

Strength in our singular commitment

A message from Homesteaders' Chairman and President Graham J. Cook

As I write to you, our nation is struggling through unprecedented economic times. Banks, insurance companies, and other financial institutions are failing. For many, individual savings have eroded, jobs are lost, mortgages are in jeopardy and the list goes on and on. Financial security, as many have known it, has been shaken... as has the trust and confidence in financial institutions.

As a result, you are entitled to question the security of your prearranged funeral funds.

While Homesteaders has an enviable century-long track record, today's financial environment can be challenging even to the oldest and wisest. A major difference that sets Homesteaders apart is our mutual heritage. As a mutual organization our sole mission is the long term security of our policy owners, rather than the short term financial interests of shareholders and outside investors.

While being a mutual does not insulate us from the economic climate, it does keep us focused on why we exist and how we operate. Our mutual commitment, diversified investment portfolio and conservative operating philosophies have protected our policy owners from the catastrophic situations faced by many other companies.

Here is Homesteaders' "scorecard," if you will:

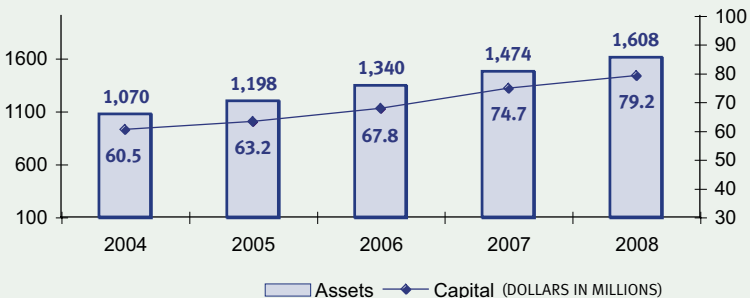
- In 2008, surplus, held for protection of our policy owners, increased 6%... when many companies surplus decreased.
- The quality of our highly diversified investment portfolio remains at AA-
- In January, 2009 A.M. Best affirmed our secure rating.

Since I joined Homesteaders nearly 43 years ago, we have managed through 6 major economic downturns. In its 103-year history Homesteaders has endured through fourteen... including catastrophes such as the Great Depression. At this point, no one knows the length or depth of the current decline. What we do know is that we have the experience to manage through it and that our commitment to the long term security of our policy owners – your families; is unchanged and unwavering.

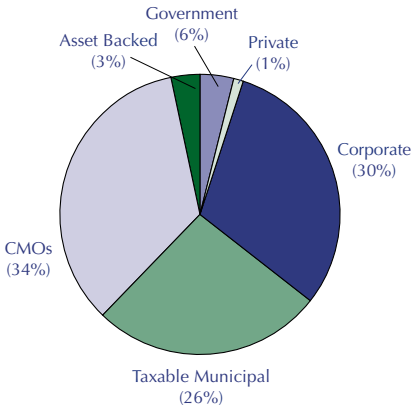
Thank you for your continued trust and confidence in our company.

Summary of Operations Twelve months ending Dec. 31, 2008

GROWTH IN ASSETS AND CAPITAL

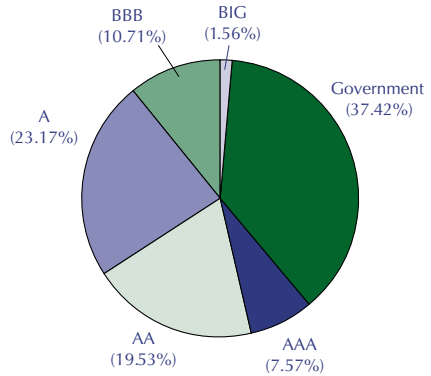


Investments



BOND PORTFOLIO DIVERSIFICATION

The \$1.4 billion fixed income bond portfolio is well diversified with no more than 34 percent of the portfolio in any single asset category. 94% of the CMO holdings are guaranteed by some government entity.



QUALITY DISTRIBUTION

The portfolio is AA-credit quality, with 37 percent of the investments in government or government-guaranteed investments. The portfolio has very limited exposure to below investment-grade securities or bonds with subprime borrowers as collateral.

Financial Position As of Dec. 31, 2008

ASSETS	2007	2008
Bonds	\$1,275,361	\$1,368,610
Mortgages	132,535	144,990
Preferred Stock	3,950	3,952
Real Estate	12,642	12,384
Policy Loans	1,856	1,904
Cash	13,090	29,347
Other	34,378	41,238
TOTAL	\$1,473,812	\$1,602,425

Amounts listed in thousands.

LIABILITIES	2007	2008
Policy Reserves	\$1,360,346	\$1,483,243
Other Policy Liabilities	19,604	21,515
Accrued Expenses	3,654	3,756
Asset Reserves	9,537	4,811
Other	5,952	9,891
TOTAL	\$1,399,092	\$1,523,217
Surplus	74,720	79,208
TOTAL	\$1,473,812	\$1,602,425

Amounts listed in thousands.

Projections under various economic scenarios indicate that Homesteaders' reserve funds are sufficient to meet future policy liabilities. These projections also point out that assets and policy liabilities are well matched.

Year-End Operating Statement

INCOME	2007	2008
Premium	\$328,797	\$339,864
Investment	78,825	84,987
Other Income	1,304	1,412
TOTAL	\$408,926	\$426,263

Amounts listed in thousands.

EXPENSES	2007	2008
Policy Benefits	\$190,357	\$213,989
Policy Reserve	128,020	122,984
Commissions	48,733	47,905
Expenses	27,270	27,098
TOTAL	\$394,380	\$411,976
Gain	14,546	14,287
Federal Taxes	(5,965)	(5,965)
Operating Gain/(Loss)	8,581	8,322
Capital Gain/(Loss)	(815)	(8,162)
Surplus Contribution	\$7,766	\$160

Amounts listed in thousands.

Homesteaders' operations produced nearly \$426 million in income in 2008. Homesteaders used 50 percent of this income to pay policy benefits and 29 percent to establish reserves for payments of future policy benefits. Another 11 percent funded new business acquisitions, and 6 percent covered operating expenses and taxes. Because of bond defaults, caused by the credit crisis, operations only contributed a small amount to capital.



Preserving the Value of Funeral Service®

5700 Westown Parkway
West Des Moines, IA 50266
homesteaderslife.com