customer, new business and application activity, ongoing account activity, where applicable, and ongoing payment activity, where applicable.

Notes about the sales call and application processing may be kept electronically. Paper copies of all pertinent materials (application, illustrations, check) should be made and kept in a file for record keeping purposes.

Records of this information must be retained as long as the contract remains in force and for 5 years thereafter.

METHODS OF PAYMENT

Federal Life accepts the following forms of payments for various purposes (premium payments, rollovers, transfers, loan repayments):

- Personal/business check
- Electronic Funds Transfer (EFT)
- Credit card (for new life business only)
- Wire transfer

Agents and brokers should inquire as to the source of funds that will be paying for the policy if it is not readily evident. Particular attention should be paid to wire transfers.

It is unlikely in the course of servicing a Federal Life customer the need would arise for a wire transfers and/or EFT to or from foreign jurisdictions. However, no such transactions will be processed without the prior approval of the AML Compliance Officer.

Agent/Broker's Responsibilities

- Agents and brokers should communicate the restrictions on acceptable payment to his/her customers in advance of accepting payment.
- If a customer gives the agent or broker an unacceptable form of payment, the agent or broker should explain what forms of payment are acceptable and return the unacceptable payment immediately.
- If the agent or broker encounters difficulty dealing with a customer regarding the company's standards for acceptable and unacceptable forms of payment, he or she should call the AML Compliance Officer.
- Agents and brokers may be asked by company personnel to obtain information with respect to forms of payment received by the company.
- Agents and brokers may be called upon to assist in communicating with a customer or gathering information if, after policy issue, the company receives a premium payment in an unacceptable type or form.

COMMUNICATION REGARDING SUSPICIOUS ACTIVITY

Agents and Brokers should immediately contact the company's AML Compliance Officer if they encounter any suspicious activity. Such activity may result in the Company filing a Suspicious Activity Report (SAR) with the Financial Crimes Enforcement Network (FinCEN). Some examples of red flags that may warrant consideration of a SAR are set forth below.

New Business Red Flags
The selling agent/broker may be in a key position to identify suspicious activity during the sales process. Accordingly, agents and brokers should be alert for, and should report, any of the following red flags to the Company's AML Compliance Officer:

- The purchase of an insurance product that appears to be inconsistent with a customer's needs;
- A customer's reluctance to provide identifying information when purchasing an insurance product, or the providing of minimal or seemingly fictitious information;
- Any unusual method of payment, particularly by cash or cash equivalents (when such method is, in fact, unusual);
- The purchase of an insurance product with monetary instruments in structured amounts;
- Policy owner or customer exhibits unusual concern about Federal Life's compliance with Government reporting requirements or its AML policies, particularly with respect to his or her identity, type of business and assets, or is reluctant or refuses to reveal information concerning business activities, or furnishes unusual or suspect identification or business documents;
- Policy owner or customer wishes to engage in transactions that lack business sense or apparent investment purpose, or are inconsistent with stated business or investment objectives;
- Policy owner or customer provides false, misleading or substantially incorrect information concerning source for funds;
- Policy owner or customer refuses to identify or fails to indicate a legitimate source of funds;
- Policy owner or customer exhibits a lack of concern regarding investment risks, commissions, surrender charges, sales charges, or other transaction costs;
- Policy owner or customer appears to be acting as an agent for an undisclosed principal, but is evasive about providing, or declines or is reluctant, without legitimate commercial reasons, to provide information regarding the undisclosed principal;
- Policy owner or customer has difficulty describing the nature of his or her business or lacks general knowledge of his or her industry; in the case of a business account;
- Policy owner or customer is from, or maintains accounts or policies in, a FATF (Financial Action Task Force) non-cooperative jurisdiction or a FinCEN designated jurisdiction of Primary Money Laundering Concern (see section on Foreign Clients for more information);

- New business in any way involves individual, entities, or countries on the OFAC list (see section on Foreign Clients for more information);
- Any other activity which you think is suspicious.

Policy and Account Activity Red Flags

While an insurance contract is in force, customers may, but need not, involve an agent or broker in subsequent transactions. The following red flags may be identified by the company's systems or personnel, but will also be provided to agents and brokers who may be involved in post-issue transactions:

- The borrowing of the maximum amount available soon after purchasing the product;
- The transfer of the benefit of an insurance product to an apparently unrelated third party;
- Little or no concern by a customer for the investment performance of an insurance product, but much concern about the early termination features of the product;
- Any unusual method of payment, particularly by cash or cash equivalents (when such method is, in fact, unusual);
- The early termination of an insurance product, especially at a cost to the customer, or where cash was tendered and/or the refund check is directed to an apparently unrelated third party;
- "Structured" transactions - where the policy owner or customer execute several small transactions utilizing cash or cash like monetary instruments in amounts just below currency reporting thresholds;
- Policy owner or customer, for no legitimate business or other reason, maintains multiple policies or accounts under a single name or multiple names;
- Policy owner or customer effects an unusually large number of inter-account transfers;
- Policy owner or customer makes a premium payment or deposit followed by an immediate request that the funds be wired out or transferred to a third party or another firm, with no apparent business or other purpose;
- Policy owner or customer makes premium payment or deposit for purchase of an ostensibly long-term investment followed shortly by a request to liquidate the position and transfer the proceeds, with no apparent business or other purpose;
- Policy owner or customer requests that a transaction be processed in such a manner to avoid the insurance company's normal documentation protocols;
- Policy or account experiences inflow of funds well beyond the known income or resources of the policy owner or customer;

- Request is made for disbursements to be made payable to an agent or a third party other than another financial institution;
- Withdrawal, loan or surrender request is preceded by, or accompanied by, an address change;
- Transaction involves nationals, governments, or jurisdictions subject to OFAC sanctions (see section on Foreign Clients for more information);
- Any other activity which you think is suspicious.

Timing of Reports of Suspicious Activity
Agents and brokers are required to report suspicious activity to the Company's AML Compliance Officer, and to seek further guidance and instructions.

Follow-up and Reporting
When an agent or broker detects any red flag, he or she may be requested to investigate further under the direction of the AML Compliance Officer. When the agent or broker is affiliated with another broker/dealer, life insurance company, or bank, this direction may
come from his or her own AML Compliance Officer. Further investigation may include gathering or attempting to verify additional information from the customer or from third-party sources.

Failure to assist the Company in acquiring information that may be useful for identifying potential suspicious activity may result in the termination of an agent or broker's contract.

Federal Life will have, under the direction of the AML Compliance Officer, sole responsibility for making a determination as to whether to file a Suspicious Activity Report (SAR) and whether a SAR should be filed jointly with other entities subject to federal anti-money laundering rules.

The AML Compliance Officer will be solely responsible for determining what information should be provided in response to requests for information concerning suspicious activity from customers, employees, agents, and brokers. The AML Compliance Officer will maintain appropriate records.

Confidentiality
SARs will be filed by Company employees rather than agents or brokers. However, agents and brokers may find themselves in a position to know that a SAR has been filed on a client. The fact that a SAR has been filed or considered, and the contents of any SAR that has been filed, are strictly confidential. The AML Compliance Officer has the sole responsibility for responding to any inquiry regarding the subject matter of any SAR.

An employee, agent, or broker must not, under any circumstances, disclose the fact that a SAR has been filed or considered, or the contents

of a SAR, to the subject of a SAR or to any other person. Violations may result in civil and/or criminal penalties.

Under federal law, insurance agents and brokers, as well as insurance companies, are protected from liability to customers for disclosing possible criminal activity to their insurance companies, law enforcement, and certain government supervisory agencies.

TRAINING

Federal Life's AML Training Program consists of this Producers Guide to Money Laundering which is also available through our website (www.federallife.com). If the agent is also a registered representative of a broker/dealer, an agent with another insurance company, or a representative of a bank, with its own AML course, the Company may accept, in lieu of its training, training by the other financial institution. The Company may also accept training administered by a third party vendor.

All agents must complete and submit to the Home Office our Certification Form found at the end of the Producers Guide.

The Company will update the Producers Guide as the need arises. Significant changes may require re-certification by our agents.

The Marketing staff of Federal Life will also provide on-going AML training as needed in the course of their regular sales training.

FOREIGN CLIENTS AND OVERSEAS MARKETS

While our client base typically does not include foreign clients and overseas markets, agents and brokers should be aware of the information presented below.

Insurance transactions that in any way involve the following are OFAC[1] violations:

- Individuals, entities, or vessels appearing on OFAC's Specialty Designated Nationals and Blocked Persons list
- Governmental entities and officials of Sudan or Cuba

[1] The Office of Foreign Assets Control ("OFAC") of the US Department of the Treasury administers and enforces economic and trade sanctions based on US foreign policy and national security goals against targeted foreign countries, terrorists, international narcotics traffickers, and those engaged in activities related to the proliferation of weapons of mass destruction.

- Companies located in Cuba
- Companies, wherever located, organized in or controlled from Cuba
- Individuals, regardless of citizenship, currently residing in Cuba
- Cuban citizens, wherever located (except those legally residing in the United States, or unblocked by OFAC license)

All property, including insurance contracts, in which there is a direct or indirect interest of any of the above, is considered blocked or "frozen."

Example of an insurance transaction which would be prohibited or blocked because of the interest of a blocked person:

- A life insurance policy naming a resident of Havana, Cuba as beneficiary

- Although no blocking provisions apply with regard to Iranian policies, exports of services to Iran are prohibited. Thus, firms may not issue or service policies benefiting the Government of Iran, or individuals or entities located in Iran

- Policy owner or customer is from, or maintains accounts or policies, in a FATF (Financial Action Task Force) non-cooperative jurisdiction or a FinCEN designated jurisdiction of Primary Money Laundering Concern

US sanctions go beyond the borders of target countries. OFAC has identified and named numerous foreign agents and front organizations, as well as terrorists, terrorists organizations, and narcotics traffickers, as "Specially Designated Nationals and Blocked persons" with a master list containing over 5,000 variations on names of individuals, governmental entities, companies and merchant vessels located around the world.

The OFAC list includes the following countries:

- Cuba (full-fledged trade embargo)
- Sudan (full-fledged trade embargo)
- Burma (restriction on imports)
- North Korea (restriction on imports and receipt of donations, gifts or charitable contributions from government)
- Iran (imports and exports of goods and services)
- Iraq (exports)

- Liberia (imports of rough diamonds)
- Syria (imports of uncertified diamonds; receipt of donations, gifts or charitable contributions from government
- Zimbabwe (certain individuals tied to the regime)

The FATF (Financial Action Task Force in Money Laundering) is an inter-governmental body whose purpose is the development and promotion of national and international policies to combat money laundering and terrorist financing. The FATF Non-Cooperative Countries and Territories Initiative (NCCT) list includes the following countries:

- Myanmar
- Nigeria

PENALTIES

There are potential severe civil and criminal penalties for violations of AML laws.

- Criminal (for organizations and individual)
  Depending on the program involved, criminal violations of the statutes administered by OFAC can result in corporate and personal fines of up to $1 million or the value of funds involved in the transaction and 12 years in jail.

- Civil (for organizations and individuals):
  OFAC has authority to impose civil penalties of up to $1,075,000, depending on the sanction program or seizure of any property involved.

- Reputation
  - Damage to the insurance company's reputation
  - Damage to personal/professional reputation

Cooperation with Testing of AML Program
Federal Life will conduct independent testing as to the effectiveness of its anti-money laundering program. Agents and brokers are required to cooperate with this testing.

Reporting of AML Non-Compliance
Agents and brokers should report any violations of AML compliance procedures to the AML Compliance Officer, unless the violations implicate the Compliance Officer, in which case reports shall be made to the company's Executive Vice President and Chief Marketing Officer.

Appendix A
Case Studies

Case Studies

1. **No picture ID** – A potential customer meets with an agent to purchase a life insurance policy or annuity. The agent asks the person for a picture identification. The person cannot produce a Driver's License or Passport. When asked for any other form of ID, the person seems nervous and irate and questions whether this company wants the business or not. The person says they will not show an ID and says the agent will have to take his word.

Action: Since this is suspicious activity related to a customer applying for an insurance contract, the agent should immediately contact the AML Compliance Officer at Federal Life to report all the details of this meeting.

2. **Change in Payment Behavior -** A flexible premium annuity policyholder has made small random deposits into his policy the first 2 years of the contract. The Client starts giving his agent $9,500 in cashier's checks every Friday which are to be deposited into his flexible premium fixed annuity.

Action: The agent should refuse to accept the payments since the Company does not allow payment by cashier's checks. The agent should inform the policyholder of what forms of payment are acceptable by the Company. The agent should also contact the Compliance Officer so that the Compliance Officer can consider whether reporting is required.

3. **Frequent Loan Activity –** Two business partners take out Key Man Life Insurance Policies to protect their business. Federal Life's policyholder services department notices on a monthly exception report that on the first of every month the agent calls requesting a loan, which the owner immediately pays back with cash equivalents.

Action: The agent should recognize that monthly loans paid back immediately are a red flag and should call Federal Life's AML Compliance Officer. Federal Life's policyholder service department should also see a red flag and contact their Compliance Officer.

4. **Disregard for Monetary Losses –** An annuity owner calls his agent to request a surrender of an annuity, which was held for less than one year. When the agent apprises the owner of the surrender charges and potential losses, the owner indicates that the fees and losses do not matter and to please make the surrender immediately and wire the money to an account located in Europe.

Action: The agent should call the AML Compliance Officer and await instructions.

5. **Foreign Clients:** One of your agents notifies you that two of her clients are currently residing in Iran. Upon further investigation you learn that the address of record for the policies of both clients is Wisconsin. Both contracts have been in force for 7 years. According to the Agent, one of her clients is currently in Iran but the owner of the policy resides in Wisconsin. The other client, who is the owner and Insured of his policy, is also currently living in Iran. Both policies were issued in the United States and premiums are being paid via electronic drafts with funds from U.S. banks.

Action: Contact your Administrative Services and the AML Compliance Officer, share the information you have obtained and await further instruction.

6. **Know Your Customer:** You are referred to a potential customer. You write an application for insurance and the client provides payment to you in the form of eighteen cashier's checks totaling $9,055. The prospective insured is a 30-year old female who does not have a checking account. The application shows a birthplace of China and a current address of Phoenix, AZ. The application also indicates that the proposed insured owns a restaurant in Phoenix. The application indicates that the insured has a driver's license and a Social Security number. How should you handle this case?

Action: Due to the nature of the premium payment, as well as the admission that the client, a business owner does not have a checking account, the situation seems unusual. Contact the AML Compliance Officer immediately for guidance.

7. **Suspicious Transaction Monitoring:** An agent receives what appears to be a $25,000 bank draft from a Bank in the Netherlands. The insured's name and policy number are written on the check, which appears to be in USD. The name of an international concern is printed toward the bottom of the check. Is there anything unusual about this situation? What should the agent do?

Action: The check should be referred to Federal Life who in turn should contact the AML Compliance Officer and the company's Accounting/Treasury Department for additional instructions on how to handle premiums received as foreign currency.

FEDERAL LIFE INSURANCE COMPANY

AML CERTIFICATION FORM

Instructions:
Please complete either section I or section II. Then sign, date and note your insurance license number in section III and return to the Home Office.

I. I, _________________________________, an agent of Federal Life Insurance Company, do hereby certify that I have completed Federal Life's Anti-Money Laundering Training Program. I further certify that I understand from this training my role in detecting and reporting "suspicious activities". I also understand that if I have any questions I can contact Federal Life's AML Compliance Officer for further training.

II. I, _________________________________, an agent of Federal Life Insurance Company, do hereby certify that I have completed either another financial institution's or a third-party vendor's Anti-Money Laundering Training Program. I understand that I should contact Federal Life's AML Compliance Officer if I have questions specific to Federal Life's AML policies and procedures.

III. Acknowledged:____________________ Date: ____________
(agent signature)

Insurance License # ________________