

United States  
Securities and Exchange Commission  
Washington, D.C. 20549

**FORM 10-K**

(Mark One)

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2022

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period From \_\_\_\_\_ to \_\_\_\_\_ .

Commission file number **000-52613**

**FIRST TRINITY FINANCIAL CORPORATION**

(Exact name of small business issuer as specified in its charter)

Oklahoma	34-1991436	
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer number)	
7633 East 63rd Place, Suite 230	Tulsa, Oklahoma	74133-1246
(Address of principal executive offices)		

(918) 249-2438

(Issuer's telephone number)

Securities registered pursuant to Section 12(b) of the Exchange Act:

Title of Each Class

None

Securities registered pursuant to section 12(g) of the Exchange Act:

Title of Each Class

Class A Common Stock, \$0.01 Par Value

Class B Common Stock, \$0.01 Par Value

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes  No

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

Large accelerated filer:  Accelerated filer:  Non-accelerated filer:  Smaller reporting company:   
Emerging growth company:

If an emerging growth company, indicate by check mark if registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by checkmark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements.

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to § 240.10D-1(b).

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act).  
Yes  No

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter.

Because of the absence of an established trading market for the common stock, the registrant is unable to calculate the aggregate market value of the voting stock held by non-affiliates as of the last business day of the registrant's most recently completed second fiscal quarter.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date. As of March 6, 2023, the registrant had 9,384,340 shares of Class A common stock, 0.01 par value, outstanding and 101,102 shares of Class B common stock, 0.01 par value, outstanding.

#### **DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's definitive Proxy Statement to be used in connection with its 2023 Annual Meeting of Shareholders, which is expected to be filed with the Securities and Exchange Commission within 120 days after the close of the fiscal year covered by this Form 10-K, are incorporated by reference into Part III of this report.

# FIRST TRINITY FINANCIAL CORPORATION

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## **PART I**

### **Item 1. Business**

#### **Business Development**

First Trinity Financial Corporation (the “Company” or “FTFC”) is the parent holding company of Trinity Life Insurance Company (“TLIC”), Family Benefit Life Insurance Company (“FBLIC”), Trinity Mortgage Corporation (“TMC”) and Trinity American, Inc. (“TAI”). The Company was incorporated in Oklahoma on April 19, 2004, for the primary purpose of organizing and operating a life insurance subsidiary.

The Company owns 100% of TLIC. TLIC owns 100% of FBLIC. TLIC and FBLIC are primarily engaged in the business of marketing, underwriting and distributing a broad range of individual life insurance products and annuity contracts to individuals.

TLIC’s and FBLIC’s current product portfolio consists of a modified premium whole life insurance policy with a flexible premium deferred annuity rider, whole life, term, final expense, accidental death and dismemberment policies and annuity contracts. The term products are both renewable and convertible and issued for 10, 15, 20 and 30 years. They can be issued with premiums fully guaranteed for the entire term period or with a limited premium guarantee. The final expense policies are issued as either a simplified issue or as a graded benefit, determined by underwriting. The TLIC and FBLIC products are sold through independent agents.

TLIC is licensed in the states of Alabama, Georgia, Illinois, Indiana, Kansas, Kentucky, Louisiana, Mississippi, Montana, Nebraska, New Mexico, North Dakota, Ohio, Oklahoma, South Dakota, Tennessee, Texas, Utah and West Virginia. FBLIC is licensed in the states of Alabama, Arizona, Arkansas, Colorado, Georgia, Illinois, Indiana, Kansas, Kentucky, Louisiana, Michigan, Mississippi, Missouri, Montana, Nebraska, New Mexico, North Carolina, North Dakota, Ohio, Oklahoma, Pennsylvania, South Dakota, Tennessee, Texas, Utah, Virginia and West Virginia.

The Company owns 100% of TMC that was incorporated in 2006 and began operations in January 2007. TMC’s primary focus changed during 2020 from premium financing loans to originating, brokering and administering residential and commercial mortgage loans for third parties.

The Company owns 100% of TAI. TAI was incorporated in Barbados, West Indies on March 24, 2016 for the primary purpose of forming a life insurance company producing United States (U.S.) dollar denominated life insurance policies and annuity contracts outside of the United States and Barbados. TAI is licensed as an Exempt Insurance Company under the Exempt Insurance Act of Barbados. TAI was initially involved in developing life insurance contracts but is now issuing life insurance policies and annuity contracts through an association with distribution channels. The Company’s acquisition of TAI was formally approved by Barbados regulators and the certifications were received in 2019.

#### **Company Capitalization**

Our operations have been financed primarily through the private placement of equity securities and intrastate public stock offerings. Through December 31, 2022, we have received \$27,119,480 from the sale of our shares. The Company raised \$1,450,000 from two private placements during 2004 and \$25,669,480 from two public stock offerings and one private placement stock offering from June 22, 2005 through February 23, 2007; June 29, 2010 through April 30, 2012 and August 15, 2012 through March 8, 2013. The Company issued 7,347,488 shares of its common stock and incurred \$3,624,518 of offering costs during these private placements and public stock offerings.

The Company also issued 702,685 shares of its common stock in connection with two stock dividends paid to shareholders in 2011 and 2012 that resulted in accumulated earnings being charged \$5,270,138 with an offsetting credit of \$5,270,138 to common stock and additional paid-in capital.

In 2020, the Company paid a \$0.05 per share cash dividend for a total of \$393,178 and issued 791,339 shares of Class A common stock in connection with a 10% stock dividend to its Class A shareholders. The 10% stock dividend resulted in accumulated earnings being charged \$8,657,249 with an offsetting credit of \$8,657,249 to Class A common stock and additional paid-in capital.

During 2012, 2013, 2014 and 2015, the Company repurchased 247,580 shares of its common stock at a total cost of \$893,947 from former members of the Board of Directors including the former Chairman of the Board of Directors, a former agent, the former spouse of the Company's current Chairman, Chief Executive Officer and President and a charitable organization where a former member of the Board of Directors had donated shares of the Company's common stock.

## **Acquisitions**

On December 23, 2008, FTFC acquired 100% of the outstanding common stock of First Life America Corporation ("FLAC") from an unaffiliated company. The acquisition of FLAC was accounted for as a purchase. The aggregate purchase price for FLAC was \$2,695,234 including direct cost associated with the acquisition of \$195,234. The acquisition of FLAC was financed with the working capital of FTFC.

On December 31, 2008, FTFC made FLAC a 15 year loan in the form of a surplus note in the amount of \$250,000 with an interest rate of 6% payable monthly, that was approved by Oklahoma Insurance Department ("OID"). This surplus note is eliminated in consolidation.

On August 31, 2009, two of the Company's subsidiaries, Trinity Life Insurance Company ("Old TLIC") and FLAC, were merged, with FLAC being the surviving company. Immediately following the merger, FLAC changed its name to TLIC.

On December 28, 2011, TLIC acquired 100% of the outstanding common stock of FBLIC from FBLIC's shareholders. The acquisition of FBLIC was accounted for as a purchase. The aggregate purchase price for the acquisition of FBLIC was \$13,855,129. The acquisition of FBLIC was financed with the working capital of TLIC.

On April 28, 2015, the Company acquired a block of life insurance policies and annuity contracts according to the terms of an assumption reinsurance agreement. The Company acquired assets of \$3,644,839 (including cash), assumed liabilities of \$3,055,916 and recorded a gain on reinsurance assumption of \$588,923.

On April 3, 2018, FTFC acquired 100% of the outstanding stock of TAI domiciled in Barbados, West Indies. The Barbados regulators approved the acquisition and supplied certifications during 2019. The aggregate purchase price for the acquisition of TAI was \$250,000. The acquisition of TAI was financed with the working capital of FTFC.

Effective January 1, 2020, the Company acquired 100% of the outstanding common stock of K-TENN Insurance Company ("K-TENN") from its sole shareholder in exchange for 168,866 shares of FTFC's common stock. The acquisition of K-TENN was accounted for as a purchase. The aggregate purchase price of K-TENN was \$1,746,240. Immediately subsequent to this acquisition, the \$1,746,240 of net assets and liabilities of K-TENN along with the related life insurance business operations were contributed to TLIC.

On January 4, 2022, FTFC acquired Royalty Capital Life Insurance Company ("RCLIC") from Royalty Capital Corporation ("Royalty") in exchange for 722,644 shares of FTFC's Class A common stock issued to unrelated parties. The acquisition of RCLIC was accounted for as a purchase and the net acquisition consideration was recorded at \$4,596,764. Royalty was dissolved immediately after FTFC acquired RCLIC. On March 1, 2022, the Missouri Department of Commerce and Insurance ("MDCI") approved FTFC's contribution and merger of RCLIC into FBLIC.

## **Financial Information about Segments**

The Financial Accounting Standards Board ("FASB") guidance requires a "management approach" in the presentation of business segments based on how management internally evaluates the operating performance of business units. The discussion of segment operating results that follows is being provided based on segment data prepared in accordance with this methodology.

Our business segments are as follows:

- Life insurance operations, consisting of the life insurance operations of TLIC, FBLIC and TAI;
- Annuity operations, consisting of the annuity operations of TLIC, FBLIC and TAI and
- Corporate operations, which includes the results of the parent company and TMC after the elimination of intercompany amounts.

Please see item 8 below and Note 11 to the consolidated financial statements as of and for the years ended December 31, 2022 and 2021 for additional information regarding segment information.

### **Life Insurance and Annuity Operations**

Our Life Insurance and Annuity Operations consists of issuing ordinary whole life insurance, endowments, modified premium whole life with an annuity rider, term, final expense and accidental death and dismemberment policies and annuity contracts. The policies can be issued with premiums fully guaranteed for the entire term period or with a limited premium guarantee. The final expense policies are issued as either a simplified issue or as a graded benefit, determined by underwriting. Our products are marketed through independent agents.

FBLIC renewed its administrative services agreement with Investors Heritage Life Insurance Company (“IHLIC”) on November 1, 2022. Under the terms of this agreement, the services provided by IHLIC include underwriting, policy issue, accounting, claims processing and other services incidental to the operations of FBLIC. The agreement is effective for a period of five (5) years from November 1, 2022 through October 31, 2027 and includes a provision that the agreement may be terminated at any time by either party with a 12 month written notice.

FBLIC executed an actuarial consulting services agreement with IHLIC on November 1, 2022. Under the terms of this agreement, the services provided by IHLIC include actuarial services for the operations of FBLIC. The agreement is effective for a period of five (5) years from November 1, 2022 through October 31, 2027 and includes a provision that the agreement may be terminated at any time by either party with a 12 month written notice.

TLIC renewed its administrative services agreement with IHLIC on November 1, 2022, after a written extension of the previous administrative services agreement. Under the terms of this agreement, the services provided by IHLIC include underwriting, policy issue, accounting, claims processing and other services incidental to the operations of TLIC. The agreement is effective for a period of five (5) years from November 1, 2022 through October 31, 2027 and includes a provision that the agreement may be terminated at any time by either party with a 12 month written notice.

TLIC executed an actuarial consulting services agreement with IHLIC on November 1, 2022. Under the terms of this agreement, the services provided by IHLIC include actuarial services for the operations of TLIC. The agreement is effective for a period of five (5) years from November 1, 2022 through October 31, 2027 and includes a provision that the agreement may be terminated at any time by either party with a 12 month written notice.

TLIC continues to seek to serve middle income households and markets its products through independent agents. TLIC was originally licensed in Oklahoma and with the acquisition of FLAC in late 2008, expanded into Illinois, Kansas, Kentucky, Nebraska, North Dakota, Ohio and Texas. With the acquisition of FBLIC in late 2011, we expanded into Arizona, Colorado, Missouri and New Mexico. FBLIC also had initial licenses in Kansas, Nebraska and Oklahoma where TLIC was also licensed. In late 2012, FBLIC was licensed in Arkansas, Indiana, Kentucky, North Dakota, South Dakota, Texas and West Virginia. In 2013, FBLIC was licensed in Illinois and Pennsylvania. In 2014, FBLIC was licensed in Georgia, Louisiana, Michigan, Mississippi, North Carolina, Ohio, Tennessee and Virginia. In 2015, FBLIC was licensed in Alabama and Utah. In 2018, FBLIC and TLIC were licensed in Montana. In 2019, TLIC was licensed in Tennessee. In 2020, TLIC was licensed in Alabama, Indiana, Louisiana, Mississippi, New Mexico, South Dakota and Utah. In 2021, TLIC was licensed in Georgia and West Virginia.

The following tables sets forth our direct collected life insurance premiums and annuity considerations by the policyholder's state of residence at the time of premium collection and annuity consideration, for the most significant states in which we are licensed, for the years ended December 31, 2022 and 2021, in accordance with statutory accounting practices prescribed by the states of domicile of TLIC and FBLIC.

State	Year Ended December 31, 2022			
	Life		Annuity	
	Premiums	Percentage	Considerations	Percentage
Alabama	\$ 921,920	2.99%	\$ 25,000	0.04%
Arizona	442,595	1.43%	269,566	0.43%
Arkansas	566,066	1.83%	16,747	0.03%
Colorado	973,082	3.15%	100,862	0.16%
Georgia	1,654,780	5.36%	1,818,675	2.89%
Illinois	2,006,450	6.50%	111,400	0.18%
Indiana	1,289,690	4.18%	1,136,537	1.81%
Kansas	1,820,746	5.90%	716,355	1.14%
Kentucky	1,044,357	3.39%	-	0.00%
Louisiana	862,247	2.80%	-	0.00%
Michigan	629,161	2.04%	7,000	0.01%
Missouri	1,561,917	5.06%	179,761	0.29%
Nebraska	324,863	1.05%	746,395	1.19%
North Carolina	3,178,613	10.30%	10,850,213	17.27%
North Dakota	72,958	0.24%	9,781,465	15.57%
Ohio	3,553,991	11.52%	58,260	0.09%
Oklahoma	1,088,430	3.53%	1,056,389	1.68%
Pennsylvania	1,154,154	3.74%	632,396	1.01%
Tennessee	1,121,426	3.64%	100,560	0.16%
Texas	4,685,265	15.20%	33,306,666	52.99%
Virginia	804,417	2.61%	677,730	1.08%
All other states	1,091,412	3.54%	1,244,190	1.98%
Total direct collected premiums and considerations	<u>\$ 30,848,540</u>	<u>100.00%</u>	<u>\$ 62,836,167</u>	<u>100.00%</u>

State	Year Ended December 31, 2021			
	Life		Annuity	
	Premiums	Percentage	Considerations	Percentage
Alabama	\$ 843,151	2.92%	\$ 50	0.00%
Arizona	341,758	1.18%	319,896	1.18%
Arkansas	489,330	1.70%	2,515	0.01%
Colorado	919,815	3.19%	308,654	1.14%
Georgia	1,497,321	5.19%	44,001	0.16%
Illinois	1,903,424	6.59%	48,465	0.18%
Indiana	1,234,029	4.28%	3,199	0.01%
Kansas	1,954,708	6.77%	831,673	3.08%
Kentucky	932,317	3.23%	-	0.00%
Louisiana	833,068	2.89%	-	0.00%
Michigan	590,588	2.05%	7,000	0.03%
Missouri	1,371,098	4.75%	70,458	0.26%
Nebraska	245,945	0.85%	363,880	1.35%
North Carolina	2,804,312	9.72%	11,300	0.04%
North Dakota	77,487	0.27%	6,381,134	23.61%
Ohio	3,511,329	12.17%	97,575	0.36%
Oklahoma	1,130,185	3.92%	1,081,878	4.00%
Pennsylvania	1,154,791	4.00%	742,343	2.75%
Tennessee	936,309	3.24%	2,400	0.01%
Texas	4,475,015	15.49%	15,951,287	59.04%
Virginia	668,056	2.31%	-	0.00%
All other states	950,105	3.29%	754,929	2.79%
Total direct collected premiums and considerations	<u>\$ 28,864,141</u>	<u>100.00%</u>	<u>\$ 27,022,637</u>	<u>100.00%</u>

## **Reinsurance**

TLIC cedes reinsurance under various agreements allowing management to control exposure to potential losses arising from large risks and providing additional capacity for growth and risk diversification. TLIC reinsures all amounts of risk on any one life in excess of \$100,000 for individual life insurance with IHLIC, Optimum Re Insurance Company (“Optimum Re”), RGA Reinsurance Company and Wilton Reassurance Company (“Wilton Re”).

The Company also assumes reinsurance under various agreements allowing management to increase growth in assets and profitability. TLIC is a party to an Automatic Retrocession Pool Agreement (the “Reinsurance Pool”) with Optimum Re, Catholic Order of Foresters, American Home Life Insurance Company and Woodmen of the World. The agreement provides for automatic retrocession of coverage in excess of Optimum Re’s retention on business ceded to Optimum Re by the other parties to the Reinsurance Pool. TLIC’s maximum exposure on any one insured under the Reinsurance Pool is \$100,000. As of January 1, 2008, the Reinsurance Pool stopped accepting new cessions.

Effective September 29, 2005, FLAC and Wilton Re executed a binding letter of intent whereby both parties agreed that FLAC would cede the simplified issue version of its Golden Eagle Whole Life (Final Expense) product to Wilton Re on a 50/50 quota share original term coinsurance basis. The letter of intent was executed on a retroactive basis to cover all applicable business issued by FLAC subsequent to January 1, 2005. Wilton Re agreed to provide various commission and expense allowances to FLAC in exchange for FLAC ceding 50% of the applicable premiums to Wilton Re as they were collected. As of June 24, 2006, Wilton Re terminated the reinsurance agreement for new business issued after the termination date.

FBLIC also participates in reinsurance in order to provide risk diversification, additional capacity for future growth and limit the maximum net loss potential arising from large amounts of risk. FBLIC reinsures initial amounts of risk on any one life in excess of \$100,000 for individual life insurance with Optimum Re. TLIC and FBLIC also reinsure its accidental death benefit portion of their life policies under a bulk agreement with Optimum Re. To the extent that the reinsurance companies are unable to meet their obligations under the reinsurance agreements, TLIC and FBLIC remain primarily liable for the entire amount at risk.

## **Coinsurance**

Effective January 1, 2018, TLIC entered into an annuity coinsurance agreement with an offshore annuity and life insurance company whereby 90% of TLIC’s annuity considerations originated after December 31, 2017 were ceded to the assuming company. The assuming company contractually reimburses TLIC for the related commissions, withdrawals, settlements, interest credited, submission costs, maintenance costs, marketing costs, excise taxes and other costs plus a placement fee. Effective April 1, 2020, the Company and an offshore annuity and life insurance company mutually agreed that the Quota Share under its existing reinsurance agreement shall be 0% for future business instead of the original contractual amount of 90%.

In accordance with this annuity coinsurance agreement, TLIC holds assets and recognizes a funds withheld liability for the benefit of the assuming company in an amount at least equal to the annuity reserves, in accordance with U.S. statutory accounting principles, generated by this ceded business. In addition, the assuming company maintains a trust related to this ceded business amounting to at least an additional 4% of assets above the annuity reserve required under U.S. statutory accounting principles. This coinsurance agreement may be terminated for new business by either party at any time upon 30 days prior written notice to the other party.

In 2019, TLIC entered into a life insurance coinsurance agreement with TAI, effective October 1, 2018, whereby 100% of TAI’s life insurance policies and annuity contracts issued after September 30, 2018 were ceded to TLIC. TLIC contractually reimburses TAI for the related commissions, submission costs, maintenance costs, marketing costs and other costs related to the production of life insurance policies and annuity contracts.

In 2022, FBLIC entered into group life insurance coinsurance agreement with Texas Republic Life Insurance Company (“TRLIC”), whereby generally 50% of TRLIC group life insurance policies and premiums were ceded to FBLIC. FBLIC contractually reimburses TRLIC for generally 50% of the related commissions, submission costs, maintenance costs, marketing costs and other costs related to the production of group life insurance policies.



## **Competition**

The U.S. life insurance industry is a mature industry that has experienced little to no growth. Competition is intense because the life insurance industry is consolidating, with larger, more efficient and more effective organizations emerging from consolidation. In addition, legislation became effective in the United States that permits commercial banks, insurance companies and investment banks to combine. These factors have increased competitive pressures in general.

Many domestic life insurance companies have significantly greater financial, marketing and other resources, longer business histories and more diversified lines of insurance products than we do. We also face competition from companies marketing in person as well as with direct mail and internet sales campaigns. Although we may be at a competitive disadvantage to these entities, we believe that our premium rates, policy features, marketing approaches and policyholder services are generally competitive with those of other life insurance companies selling similar types of products and provide us with niche marketing opportunities not actively pursued by other life insurance companies.

## **Governmental Regulation**

TLIC and FBLIC, respectively, are subject to regulation and supervision by the OID and the MDCI. The insurance laws of Oklahoma and Missouri give the OID and MDCI broad regulatory authority, including powers to: (i) grant and revoke licenses to transact business; (ii) regulate and supervise trade practices and market conduct; (iii) establish guaranty associations; (iv) license agents; (v) approve policy forms; (vi) approve premium rates for some lines of business; (vii) establish reserve requirements; (viii) prescribe the form and content of required financial statements and reports; (ix) determine the reasonableness and adequacy of statutory capital and surplus and (x) regulate the type and amount of permitted investments. TLIC and FBLIC can be required, under the solvency or guaranty laws of most states in which they do business, to pay assessments (up to prescribed limits) to fund policyholder losses or liabilities of other insurance companies that become insolvent. These assessments may be deferred or foregone under most guaranty laws if they would threaten an insurer's financial strength and, in certain instances, may be offset against future premium taxes.

TLIC is subject to Oklahoma laws and FBLIC is subject to Missouri laws that limit the amount of dividends insurance companies can pay to stockholders without approval of the respective Departments of Insurance. The maximum dividend, which may be paid in any twelve-month period without notification or approval, is limited to the greater of 10% of statutory surplus as of December 31 of the preceding year or the net gain from operations of the preceding calendar year. Cash dividends may only be paid out of surplus derived from realized net profits. Based on these limitations, there is no capacity for TLIC to pay a dividend due to a negative unassigned surplus of \$3,633,769 as of December 31, 2022. In addition, based on those limitations, there is the capacity for FBLIC to pay a dividend up to \$1,237,769 in 2023 without prior approval. In 2022, FBLIC paid a \$3,200,000 dividend to TLIC, of which \$1,495,631 was considered ordinary and \$1,704,369 was considered extraordinary. FBLIC has paid no dividends TLIC in 2021. These dividends would be eliminated in consolidation. TLIC has paid no dividends to FTFC.

There are certain factors particular to the life insurance business which may have an adverse effect on the statutory operating results of TLIC and FBLIC. One such factor is that the costs associated with issuing a new policy in force is usually greater than the first year's policy premium. Accordingly, in the early years of a new life insurance company, these initial costs and the required provisions for reserves often have an adverse effect on statutory operating results.

## **Employees**

As of March 6, 2023, the Company had eighteen full-time employees.

## **Item 2. Properties**

TLIC owns approximately three acres of undeveloped land located in Topeka, Kansas with a carrying value of \$409,436. FBLIC owns approximately one-half acre of undeveloped land located in Jefferson City, Missouri with a carrying value of \$131,000.

During 2022, the Company sold investment real estate property with an aggregate carrying value of \$147,909. The Company recorded a gross realized investment gain on sale of \$52,171 based on an aggregate sales price of \$200,080.

During 2021, the Company foreclosed on residential mortgage loans of real estate totaling \$458,587 and transferred those properties to investment real estate held for sale. During 2021, the Company sold investment real estate property with an aggregate carrying value of \$528,178. The Company recorded a gross realized investment gain on sale of \$289,840 based on an aggregate sales price of \$818,018.

### **Item 3. Legal Proceedings**

From time to time, we are a party to various legal proceedings in the ordinary course of business. While management is unable to predict the ultimate outcome of these actions, it believes that any ultimate liability arising from them will not have a material effect on the Company's financial position, results of operations or cash flow. We are not currently a party to any bankruptcy, receivership, reorganization, adjustment or similar proceeding, and we are not aware of any material threatened litigation. As summarized below, the Company is currently involved in three pending lawsuits.

A lawsuit filed by the Company and its Chairman and Chief Executive Officer, Gregg E. Zahn ("Mr. Zahn") styled First Trinity Financial Corporation and Gregg E. Zahn vs. C. Wayne Pettigrew and Group & Pension Planners was originally filed in 2013 in the District Court of Tulsa County, Oklahoma against former Company Board of Director, C. Wayne Pettigrew ("Mr. Pettigrew"). The Company and Mr. Zahn alleged that Mr. Pettigrew defamed Mr. Zahn and the Company and that Mr. Pettigrew breached his fiduciary duties to the Company by making untrue statements about the Company and Mr. Zahn to the press, state regulators and to certain shareholders.

In February 2017, the lawsuit resulted in a jury verdict in favor of the Company and Mr. Zahn, with the jury awarding damages of \$800,000 to the Company and \$3,500,000 to Mr. Zahn. In February 2020, the Oklahoma Court of Civil Appeals, upon an appeal by Mr. Pettigrew, reversed the judgment and remanded the case for a new trial. A Petition for Certiorari review with the Oklahoma Supreme Court by the Company and Mr. Zahn was declined in December, 2020. The case is now scheduled to be retried in the District Court. The Company is vigorously prosecuting this case. The Company faces no exposure in connection with this action since there were no counterclaims or cross claims made against the Company. Management believes that this lawsuit is not material in relation to the Company's financial position or results of operations.

The Company, through its life insurance subsidiary, TLIC, commenced two lawsuits as plaintiff, both in the New York Supreme Court, New York County, one on June 29, 2020 and another on March 4, 2022, for breach of contract against a company for failure to advance funding to lottery ticket winners to the detriment of TLIC and against various of that company's associated persons for unjust enrichment and fraud perpetuated on TLIC. The cases are entitled "Trinity Life Insurance Company v. Advance Funding LLC, Dan Cevallos, and Monica L. Ray, Index No. 652780/2020" (New York Supreme Court, New York County) and "Trinity Life Insurance Company v. Advance Funding LLC, Dan Cevallos, Julie Casal, and Monica L. Ray, Index No. 651023/2022" (New York Supreme Court, New York County). The Company is vigorously prosecuting this case against the defendants. The Company faces no exposure in connection with either action since no counterclaims or cross claims have been made against the Company. Management believes that this lawsuit is not material in relation to the Company's financial position or results of operations.

The third lawsuit involves an insurance holding company and one of its insurance subsidiaries, which was instituted suit in District Court of Travis County, Texas, entitled Citizens, Inc., CICA Life Ltd., and CICA Life Insurance Company of America, Plaintiffs, v. Randall H. Riley, Citizens American Life, LLC, Citizens American Life, Inc., Alexis Enrique Delgado, Carlos Nalsen Landa, Enrique Pinzon Ruiz, Johan Emilio Mikuski Silva, Esperanza Peralta De Delgado, Michael P. Buchweitz, Jonathan M. Pollio, Steven A. Rekedal, First Trinity Financial Corporation, Trinity American, Inc., and International Marketing Group S.A., LLC, Defendants, against the Company and several associated persons on November 7, 2018. The plaintiffs accused the several defendants, including the Company and its subsidiary company, Trinity American, Inc. ("Trinity American") of misappropriating trade secrets under the Texas Uniform Trade Secrets Act. The plaintiffs have also alleged claims for common law unfair competition, civil conspiracy, and unjust enrichment against all of the defendants. The plaintiffs also alleged that Trinity American's predecessor entity tortiously interfered with the plaintiffs' contracts, and alleged several other causes of action, including breaches of contract and tortious interference with contract against the remaining defendants.

The causes of action all are alleged to have arisen from the alleged conduct of the various individual defendants, three of whom are former employees of the plaintiffs. The plaintiffs alleged that defendant Randall H. Riley and other terminated employees, after being terminated by the plaintiffs, worked on creating a competing business selling whole life insurance in international markets. Several of the individual defendants have counterclaimed against the plaintiffs seeking damages for breach of contract based on commissions they were denied when the plaintiffs wrongfully terminated their sales agreements. Mr. Riley died in October 2022. Trial of the case has been delayed indefinitely pending action from the Travis County Probate Court with respect to the estate of Mr. Riley. The Company believes the plaintiffs' claims against the Company are entirely without merit and it is conducting a vigorous defense. Management believes that the ultimate resolution of this lawsuit will not be material in relation to the Company's financial position or results of operations.

#### **Item 4. Mine Safety Disclosures**

None

### **PART II**

#### **Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Small Business Issuer Purchases of Equity Securities**

##### **(a) Market Information**

Trading of the Company's common stock is limited and an established public market does not exist.

##### **(b) Holders**

As of March 6, 2023, there were approximately 7,800 shareholders of the Company's outstanding common stock.

On October 2, 2019, at the Company Annual Shareholders' Meeting, FTFC's shareholders approved the following proposals:

- An amendment and restatement of FTFC's Certificate of Incorporation to authorize 40,000,000 shares of Class A common stock and 10,000,000 shares of Class B common stock and to establish the relative rights, preferences and privileges of, and the restrictions and limitations on, the Class A common stock and the Class B common stock.
- An amendment and restatement of FTFC's Certificate of Incorporation to automatically reclassify each issued and outstanding share of our existing common stock as one (1) share of Class A common stock or, at the shareholder's election, into one (1) share of new Class B common stock.

These proposals received Form A regulatory approval from the OID on February 27, 2020 and the MDCI on December 31, 2019, followed by formal adoption by FTFC's Board of Directors on March 12, 2020. Effective March 12, 2020, FTFC's Class B shareholders were entitled to elect a majority of FTFC's Board of Directors (one-half plus one) but will only receive, compared to FTFC's Class A shareholders, 85% of cash dividends, stock dividends or amounts due upon any FTFC merger, sale or liquidation event. FTFC's Class B shareholders may also convert one share of FTFC's Class B common stock for a .85 share of FTFC's Class A common stock. FTFC's Class A shareholders will elect the remaining Board of Directors members and will receive 100% of cash dividends, stock dividends or amounts due upon any Company merger, sale or liquidation event.

##### **(c) Dividends**

Prior to 2020, we had never declared or paid cash dividends on our common stock. In 2020, our Board of Directors declared and paid a \$0.05 per share cash dividends on our Class A common stock.

The timing, declaration and payment of future dividends to holders of our common stock fall within the discretion of our Board of Directors and will depend on our operating results, earnings, financial condition, the capital requirements of our business and other factors.

Although a cash dividend of \$0.05 per share or \$393,178 was paid to our Class A shareholders in 2020, the Board of Directors of the Company has not adopted a dividend payment policy; however, dividends must necessarily depend upon the Company's earnings and financial condition, applicable legal restrictions, and other factors relevant at the time the Board of Directors considers the declaration of a cash dividend. Cash available for dividends to shareholders of the Company must initially come from income and capital gains earned on its investment portfolio and dividends paid by the Company's subsidiaries.

Provisions of the Oklahoma Insurance Code relating to insurance holding companies subject transactions between the Company and TLIC and the Company and FBLIC, including dividend payments, to certain standards generally intended to prevent such transactions from adversely affecting the adequacy of life insurance subsidiaries' capital and surplus available to support policyholder obligations. In addition, under the Oklahoma General Corporation Act, the Company may not pay dividends if, after giving effect to a dividend, it would not be able to pay its debts as they become due in the usual course of business or if its total liabilities would exceed its total assets.

On January 10, 2011, the Company's Board of Directors approved a 5% share dividend by which shareholders received a share of common stock for each 20 shares of common stock of the Company they hold. The dividend was payable to the holders of shares of the Corporation as of March 10, 2011. Fractional shares were rounded to the nearest whole number of shares. The Company issued 323,777 shares in connection with the stock dividend.

On January 11, 2012, the Company's Board of Directors approved another 5% share dividend by which shareholders received a share of common stock for each 20 shares of common stock of the Company they hold. The dividend was payable to the holders of shares of the Corporation as of March 10, 2012. Fractional shares were rounded to the nearest whole number of shares. The Company issued 378,908 shares in connection with the stock dividend.

On November 12, 2020, the Company's Board of Directors approved a 10% share dividend by which shareholders received a share of Class A common stock for each 10 shares of Class A common stock of the Company they hold. The dividend was payable to the holders of shares of the Corporation as of November 12, 2020. Fractional shares were rounded up to the nearest whole number of shares. The Company issued 791,339 shares in connection with the stock dividend.

**(d) Securities Authorized for Issuance Under Equity Compensation Plans**

There are no plans under which equity securities are authorized for issuance.

**(e) Performance Graph – Not Required**

**(f) Purchases of Equity Securities by Issuer**

During 2012, 2013, 2014 and 2015, the Company repurchased 247,580 shares of its common stock at a total cost of \$893,947 from former members of the Board of Directors including the former Chairman of the Board of Directors, a former agent, the former spouse of the Company's current Chairman, Chief Executive Officer and President and a charitable organization where a former member of the Board of Directors had donated shares of the Company's common stock.

**Item 6. Reserved**

**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

**Overview**

First Trinity Financial Corporation ("we" "us", "our", "FTFC" or the "Company") conducts operations as an insurance holding company emphasizing ordinary life insurance products and annuity contracts in niche markets.

As an insurance provider, we collect premiums in the current period to pay future benefits to our policy and contract holders. Our core TLIC and FBLIC operations include issuing modified premium whole life insurance with a flexible premium deferred annuity, ordinary whole life, final expense, term and annuity products to predominately middle income households in the states of Alabama, Arizona, Arkansas, Colorado, Georgia, Illinois, Indiana, Kansas, Kentucky, Louisiana, Michigan, Mississippi, Missouri, Montana, Nebraska, New Mexico, North Carolina, North Dakota, Ohio, Oklahoma, Pennsylvania, South Dakota, Tennessee, Texas, Utah, Virginia and West Virginia through independent agents.

We also realize revenues from our investment portfolio, which is a key component of our operations. The revenues we collect as premiums from policyholders are invested to ensure future benefit payments under the policy contracts. Life insurance companies earn profits on the investment spread, which reflects the investment income earned on the premiums paid to the insurer between the time of receipt and the time benefits are paid out under policies. Changes in interest rates, changes in economic conditions and volatility in the capital markets can all impact the amount of earnings that we realize from our investment portfolio.

Our profitability in the life insurance and annuity segments is a function of our ability to accurately price the policies that we write, adequately value life insurance business acquired, administer life insurance company acquisitions at an expense level that validates the acquisition cost and invest the premiums and annuity considerations in assets that earn investment income with a positive spread.

### **Acquisitions**

The Company expects to facilitate growth through acquisitions of other life insurance companies and/or blocks of life insurance and annuity business. In late December 2008, the Company completed its acquisition of 100% of the outstanding stock of FLAC for \$2,500,000 and had additional acquisition related expenses of \$195,234.

In late December 2011, the Company completed its acquisition of 100% of the outstanding stock of FBLIC for \$13,855,129.

On April 28, 2015, the Company acquired a block of life insurance policies and annuity contracts according to the terms of an assumption reinsurance agreement and assumed liabilities of \$3,055,916.

In 2019, FTFC's acquisition of TAI for \$250,000 was approved by the Barbados, West Indies regulators.

Effective January 1, 2020, the Company acquired 100% of the outstanding common stock of K-TENN Insurance Company ("K-TENN") from its sole shareholder in exchange for 168,866 shares of FTFC's common stock. The aggregate purchase price of K-TENN was \$1,746,240.

On January 4, 2022, FTFC acquired RCLIC from Royalty in exchange for 722,644 shares of FTFC's Class A common stock issued to unrelated parties. Royalty was dissolved immediately after FTFC acquired RCLIC. On March 1, 2022, the Missouri Department of Commerce and Insurance approved FTFC's contribution and merger of RCLIC into FBLIC.

### **Critical Accounting Policies and Estimates**

The discussion and analysis of our financial condition, results of operations and liquidity and capital resources is based on our consolidated financial statements that have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP"). Preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses. We evaluate our estimates and assumptions continually, including those related to investments, deferred acquisition costs, value of insurance business acquired and policy liabilities. We base our estimates on historical experience and on various other factors and assumptions that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. We believe the following accounting policies, judgments and estimates are the most critical to the preparation of our consolidated financial statements.

### ***Investments in Fixed Maturity Securities***

We hold fixed maturity interests in a variety of companies. We continuously evaluate all of our fixed maturity investments based on current economic conditions, credit loss experience and other developments. We evaluate the difference between the amortized cost and estimated fair value of our fixed maturity investments to determine whether any decline in fair value is other-than-temporary in nature. This determination involves a degree of uncertainty. If a decline in the fair value of a fixed maturity security is determined to be temporary, the decline is recognized in other comprehensive income (loss) within shareholders' equity. If a decline in a security's fair value is considered to be other-than-temporary, we then determine the proper treatment for the other-than-temporary impairment.

For fixed maturity securities, the amount of any other-than-temporary impairment related to a credit loss is recognized in earnings and reflected as a reduction in the cost basis of the security. The amount of any other-than-temporary impairment related to other factors is recognized in other comprehensive income (loss) with no change to the cost basis of the security.

The assessment of whether a decline in fair value is considered temporary or other-than-temporary includes management's judgment as to the financial position and future prospects of the entity issuing the security. It is not possible to accurately predict when it may be determined that a specific security will become impaired. Future adverse changes in market conditions, poor operating results of underlying fixed maturity investments and defaults on interest and principal payments could result in losses or an inability to recover the current carrying value of the fixed maturity investments, thereby possibly requiring an impairment charge in the future.

In addition, if a change occurs in our intent to sell temporarily impaired fixed maturity securities prior to maturity or recovery in value, or if it becomes more likely than not that we will be required to sell such securities prior to recovery in value or maturity, a future impairment charge could result. If an other-than-temporary impairment related to a credit loss occurs with respect to a fixed maturity security, we amortize the reduced book value back to the security's expected recovery value over the remaining term of the fixed maturity investment. We continue to review the fixed maturity security for further impairment that would prompt another write-down in the book value.

### ***Mortgage Loans on Real Estate***

We carry mortgage loans on real estate at unpaid balances, net of unamortized premium or discounts. Interest income and the amortization of premiums or discounts are included in net investment income. Mortgage loan fees, certain direct loan origination costs and purchase premiums and discounts on loans are recognized as an adjustment of yield by the interest method based on the contractual terms of the loan. In certain circumstances, prepayments may be anticipated. We have established a valuation allowance for mortgage loans on real estate that are not supported by funds held in escrow.

This allowance for possible loan losses from investments in mortgage loans on real estate is a reserve established through a provision for possible loan losses charged to expense which represents, in our judgment, the known and inherent credit losses existing in the residential and commercial mortgage loan portfolio. This allowance, in our judgment, is necessary to reserve for estimated loan losses inherent in the residential and commercial mortgage loan portfolio and reduces the carrying value of investments in mortgage loans on real estate to the estimated net realizable value on the consolidated statement of financial position.

While we utilize our best judgment and information available, the ultimate adequacy of this allowance is dependent upon a variety of factors beyond our control, including the performance of the residential and commercial mortgage loan portfolio, the economy and changes in interest rates. Our allowance for possible mortgage loan losses consists of specific valuation allowances established for probable losses on specific loans and a portfolio reserve for probable incurred but not specifically identified loans.

We consider mortgage loans on real estate impaired when, based on current information and events, it is probable that we will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the mortgage loan agreement. Impairment is measured on a loan-by-loan basis. Factors that we consider in determining impairment include payment status, collateral value of the real estate subject to the mortgage loan and the probability of collecting scheduled principal and interest payments when due. Mortgage loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired.

We determine the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the mortgage loan on real estate and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed.

### ***Deferred Policy Acquisition Costs***

Commissions and other acquisition costs which vary with and are primarily related to the successful production of new and renewal insurance contracts are deferred and amortized in a systematic manner based on the related contract revenues or gross profits as appropriate. The recovery of deferred acquisition costs is dependent on the future profitability of the underlying business for which acquisition costs were incurred. Each reporting period, we evaluate the recoverability of the unamortized balance of deferred acquisition costs. We consider estimated future gross profits or future premiums; expected mortality or morbidity; interest earned and credited rates; persistency and expenses in determining whether the balance is recoverable.

If we determine a portion of the unamortized balance is not recoverable, it is immediately charged to amortization expense. The assumptions we use to amortize and evaluate the recoverability of the deferred acquisition costs involve significant judgment. A revision to these assumptions may impact future financial results. Deferred acquisition costs related to the successful production of new and renewal insurance business for traditional life insurance contracts are deferred to the extent deemed recoverable and amortized over the premium paying period of the related policies using assumptions consistent with those used in computing future policy benefit liabilities.

Deferred acquisition costs related to the successful production of new and renewal insurance and annuity products that subject us to mortality or morbidity risk over a period that extends beyond the period or periods in which premiums are collected and that have terms that are fixed and guaranteed (i.e., limited-payment long-duration annuity contracts) are deferred to the extent deemed recoverable and amortized in relation to the present value of actual and expected gross profits on the policies. To the extent that realized gains and losses on securities result in adjustments to deferred acquisition costs related to insurance and annuity products, such adjustments are reflected as a component of the amortization of deferred acquisition costs.

Deferred acquisition costs related to limited-payment long-duration insurance and annuity contracts are also adjusted, net of tax, for the change in amortization that would have been recorded if the unrealized gains (losses) from securities had actually been realized. This adjustment is included in the change in net unrealized appreciation (depreciation) on available-for-sale securities, a component of "Accumulated Other Comprehensive Income (Loss)" in the shareholders' equity section of the statement of financial position.

### ***Value of Insurance Business Acquired***

As a result of our purchases of FLAC and FBLIC, an asset was recorded in the application of purchase accounting to recognize the value of acquired insurance in force. The Company's value of acquired insurance in force is an intangible asset with a definite life and is amortized under FASB guidance. The value of acquired insurance in force is amortized primarily over the emerging profit of the related policies using the same assumptions that were used in computing liabilities for future policy benefits. The recovery of the value of insurance business acquired is dependent on the future profitability of the underlying business that was initially recorded in the purchases of FLAC and FBLIC. Each reporting period, we evaluate the recoverability of the unamortized balance of the value of insurance business acquired.

For the amortization of the value of acquired insurance in force, the Company reviews its estimates of gross profits each reporting period. The most significant assumptions involved in the estimation of gross profits include interest rate spreads; future financial market performance; business surrender and lapse rates; mortality and morbidity; expenses and the impact of realized investment gains and losses. In the event actual experience differs significantly from assumptions or assumptions are significantly revised, the Company is required to record a charge or credit to amortization expense for the period in which an adjustment is made.

As of December 31, 2022 and 2021, there was \$4,691,773 and \$4,421,379, respectively, of accumulated amortization of the value of insurance business acquired due to the purchases of FLAC and FBLIC. The Company expects to amortize the value of insurance business acquired by the following amounts over the next five years: \$257,470 in 2023, \$215,134 in 2024, \$202,009 in 2025, \$176,859 in 2026 and \$170,026 in 2027.

### ***Future Policy Benefits***

Our liability for future policy benefits is primarily comprised of the present value of estimated future payments to or on behalf of policyholders, where the timing and amount of payment depends on policyholder mortality or morbidity, less the present value of future net premiums. For life insurance and annuity products, expected mortality and morbidity is generally based on the Company's historical experience or standard industry tables including a provision for the risk of adverse deviation.

Interest rate assumptions are based on factors such as market conditions and expected investment returns. Although mortality and morbidity and interest rate assumptions are "locked-in" upon the issuance of new insurance with fixed and guaranteed terms, significant changes in experience or assumptions may require the Company to provide for expected future losses on a product by establishing premium deficiency reserves.

Estimating liabilities for our long-duration insurance contracts requires management to make various assumptions, including policyholder persistency, mortality rates, investment yields, discretionary benefit increases, new business pricing and operating expense levels.

Since many of these factors are interdependent and subject to short-term volatility during the long-duration contract period, substantial judgment is required. Actual experience may emerge differently from that originally estimated. Any such difference would be recognized in the current year's consolidated statement of operations.

### ***Recent Accounting Pronouncements***

#### *Financial Instruments – Credit Losses: Measurement of Credit Losses on Financial Instruments*

In June 2016, the FASB issued updated guidance (Accounting Standards Update 2016-13) for the accounting for credit losses for financial instruments. The updated guidance applies a new credit loss model (current expected credit losses or CECL) for determining credit-related impairments for financial instruments measured at amortized cost (e.g. reinsurance recoverables, including structured settlements that are recorded as part of reinsurance recoverables) and requires an entity to estimate the credit losses expected over the life of an exposure or pool of exposures. The estimate of expected credit losses should consider historical information, current information, as well as reasonable and supportable forecasts, including estimates of prepayments.

The expected credit losses, and subsequent adjustments to such losses, will be recorded through an allowance account that is deducted from the amortized cost basis of the financial asset, with the net carrying value of the financial asset presented on the consolidated balance sheet at the amount expected to be collected. The updated guidance also amends the current other-than-temporary impairment model for available-for-sale debt securities by requiring the recognition of impairments relating to credit losses through an allowance account and limits the amount of credit loss to the difference between a security's amortized cost basis and its fair value. In addition, the length of time a security has been in an unrealized loss position will no longer impact the determination of whether a credit loss exists.

The updated guidance was effective for reporting periods beginning after December 15, 2019. As a Smaller Reporting Company, the effective date was recently changed and the delayed effective date is now for reporting periods beginning after December 15, 2022.

Early adoption is permitted for reporting periods beginning after December 15, 2018. Based on the financial instruments currently held by the Company, there would not be a material effect on the Company's results of operations, financial position or liquidity if the new guidance had been adopted in the current accounting period. The impact on the Company's results of operations, financial position or liquidity at the date of adoption of the updated guidance will be determined by the financial instruments held by the Company and the economic conditions at that time.



### *Targeted Improvements to the Accounting for Long-Duration Contracts*

In August 2018, the FASB issued updated guidance (Accounting Standards Update 2018-12) to the existing recognition, measurement, presentation and disclosure requirements for long-duration contracts issued by an insurance entity. This update improves the timeliness of recognizing changes in the liability for future policy benefits, modifies the rate used to discount future cash flows, simplifies and improves accounting for certain market-based options or guarantees associated with deposit (i.e., account balance) contracts, simplifies the amortization of deferred acquisitions costs and expands required disclosures. The expanded disclosure requires an insurance entity to provide disaggregated roll forwards of beginning to ending balances of the following: liability for future policy benefits, policyholder account balances, market risk benefits, separate account liabilities and deferred acquisition costs including disclosure about, changes to and effect of changes for significant inputs, judgments, assumptions and methods used in measurements.

The updated guidance was effective for reporting periods beginning after December 15, 2020. As a Smaller Reporting Company, the effective date has been changed twice and the delayed effective date is now for reporting periods beginning after December 15, 2024. Early adoption is permitted but not likely to be elected by the Company. With respect to the liability for future policyholder benefits for traditional and limited-payment contracts and deferred acquisition costs, an insurance entity may elect to apply the amendments retrospectively as of the beginning of the earliest period presented.

With respect to the market risk benefits, an insurance entity should apply the amendments retrospectively as of the beginning of the earliest period presented. The Company expects that the impact on the Company's results of operations, financial position and liquidity at the date of adoption of the updated guidance in 2025 will be determined by the long-duration contracts then held by the Company and the economic conditions at that time.

### *Income Taxes – Simplifying the Accounting for Income Taxes*

In December 2019, the FASB issued updated guidance (Accounting Standards Update 2019-12) for the accounting for income taxes. The updated guidance is intended to simplify the accounting for income taxes by removing several exceptions contained in existing guidance and amending other existing guidance to simplify several other income tax accounting matters. The Company adopted this guidance in first quarter 2021. The adoption of this guidance did not have a material effect on the Company's results of operations, financial position or liquidity.

### *Troubled Debt Restructurings and Vintage Disclosures*

In March 2022, the FASB issued amendments (Accounting Standards Update 2022-2) for the accounting of troubled debt restructuring and disclosures. The amendments introduce new requirements related to certain modifications of receivables made to borrowers experiencing financial difficulties. The amendments promulgate that an entity must apply specific loan refinancing and restructuring guidance to determine whether a modification results in a new loan or the continuation of an existing loan. The amendments also require that an entity disclose current-period gross write-offs by year of origination for financing receivables and net investment in leases. The amendments in this guidance are effective for fiscal years beginning after December 15, 2022, including interim periods and should be applied prospectively. The adoption of this guidance should not have a material effect on the Company's results of operations, financial position or liquidity.

### *Transition for Sold Contracts*

In December 2022, the FASB issued amendments (Accounting Standards Update 2022-5) to Accounting Standards Update 2018-12 (Targeted Improvements for Long-Duration Contracts) that originally required an insurance entity to apply a retrospective transition method as of the beginning of the earliest period presented or the beginning of the prior fiscal year if early application was elected. This updated guidance reduces implementation costs and complexity associated with the adoption of targeted improvements in accounting for long-duration contracts that have been derecognized in accordance with Accounting Standards Update 2018-12 before the delayed effective date.

Without the amendments in this Update, an insurance entity would be required to reclassify a portion of gains or losses previously recognized in the sale or disposal of insurance contracts or legal entities because of the adoption of a new accounting standard. Because there is no effect on an insurance entity's future cash flows, this reclassification may not be useful to users of financial information. The amendments in this guidance are effective for fiscal years beginning after December 15, 2024. Early adoption is permitted but not likely to be elected by the Company. The Company expects that the impact on the Company's results of operations, financial position and liquidity at the date of adoption of the updated guidance in 2025 will be determined by the long-duration contracts then held by the Company and the economic conditions at that time.

## FINANCIAL HIGHLIGHTS

### Consolidated Condensed Results of Operations for the Years Ended December 31, 2022 and 2021

	Years Ended December 31,		Amount Change
	2022	2021	2022 less 2021
Premiums	\$ 35,705,560	\$ 31,922,288	\$ 3,783,272
Net investment income	26,221,172	23,984,188	2,236,984
Net realized investment gains	544,217	898,551	(354,334)
Service fees	3,004,324	228,597	2,775,727
Other income	83,826	82,617	1,209
Total revenues	65,559,099	57,116,241	8,442,858
Benefits and claims	41,171,820	37,354,646	3,817,174
Expenses	16,416,627	16,088,307	328,320
Total benefits, claims and expenses	57,588,447	53,442,953	4,145,494
Income before federal income tax expense	7,970,652	3,673,288	4,297,364
Federal income tax expense	1,785,949	815,918	970,031
Net income	\$ 6,184,703	\$ 2,857,370	\$ 3,327,333
Net income per common share			
Class A common stock	\$ 0.6531	\$ 0.3266	\$ 0.3265
Class B common stock	\$ 0.5551	\$ 0.2776	\$ 0.2775

### Consolidated Condensed Financial Position as of December 31, 2022 and 2021

	December 31, 2022	December 31, 2021	Amount Change
			2022 less 2021
Investment assets	\$ 442,069,335	\$ 434,120,334	\$ 7,949,001
Assets held in trust under coinsurance agreement	92,033,769	106,210,246	(14,176,477)
Other assets	131,760,933	119,428,354	12,332,579
Total assets	\$ 665,864,037	\$ 659,758,934	\$ 6,105,103
Policy liabilities	\$ 504,059,423	\$ 464,853,615	\$ 39,205,808
Funds withheld under coinsurance agreement	92,301,039	106,586,633	(14,285,594)
Deferred federal income taxes	2,677,411	8,966,303	(6,288,892)
Other liabilities	15,173,652	10,957,832	4,215,820
Total liabilities	614,211,525	591,364,383	22,847,142
Shareholders' equity	51,652,512	68,394,551	(16,742,039)
Total liabilities and shareholders' equity	\$ 665,864,037	\$ 659,758,934	\$ 6,105,103
Shareholders' equity per common share			
Class A common stock	\$ 5.4542	\$ 7.8186	\$ (2.3644)
Class B common stock	\$ 4.6360	\$ 6.6458	\$ (2.0098)

## Results of Operations – Years Ended December 31, 2022 and 2021

### Revenues

Our primary sources of revenue are life insurance premium income and investment income. Premium payments are classified as first-year, renewal and single. In addition, realized gains and losses on investment holdings can significantly impact revenues from period to period.

Our revenues for the years ended December 31, 2022 and 2021 are summarized as follows:

	Years Ended December 31,		Amount Change
	2022	2021	2022 less 2021
Premiums	\$ 35,705,560	\$ 31,922,288	\$ 3,783,272
Net investment income	26,221,172	23,984,188	2,236,984
Net realized investment gains	544,217	898,551	(354,334)
Service fees	3,004,324	228,597	2,775,727
Other income	83,826	82,617	1,209
Total revenues	<u>\$ 65,559,099</u>	<u>\$ 57,116,241</u>	<u>\$ 8,442,858</u>

The \$8,442,858 increase in total revenues for the year ended December 31, 2022 is discussed below.

### Premiums

Our premiums for the years ended December 31, 2022 and 2021 are summarized as follows:

	Years Ended December 31,		Amount Change
	2022	2021	2022 less 2021
Ordinary life first year	\$ 2,654,456	\$ 1,781,561	\$ 872,895
Ordinary life renewal	4,958,248	3,937,981	1,020,267
Final expense first year	4,314,119	5,907,114	(1,592,995)
Final expense renewal	23,778,737	20,295,632	3,483,105
Total premiums	<u>\$ 35,705,560</u>	<u>\$ 31,922,288</u>	<u>\$ 3,783,272</u>

The \$3,783,272 increase in premiums for the year ended December 31, 2022 is primarily due to a \$3,483,105 increase in final expense renewal premiums, \$1,020,267 increase in ordinary life renewal premiums, \$872,895 increase in ordinary life first year premiums that exceeded a \$1,592,995 decrease in final expense first year premiums.

The increase in final expense renewal premiums reflects the persistency of prior years' final expense production. The increase in ordinary life renewal premiums and ordinary life first year premiums primarily reflects ordinary dollar denominated life insurance policies sold in the international market by TAI. The decrease in final expense first year premiums reflects tightening of underwriting guidelines.

### Service Fees

The \$2,775,727 increase in service fees for the year ended December 31, 2022 is primarily due to brokering mortgage loans for a fee to third parties.

### *Net Investment Income*

The major components of our net investment income for the years ended December 31, 2022 and 2021 are summarized as follows:

	Years Ended December 31,		Amount Change
	2022	2021	2022 less 2021
Fixed maturity securities	\$ 7,061,501	\$ 7,121,593	\$ (60,092)
Equity securities	211,290	121,585	89,705
Other long-term investments	4,975,205	4,806,506	168,699
Mortgage loans	16,850,320	14,263,706	2,586,614
Policy loans	194,814	163,893	30,921
Short-term and other investments	243,315	107,221	136,094
Gross investment income	29,536,445	26,584,504	2,951,941
Investment expenses	(3,315,273)	(2,600,316)	714,957
Net investment income	<u>\$ 26,221,172</u>	<u>\$ 23,984,188</u>	<u>\$ 2,236,984</u>

The \$2,951,941 increase in gross investment income for the year ended December 31, 2022 is primarily due to \$2,586,614 increase in mortgage loans, \$168,699 increase in other long-term investments and a \$136,094 increase in short-term and other investments.

In twelve months since December 31, 2021, our investments in mortgage loans increased approximately \$64.8 million. In twelve months since December 31, 2021, our investments in other long-term investments increased approximately \$1.6 million. The increase in short-term and other investment is due to higher gross effective yields on securities held in the portfolio and an increase in other investments.

The \$714,957 increase in investment expense for the year ended December 31, 2022 is primarily related to increased mortgage loan acquisition expenses.

### *Net Realized Investment Gains*

Our net realized investment gains result from sales of fixed maturity securities, mortgage loans on real estate, investment real estate, equity securities, other long-term investments and changes in the fair value of equity securities.

Our net realized investment gains for the years ended December 31, 2022 and 2021 are summarized as follows:

	Years Ended December 31,		Amount Change
	2022	2021	2022 less 2021
Fixed maturity securities available-for-sale:			
Sale proceeds and maturities	\$ 58,393,624	\$ 14,374,511	\$ 44,019,113
Amortized cost at sale date	57,531,842	13,760,736	43,771,106
Net realized gains	<u>\$ 861,782</u>	<u>\$ 613,775</u>	<u>\$ 248,007</u>
Mortgage loans on real estate:			
Sale proceeds	\$ -	\$ 28,966,890	\$ (28,966,890)
Cost at sale date	-	28,931,580	(28,931,580)
Net realized gains	<u>\$ -</u>	<u>\$ 35,310</u>	<u>\$ (35,310)</u>
Investment real estate:			
Sale proceeds	\$ 200,080	\$ 818,018	\$ (617,938)
Carrying value at sale date	147,909	528,178	(380,269)
Net realized gains	<u>\$ 52,171</u>	<u>\$ 289,840</u>	<u>\$ (237,669)</u>
Equity securities at fair value:			
Sale proceeds	\$ -	\$ 89	\$ (89)
Cost at sale date	8,000	-	8,000
Net realized gains (losses)	<u>\$ (8,000)</u>	<u>\$ 89</u>	<u>\$ (8,089)</u>
Other long-term investments:			
Sale proceeds	\$ 16,308,664	\$ 12,812,964	\$ 3,495,700
Carrying value at sale date	16,731,242	12,896,303	3,834,939
Net realized losses	<u>\$ (422,578)</u>	<u>\$ (83,339)</u>	<u>\$ (339,239)</u>
Equity securities, changes in fair value	<u>\$ 60,842</u>	<u>\$ 42,876</u>	<u>\$ 17,966</u>
Net realized investment gains	<u>\$ 544,217</u>	<u>\$ 898,551</u>	<u>\$ (354,334)</u>

## Total Benefits, Claims and Expenses

Our benefits, claims and expenses are primarily generated from benefit payments, surrenders, interest credited to policyholders, change in reserves, commissions and other underwriting, insurance and acquisition expenses. Benefit payments can significantly impact expenses from period to period.

Our benefits, claims and expenses for the years ended December 31, 2022 and 2021 are summarized as follows:

	Years Ended December 31,		Amount Change
	2022	2021	2022 less 2021
Benefits and claims			
Increase in future policy benefits	\$ 13,713,452	\$ 12,121,912	\$ 1,591,540
Death benefits	12,998,679	11,054,856	1,943,823
Surrenders	1,414,622	1,198,363	216,259
Interest credited to policyholders	12,714,469	12,663,112	51,357
Dividend, endowment and supplementary life contract benefits	330,598	316,403	14,195
Total benefits and claims	41,171,820	37,354,646	3,817,174
Expenses			
Policy acquisition costs deferred	(13,734,859)	(12,102,070)	(1,632,789)
Amortization of deferred policy acquisition costs	7,280,457	6,932,504	347,953
Amortization of value of insurance business acquired	270,394	274,478	(4,084)
Commissions	12,776,046	12,069,749	706,297
Other underwriting, insurance and acquisition expenses	9,824,589	8,913,646	910,943
Total expenses	16,416,627	16,088,307	328,320
Total benefits, claims and expenses	\$ 57,588,447	\$ 53,442,953	\$ 4,145,494

The \$4,145,494 increase in total benefits, claims and expenses for the year ended December 31, 2022 is discussed below.

### *Benefits and Claims*

The \$3,817,174 increase in total benefits and claims for the year ended December 31, 2022 is primarily due to the following:

- \$1,943,823 increase in death benefits is primarily due to approximately \$1,700,000 of increased final expense benefits and \$244,000 of increased ordinary life benefits.
- \$1,591,540 increase in future policy benefits is primarily due to the increased number of life policies in force and the aging of existing life policies.
- \$216,259 increase in surrenders is based upon policyholder election on life insurance policies.

### *Deferral and Amortization of Deferred Acquisition Costs*

Certain costs related to the successful acquisition of traditional life insurance policies are capitalized and amortized over the premium-paying period of the policies. Certain costs related to the successful acquisition of insurance and annuity policies that subject us to mortality or morbidity risk over a period that extends beyond the period or periods in which premiums are collected and that have terms that are fixed and guaranteed (i.e., limited-payment long-duration annuity contracts) are capitalized and amortized in relation to the present value of actual and expected gross profits on the policies.

These acquisition costs, which are referred to as deferred policy acquisition costs, include commissions and other successful costs of acquiring policies and contracts, which vary with, and are primarily related to, the successful production of new and renewal insurance and annuity contracts.

For the years ended December 31, 2022 and 2021, capitalized costs were \$13,734,859 and \$12,102,070, respectively. Amortization of deferred policy acquisition costs for the years ended December 31, 2022 and 2021 were \$7,280,457 and \$6,932,504.

The \$1,632,789 increase in the 2022 acquisition costs deferred primarily relates to increased ordinary life first year and annuity production and deferral of increased eligible commissions and expenses. There was an \$347,953 increase in the 2022 amortization of deferred acquisition costs due to 2022 surrenders and withdrawal activity and the impact of mortality.

#### ***Amortization of Value of Insurance Business Acquired***

The cost of acquiring insurance business is amortized over the emerging profit of the related policies using the same assumptions that were used in computing liabilities for future policy benefits. Amortization of the value of insurance business acquired was \$270,394 and \$274,478 for the years ended December 31, 2022 and 2021, respectively.

#### ***Commissions***

Our commissions for the years ended December 31, 2022 and 2021 are summarized as follows:

	Years Ended December 31,		Amount Change
	2022	2021	2022 less 2021
Annuity	\$ 2,099,439	\$ 807,782	\$ 1,291,657
Ordinary life first year	2,760,258	1,958,212	802,046
Ordinary life renewal	440,973	307,789	133,184
Final expense first year	5,180,713	7,039,287	(1,858,574)
Final expense renewal	2,294,663	1,956,679	337,984
Total commissions	<u>\$ 12,776,046</u>	<u>\$ 12,069,749</u>	<u>\$ 706,297</u>

The \$706,297 increase in commissions for the year ended December 31, 2022 is primarily due to a \$1,291,657 increase in annuity commissions that correspond to a \$39,331,353 increase in retained annuity deposits, \$802,046 increase in ordinary life first year commissions that corresponds to an \$872,895 increase in ordinary life first year premiums, \$337,984 increase in final expense renewal commissions that correspond to a \$3,483,105 increase in final expense renewal premiums, \$133,184 increase in ordinary life renewal commissions that correspond to a \$1,020,267 increase in ordinary life renewal premiums that exceeded a \$1,858,574 decrease in final expense first year commissions that corresponded to a \$1,592,995 decrease in final expense first year premiums.

#### ***Other Underwriting, Insurance and Acquisition Expenses***

The \$910,943 increase in other underwriting, insurance and acquisition expenses for the year ended December 31, 2022 was primarily related to increased staffing, board fees, third party administration fees primarily related to maintaining increased number of policies in force, increased service requests to the third party administrator and the conversion of RCLIC.

#### ***Federal Income Taxes***

FTFC files a consolidated federal income tax return with TLIC, FBLIC and TMC. Certain items included in income reported for financial statement purposes are not included in taxable income for the current period, resulting in deferred income taxes.

For the years ended December 31, 2022 and 2021, current income tax expense (benefit) was \$758,465 and (\$76,513), respectively. Deferred federal income tax expense was \$1,027,484 and \$892,431 for the years ended December 31, 2022 and 2021, respectively.

### **Net Income Per Common Share Basic**

For the year ended December 31, 2022, the net income allocated to the Class B shareholders is the total net income multiplied by the right to receive dividends at 85% for Class B shares (85,937) as of the reporting date divided by the allocated total shares (9,470,277) of Class A shares (9,384,340) and Class B shares (85,937) as of the reporting date. For the year ended December 31, 2021, the net income allocated to the Class B shareholders is the total net income multiplied by the right to receive dividends at 85% for Class B shares (85,937) as of the reporting date divided by the allocated total shares (8,747,633) of Class A shares (8,661,696) and Class B shares (85,937) as of the reporting date.

For the year ended December 31, 2022, the net income allocated to the Class A shareholders of \$6,128,581 is the total net income \$6,184,703 less the net income allocated to the Class B shareholders \$56,122. For the year ended December 31, 2021, the net income allocated to the Class A shareholders \$2,829,299 is the total net income \$2,857,370 less the net income allocated to the Class B shareholders \$28,071.

The weighted average outstanding common shares basic for the year ended December 31, 2022 and 2021 were 9,384,340 and 8,661,696 for Class A shares, respectively and 101,102 for Class B shares.

### **Business Segments**

The Company has a life insurance segment, consisting of the life insurance operations of TLIC, FBLIC and TAI, an annuity segment, consisting of the annuity operations of TLIC, FBLIC and TAI and a corporate segment. Results for the parent company and the operations of TMC, after elimination of intercompany amounts, are allocated to the corporate segment.

The revenues and income before federal income taxes from our business segments for the years ended December 31, 2022 and 2021 are summarized as follows:

	Years Ended December 31,		Amount Change 2022 less 2021
	2022	2021	
Revenues:			
Life insurance operations	\$ 41,826,391	\$ 36,680,116	\$ 5,146,275
Annuity operations	21,351,816	19,842,580	1,509,236
Corporate operations	2,380,892	593,545	1,787,347
Total	<u>\$ 65,559,099</u>	<u>\$ 57,116,241</u>	<u>\$ 8,442,858</u>
Income before federal income taxes:			
Life insurance operations	\$ 3,139,886	\$ 2,498,832	\$ 641,054
Annuity operations	3,028,852	1,110,528	1,918,324
Corporate operations	1,801,914	63,928	1,737,986
Total	<u>\$ 7,970,652</u>	<u>\$ 3,673,288</u>	<u>\$ 4,297,364</u>



The increases and decreases of revenues and profitability from our business segments for the years ended December 31, 2022 and 2021 are summarized as follows:

	Life Insurance Operations	Annuity Operations	Corporate Operations	Total
<b>Revenues</b>				
Premiums	\$ 3,783,272	\$ -	\$ -	\$ 3,783,272
Net investment income	1,157,320	820,372	259,292	2,236,984
Net realized investment gains	(51,284)	(295,050)	(8,000)	(354,334)
Service fees and other income	256,967	983,914	1,536,055	2,776,936
Total revenue	<u>5,146,275</u>	<u>1,509,236</u>	<u>1,787,347</u>	<u>8,442,858</u>
<b>Benefits and claims</b>				
Increase in future policy benefits	1,591,540	-	-	1,591,540
Death benefits	1,943,823	-	-	1,943,823
Surrenders	216,259	-	-	216,259
Interest credited to policyholders	-	51,357	-	51,357
Dividend, endowment and supplementary life contract benefits	14,195	-	-	14,195
Total benefits and claims	<u>3,765,817</u>	<u>51,357</u>	<u>-</u>	<u>3,817,174</u>
<b>Expenses</b>				
Policy acquisition costs deferred net of amortization	960,368	(2,245,204)	-	(1,284,836)
Amortization of value of insurance business acquired	(2,042)	(2,042)	-	(4,084)
Commissions	(585,360)	1,291,657	-	706,297
Other underwriting, insurance and acquisition expenses	366,438	495,144	49,361	910,943
Total expenses	<u>739,404</u>	<u>(460,445)</u>	<u>49,361</u>	<u>328,320</u>
Total benefits, claims and expenses	<u>4,505,221</u>	<u>(409,088)</u>	<u>49,361</u>	<u>4,145,494</u>
Income (loss) before federal income taxes (benefits)	<u>\$ 641,054</u>	<u>\$ 1,918,324</u>	<u>\$ 1,737,986</u>	<u>\$ 4,297,364</u>

## Consolidated Financial Condition

Our invested assets as of December 31, 2022 and 2021 are summarized as follows:

	December 31, 2022	December 31, 2021	Amount Change 2022 less 2021
<b>Assets</b>			
<b>Investments</b>			
Available-for-sale fixed maturity securities at fair value (amortized cost: \$144,744,158 and \$167,356,364 as of December 31, 2022 and 2021, respectively)	\$ 126,612,890	\$ 184,077,038	\$ (57,464,148)
Equity securities at fair value (cost: \$276,131 and \$285,558 as of December 31, 2022 and 2021, respectively)	399,633	348,218	51,415
Mortgage loans on real estate	242,314,128	177,508,051	64,806,077
Investment real estate	540,436	688,345	(147,909)
Policy loans	2,840,887	2,272,629	568,258
Short-term investments	1,860,578	3,296,838	(1,436,260)
Other long-term investments	67,500,783	65,929,215	1,571,568
Total investments	<u>\$ 442,069,335</u>	<u>\$ 434,120,334</u>	<u>\$ 7,949,001</u>

The \$57,464,148 decrease and \$13,429,202 increase in fixed maturity available-for-sale securities for the years ended December 31, 2022 and 2021, respectively, are summarized as follows:

	Years Ended December 31,	
	2022	2021
Fixed maturity securities, available-for-sale, beginning	\$ 184,077,038	\$ 170,647,836
Purchases	35,249,421	33,163,143
Unrealized depreciation	(34,851,942)	(5,496,152)
Net realized investment gains	861,782	613,775
Sales proceeds	(57,441,624)	(13,224,511)
Maturities	(952,000)	(1,150,000)
Premium amortization	(329,785)	(477,053)
Increase (decrease)	(57,464,148)	13,429,202
Fixed maturity securities, available-for-sale, ending	\$ 126,612,890	\$ 184,077,038

Fixed maturity securities available-for-sale are reported at fair value with unrealized gains and losses, net of applicable income taxes, reflected as a separate component in shareholders' equity within accumulated other comprehensive income (loss). The available-for-sale fixed maturity securities portfolio is invested in U.S. government, U.S. government agencies, state and political subdivisions, commercial and residential mortgage-backed securities, corporate bonds, asset-backed securities, exchange traded securities, foreign bonds, redeemable preferred securities and certificate of deposit.

The \$51,415 and \$145,215 increases in equity securities available-for-sale for the years ended December 31, 2022 and 2021, respectively, are summarized as follows:

	Years Ended December 31,	
	2022	2021
Equity securities, available-for-sale, beginning	\$ 348,218	\$ 203,003
Purchases	215,470	181,243
Sales proceeds	-	(89)
Joint venture distribution	(216,897)	(78,904)
Net realized investment gains (loss), sale of securities	(8,000)	89
Net realized investment gains, changes in fair value	60,842	42,876
Increase	51,415	145,215
Equity securities, available-for-sale, ending	\$ 399,633	\$ 348,218

Equity securities are reported at fair value with the change in fair value reflected in net realized investment gains within the consolidated statements of operations.

The \$64,806,077 and \$2,598,989 increases in mortgage loans on real estate for the years ended December 31, 2022 and 2021, respectively, are summarized as follows:

	Years Ended December 31,	
	2022	2021
Mortgage loans on real estate, beginning	\$ 177,508,051	\$ 174,909,062
Purchases	183,102,781	107,238,975
Discount accretion	250,089	428,411
Net realized investment gains	-	35,310
Payments	(118,132,864)	(104,436,910)
Foreclosed - transferred to real estate	-	(458,587)
Increase in allowance for bad debts	(413,929)	(164,625)
Amortization of loan origination fees	-	(43,585)
Increase	<u>64,806,077</u>	<u>2,598,989</u>
Mortgage loans on real estate, ending	<u>\$ 242,314,128</u>	<u>\$ 177,508,051</u>

The \$147,909 and \$69,591 decreases in investment real estate for the years ended December 31, 2022 and 2021, respectively, are summarized as follows:

	Years Ended December 31,	
	2022	2021
Investment real estate, beginning	\$ 688,345	\$ 757,936
Real estate acquired through mortgage loan foreclosure	-	458,587
Sales proceeds	(200,080)	(818,018)
Net realized investment gains	<u>52,171</u>	<u>289,840</u>
Decrease	<u>(147,909)</u>	<u>(69,591)</u>
Investment real estate, ending	<u>\$ 540,436</u>	<u>\$ 688,345</u>

The \$1,571,568 increase and \$5,095,918 decrease in other long-term investments (comprised of lottery receivables) for the years ended December 31, 2022 and 2021, respectively, are summarized as follows:

	Years Ended December 31,	
	2022	2021
Other long-term investments, beginning	\$ 65,929,215	\$ 71,025,133
Purchases	13,327,014	2,993,805
Discount accretion	4,975,796	4,806,580
Net realized investment losses	(422,578)	(83,339)
Payments	<u>(16,308,664)</u>	<u>(12,812,964)</u>
Increase (decrease)	<u>1,571,568</u>	<u>(5,095,918)</u>
Other long-term investments, ending	<u>\$ 67,500,783</u>	<u>\$ 65,929,215</u>

Our assets other than invested assets as of December 31, 2022 and 2021 are summarized as follows:

	<u>December 31, 2022</u>	<u>December 31, 2021</u>	<u>Amount Change</u> <u>2022 less 2021</u>
Cash and cash equivalents	\$ 33,542,725	\$ 42,528,046	\$ (8,985,321)
Accrued investment income	5,580,175	4,879,290	700,885
Recoverable from reinsurers	11,102,875	1,046,381	10,056,494
Assets held in trust under coinsurance agreement	92,033,769	106,210,246	(14,176,477)
Agents' balances and due premiums	1,253,077	1,713,050	(459,973)
Deferred policy acquisition costs	56,183,785	49,717,323	6,466,462
Value of insurance business acquired	4,048,105	4,318,499	(270,394)
Other assets	<u>20,050,191</u>	<u>15,225,765</u>	<u>4,824,426</u>
Assets other than investment assets	<u>\$ 223,794,702</u>	<u>\$ 225,638,600</u>	<u>\$ (1,843,898)</u>

The \$8,985,321 decrease in cash and cash equivalents for the year ended December 31, 2022 and the corresponding increase of \$2,297,951 for the year ended December 31, 2021 are summarized in the Company's consolidated statements of cash flows.

The \$14,176,477 decrease in assets held in trust under the coinsurance agreement is due to annuity surrenders on ceded business under TLIC's annuity coinsurance agreement with an offshore annuity and life insurance company that is administered on a funds withheld basis.

The increase in deferred policy acquisition costs for the years ended December 31, 2022 and 2021, respectively, are summarized as follows:

	<u>Years Ended December 31,</u>	
	<u>2022</u>	<u>2021</u>
Balance, beginning of year	\$ 49,717,323	\$ 44,513,669
Capitalization of commissions, sales and issue expenses	13,734,859	12,102,070
Amortization	(7,280,457)	(6,932,504)
Deferred acquisition costs allocated to investments	<u>12,060</u>	<u>34,088</u>
Balance, end of year	<u>\$ 56,183,785</u>	<u>\$ 49,717,323</u>

Our other assets as of December 31, 2022 and December 31, 2021 are summarized as follows:

	<u>December 31, 2022</u>	<u>December 31, 2021</u>	<u>Amount Change</u> <u>2022 less 2021</u>
Federal and state income taxes recoverable	\$ 8,887,609	\$ 7,104,791	\$ 1,782,818
Advances to an independently owned investment firm	5,000,000	-	5,000,000
Advances to mortgage loan originator	4,743,041	4,382,896	360,145
Advances to private equity company	-	3,000,000	(3,000,000)
Guaranty funds	699,865	49,256	650,609
Lease asset - right to use	467,536	565,964	(98,428)
Other receivables, prepaid assets and deposits	194,737	81,571	113,166
Notes receivable	<u>57,403</u>	<u>41,287</u>	<u>16,116</u>
Total other assets	<u>\$ 20,050,191</u>	<u>\$ 15,225,765</u>	<u>\$ 4,824,426</u>

There was a \$1,782,818 increase in federal and state income taxes recoverable primarily due to federal and state tax withholdings on lottery receivables.

The \$5,000,000 increase in advances is due to the Company making a promissory note to an independently owned investment firm. The promissory note bears interest and is collateralized by structured settlement receivables, lottery receivables and annuity payment receivables.

During 2022, a private equity company repaid advances of \$3,000,000 to the Company with interest.

There was a \$360,145 increase in advances to one mortgage loan originator who acquires residential mortgage loans for our life insurance companies.

There was a \$650,609 increase in the guaranty fund from increased insolvency of life insurance companies.

Our liabilities as of December 31, 2022 and 2021 are summarized as follows:

	<u>December 31, 2022</u>	<u>December 31, 2021</u>	<u>Amount Change</u> <u>2022 less 2021</u>
Policy liabilities			
Policyholders' account balances	\$ 391,359,944	\$ 373,647,869	\$ 17,712,075
Future policy benefits	110,012,174	88,735,716	21,276,458
Policy claims	2,541,088	2,381,183	159,905
Other policy liabilities	<u>146,217</u>	<u>88,847</u>	<u>57,370</u>
Total policy liabilities	504,059,423	464,853,615	39,205,808
Funds withheld under coinsurance agreement	92,301,039	106,586,633	(14,285,594)
Deferred federal income taxes	2,677,411	8,966,303	(6,288,892)
Other liabilities	<u>15,173,652</u>	<u>10,957,832</u>	<u>4,215,820</u>
Total liabilities	<u>\$ 614,211,525</u>	<u>\$ 591,364,383</u>	<u>\$ 22,847,142</u>

The \$21,276,458 increase in future policy benefits is primarily related to the production of new life insurance policies and the aging of existing policies.

The \$17,712,075 and \$11,128,116 increases in policyholders' account balances for the years ended December 31, 2022 and 2021, respectively, are summarized as follows:

	<u>Years Ended December 31,</u>	
	<u>2022</u>	<u>2021</u>
Policyholders' account balances, beginning	\$ 373,647,869	\$ 362,519,753
Deposits	67,308,368	28,708,203
Withdrawals	(72,595,697)	(35,383,965)
Funds withheld under coinsurance agreement	7,265,325	5,140,766
Acquisition of Royalty Capital Life Insurance Company	3,019,610	-
Interest credited	<u>12,714,469</u>	<u>12,663,112</u>
Increase	17,712,075	11,128,116
Policyholders' account balances, ending	<u>\$ 391,359,944</u>	<u>\$ 373,647,869</u>

The \$6,288,892 decrease in deferred federal income taxes was due to \$7,316,376 of decreased deferred federal income taxes on the unrealized appreciation of fixed maturity securities available-for-sale and \$1,027,484 of operating deferred federal tax expense.

The \$14,285,594 decrease in funds withheld under coinsurance agreement is due to a decrease in annuity surrenders on ceded business related to TLIC's annuity coinsurance agreement with an offshore annuity and life insurance company.

The \$159,905 increase in policy claims is due to an increase in the number of final expense claims.

Our other liabilities as of December 31, 2022 and December 31, 2021 are summarized as follows:

	December 31, 2022	December 31, 2021	Amount Change 2022 less 2021
Suspense accounts payable	\$ 9,706,063	\$ 435,471	\$ 9,270,592
Mortgage loans suspense	2,655,185	7,533,274	(4,878,089)
Accrued expenses payable	830,000	728,000	102,000
Guaranty fund assessments	681,000	21,000	660,000
Lease liability	467,536	565,964	(98,428)
Payable for securities purchased	390,508	1,465,173	(1,074,665)
Unclaimed funds	338,204	159,627	178,577
Unearned investment income	105,236	91,206	14,030
Accounts payable	80,964	61,307	19,657
Deferred revenue	52,250	63,250	(11,000)
Other payables, withholdings and escrows	(133,294)	(166,440)	33,146
Total other liabilities	<u>\$ 15,173,652</u>	<u>\$ 10,957,832</u>	<u>\$ 4,215,820</u>

The \$9,270,592 increase in suspense accounts payable is due to increased annuity deposits on policy applications that had not been issued as of the financial reporting date.

The decrease in mortgage loan suspense of \$4,878,089 is primarily due to timing of principal loan payments on mortgage loans.

There was a \$660,000 increase in the guaranty fund assessments from increased insolvency of life insurance companies.

As of December 31, 2022, the Company had \$390,508 in security purchases where the trade date and settlement date were in different financial reporting periods compared to \$1,465,173 of security purchases overlapping financial reporting periods as of December 31, 2021.

The increase in unclaimed funds of \$178,577 is due to increased outstanding checks that will be escheated to the states.

### **Liquidity and Capital Resources**

Our operations have been financed primarily through the private placement of equity securities and intrastate public stock offerings. Through December 31, 2022, we have received \$27,119,480 from the sale of our shares and recorded \$1,746,240 from the exchange of our shares to acquire K-TENN in 2020.

The Company raised \$1,450,000 from two private placements during 2004 and \$25,669,480 from two public stock offerings and one private placement stock offering from June 22, 2005 through February 23, 2007; June 29, 2010 through April 30, 2012; and August 15, 2012 through March 8, 2013. The Company issued 7,347,488 shares of its common stock and incurred \$3,624,518 of offering costs during these private placements and public stock offerings.

The Company also issued 702,685 shares of its common stock in connection with two stock dividends paid to shareholders in 2011 and 2012 that resulted in accumulated earnings being charged \$5,270,138 with an offsetting credit of \$5,270,138 to common stock and additional paid-in capital.

In 2020, the Company paid a \$0.05 per share cash dividend for a total of \$393,178 and issued 791,339 shares of class A common stock in connection with a 10% stock dividend to its Class A shareholders. The 10% stock dividend resulted in accumulated earnings being charged \$8,657,249 with an offsetting credit of \$8,657,249 to common stock and additional paid-in capital.

During 2012, 2013, 2014 and 2015, the Company repurchased 247,580 shares of its common stock at a total cost of \$893,947 from former members of the Board of Directors including the former Chairman of the Board of Directors, a former agent, the former spouse of the Company's current Chairman, Chief Executive Officer and President and a charitable organization where a former member of the Board of Directors had donated shares of the Company's common stock.

As of December 31, 2022, we had cash and cash equivalents totaling \$33,542,725. As of December 31, 2021, cash and cash equivalents of \$14,642,786 and \$13,038,325, respectively, totaling \$27,681,111 were held by TLIC and FBLIC and may not be available for use by FTFC due to the required pre-approval by the OID and MDCI of any dividend or intercompany transaction to transfer funds to FTFC. The maximum dividend, which may be paid in any twelve-month period without notification or approval, is limited to the greater of 10% of statutory surplus as of December 31 of the preceding year or the net gain from operations of the preceding calendar year.

Cash dividends may only be paid out of surplus derived from realized net profits. Based on these limitations, there is no capacity for TLIC to pay a dividend due to a negative unassigned surplus of \$3,633,769 as of December 31, 2022. In addition, based on those limitations, there is the capacity for FBLIC to pay a dividend up to \$1,237,769 in 2023 without prior approval. In 2022, FBLIC paid a \$3,200,000 dividend to TLIC, of which \$1,495,631 was considered ordinary and \$1,704,369 was considered extraordinary. Dividends paid by FBLIC to TLIC are eliminated in consolidation. TLIC has paid no dividends to FTFC. In 2022, TLIC returned \$2,200,000 in capital to FTFC. This return of capital by TLIC to FTFC is eliminated in consolidation.

The Company maintains cash and cash equivalents at multiple institutions. The Federal Deposit Insurance Corporation insures interest and non-interest bearing accounts up to \$250,000. Uninsured balances aggregate \$32,933,850 and \$40,431,952 as of December 31, 2022 and December 31, 2021, respectively. Other funds are invested in mutual funds that invest in U.S. government securities. We monitor the solvency of all financial institutions in which we have funds to minimize the exposure for loss. The Company has not experienced any losses in such accounts.

On September 15, 2022, the Company did not renew its \$1.5 million line of credit with a bank to provide working capital and funds for expansion. For the one-year period ending September 15, 2022, the Company's line of credit with a bank allowed for advances, repayments and re-borrowings. Any outstanding advances would have incurred interest at a variable interest rate of the prime rate set forth in the Wall Street Journal plus 1% per annum adjusting monthly based on a 360-day year with a minimum interest rate floor of 5.75%. The non-utilized portion of the \$1.5 million line of credit would have been assessed a 1% non-usage fee calculated in arrears and paid at the maturity date. No amounts were outstanding on this line of credit during the years it was available.

Our cash flows for the years ended December 31, 2022 and 2021 are summarized as follows:

	Years Ended December 31,		Amount Change 2022 less 2021
	2022	2021	
Net cash provided by operating activities	\$ 30,038,812	\$ 19,094,125	\$ 10,944,687
Net cash used in investing activities	(33,736,804)	(10,120,412)	(23,616,392)
Net cash used in financing activities	(5,287,329)	(6,675,762)	1,388,433
Increase (decrease) in cash	(8,985,321)	2,297,951	(11,283,272)
Cash and cash equivalents, beginning of period	42,528,046	40,230,095	2,297,951
Cash and cash equivalents, end of period	\$ 33,542,725	\$ 42,528,046	\$ (8,985,321)

The \$30,038,812 and \$19,094,125 cash provided by operating activities for the years ended December 31, 2022 and 2021, respectively, are summarized as follows:

	Years Ended December 31,		Amount Change 2022 less 2021
	2022	2021	
Premiums collected	\$ 35,760,183	\$ 31,934,472	\$ 3,825,711
Net investment income collected	20,638,225	19,737,349	900,876
Service fees and other income collected	3,027,055	311,214	2,715,841
Death benefits paid	(12,311,907)	(10,585,381)	(1,726,526)
Surrenders paid	(1,414,622)	(1,198,363)	(216,259)
Dividends and endowments paid	(331,245)	(318,630)	(12,615)
Commissions paid	(12,287,493)	(11,669,284)	(618,209)
Other underwriting, insurance and acquisition expenses paid	(9,075,210)	(8,158,256)	(916,954)
Taxes paid	(2,541,283)	(2,977,551)	436,268
(Increased) decreased advances to mortgage loan originator	(411,050)	613,462	(1,024,512)
(Increased) decreased advances to private equity company	3,000,000	(3,000,000)	6,000,000
Increased advances to independently owned investment firm	(5,000,000)	-	(5,000,000)
Decreased funds under coinsurance agreement	7,156,208	4,995,535	2,160,673
Increased (decreased) deposits of pending policy applications	9,270,592	(2,119,784)	11,390,376
Increased (decreased) mortgage loan suspense	(4,901,553)	1,589,336	(6,490,889)
Other	(539,088)	(59,994)	(479,094)
Cash provided by operating activities	<u>\$ 30,038,812</u>	<u>\$ 19,094,125</u>	<u>\$ 10,944,687</u>

Please see the consolidated statements of cash flows for the years ended December 31, 2022 and 2021 for a summary of the components of net cash used in investing activities and financing activities.

Our shareholders' equity as of December 31, 2022 and 2021 is summarized as follows:

	December 31, 2022	December 31, 2021	Amount Change 2022 less 2021
Class A common stock, par value \$.01 per share (40,000,000 shares authorized as of December 31, 2022 and 2021, 9,631,920 and 8,909,276 issued as of December 31, 2022 and 2021, respectively, 9,384,340 and 8,661,696 outstanding as of December 31, 2022 and 2021, respectively)	\$ 96,319	\$ 89,093	\$ 7,226
Class B common stock, par value \$.01 per share (10,000,000 shares authorized, 101,102 issued and outstanding as of December 31, 2022 and 2021)	1,011	1,011	-
Additional paid-in capital	43,668,023	39,078,485	4,589,538
Treasury stock, at cost (247,580 shares as of December 31, 2022 and 2021)	(893,947)	(893,947)	-
Accumulated other comprehensive income (loss)	(14,319,679)	13,203,827	(27,523,506)
Accumulated earnings	23,100,785	16,916,082	6,184,703
Total shareholders' equity	<u>\$ 51,652,512</u>	<u>\$ 68,394,551</u>	<u>\$ (16,742,039)</u>

The decrease in shareholders' equity of \$16,742,039 for the year ended December 31, 2022 is due to a \$27,523,506 decrease in accumulated other comprehensive income (loss) that exceeded net income of \$6,184,703 and an increase in additional paid-in capital and Class A common stock of \$4,596,764 related to the acquisition of RCLIC.

The liquidity requirements of our life insurance companies are met primarily by funds provided from operations. Premium and annuity consideration deposits, investment income and investment maturities are the primary sources of funds, while investment purchases, policy benefits, and operating expenses are the primary uses of funds. There were no liquidity issues in 2022 or 2021. Our investments include marketable debt securities that could be readily converted to cash for liquidity needs. We are subject to various market risks. The quality of our investment portfolio and the current level of shareholders' equity continue to provide a sound financial base as we strive to expand our marketing to offer competitive products.



Our investment portfolio had unrealized appreciation (depreciation) on available-for-sale securities of (\$18,131,268) and \$16,720,674 as of December 31, 2022 and 2021, respectively, prior to the impact of income taxes and deferred acquisition cost adjustments. A decrease of \$33,990,160 in unrealized gains arising for year ended December 31, 2022 and 2021 net realized investment gains of \$861,782 originating from the sale, calls and maturities for fixed maturity securities available-for-sale resulting in net unrealized losses on investments of \$34,851,942.

A primary liquidity concern is the risk of an extraordinary level of early policyholder withdrawals. We include provisions within our insurance policies, such as surrender charges, that help limit and discourage early withdrawals. Individual life insurance policies are less susceptible to withdrawal than annuity reserves and deposit liabilities because policyholders may incur surrender charges and undergo a new underwriting process in order to obtain a new insurance policy. Cash flow projections and cash flow tests under various market interest rate scenarios are also performed annually to assist in evaluating liquidity needs and adequacy. We currently anticipate that available liquidity sources and future cash flows will be adequate to meet our needs for funds.

One of our significant risks relates to the fluctuations in interest rates. Regarding interest rates, the value of our available-for-sale fixed maturity securities investment portfolio will increase or decrease in an inverse relationship with fluctuations in interest rates, while net investment income earned on newly acquired available-for-sale fixed maturity securities increases or decreases in direct relationship with interest rate changes.

From an income perspective, we are exposed to rising interest rates which could be a significant risk, as TLIC's and FBLIC's annuity business is impacted by changes in interest rates. Life insurance company policy liabilities bear fixed rates. From a liquidity perspective, our fixed rate policy liabilities are relatively insensitive to interest rate fluctuations. We believe gradual increases in interest rates do not present a significant liquidity exposure for the life insurance policies and annuity contracts. We maintain conservative durations in our fixed maturity portfolio.

As of December 31, 2022, cash and cash equivalents, short-term investments, the fair value of fixed maturity available-for-sale securities with maturities of less than one year and the fair value of lottery receivables with maturities of less than one year equaled 10.2% of total policy liabilities. If interest rates rise significantly in a short time frame, there can be no assurance that the life insurance industry, including the Company, would not experience increased levels of surrenders and reduced sales, and thereby be materially adversely affected.

In addition to the measures described above, TLIC and FBLIC must comply with the National Association of Insurance Commissioners promulgated Standard Valuation Law ("SVL") which specifies minimum reserve levels and prescribes methods for determining them, with the intent of enhancing solvency. Upon meeting certain tests, which TLIC and FBLIC met during 2022, the SVL also requires the Company to perform annual cash flow testing for TLIC and FBLIC. This testing is designed to ensure that statutory reserve levels will maintain adequate protection in a variety of potential interest rate scenarios. The Actuarial Standards Board of the American Academy of Actuaries also requires cash flow testing as a basis for the actuarial opinion on the adequacy of the reserves which is a required part of the annual statutory reporting process.

Our marketing plan could be modified to emphasize certain product types and reduce others. New business levels could be varied in order to find the optimum level. We believe that our current liquidity, current bond portfolio maturity distribution and cash position give us substantial resources to administer our existing business and fund growth generated by direct sales.

The operations of TLIC and FBLIC may require additional capital contributions to meet statutory capital and surplus requirements mandated by state insurance departments. Life insurance contract liabilities are generally long term in nature and are generally paid from future cash flows or existing assets and reserves. We will service other expenses and commitments by: (1) using available cash, (2) dividends from TLIC and FBLIC that are limited by law to the greater of prior year net operating income or 10% of prior year-end surplus unless specifically approved by the controlling insurance department, (3) public and private offerings of our common stock and (4) corporate borrowings, if necessary.

Effective January 1, 2019, the Company entered into a revised advance agreement with one loan originator. As of December 31, 2022, the Company has outstanding advances to this loan originator totaling \$4,743,041. The advances are secured by \$9,016,158 of residential mortgage loans on real estate that are assigned to the Company. The Company has committed to fund up to an additional \$1,756,959 to the loan originator that would result in additional security in the form of residential mortgage loans on real estate to be assigned to the Company.

Effective January 1, 2019, the Company also entered into a revised escrow agreement with the same loan originator. According to the revised terms of the escrow agreement, as of December 31, 2022, \$753,648 of additional and secured residential mortgage loan balances on real estate are held in escrow by the loan originator. As of December 31, 2022, \$656,924 of that escrow amount is available to the Company as additional collateral on \$4,743,041 of advances to the loan originator. The remaining December 31, 2022 escrow amount of \$96,724 is available to the Company as additional collateral on its investment of \$19,344,898 in mortgage loans on real estate.

We are not aware of any commitments or unusual events that could materially affect our capital resources. We are not aware of any current recommendations by any regulatory authority which, if implemented, would have a material adverse effect on our liquidity, capital resources or operations. We believe that our existing cash and cash equivalents as of December 31, 2022 will be sufficient to fund our anticipated operating expenses.

### **Off-Balance Sheet Arrangements**

The Company does not have any off-balance sheet arrangements.

### **SPECIAL NOTE CONCERNING FORWARD-LOOKING STATEMENTS**

Certain statements contained herein are forward-looking statements. The forward-looking statements are made pursuant to the “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995, and include estimates and assumptions related to economic, competitive and legislative developments. Forward-looking statements may be identified by words such as “expects,” “intends,” “anticipates,” “plans,” “believes,” “estimates,” “will” or words of similar meaning; and include, but are not limited to, statements regarding the outlook of our business and financial performance. These forward-looking statements are subject to change and uncertainty, which are, in many instances, beyond our control and have been made based upon our expectations and beliefs concerning future developments and their potential effect upon us.

There can be no assurance that future developments will be in accordance with our expectations, or that the effect of future developments on us will be as anticipated. These forward-looking statements are not a guarantee of future performance and involve risks and uncertainties. There are certain important factors that could cause actual results to differ, possibly materially, from expectations or estimates reflected in such forward-looking statements. These factors include among others:

- general economic conditions and financial factors, including the performance and fluctuations of fixed income, equity, real estate, credit capital and other financial markets;
- differences between actual experience regarding mortality, morbidity, persistency, surrenders, investment returns, and our pricing assumptions establishing liabilities and reserves or for other purposes;
- the effect of increased claims activity from natural or man-made catastrophes, pandemic disease, or other events resulting in catastrophic loss of life;
- adverse determinations in litigation or regulatory matters and our exposure to contingent liabilities;
- inherent uncertainties in the determination of investment allowances and impairments and in the determination of the valuation allowance on the deferred income tax asset;
- investment losses and defaults;
- competition in our product lines;
- attraction and retention of qualified employees and agents;
- ineffectiveness of risk management policies and procedures in identifying, monitoring and managing risks;
- the availability, affordability and adequacy of reinsurance protection;
- the effects of emerging claim and coverage issues;
- the cyclical nature of the insurance business;
- interest rate fluctuations;
- changes in our experiences related to deferred policy acquisition costs;
- the ability and willingness of counterparties to our reinsurance arrangements and derivative instruments to pay balances due to us;
- impact of medical epidemics and viruses;
- domestic or international military actions;
- the effects of extensive government regulation of the insurance industry;

- changes in tax and securities law;
- changes in statutory or U.S. generally accepted accounting principles (“GAAP”), practices or policies;
- regulatory or legislative changes or developments;
- the effects of unanticipated events on our disaster recovery and business continuity planning;
- failures or limitations of our computer, data security and administration systems;
- risks of employee error or misconduct;
- the assimilation of life insurance businesses we acquire and the sound management of these businesses;
- the availability of capital to expand our business; and
- Coronavirus disease impact on economic environment.

It is not our corporate policy to make specific projections relating to future earnings, and we do not endorse any projections regarding future performance made by others. In addition, we do not publicly update or revise forward-looking statements based on the outcome of various foreseeable or unforeseeable developments.

**Item 8. Financial Statements**

**FIRST TRINITY FINANCIAL CORPORATION AND SUBSIDIARIES**  
**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021**

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## Report of Independent Registered Public Accounting Firm

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To the Board of Directors and  
Shareholders of First Trinity Financial Corporation

### **Opinion on the Consolidated Financial Statements**

We have audited the accompanying consolidated statements of financial position of First Trinity Financial Corporation and Subsidiaries (the Company) as of December 31, 2022 and 2021, and the related consolidated statements of operations, comprehensive loss, changes in shareholders' equity, and cash flows for each of the years in the two-year period ended December 31, 2022, and the related notes (collectively referred to as the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2022, in conformity with U.S. generally accepted accounting principles.

### **Basis for Opinion**

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

### **Critical Audit Matters**

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

#### ***Amortization of Deferred Policy Acquisition Costs – Refer to Notes 1 and 6***

##### *Critical Audit Matter Description*

The Company's products include traditional life insurance contracts and annuities in which certain acquisition costs are capitalized and the expenses are deferred into future periods. Management amortizes the capitalized costs of traditional life insurance products over the premium paying period of the products based on assumptions developed and consistent with assumptions used in determining the products future policy benefit liabilities. Amortization of annuity products and certain limited payment life insurance products are amortized based on actual and expected future gross profits. The unamortized deferred policy acquisition cost asset was \$ 56.2 million as of December 31, 2022.

The recovery of the unamortized deferred policy acquisition cost asset is dependent on the future profitability of the related products. Management periodically reviews the recoverability by developing an actuarial study of the present value of future profits of the products, and reduces the asset when the asset is shown to not be recoverable.

As a result, the audit of this area requires a high degree of judgment due to the complex nature of determining the amortization for the period and creation of actuarial studies for recoverability.

*How the Critical Audit Matter was Addressed in the Audit*

Our audit procedures related to the amortization of the unamortized deferred policy acquisition cost asset and consideration of the recoverability of the asset included, among others, the following:

- We gained an understanding of the processes utilized and controls implemented in amortizing the deferred policy acquisition
- We obtained previous actuarial recoverability studies, and any current updates to the studies
- We tested data utilized by management for completeness and accuracy
- We engaged an independent actuarial specialist to assist with the review and evaluation of the assumptions and methodologies used by management for the study of recoverability

***Future Policy Benefits – Refer to Note 1***

*Critical Audit Matter Description*

Liabilities for amounts payable under the Company's life insurance products are recorded as future policy benefits liabilities. Such liabilities are established based on actuarial assumptions at the time policies are issued. Management applies considerable judgement in developing the actuarial assumptions based on expectations of future economic conditions and policyholder behavior. These assumptions are developed at the time the contracts are issued, or in the case of a business combination, at the time the contracts are purchased. If actual experience is adverse in nature when compared to the original assumptions in developing the future policy benefits liability, management may be required to establish premium deficiency reserves. The Company's future policy benefits liability was \$110.0 million as of December 31, 2022.

The audit of future policy benefits requires a high degree of auditor judgment when considering the complex actuarial assumptions and models management utilizes.

*How the Critical Audit Matter was Addressed in the Audit*

Our audit procedures related to the liability for future policy benefits included the following procedures, among others:

- We gained an understanding of the processes utilized and controls implemented in determining the valuation of future policy benefits
- We tested the underlying data used by management in developing the valuation and the completeness and accuracy of the data
- We obtained original assumption information and subsequent experience studies
- We engaged an independent actuarial specialist to evaluate the actuarial assumptions and methodologies for reasonableness, to develop an independent estimate of future policy benefits on a sample basis and to evaluate management's development of experience studies.

/s/ Kerber, Eck & Braeckel LLP

We have served as the Company's auditor since 2004.

Springfield, Illinois  
March 8, 2023

First Trinity Financial Corporation and Subsidiaries  
Consolidated Statements of Financial Position

	December 31, 2022	December 31, 2021
<b>Assets</b>		
Investments		
Available-for-sale fixed maturity securities at fair value (amortized cost: \$144,744,158 and \$167,356,364 as of December 31, 2022 and 2021, respectively)	\$ 126,612,890	\$ 184,077,038
Equity securities at fair value (cost: \$276,131 and \$285,558 as of December 31, 2022 and 2021, respectively)	399,633	348,218
Mortgage loans on real estate	242,314,128	177,508,051
Investment real estate	540,436	688,345
Policy loans	2,840,887	2,272,629
Short-term investments	1,860,578	3,296,838
Other long-term investments	67,500,783	65,929,215
Total investments	442,069,335	434,120,334
Cash and cash equivalents	33,542,725	42,528,046
Accrued investment income	5,580,175	4,879,290
Recoverable from reinsurers	11,102,875	1,046,381
Assets held in trust under coinsurance agreement		
Available-for-sale fixed maturity securities at fair value (amortized cost: \$63,649,991 and \$65,269,544 as of December 31, 2022 and 2021, respectively)	56,209,040	68,747,533
Mortgage loans on real estate	31,028,575	33,049,329
Short-term investments	982,404	-
Cash and cash equivalents	3,813,750	4,413,384
Total assets held in trust under coinsurance agreement	92,033,769	106,210,246
Agents' balances and due premiums	1,253,077	1,713,050
Deferred policy acquisition costs	56,183,785	49,717,323
Value of insurance business acquired	4,048,105	4,318,499
Other assets	20,050,191	15,225,765
<b>Total assets</b>	<b>\$ 665,864,037</b>	<b>\$ 659,758,934</b>
<b>Liabilities and Shareholders' Equity</b>		
Policy liabilities		
Policyholders' account balances	\$ 391,359,944	\$ 373,647,869
Future policy benefits	110,012,174	88,735,716
Policy claims	2,541,088	2,381,183
Other policy liabilities	146,217	88,847
Total policy liabilities	504,059,423	464,853,615
Funds withheld under coinsurance agreement	92,301,039	106,586,633
Deferred federal income taxes	2,677,411	8,966,303
Other liabilities	15,173,652	10,957,832
<b>Total liabilities</b>	<b>614,211,525</b>	<b>591,364,383</b>
<b>Shareholders' equity</b>		
Class A common stock, par value \$.01 per share (40,000,000 shares authorized as of December 31, 2022 and 2021, 9,631,920 and 8,909,276 issued as of December 31, 2022 and 2021, respectively, 9,384,340 and 8,661,696 outstanding as of December 31, 2022 and 2021, respectively)	96,319	89,093
Class B common stock, par value \$.01 per share (10,000,000 shares authorized, 101,102 issued and outstanding as of December 31, 2022 and 2021)	1,011	1,011
Additional paid-in capital	43,668,023	39,078,485
Treasury stock, at cost (247,580 shares as of December 31, 2022 and 2021)	(893,947)	(893,947)
Accumulated other comprehensive income (loss)	(14,319,679)	13,203,827
Accumulated earnings	23,100,785	16,916,082
<b>Total shareholders' equity</b>	<b>51,652,512</b>	<b>68,394,551</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 665,864,037</b>	<b>\$ 659,758,934</b>

See notes to consolidated financial statements.

First Trinity Financial Corporation and Subsidiaries

Consolidated Statements of Operations

	Years Ended December 31,	
	2022	2021
<b>Revenues</b>		
Premiums	\$ 35,705,560	\$ 31,922,288
Net investment income	26,221,172	23,984,188
Net realized investment gains	544,217	898,551
Service fees	3,004,324	228,597
Other income	83,826	82,617
<b>Total revenues</b>	<b>65,559,099</b>	<b>57,116,241</b>
<b>Benefits, Claims and Expenses</b>		
Benefits and claims		
Increase in future policy benefits	13,713,452	12,121,912
Death benefits	12,998,679	11,054,856
Surrenders	1,414,622	1,198,363
Interest credited to policyholders	12,714,469	12,663,112
Dividend, endowment and supplementary life contract benefits	330,598	316,403
Total benefits and claims	41,171,820	37,354,646
Policy acquisition costs deferred	(13,734,859)	(12,102,070)
Amortization of deferred policy acquisition costs	7,280,457	6,932,504
Amortization of value of insurance business acquired	270,394	274,478
Commissions	12,776,046	12,069,749
Other underwriting, insurance and acquisition expenses	9,824,589	8,913,646
Total expenses	16,416,627	16,088,307
<b>Total benefits, claims and expenses</b>	<b>57,588,447</b>	<b>53,442,953</b>
<b>Income before total federal income tax expense (benefit)</b>	<b>7,970,652</b>	<b>3,673,288</b>
Current federal income tax expense (benefit)	758,465	(76,513)
Deferred federal income tax expense	1,027,484	892,431
<b>Total federal income tax expense</b>	<b>1,785,949</b>	<b>815,918</b>
<b>Net income</b>	<b>\$ 6,184,703</b>	<b>\$ 2,857,370</b>
<b>Net income per common share</b>		
<b>Class A common stock</b>	<b>\$ 0.6531</b>	<b>\$ 0.3266</b>
<b>Class B common stock</b>	<b>\$ 0.5551</b>	<b>\$ 0.2776</b>

See notes to consolidated financial statements.



First Trinity Financial Corporation and Subsidiaries  
Consolidated Statements of Comprehensive Loss

	Years Ended December 31,	
	2022	2021
<b>Net income</b>	\$ 6,184,703	\$ 2,857,370
<b>Other comprehensive loss</b>		
Total net unrealized investment losses arising during the period	(33,990,160)	(4,882,377)
Less net realized investment gains	861,782	613,775
Net unrealized investment losses	(34,851,942)	(5,496,152)
Adjustment to deferred acquisition costs	(12,060)	(34,088)
Other comprehensive loss before federal income tax benefit	(34,839,882)	(5,462,064)
Federal income tax benefit	(7,316,376)	(1,147,033)
<b>Total other comprehensive loss</b>	(27,523,506)	(4,315,031)
<b>Total comprehensive loss</b>	\$ (21,338,803)	\$ (1,457,661)

*See notes to consolidated financial statements.*

First Trinity Financial Corporation and Subsidiaries  
Consolidated Statements of Changes in Shareholders' Equity  
Years Ended December 31, 2022 and 2021

	Class A Common Stock \$.01 Par Value	Class B Common Stock \$.01 Par Value	Additional Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Income (loss)	Accumulated Earnings	Total Shareholders' Equity
<b>Balance as of January 1, 2021</b>	\$ 89,093	\$ 1,011	\$ 39,078,485	\$ (893,947)	\$ 17,518,858	\$ 14,058,712	\$ 69,852,212
Comprehensive income (loss):							
Net income	-	-	-	-	-	2,857,370	2,857,370
Other comprehensive loss	-	-	-	-	(4,315,031)	-	(4,315,031)
<b>Balance as of December 31, 2021</b>	<u>\$ 89,093</u>	<u>\$ 1,011</u>	<u>\$ 39,078,485</u>	<u>\$ (893,947)</u>	<u>\$ 13,203,827</u>	<u>\$ 16,916,082</u>	<u>\$ 68,394,551</u>
Comprehensive income (loss):							
Net income	-	-	-	-	-	6,184,703	6,184,703
Other comprehensive loss	-	-	-	-	(27,523,506)	-	(27,523,506)
Acquisition of Royalty Capital Life Insurance Company	7,226	-	4,589,538	-	-	-	4,596,764
<b>Balance as of December 31, 2022</b>	<u>\$ 96,319</u>	<u>\$ 1,011</u>	<u>\$ 43,668,023</u>	<u>\$ (893,947)</u>	<u>\$ (14,319,679)</u>	<u>\$ 23,100,785</u>	<u>\$ 51,652,512</u>

See notes to consolidated financial statements.

First Trinity Financial Corporation and Subsidiaries  
Consolidated Statements of Cash Flows

	Years Ended December 31,	
	2022	2021
<b>Operating activities</b>		
Net income	\$ 6,184,703	\$ 2,857,370
Adjustments to reconcile net income to net cash provided by operating activities:		
Accretion of discount on investments	(4,896,100)	(4,757,938)
Net realized investment gains	(544,217)	(898,551)
Amortization of policy acquisition cost	7,280,457	6,932,504
Policy acquisition cost deferred	(13,734,859)	(12,102,070)
Amortization of loan origination fees	-	43,585
Amortization of value of insurance business acquired	270,394	274,478
Allowance for mortgage loan losses	413,929	164,625
Provision for deferred federal income tax expense	1,027,484	892,431
Interest credited to policyholders	12,714,469	12,663,112
Change in assets and liabilities:		
Accrued investment income	(700,877)	491,218
Recoverable from reinsurers	578,259	187,840
Assets held in trust under coinsurance agreement	7,156,208	4,995,535
Agents' balances and due premiums	485,160	441,272
Other assets	(4,818,426)	(4,847,263)
Future policy benefits	13,174,365	12,061,919
Policy claims	108,513	281,635
Other policy liabilities	57,370	(30,852)
Other liabilities (excludes change in payable of securities purchased of (\$1,074,665) and \$1,087,127 in 2022 and 2021, respectively)	5,281,980	(556,725)
<b>Net cash provided by operating activities</b>	<b>30,038,812</b>	<b>19,094,125</b>
<b>Investing activities</b>		
Purchases of fixed maturity securities	(35,249,421)	(33,163,143)
Maturities of fixed maturity securities	952,000	1,150,000
Sales of fixed maturity securities	57,441,624	13,224,511
Purchases of equity securities	(215,470)	(181,243)
Sales of equity securities	-	89
Acquisition of Royalty Capital life Insurance Company	3,525,749	-
Joint venture distribution	216,897	78,904
Purchases of mortgage loans	(183,102,781)	(107,238,975)
Payments on mortgage loans	118,132,864	104,436,910
Purchases of other long-term investments	(13,327,014)	(2,993,805)
Collections on other long-term investments	16,308,664	12,812,964
Sales of real estate	200,080	818,018
Policy loans	(568,258)	(163,951)
Short-term investments	3,022,927	12,182
Net change in receivable and payable for securities sold and purchased	(1,074,665)	1,087,127
<b>Net cash used in investing activities</b>	<b>(33,736,804)</b>	<b>(10,120,412)</b>
<b>Financing activities</b>		
Policyholders' account deposits	67,308,368	28,708,203
Policyholders' account withdrawals	(72,595,697)	(35,383,965)
<b>Net cash used in financing activities</b>	<b>(5,287,329)</b>	<b>(6,675,762)</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>(8,985,321)</b>	<b>2,297,951</b>
Cash and cash equivalents, beginning of period	42,528,046	40,230,095
Cash and cash equivalents, end of period	<u>\$ 33,542,725</u>	<u>\$ 42,528,046</u>

See notes to consolidated financial statements.

First Trinity Financial Corporation and Subsidiaries  
Consolidated Statements of Cash Flows (continued)  
Supplemental Disclosure – Cash and Non-Cash Impact on Operating, Investing and Financing Activities

During 2021, the Company foreclosed on residential mortgage loans of real estate totaling \$458,587 and transferred those properties to investment real estate that are now held for sale.

In conjunction with these foreclosures, the non-cash impact on investing activities is summarized as follows:

	Year Ended December 31, 2021
Reductions in mortgage loans due to foreclosure	\$ 458,587
Investment real estate held-for-sale acquired through foreclosure	(458,587)
Net cash used in investing activities	\$ -

On January 4, 2022, the Company acquired Royalty Capital Life Insurance Company. The Company acquired assets of \$15,778,364 (including cash) and assumed liabilities of \$11,181,600.

In conjunction with this 2022 acquisition, the cash and non-cash impact on operating, investing and financing activities is summarized as follows.

	December 31, 2022
Cash used in acquisition of Royalty Capital Life Insurance Company	\$ -
Cash provided in acquisition of Royalty Capital Life Insurance Company	3,525,749
Increase in cash from acquisition of Royalty Capital Life Insurance Company	3,525,749
Fair value of assets acquired in acquisition of Royalty Capital Life Insurance Company (excluding cash)	
Short-term investments	1,586,667
Recoverable from reinsurers	10,634,753
Accrued investment income	8
Due premiums	25,187
Other assets	6,000
Total fair value of assets acquired (excluding cash)	12,252,615
Fair value of liabilities assumed in acquisition of Royalty Capital Life Insurance Company	
Future policy benefits	8,102,093
Policyholders' account balance	3,019,610
Policy claims	51,392
Other liabilities	8,505
Total fair value of liabilities assumed	11,181,600
Fair value of net assets acquired in acquisition of Royalty Capital Life Insurance Company (excluding cash)	1,071,015
Fair value of net assets acquired in acquisition of Royalty Capital Life Insurance Company (including cash)	\$ 4,596,764

*See notes to consolidated financial statements.*

First Trinity Financial Corporation and Subsidiaries  
Notes to Consolidated Financial Statements  
December 31, 2022 and 2021

## 1. Organization and Significant Accounting Policies

First Trinity Financial Corporation (the “Company” or “FTFC”) is the parent holding company of Trinity Life Insurance Company (“TLIC”), Family Benefit Life Insurance Company (“FBLIC”), Trinity Mortgage Corporation (“TMC”) and Trinity American, Inc. (“TAI”). The Company was incorporated in Oklahoma on April 19, 2004, for the primary purpose of organizing a life insurance subsidiary.

The Company owns 100% of TLIC. TLIC owns 100% of FBLIC. TLIC and FBLIC are primarily engaged in the business of marketing, underwriting and distributing a broad range of individual life insurance and annuity products to individuals. TLIC’s and FBLIC’s current product portfolio consists of a modified premium whole life insurance policy with a flexible premium deferred annuity rider, whole life, term, final expense, accidental death and dismemberment and annuity products. The term products are both renewable and convertible and issued for 10, 15, 20 and 30 years. They can be issued with premiums fully guaranteed for the entire term period or with a limited premium guarantee. The final expense product is issued as either a simplified issue or as a graded benefit, determined by underwriting. The TLIC and FBLIC products are sold through independent agents. TLIC is licensed in the states of Alabama, Georgia, Illinois, Indiana, Kansas, Kentucky, Louisiana, Mississippi, Montana, Nebraska, New Mexico, North Dakota, Ohio, Oklahoma, South Dakota, Tennessee, Texas, Utah and West Virginia. FBLIC is licensed in the states of Alabama, Arizona, Arkansas, Colorado, Georgia, Illinois, Indiana, Kansas, Kentucky, Louisiana, Michigan, Mississippi, Missouri, Montana, Nebraska, New Mexico, North Carolina, North Dakota, Ohio, Oklahoma, Pennsylvania, South Dakota, Tennessee, Texas, Utah, Virginia and West Virginia.

The Company owns 100% of TMC that was incorporated in 2006 and began operations in January 2007. TMC’s primary focus changed during 2020 from premium financing loans to originating, brokering and administrating residential and commercial mortgage loans for third parties.

The Company owns 100% of TAI. TAI was incorporated in Barbados, West Indies on March 24, 2016 for the primary purpose of forming a life insurance company producing United States (U.S.) dollar denominated life insurance policies and annuity contracts outside of the United States and Barbados. TAI is licensed as an Exempt Insurance Company under the Exempt Insurance Act of Barbados. TAI was initially involved in developing life insurance contracts but is now issuing life insurance policies and annuity contracts through an association with distribution channels. The Company’s acquisition of TAI was formally approved by Barbados regulators and the certifications were received in 2019.

### *Company Capitalization*

The Company raised \$1,450,000 from two private placement stock offerings during 2004 and \$25,669,480 from two public stock offerings and one private placement stock offering from June 22, 2005 through February 23, 2007; June 29, 2010 through April 30, 2012 and August 15, 2012 through March 8, 2013. The Company issued 7,347,488 shares of its common stock and incurred \$3,624,518 of offering costs during these private placements and public stock offerings.

The Company also issued 702,685 shares of its common stock in connection with two stock dividends paid to shareholders in 2011 and 2012 that resulted in accumulated earnings being charged \$5,270,138 with an offsetting credit of \$5,270,138 to common stock and additional paid-in capital.

In 2020, the Company paid a \$0.05 per share cash dividend for a total of \$393,178 and issued 791,339 shares of Class A common stock in connection with a 10% stock dividend to its Class A shareholders. The 10% stock dividend resulted in accumulated earnings being charged \$8,657,249 with an offsetting credit of \$8,657,249 to common stock and additional paid-in capital. On January 1, 2020, the Company issued 168,866 shares in connection with its acquisition of K-TENN Insurance Company (“K-TENN”).

The Company has also purchased 247,580 shares of treasury stock at a cost of \$893,947 from former members of the Board of Directors including the former Chairman of the Board of Directors, a former agent, the former spouse of the Company’s Chairman, Chief Executive Officer and President and a charitable organization where a former member of the Board of Directors had donated shares of the Company’s common stock.

First Trinity Financial Corporation and Subsidiaries  
Notes to Consolidated Financial Statements  
December 31, 2022 and 2021

**1. Organization and Significant Accounting Policies** (continued)

***Acquisition of Other Companies***

On December 23, 2008, FTFC acquired 100% of the outstanding common stock of First Life America Corporation ("FLAC") from an unaffiliated company. The acquisition of FLAC was accounted for as a purchase. The aggregate purchase price for FLAC was \$2,695,234 including direct costs associated with the acquisition of \$195,234. The acquisition of FLAC was financed with the working capital of FTFC.

On December 31, 2008, FTFC made FLAC a 15 year loan in the form of a surplus note in the amount of \$250,000 with an interest rate of 6% payable monthly, that was approved by the Oklahoma Insurance Department ("OID"). This surplus note is eliminated in consolidation.

On August 31, 2009, two of the Company's subsidiaries, Trinity Life Insurance Company ("Old TLIC") and FLAC, were merged, with FLAC being the surviving company. Immediately following the merger, FLAC changed its name to TLIC.

On December 28, 2011, TLIC acquired 100% of the outstanding common stock of FBLIC from FBLIC's shareholders. The acquisition of FBLIC was accounted for as a purchase. The aggregate purchase price for the acquisition of FBLIC was \$13,855,129. The acquisition of FBLIC was financed with the working capital of TLIC.

On April 28, 2015, the Company acquired a block of life insurance policies and annuity contracts according to the terms of an assumption reinsurance agreement. The Company acquired assets of \$3,644,839, assumed liabilities of \$3,055,916 and recorded a gain on reinsurance assumption of \$588,923.

On April 3, 2018, FTFC acquired 100% of the outstanding stock of TAI domiciled in Barbados, West Indies. The Barbados regulators approved the acquisition and supplied certifications during 2019. The aggregate purchase price for the acquisition of TAI was \$250,000. The acquisition of TAI was financed with the working capital of FTFC.

Effective January 1, 2020, the Company acquired 100% of the outstanding common stock of K-TENN insurance company ("K-TENN") from its sole shareholder in exchange for 168,866 shares of FTFC's common stock. The acquisition of K-TENN was accounted for as a purchase. The aggregate purchase price of K-TENN was \$1,746,240. Immediately subsequent to this acquisition, the \$1,746,240 of net assets and liabilities of K-TENN along with the related life insurance business operations were contributed to TLIC.

On January 4, 2022, FTFC acquired Royalty Capital Life Insurance Company ("RCLIC") from Royalty Capital Corporation ("Royalty") in exchange for 722,644 shares of FTFC's Class A common stock issued to unrelated parties. Royalty was dissolved immediately after FTFC acquired RCLIC. On March 1, 2022, the Missouri Department of Commerce and Insurance approved FTFC's contribution and merger of RCLIC into FBLIC.

***Basis of Presentation***

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

***Principles of Consolidation***

The consolidated financial statements include the accounts and operations of the Company and its subsidiaries. All intercompany accounts and transactions are eliminated in consolidation.

***Reclassifications***

Certain reclassifications have been made in the prior year financial statements to conform to current year classifications. These reclassifications had no effect on previously reported net income or shareholders' equity.

First Trinity Financial Corporation and Subsidiaries  
Notes to Consolidated Financial Statements  
December 31, 2022 and 2021

**1. Organization and Significant Accounting Policies** (continued)

*Use of Estimates*

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Although these estimates are based on management's knowledge of current events and actions it may undertake in the future, they may ultimately differ from actual results.

*Common Stock*

Class A and Class B common stock are both fully paid, non-assessable and has a par value of \$.01 per share. Class B shareholders are entitled to elect a majority of FTFC's Board of Directors (one-half plus one) but will only receive, compared to FTFC's Class A shareholders, 85% of cash dividends, stock dividends or amounts due upon any FTFC merger, sale or liquidation event. FTFC's Class B shareholders may also convert one share of FTFC's Class B common stock for a .85 share of FTFC's Class A common stock. FTFC's Class A shareholders will elect the remaining Board of Directors members and will receive 100% of cash dividends, stock dividends or amounts due upon any Company merger, sale or liquidation event.

*Treasury Stock*

Treasury stock, representing shares of the Company's common stock that have been reacquired after having been issued and fully paid, is recorded at the reacquisition cost and the shares are no longer outstanding.

*Investments*

Fixed maturity securities comprised of bonds and redeemable preferred securities are classified as available-for-sale and are carried at fair value with unrealized gains and losses, net of applicable income taxes, reported in accumulated other comprehensive income. The amortized cost of fixed maturity securities available-for-sale is adjusted for amortization of premium and accretion of discount to maturity.

Interest income on fixed maturity securities, as well as the related amortization of premium and accretion of discount, is included in net investment income under the effective yield method. Dividend income on redeemable preferred securities are recognized in net investment income when declared. The amortized cost of fixed maturity securities available-for-sale are written down to fair value when a decline in value is considered to be other-than-temporary.

The Company evaluates the difference between the cost or amortized cost and estimated fair value of its fixed maturity securities to determine whether any decline in value is other-than-temporary in nature. This determination involves a degree of uncertainty. If a decline in the fair value of a security is determined to be temporary, the decline is recorded as an unrealized loss in stockholders' equity. If a decline in a security's fair value is considered to be other-than-temporary, the Company then determines the proper treatment for the other-than-temporary impairment.

For fixed maturity securities available-for-sale, the amount of any other-than-temporary impairment related to a credit loss is recognized in earnings and reflected as a reduction in the cost basis of the security; and the amount of any other-than-temporary impairment related to other factors is recognized in other comprehensive income (loss) with no change to the cost basis of the security.

The assessment of whether a decline in fair value is considered temporary or other-than-temporary includes management's judgment as to the financial position and future prospects of the entity issuing the security. It is not possible to accurately predict when it may be determined that a specific security will become impaired. Future adverse changes in market conditions, poor operating results of underlying investments and defaults on mortgage loan payments could result in losses or an inability to recover the current carrying value of the investments, thereby possibly requiring an impairment charge in the future.

First Trinity Financial Corporation and Subsidiaries  
Notes to Consolidated Financial Statements  
December 31, 2022 and 2021

**1. Organization and Significant Accounting Policies** (continued)

Likewise, if a change occurs in the Company's intent to sell temporarily impaired securities prior to maturity or recovery in value, or if it becomes more likely than not that the Company will be required to sell such securities prior to recovery in value or maturity, a future impairment charge could result.

If an other-than-temporary impairment related to a credit loss occurs with respect to a bond, the Company amortizes the reduced book value back to the security's expected recovery value over the remaining term of the bond. The Company continues to review the security for further impairment that would prompt another write-down in the value.

Equity securities are comprised of mutual funds and common stocks and are carried at fair value. The associated unrealized gains and losses are included in net realized investment gains (losses). Dividends from these investments are recognized in net investment income when declared.

Mortgage loans are carried at unpaid balances, net of unamortized premium or discounts. Interest income and the amortization of premiums or discounts are included in net investment income. Mortgage loan fees, certain direct loan origination costs, and purchase premiums and discounts on loans are recognized as an adjustment of yield by the interest method based on the contractual terms of the loan. In certain circumstances, prepayments may be anticipated. The Company has established a valuation allowance for mortgage loans on real estate that are not supported by funds held in escrow.

Investment real estate in land held for both the production of income and for sale is carried at cost. Investment real estate obtained through foreclosure on mortgage loans on real estate is carried at the lower of acquisition cost or net realizable value.

Policy loans are carried at unpaid principal balances. Interest income on policy loans is recognized in net investment income at the contract interest rate when earned.

Other long-term investments are comprised of lottery prize receivables and are carried at amortized cost. Interest income and the accretion of discount are included in net investment income.

***Cash and Cash Equivalents***

Cash and cash equivalents include cash on hand, amounts due from banks and money market instruments.

***Short-term investments***

Short-term investments include funds that have a maturity of more than 90 days but less than one year at the date of purchase.

***Investment Income and Realized Gains and Losses on Sales of Investments***

Interest and dividends earned on investments are included in net investment income. Realized gains and losses on sales of investments are recognized in operations on the specific identification basis.

***Deferred Policy Acquisition Costs***

Commissions and other acquisition costs which vary with and are primarily related to the successful production of new business are deferred and amortized in a systematic manner based on the related contract revenues or gross profits as appropriate. Recoverability of deferred acquisition costs is evaluated periodically by comparing the current estimate of the present value of expected pretax future profits to the unamortized asset balance. If this current estimate is less than the existing balance, the difference is charged to expense.



## **1. Organization and Significant Accounting Policies** (continued)

Deferred acquisition costs for the successful production of traditional life insurance contracts are deferred to the extent deemed recoverable and amortized over the premium paying period of the related policies using assumptions consistent with those used in computing future policy benefit liabilities. Deferred acquisition costs related to the successful production of insurance and annuity products that subject the Company to mortality or morbidity risk over a period that extends beyond the period or periods in which premiums are collected and that have terms that are fixed and guaranteed (i.e., limited-payment long-duration annuity contracts) are deferred to the extent deemed recoverable and amortized in relation to the present value of actual and expected gross profits on the policies.

To the extent that realized gains and losses on fixed income securities result in adjustments to deferred acquisition costs related to insurance and annuity products, such adjustments are reflected as a component of the amortization of deferred acquisition costs. Deferred acquisition costs related to limited-payment long-duration insurance and annuity contracts are also adjusted, net of tax, for the change in amortization that would have been recorded if the unrealized gains (losses) from available-for-sale securities had actually been realized. This adjustment is included in the change in net unrealized appreciation (depreciation) on available-for-sale securities, a component of “Accumulated Other Comprehensive Income (Loss)” in the shareholders’ equity section of the statement of financial position.

### ***Allowance for Loan Losses from Mortgage Loans***

The allowance for possible loan losses from investments in mortgage loans on real estate is a reserve established through a provision for possible loan losses charged to expense which represents, in the Company’s judgment, the known and inherent credit losses existing in the residential and commercial mortgage loan portfolio. The allowance, in the judgment of the Company, is necessary to reserve for estimated loan losses inherent in the residential and commercial mortgage loan portfolios and reduces the carrying value of investments in mortgage loans on real estate to the estimated net realizable value on the consolidated statement of financial position.

While the Company utilizes its best judgment and information available, the ultimate adequacy of the allowance is dependent upon a variety of factors beyond the Company’s control, including the performance of the residential and commercial mortgage loan portfolios, the economy and changes in interest rates. The Company’s allowance for possible mortgage loan losses consists of specific valuation allowances established for probable losses on specific loans and a portfolio reserve for probable incurred but not specifically identified loans.

Mortgage loans are considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the mortgage loan agreement. Factors considered by the Company in determining impairment include payment status, collateral value of the real estate subject to the mortgage loan, and the probability of collecting scheduled principal and interest payments when due.

Mortgage loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. The Company determines the significance of payment delays and shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the mortgage loan and the borrower, including the length of the delay, the reasons for the delay, the borrower’s prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis.

### ***Property and Equipment***

Property and equipment are carried at cost less accumulated depreciation or amortization. Office furniture, equipment and computer software is recorded at cost or fair value at acquisition less accumulated depreciation or amortization using the straight-line method over the estimated useful life of the respective assets of three to ten years. Leasehold improvements are recorded at cost and depreciated over the remaining non-cancellable lease term.

## **1. Organization and Significant Accounting Policies (continued)**

### ***Reinsurance***

The Company cedes reinsurance under various agreements allowing management to control exposure to potential losses arising from large risks and providing additional capacity for growth. Estimated reinsurance recoverable balances are reported as assets and are recognized in a manner consistent with the liabilities related to the underlying reinsured ceded contracts. The Company also assumes reinsurance under various agreements allowing management to increase growth in assets and profitability. Estimated reinsurance payable balances are reported as liabilities and are recognized in a manner consistent with the assets related to the underlying assumed reinsurance contracts.

### ***Value of Insurance Business Acquired***

As a result of the Company's purchases of FLAC and FBLIC, an asset was recorded in the application of purchase accounting to recognize the value of acquired insurance in force. The Company's value of acquired insurance in force is an intangible asset with a definite life and is amortized under Financial Accounting Standards Board ("FASB") guidance. The value of acquired insurance in force is amortized primarily over the emerging profit of the related policies using the same assumptions that were used in computing liabilities for future policy benefits.

For the amortization of the value of acquired insurance in force, the Company periodically reviews its estimates of gross profits. The most significant assumptions involved in the estimation of gross profits include interest rate spreads, future financial market performance, business surrender/lapse rates, mortality and morbidity, expenses and the impact of realized investment gains and losses. In the event actual experience differs significantly from assumptions or assumptions are significantly revised, the Company is required to record a charge or credit to amortization expense for the period in which an adjustment is made.

As of December 31, 2022 and 2021, there was \$4,691,773 and \$4,421,379, respectively, of accumulated amortization of the value of insurance business acquired due to the purchases of FLAC and FBLIC. The Company expects to amortize the value of insurance business acquired by the following amounts over the next five years: \$257,470 in 2023, \$215,134 in 2024, \$202,009 in 2025, \$176,859 in 2026 and \$170,026 in 2027.

### ***Other Assets and Other Liabilities***

Other assets consist primarily of advances to mortgage loan originator, receivable for securities sold, federal and state income taxes recoverable, guaranty funds, notes receivable, prepaid assets, deposits, other receivables and property and equipment.

Other liabilities consist primarily of accrued expenses payable, accounts payable, remittance and suspense items not allocated, payable for securities purchased, guaranty fund assessments, unclaimed funds, deferred revenue, unearned investment income, withholdings, escrows and other payables.

### ***Policyholders' Account Balances***

The Company's liability for policyholders' account balances represents the contract value that has accrued to the benefit of the policyholder as of the financial statement date. This liability is generally equal to the accumulated account deposits plus interest credited less policyholders' withdrawals and other charges assessed against the account balance. Interest crediting rates for individual annuities range from 2.25% to 5.00%. Interest crediting rates for deposit-type liabilities range from 2.50% to 4.00%.

## **1. Organization and Significant Accounting Policies (continued)**

### ***Future Policy Benefits***

The Company's liability for future policy benefits is primarily comprised of the present value of estimated future payments to or on behalf of policyholders, where the timing and amount of payment depends on policyholder mortality or morbidity, less the present value of future net premiums. For life insurance and annuity products, expected mortality and morbidity is generally based on the Company's historical experience or standard industry tables including a provision for the risk of adverse deviation. Interest rate assumptions are based on factors such as market conditions and expected investment returns. Although mortality, morbidity and interest rate assumptions are "locked-in" upon the issuance of new insurance with fixed and guaranteed terms, significant changes in experience or assumptions may require the Company to provide for expected future losses by establishing premium deficiency reserves.

### ***Policy Claims***

Policy claim liabilities represent the estimated liabilities for claims reported plus estimated incurred but not yet reported claims developed from trends of historical market data applied to current exposure.

### ***Federal Income Taxes***

The Company uses the asset and liability method of accounting for income taxes. Deferred income taxes are provided for cumulative temporary differences between balances of assets and liabilities determined under U.S. GAAP and balances determined using tax bases. A valuation allowance is established for the amount of the deferred tax asset that exceeds the amount of the estimated future taxable income needed to utilize the future tax benefits.

### ***Accumulated Other Comprehensive Income (Loss)***

FASB guidance requires the inclusion of unrealized gains or losses on available-for-sale securities, net of tax, as a component of other comprehensive income (loss). Unrealized gains and losses recognized in accumulated other comprehensive income (loss) that are later recognized in net income through a reclassification adjustment are identified on the specific identification method. In addition, deferred acquisition costs related to limited-payment long-duration insurance and annuity contracts are also adjusted, net of tax, for the change in amortization that would have been recorded if the unrealized gains (losses) from available-for-sale securities had actually been realized. This adjustment is included in the change in net unrealized appreciation (depreciation) on available-for-sale securities, a component of "Accumulated Other Comprehensive Income (Loss)" in the shareholders' equity section of the statement of financial position.

### ***Revenues and Expenses***

Revenues on traditional life insurance products consist of direct premiums reported as earned when due. Liabilities for future policy benefits are provided and acquisition costs are amortized in a systematic manner based on the related contract revenues or gross profits as appropriate.

The Company generates fee income and recognizes revenue from providing contractual services to third parties that are outside traditional life insurance sources of revenues. This fee income is recognized as revenue in the Other Income caption of the Statement of Operations for the years ended December 31, 2022 and 2021. The primary source of this fee income during 2022 and 2021 was the recognition of fee income from providing residential mortgage loan on real estate lending opportunities to third parties through the introduction of qualified borrowers identified and provided by the Company. This fee income is associated with a single performance obligation and is not recognized as revenue until the point in time the third party issues a residential mortgage loan on real estate to a qualified borrower identified and provided by the Company. Additional fee income with one specific third party is recognized by the Company as contractual revenues for the Company being available to provide and providing services to manage brokered residential mortgage loans on real estate during the period that the obligations are held by the third party for the qualified borrower identified and provided by the Company.

First Trinity Financial Corporation and Subsidiaries  
Notes to Consolidated Financial Statements  
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**1. Organization and Significant Accounting Policies** (continued)

Acquisition costs for traditional life insurance contracts are deferred to the extent deemed recoverable and are amortized over the premium paying period of the related policies using assumptions consistent with those used in computing future policy benefit liabilities. Traditional life insurance products are treated as long-duration contracts since they generally remain in force for the lifetime of the insured.

Deferred acquisition costs related to insurance and annuity products that subject the Company to mortality or morbidity risk over a period that extends beyond the period or periods in which premiums are collected and that have terms that are fixed and guaranteed are deferred to the extent deemed recoverable and amortized in relation to the present value of actual and expected gross profits on the policies. These types of insurance and annuity contracts are treated as long-duration insurance contracts since they generally remain in force for an extended period.

***Net Income Per Common Share Basic***

For the year ended December 31, 2022, the net income allocated to the Class B shareholders is the total net income multiplied by the right to receive dividends at 85% for Class B shares (85,937) as of the reporting date divided by the allocated total shares (9,470,277) of Class A shares (9,384,340) and Class B shares (85,937) as of the reporting date. For the year ended December 31, 2021, the net income allocated to the Class B shareholders is the total net income multiplied by the right to receive dividends at 85% for Class B shares (85,937) as of the reporting date divided by the allocated total shares (8,747,633) of Class A shares (8,661,696) and Class B shares (85,937) as of the reporting date.

For the year ended December 31, 2022, the net income allocated to the Class A shareholders of \$6,128,581 is the total net income \$6,184,703 less the net income allocated to the Class B shareholders \$56,122. For the year ended December 31, 2021, the net income allocated to the Class A shareholders \$2,829,299 is the total net income \$2,857,370 less the net income allocated to the Class B shareholders \$28,071. The weighted average outstanding common shares basic for the year ended December 31, 2022 and 2021 were 9,384,340 and 8,661,696 for Class A shares, respectively and 101,102 for Class B shares.

***Subsequent Events***

Management has evaluated all events subsequent to December 31, 2022 through the date that these financial statements have been issued.

***Recent Accounting Pronouncements***

***Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments***

In June 2016, the FASB issued updated guidance (Accounting Standards Update 2016-13) for the accounting for credit losses for financial instruments. The updated guidance applies a new credit loss model (current expected credit losses or CECL) for determining credit-related impairments for financial instruments measured at amortized cost (e.g. reinsurance recoverables, including structured settlements that are recorded as part of reinsurance recoverables) and requires an entity to estimate the credit losses expected over the life of an exposure or pool of exposures. The estimate of expected credit losses should consider historical information, current information, as well as reasonable and supportable forecasts, including estimates of prepayments.

The expected credit losses, and subsequent adjustments to such losses, will be recorded through an allowance account that is deducted from the amortized cost basis of the financial asset, with the net carrying value of the financial asset presented on the consolidated balance sheet at the amount expected to be collected. The updated guidance also amends the current other-than-temporary impairment model for available-for-sale debt securities by requiring the recognition of impairments relating to credit losses through an allowance account and limits the amount of credit loss to the difference between a security's amortized cost basis and its fair value. In addition, the length of time a security has been in an unrealized loss position will no longer impact the determination of whether a credit loss exists.

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**1. Organization and Significant Accounting Policies** (continued)

The updated guidance was effective for reporting periods beginning after December 15, 2019. As a Smaller Reporting Company, the effective date was recently changed and the delayed effective date is now for reporting periods beginning after December 15, 2022.

Early adoption is permitted for reporting periods beginning after December 15, 2018. Based on the financial instruments currently held by the Company, there would not be a material effect on the Company's results of operations, financial position or liquidity if the new guidance had been adopted in the current accounting period. The impact on the Company's results of operations, financial position or liquidity at the date of adoption of the updated guidance will be determined by the financial instruments held by the Company and the economic conditions at that time.

*Targeted Improvements to the Accounting for Long-Duration Contracts*

In August 2018, the FASB issued updated guidance (Accounting Standards Update 2018-12) to the existing recognition, measurement, presentation and disclosure requirements for long-duration contracts issued by an insurance entity. This update improves the timeliness of recognizing changes in the liability for future policy benefits, modifies the rate used to discount future cash flows, simplifies and improves accounting for certain market-based options or guarantees associated with deposit (i.e., account balance) contracts, simplifies the amortization of deferred acquisitions costs and expands required disclosures. The expanded disclosure requires an insurance entity to provide disaggregated roll forwards of beginning to ending balances of the following: liability for future policy benefits, policyholder account balances, market risk benefits, separate account liabilities and deferred acquisition costs including disclosure about, changes to and effect of changes for significant inputs, judgments, assumptions and methods used in measurements.

The updated guidance was effective for reporting periods beginning after December 15, 2020. As a Smaller Reporting Company, the effective date has been changed twice and the delayed effective date is now for reporting periods beginning after December 15, 2024. Early adoption is permitted but not likely to be elected by the Company. With respect to the liability for future policyholder benefits for traditional and limited-payment contracts and deferred acquisition costs, an insurance entity may elect to apply the amendments retrospectively as of the beginning of the earliest period presented.

With respect to the market risk benefits, an insurance entity should apply the amendments retrospectively as of the beginning of the earliest period presented. The Company expects that the impact on the Company's results of operations, financial position and liquidity at the date of adoption of the updated guidance in 2025 will be determined by the long-duration contracts then held by the Company and the economic conditions at that time.

*Income Taxes - Simplifying the Accounting for Income Taxes*

In December 2019, the FASB issued updated guidance (Accounting Standards Update 2019-12) for the accounting for income taxes. The updated guidance is intended to simplify the accounting for income taxes by removing several exceptions contained in existing guidance and amending other existing guidance to simplify several other income tax accounting matters. The Company adopted this guidance in first quarter 2021. The adoption of this guidance did not have a material effect on the Company's results of operations, financial position or liquidity.

*Troubled Debt Restructurings and Vintage Disclosures*

In March 2022, the FASB issued amendments (Accounting Standards Update 2022-2) for the accounting of troubled debt restructuring and disclosures. The amendments introduce new requirements related to certain modifications of receivables made to borrowers experiencing financial difficulties. The amendments promulgate that an entity must apply specific loan refinancing and restructuring guidance to determine whether a modification results in a new loan or the continuation of an existing loan. The amendments also require that an entity disclose current-period gross write-offs by year of origination for financing receivables and net investment in leases. The amendments in this guidance are effective for fiscal years beginning after December 15, 2022, including interim periods and should be applied prospectively. The adoption of this guidance should not have a material effect on the Company's results of operations, financial position or liquidity.

First Trinity Financial Corporation and Subsidiaries  
Notes to Consolidated Financial Statements  
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**1. Organization and Significant Accounting Policies** (continued)

*Transition for Sold Contracts*

In December 2022, the FASB issued amendments (Accounting Standards Update 2022-5) to Accounting Standards Update 2018-12 (Targeted Improvements for Long-Duration Contracts) that originally required an insurance entity to apply a retrospective transition method as of the beginning of the earliest period presented or the beginning of the prior fiscal year if early application was elected. This updated guidance reduces implementation costs and complexity associated with the adoption of targeted improvements in accounting for long-duration contracts that have been derecognized in accordance with Accounting Standards Update 2018-12 before the delayed effective date. Without the amendments in this Update, an insurance entity would be required to reclassify a portion of gains or losses previously recognized in the sale or disposal of insurance contracts or legal entities because of the adoption of a new accounting standard. Because there is no effect on an insurance entity's future cash flows, this reclassification may not be useful to users of financial information.

The amendments in this guidance are effective for fiscal years beginning after December 15, 2024. Early adoption is permitted but not likely to be elected by the Company. The Company expects that the impact on the Company's results of operations, financial position and liquidity at the date of adoption of the updated guidance in 2025 will be determined by the long-duration contracts then held by the Company and the economic conditions at that time.

First Trinity Financial Corporation and Subsidiaries  
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**2. Investments**

***Fixed Maturity Securities***

Investments in fixed maturity securities as of December 31, 2022 and 2021 are summarized as follows:

	Amortized Cost or Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<u>December 31, 2022</u>				
Fixed maturity securities				
U.S. government and U.S. government agencies	\$ 2,097,558	\$ -	\$ 42,993	\$ 2,054,565
States and political subdivisions	4,966,770	2,268	408,717	4,560,321
Commercial mortgage-backed securities	10,608,213	-	2,274,575	8,333,638
Residential mortgage-backed securities	10,550	4,700	-	15,250
Corporate bonds	88,394,563	35,464	10,317,890	78,112,137
Asset-backed securities	9,538,593	-	1,539,164	7,999,429
Exchange traded securities	682,280	-	215,080	467,200
Foreign bonds	26,995,631	-	3,225,551	23,770,080
Redeemable preferred securities	1,250,000	-	148,800	1,101,200
Certificate of deposits	200,000	-	930	199,070
Total fixed maturity securities	<u>\$ 144,744,158</u>	<u>\$ 42,432</u>	<u>\$ 18,173,700</u>	<u>\$ 126,612,890</u>
Fixed maturity securities held in trust under coinsurance agreement	<u>\$ 63,649,991</u>	<u>\$ 8,224</u>	<u>\$ 7,449,175</u>	<u>\$ 56,209,040</u>
<u>December 31, 2021</u>				
Fixed maturity securities				
U.S. government and U.S. government agencies	\$ 428,153	\$ 812	\$ 1,952	\$ 427,013
States and political subdivisions	8,463,941	689,564	24,553	9,128,952
Commercial mortgage-backed securities	3,458,408	252	34,265	3,424,395
Residential mortgage-backed securities	11,081	13,195	-	24,276
Corporate bonds	116,230,579	12,731,684	100,882	128,861,381
Asset-backed securities	5,278,819	57,290	17,806	5,318,303
Exchange traded securities	549,334	-	32,734	516,600
Foreign bonds	31,286,049	3,493,469	46,192	34,733,326
Redeemable preferred securities	1,250,000	-	17,600	1,232,400
Certificate of deposits	400,000	10,392	-	410,392
Total fixed maturity securities	<u>\$ 167,356,364</u>	<u>\$ 16,996,658</u>	<u>\$ 275,984</u>	<u>\$ 184,077,038</u>
Fixed maturity securities held in trust under coinsurance agreement	<u>\$ 65,269,544</u>	<u>\$ 3,593,466</u>	<u>\$ 115,477</u>	<u>\$ 68,747,533</u>

First Trinity Financial Corporation and Subsidiaries  
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**2. Investments** (continued)

All securities in an unrealized loss position as of the financial statement dates, the estimated fair value, pre-tax gross unrealized loss and number of securities by length of time that those securities have been continuously in an unrealized loss position as of December 31, 2022 and 2021 are summarized as follows:

	Fair Value	Unrealized Loss	Number of Securities
	December 31, 2022		
Fixed maturity securities			
Less than 12 months in an unrealized loss position			
U.S. government and U.S. government agencies	\$ 1,760,073	\$ 37,231	2
States and political subdivisions	3,325,252	301,788	20
Commercial mortgage-backed securities	5,863,255	1,387,792	17
Corporate bonds	69,451,263	8,733,104	216
Asset-backed securities	5,042,586	890,318	12
Certificate of deposits	199,070	930	1
Foreign bonds	21,766,704	2,785,419	61
Total less than 12 months in an unrealized loss position	<u>107,408,203</u>	<u>14,136,582</u>	<u>329</u>
More than 12 months in an unrealized loss position			
U.S. government and U.S. government agencies	294,492	5,762	2
States and political subdivisions	766,424	106,929	3
Commercial mortgage-backed securities	2,470,383	886,783	7
Corporate bonds	6,314,364	1,584,786	20
Asset-backed securities	2,956,843	648,846	9
Exchange traded securities	467,200	215,080	2
Redeemable preferred securities	351,200	148,800	2
Foreign bonds	2,003,376	440,132	6
Total more than 12 months in an unrealized loss position	<u>15,624,282</u>	<u>4,037,118</u>	<u>51</u>
Total fixed maturity securities in an unrealized loss position	<u>\$ 123,032,485</u>	<u>\$ 18,173,700</u>	<u>380</u>
Fixed maturity securities held in trust under coinsurance agreement			
Total less than 12 months in an unrealized loss position			
U.S. government and U.S. government agencies	\$ 49,918,808	\$ 5,679,624	231
Total more than 12 months in an unrealized loss position	<u>5,524,318</u>	<u>1,769,551</u>	<u>21</u>
Total fixed maturity securities held in trust under coinsurance agreement in a unrealized loss position	<u>\$ 55,443,126</u>	<u>\$ 7,449,175</u>	<u>252</u>
	December 31, 2021		
Fixed maturity securities			
Less than 12 months in an unrealized loss position			
U.S. government and U.S. government agencies	\$ 301,195	\$ 1,952	2
States and political subdivisions	337,421	1,724	2
Commercial mortgage-backed securities	3,323,141	34,265	7
Corporate bonds	10,991,840	100,882	30
Asset-backed securities	3,475,854	9,544	8
Exchange traded securities	516,600	32,734	2
Redeemable preferred securities	482,400	17,600	2
Foreign bonds	2,408,472	46,192	6
Total less than 12 months in an unrealized loss position	<u>21,836,923</u>	<u>244,893</u>	<u>59</u>
More than 12 months in an unrealized loss position			
States and political subdivisions	626,754	22,829	1
Asset-backed securities	345,299	8,262	1
Total more than 12 months in an unrealized loss position	<u>972,053</u>	<u>31,091</u>	<u>2</u>
Total fixed maturity securities in an unrealized loss position	<u>\$ 22,808,976</u>	<u>\$ 275,984</u>	<u>61</u>
Fixed maturity securities held in trust under coinsurance agreement			
Total less than 12 months in an unrealized loss position			
U.S. government and U.S. government agencies	\$ 8,000,895	\$ 115,477	21
Total fixed maturity securities held in trust under coinsurance agreement in a unrealized loss position	<u>\$ 8,000,895</u>	<u>\$ 115,477</u>	<u>21</u>



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**2. Investments** (continued)

As of December 31, 2022, the Company held 380 available-for-sale fixed maturity securities with an unrealized loss of \$18,173,700, fair value of \$123,032,485 and amortized cost of \$141,206,185. These unrealized losses were primarily due to market interest rate movements in the bond market as of December 31, 2022. The ratio of the fair value to the amortized cost of these 380 securities is 87%.

As of December 31, 2021, the Company held 61 available-for-sale fixed maturity securities with an unrealized loss of \$275,984, fair value of \$22,808,976 and amortized cost of \$23,084,960. These unrealized losses were primarily due to market interest rate movements in the bond market as of December 31, 2021. The ratio of the fair value to the amortized cost of these 61 securities is 99%.

The Company's decision to record an impairment loss is primarily based on whether the security's fair value is likely to remain significantly below its book value based on all of the factors considered. Factors that are considered include the length of time the security's fair value has been below its carrying amount, the severity of the decline in value, the credit worthiness of the issuer, and the coupon and/or dividend payment history of the issuer. The Company also assesses whether it intends to sell or whether it is more likely than not that it may be required to sell the security prior to its recovery in value.

For any fixed maturity securities that are other-than-temporarily impaired, the Company determines the portion of the other-than-temporary impairment that is credit-related and the portion that is related to other factors. The credit-related portion is the difference between the expected future cash flows and the amortized cost basis of the fixed maturity security, and that difference is charged to earnings. The non-credit-related portion representing the remaining difference to fair value is recognized in other comprehensive income (loss). Only in the case of a credit-related impairment where management has the intent to sell the security, or it is more likely than not that it will be required to sell the security before recovery of its cost basis, is a fixed maturity security adjusted to fair value and the resulting losses recognized in realized gains (losses) in the consolidated statements of operations. Any other-than-temporary impairments on equity securities are recorded in the consolidated statements of operations in the periods incurred as the difference between fair value and cost.

There were no impairment losses recognized by the Company during the year ended December 31, 2022 and 2021.

Management believes that the Company will fully recover its cost basis in the securities held as of December 31, 2022, and management does not have the intent to sell nor is it more likely than not that the Company will be required to sell such securities until they recover or mature. The remaining temporary impairments shown herein are primarily the result of the current interest rate environment rather than credit factors that would imply other-than-temporary impairment.

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Notes to Consolidated Financial Statements  
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**2. Investments** (continued)

Net unrealized gains (losses) included in other comprehensive loss for investments classified as available-for-sale, net of the effect of deferred income taxes and deferred acquisition costs assuming that the appreciation (depreciation) had been realized as of December 31, 2022 and 2021 are summarized as follows:

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Unrealized appreciation (depreciation) on available-for-sale securities	\$ (18,131,268)	\$ 16,720,674
Adjustment to deferred acquisition costs	5,091	(6,969)
Deferred income taxes	<u>3,806,498</u>	<u>(3,509,878)</u>
Net unrealized appreciation (depreciation) on available-for-sale securities	<u>\$ (14,319,679)</u>	<u>\$ 13,203,827</u>
Assets held in trust under coinsurance agreement Unrealized appreciation (depreciation) on fixed maturity securities available-for-sale	<u>\$ (7,440,951)</u>	<u>\$ 3,477,989</u>

The amortized cost and fair value of fixed maturity available-for-sale securities as of December 31, 2022, by contractual maturity, are summarized as follows:

	<u>December 31, 2022</u>	
	<u>Fixed Maturities Available-For-Sale Securities</u>	
	<u>Amortized Cost</u>	<u>Fair Value</u>
Due in one year or less	\$ 2,391,907	\$ 2,340,145
Due in one year through five years	22,780,210	21,533,642
Due after five years through ten years	22,971,010	21,181,275
Due after ten years	84,732,268	72,107,740
Due at multiple maturity dates	<u>11,868,763</u>	<u>9,450,088</u>
	<u>\$ 144,744,158</u>	<u>\$ 126,612,890</u>

Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

The amortized cost and fair value of fixed maturity available-for-sale securities held in trust under coinsurance agreement as of December 31, 2022, by contractual maturity, are summarized as follows:

	<u>December 31, 2022</u>	
	<u>Fixed Maturity Available-For-Sale Securities</u>	
	<u>Amortized Cost</u>	<u>Fair Value</u>
Due in one year or less	\$ 159,534	\$ 157,936
Due after one year through five years	31,376,771	29,918,801
Due after five years through ten years	8,169,267	7,655,109
Due after ten years	20,806,261	15,820,949
Due at multiple maturity dates	<u>3,138,158</u>	<u>2,656,245</u>
	<u>\$ 63,649,991</u>	<u>\$ 56,209,040</u>

First Trinity Financial Corporation and Subsidiaries  
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**2. Investments** (continued)

Proceeds and gross realized gains (losses) from the sales, calls and maturities of fixed maturity securities available-for-sale, equity securities, investment real estate, mortgage loans on real estate and other long-term investments for the years ended December 31, 2022 and 2021 are summarized as follows:

	Years Ended December 31,					
	Fixed Maturity Securities		Equity Securities		Investment Real Estate	
	2022	2021	2022	2021	2022	2021
Proceeds	\$ 58,393,624	\$ 14,374,511	\$ -	\$ 89	\$ 200,080	\$ 818,018
Gross realized gains	1,230,951	780,266	-	89	55,867	289,840
Gross realized losses	(369,169)	(166,491)	(8,000)	-	(3,696)	-
Loss on other-than-temporary impairment	-	-	-	-	-	-

	Years Ended December 31,			
	Mortgage Loans on Real Estate		Other Long-Term Investments	
	2022	2021	2022	2021
Proceeds	\$ -	\$ 28,966,890	\$ 16,308,664	\$ 12,812,964
Gross realized gains	-	39,727	-	-
Gross realized losses	-	(4,417)	(422,578)	(83,339)
Loss on other-than-temporary impairment	-	-	-	-

The accumulated change in net unrealized investment gains (losses) for fixed maturity available-for-sale securities for the years ended December 31, 2022 and 2021 and the amount of net realized investment gains (losses) on fixed maturity securities available-for-sale, equity securities, investment real estate, mortgage loans on real estate and other long-term investments for the years ended December 31, 2022 and 2021 are summarized as follows:

	Years Ended December 31,	
	2022	2021
Change in unrealized investment gains (losses):		
Available-for-sale securities:		
Fixed maturity securities	\$ (34,851,942)	\$ (5,496,152)
Fixed maturity securities held in trust under coinsurance agreement	(10,918,940)	(3,568,403)
Net realized investment gains (losses):		
Available-for-sale securities:		
Fixed maturity securities	861,782	613,775
Equity securities, sale of securities	(8,000)	89
Equity securities, changes in fair value	60,842	42,876
Investment real estate	52,171	289,840
Mortgage loans on real estate	-	35,310
Other long-term investments	(422,578)	(83,339)

First Trinity Financial Corporation and Subsidiaries  
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**2. Investments** (continued)

***Mortgage Loans on Real Estate***

The Company's mortgage loans by property type as of December 31, 2022 and 2021 are summarized as follows:

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Residential mortgage loans	\$ 223,984,194	\$ 169,368,048
Commercial mortgage loans by property type		
Agricultural	994,691	-
Apartment	3,625,533	175,121
Industrial	1,999,438	1,170,544
Lodging	268,741	280,836
Office building	5,681,946	2,285,403
Retail	<u>5,759,585</u>	<u>4,228,099</u>
Total commercial mortgage loans by property type	<u>18,329,934</u>	<u>8,140,003</u>
Total mortgage loans	<u>\$ 242,314,128</u>	<u>\$ 177,508,051</u>
Mortgage loans held in trust under coinsurance agreement		
Residential mortgage loans	\$ -	\$ 3,803,847
Commercial mortgage loans	31,076,883	30,013,132
Less unearned interest on mortgage loans	<u>48,308</u>	<u>767,650</u>
Total mortgage loans held in trust under coinsurance agreement	<u>\$ 31,028,575</u>	<u>\$ 33,049,329</u>

The Company utilizes the ratio of the carrying value of individual mortgage loans compared to the individual appraisal value to evaluate the credit quality of its mortgage loans on real estate (commonly referred to as the loan-to-value ratio). The Company's residential and commercial (includes agricultural, apartment, industrial, lodging, office building and retail) mortgage loans on real estate by credit quality using this ratio as of December 31, 2022 and 2021 are summarized as follows:

Loan-To-Value Ratio	December 31,					
	<u>Residential Mortgage Loans</u>		<u>Commercial Mortgage Loans</u>		<u>Total Mortgage Loans</u>	
	2022	2021	2022	2021	2022	2021
Over 70% to 80%	\$ 72,013,555	\$ 52,292,906	\$ 3,287,048	\$ 1,069,973	\$ 75,300,603	\$ 53,362,879
Over 60% to 70%	67,780,388	50,445,981	3,033,504	1,359,831	70,813,892	51,805,812
Over 50% to 60%	36,929,025	26,492,616	1,839,272	1,496,664	38,768,297	27,989,280
Over 40% to 50%	20,100,407	19,235,027	1,272,088	312,648	21,372,495	19,547,675
Over 30% to 40%	13,143,773	7,843,501	5,123,894	1,471,023	18,267,667	9,314,524
Over 20% to 30%	8,898,731	9,482,943	733,238	1,916,446	9,631,969	11,399,389
Over 10% to 20%	3,976,357	2,737,111	3,040,890	513,418	7,017,247	3,250,529
10% or less	1,141,958	837,963	-	-	1,141,958	837,963
Total	<u>\$ 223,984,194</u>	<u>\$ 169,368,048</u>	<u>\$ 18,329,934</u>	<u>\$ 8,140,003</u>	<u>\$ 242,314,128</u>	<u>\$ 177,508,051</u>

First Trinity Financial Corporation and Subsidiaries  
Notes to Consolidated Financial Statements  
December 31, 2022 and 2021

**2. Investments** (continued)

The outstanding principal balance of mortgage loans, by state, as of December 31, 2022 and 2021 are summarized as follows:

	December 31, 2022		December 31, 2021	
	Amount	Percentage	Amount	Percentage
Alabama	\$ 1,631,291	0.67%	\$ 788,026	0.44%
Arizona	1,095,402	0.45%	726,676	0.41%
Arkansas	736,037	0.30%	723,456	0.41%
California	13,811,582	5.70%	8,890,865	5.01%
Colorado	1,536,180	0.63%	55,838	0.03%
Connecticut	2,882,731	1.19%	3,735,358	2.10%
Delaware	155,840	0.06%	61,318	0.03%
District of Columbia	53,653	0.02%	-	0.00%
Florida	94,748,560	39.11%	48,603,579	27.38%
Georgia	7,314,430	3.02%	7,852,783	4.42%
Illinois	2,634,689	1.09%	3,606,147	2.03%
Indiana	335,817	0.14%	1,884,980	1.06%
Kansas	251,815	0.10%	389,644	0.22%
Kentucky	-	0.00%	76,259	0.04%
Louisiana	189,335	0.08%	149,861	0.08%
Maine	200,056	0.08%	124,733	0.07%
Maryland	1,285,510	0.53%	508,856	0.29%
Massachusetts	2,580,335	1.06%	1,141,814	0.64%
Michigan	363,570	0.15%	429,905	0.24%
Minnesota	922,025	0.38%	866,964	0.49%
Mississippi	-	0.00%	37,128	0.02%
Missouri	3,505,416	1.45%	5,894,094	3.32%
Montana	-	0.00%	700,000	0.39%
Nevada	469,713	0.19%	-	0.00%
New Jersey	15,465,715	6.38%	9,558,374	5.38%
New Mexico	79,815	0.03%	80,415	0.05%
New York	24,960,742	10.30%	9,948,828	5.60%
North Carolina	5,975,930	2.47%	1,733,732	0.98%
Ohio	8,230,523	3.40%	6,809,487	3.84%
Oklahoma	739,753	0.31%	645,008	0.36%
Oregon	459,193	0.19%	105,446	0.06%
Pennsylvania	1,477,938	0.61%	794,333	0.45%
Rhode Island	235,713	0.10%	-	0.00%
South Carolina	682,167	0.28%	1,004,438	0.57%
Tennessee	1,865,345	0.77%	2,737,512	1.54%
Texas	43,134,683	17.80%	55,003,626	31.02%
Utah	134,668	0.06%	-	0.00%
Vermont	208,045	0.09%	220,093	0.12%
Virginia	2,013,668	0.83%	1,081,200	0.61%
Washington	517,963	0.21%	811,405	0.46%
Wisconsin	502,127	0.21%	432,389	0.24%
West Virginia	46,601	0.02%	-	0.00%
Mortgage loan allowance	(1,120,448)	-0.46%	(706,519)	-0.40%
	\$ 242,314,128	100%	\$ 177,508,051	100%

First Trinity Financial Corporation and Subsidiaries  
Notes to Consolidated Financial Statements  
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**2. Investments** (continued)

During 2022, the Company did not foreclose on residential mortgage loans of real estate. During 2021, the Company foreclosed on residential mortgage loans of real estate totaling \$458,587 and transferred those properties to investment real estate held for sale.

The principal balances of the 1,538 residential mortgage loans owned by the Company as of December 31, 2022 that aggregated to \$223,984,194 ranged from a low of \$634 to a high of \$2,125,911 and the interest rates ranged from 3.43% to 16.91%. The principal balances of the 42 commercial (includes agricultural, apartment, industrial, lodging, office building and retail) mortgage loans owned by the Company as of December 31, 2022 that aggregated to \$18,329,934 ranged from a low of \$14,515 to a high of \$1,498,063 and the interest rates ranged from 5.97% to 10.51%.

The principal balances of the 1,086 residential mortgage loans owned by the Company as of December 31, 2021 that aggregated to \$169,368,048 ranged from a low of \$930 to a high of \$2,135,625 and the interest rates ranged from 3.43% to 25.64%. The principal balances of the 26 commercial (includes apartment, industrial, lodging, office building and retail) mortgage loans owned by the Company as of December 31, 2021 that aggregated to \$8,140,003 ranged from a low of \$14,515 to a high of \$1,075,350 and the interest rates ranged from 5.97% to 10.51%.

There were 17 mortgage loans with a remaining principal balance of \$4,134,266 that were more than 90 days past due as of December 31, 2022. There were six mortgage loans in default and in the foreclosure process with a remaining principal balance of \$2,155,566 as of December 31, 2022.

There were 10 mortgage loans with a remaining principal balance of \$1,717,496 that were more than 90 days past due as of December 31, 2021. There was one mortgage loan in default and in the foreclosure process with a remaining principal balance of \$484,400 as of December 31, 2021.

There are allowances for losses on mortgage loans of \$1,120,448 and \$706,519 as of December 31, 2022 and 2021, respectively. As of December 31, 2022, \$753,648 of independent mortgage loan balances are held in escrow by a third party for the benefit of the Company related to its investment in mortgage loans on real estate with one loan originator. As of December 31, 2021, \$795,730 of independent mortgage loan balances are held in escrow by a third party for the benefit of the Company related to its investment in mortgage loans on real estate with one loan originator.

In 2022 and 2021 the Company did not experience any impairment on mortgage loan investments.

***Investment real estate***

TLIC owns approximately three acres of undeveloped land located in Topeka, Kansas with a carrying value of \$409,436.

FBLIC owns approximately one-half acre of undeveloped land located in Jefferson City, Missouri with a carrying value of \$131,000.

During 2022, the Company sold investment real estate property with an aggregate carrying value of \$147,909. The Company recorded a gross realized investment gain on sale of \$52,171 based on an aggregate sales price of \$200,080.

During 2021, the Company foreclosed on residential mortgage loans of real estate totaling \$458,587 and transferred those properties to investment real estate held for sale. During 2021, the Company sold investment real estate property with an aggregate carrying value of \$528,178. The Company recorded a gross realized investment gain on sale of \$289,840 based on an aggregate sales price of \$818,018.

First Trinity Financial Corporation and Subsidiaries  
Notes to Consolidated Financial Statements  
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**2. Investments** (continued)

The Company's investment real estate as of December 31, 2022 and 2021 is summarized as follows:

	December 31,	
	2022	2021
Land - held for investment	\$ 540,436	\$ 540,436
Residential real estate - held for sale	-	147,909
Total investment in real estate	<u>\$ 540,436</u>	<u>\$ 688,345</u>

***Other Long-Term Investments***

The Company's investment in lottery prize cash flows was \$67,500,783 and \$65,929,215 as of December 31, 2022 and 2021, respectively. The lottery prize cash flows are assignments of the future rights from lottery winners purchased at a discounted price. Payments on these investments are made by state run lotteries.

The amortized cost and estimated fair value of lottery prize cash flows, by contractual maturity, as of December 31, 2022 are summarized as follows:

	December 31, 2022	
	Amortized Cost	Fair Value
Due in one year or less	\$ 13,340,048	\$ 13,506,367
Due in one year through five years	36,158,892	38,673,589
Due after five years through ten years	12,541,801	14,505,473
Due after ten years	5,460,042	7,470,393
	<u>\$ 67,500,783</u>	<u>\$ 74,155,822</u>

First Trinity Financial Corporation and Subsidiaries  
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**2. Investments** (continued)

The outstanding balance of lottery prize cash flows, by state lottery, as of December 31, 2022 and 2021 are summarized as follows:

	December 31, 2022		December 31, 2021	
	Amount	Percentage	Amount	Percentage
Arizona	\$ 343,698	0.51%	\$ 383,181	0.58%
California	7,891,340	11.69%	6,757,460	10.25%
Connecticut	2,334,369	3.46%	2,515,625	3.82%
Florida	851,727	1.26%	-	0.00%
Georgia	5,249,187	7.78%	3,710,308	5.63%
Illinois	1,422,002	2.11%	669,246	1.02%
Indiana	4,852,536	7.19%	5,411,453	8.21%
Maine	40,686	0.06%	78,497	0.12%
Massachusetts	14,736,084	21.83%	14,753,225	22.38%
Michigan	210,900	0.31%	229,980	0.35%
Missouri	73,107	0.11%	82,794	0.13%
New Jersey	99,031	0.15%	219,330	0.33%
New York	20,785,835	30.78%	22,286,381	33.79%
Ohio	4,092,128	6.06%	3,855,506	5.85%
Oregon	42,158	0.06%	78,848	0.12%
Pennsylvania	1,522,210	2.26%	1,348,166	2.04%
Texas	1,997,313	2.96%	2,331,444	3.54%
Virginia	33,506	0.05%	47,433	0.07%
Vermont	658,585	0.98%	897,936	1.36%
Washington	264,381	0.39%	272,402	0.41%
	\$ 67,500,783	100.00%	\$ 65,929,215	100.00%

Major categories of net investment income for the years ended December 31, 2022 and 2021 are summarized as follows:

	Years Ended December 31,	
	2022	2021
Fixed maturity securities	\$ 7,061,501	\$ 7,121,593
Equity securities	211,290	121,585
Other long-term investments	4,975,205	4,806,506
Mortgage loans	16,850,320	14,263,706
Policy loans	194,814	163,893
Short-term and other investments	243,315	107,221
	29,536,445	26,584,504
Gross investment income		
Investment expenses	(3,315,273)	(2,600,316)
Net investment income	\$ 26,221,172	\$ 23,984,188



First Trinity Financial Corporation and Subsidiaries  
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December 31, 2022 and 2021

### 3. Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) on the measurement date. The Company also considers the impact on fair value of a significant decrease in volume and level of activity for an asset or liability when compared with normal activity.

The Company holds fixed maturity and equity securities that are measured and reported at fair market value on the statement of financial position. The Company determines the fair market values of its financial instruments based on the fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value, as follows:

Level 1 - Quoted prices in active markets for identical assets or liabilities. The Company's Level 1 assets include equity securities that are traded in an active exchange market.

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. The Company's Level 2 assets and liabilities include fixed maturity securities with quoted prices that are traded less frequently than exchange-traded instruments or assets and liabilities whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. This category generally includes U.S. government, U.S. government agencies, state and political subdivisions, commercial and residential mortgage-backed securities, corporate bonds, asset-backed securities, exchange traded securities, foreign bonds, redeemable preferred securities and certificate of deposit

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. The Company's Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category generally includes certain private equity investments where independent pricing information was not able to be obtained for a significant portion of the underlying assets.

The Company has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into the three-level fair value hierarchy. If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

A review of fair value hierarchy classifications is conducted on a quarterly basis. Changes in the valuation inputs, or their ability to be observed, may result in a reclassification for certain financial assets or liabilities. Reclassifications impacting Level 3 of the fair value hierarchy are reported as transfers in and out of the Level 3 category as of the beginning of the period in which the reclassifications occur.

First Trinity Financial Corporation and Subsidiaries  
Notes to Consolidated Financial Statements  
December 31, 2022 and 2021

**3. Fair Value Measurements** (continued)

The Company's fair value hierarchy for those financial instruments measured at fair value on a recurring basis as of December 31, 2022 and 2021 is summarized as follows:

	Level 1	Level 2	Level 3	Total
<u>December 31, 2022</u>				
Fixed maturity securities, available-for-sale				
U.S. government and U.S. government agencies	\$ -	\$ 2,054,565	\$ -	\$ 2,054,565
States and political subdivisions	-	4,560,321	-	4,560,321
Commercial mortgage-backed securities	-	8,333,638	-	8,333,638
Residential mortgage-backed securities	-	15,250	-	15,250
Corporate bonds	-	78,112,137	-	78,112,137
Asset-backed securities	-	7,999,429	-	7,999,429
Exchange traded securities	-	467,200	-	467,200
Foreign bonds	-	23,770,080	-	23,770,080
Redeemable preferred securities	-	1,101,200	-	1,101,200
Certificate of deposit	-	199,070	-	199,070
Total fixed maturity securities	<u>\$ -</u>	<u>\$ 126,612,890</u>	<u>\$ -</u>	<u>\$ 126,612,890</u>
Fixed maturity securities, available-for-sale held in trust under coinsurance agreement	<u>\$ -</u>	<u>\$ 56,209,040</u>	<u>\$ -</u>	<u>\$ 56,209,040</u>
Equity securities				
Mutual funds	\$ -	\$ 47,910	\$ -	\$ 47,910
Corporate common stock	297,727	-	53,996	351,723
Total equity securities	<u>\$ 297,727</u>	<u>\$ 47,910</u>	<u>\$ 53,996</u>	<u>\$ 399,633</u>
<u>December 31, 2021</u>				
Fixed maturity securities, available-for-sale				
U.S. government and U.S. government agencies	\$ -	\$ 427,013	\$ -	\$ 427,013
States and political subdivisions	-	9,128,952	-	9,128,952
Commercial mortgage-backed securities	-	3,424,395	-	3,424,395
Residential mortgage-backed securities	-	24,276	-	24,276
Corporate bonds	-	128,861,381	-	128,861,381
Asset-backed securities	-	5,318,303	-	5,318,303
Exchange traded securities	-	516,600	-	516,600
Foreign bonds	-	34,733,326	-	34,733,326
Redeemable preferred securities	-	1,232,400	-	1,232,400
Certificate of deposit	-	410,392	-	410,392
Total fixed maturity securities	<u>\$ -</u>	<u>\$ 184,077,038</u>	<u>\$ -</u>	<u>\$ 184,077,038</u>
Fixed maturity securities, available-for-sale held in trust under coinsurance agreement	<u>\$ -</u>	<u>\$ 68,747,533</u>	<u>\$ -</u>	<u>\$ 68,747,533</u>
Equity securities				
Mutual funds	\$ -	\$ 76,816	\$ -	\$ 76,816
Corporate common stock	207,979	-	63,423	271,402
Total equity securities	<u>\$ 207,979</u>	<u>\$ 76,816</u>	<u>\$ 63,423</u>	<u>\$ 348,218</u>

First Trinity Financial Corporation and Subsidiaries  
Notes to Consolidated Financial Statements  
December 31, 2022 and 2021

**3. Fair Value Measurements** (continued)

As of December 31, 2022, Level 3 financial instruments consisted of a private placement common stock that has no active trading and a joint venture investment with a mortgage loan originator.

This private placement common stock represents an investment in a small insurance holding company. The fair value for this security was determined through the use of unobservable assumptions about market participants. The Company has assumed a willing market participant would purchase the security for the same price as the Company paid until such time as this small insurance holding company commences significant operations. The joint venture investment with a mortgage loan originator is accounted for under the equity method of accounting.

Fair values for Level 1 and Level 2 assets for the Company's fixed maturity available-for-sale securities and equity securities are primarily based on prices supplied by a third party investment service. The third party investment service provides quoted prices in the market which use observable inputs in developing such rates.

The Company analyzes market valuations received to verify reasonableness and to understand the key assumptions used and the sources. Since the fixed maturity securities owned by the Company do not trade on a daily basis, the third party investment service prepares estimates of fair value measurements using relevant market data, benchmark curves, sector groupings and matrix pricing. As the fair value estimates of the Company's fixed maturity securities are based on observable market information rather than market quotes, the estimates of fair value on these fixed maturity securities are included in Level 2 of the hierarchy. The Company's Level 2 investments include obligations of U.S. government, U.S. government agencies, state and political subdivisions, commercial and residential mortgage-backed securities, corporate bonds, asset-backed securities, exchange traded securities, foreign bonds, redeemable preferred securities and certificate of deposit.

The Company's equity securities are included in Level 1 and Level 2 and the private placement common stocks and joint venture investment are included in Level 3. Level 1 for the equity securities classified as such is appropriate since they trade on a daily basis, are based on quoted market prices in active markets and are based upon unadjusted prices. Level 2 for those equity securities classified as such is appropriate since they are not actively traded.

The Company's fixed maturity available-for-sale securities and equity securities are highly liquid and allows for a high percentage of the portfolio to be priced through pricing services.

The change in the fair value of the Company's Level 3 equity securities available-for-sale for the years ended December 31, 2022 and 2021 is summarized as follows:

	December 31,	
	2022	2021
Beginning balance	\$ 63,423	\$ 67,132
Joint venture net income	215,470	75,195
Joint venture distribution	(216,897)	(78,904)
Net realized investment losses	(8,000)	-
Ending balance	<u>\$ 53,996</u>	<u>\$ 63,423</u>

First Trinity Financial Corporation and Subsidiaries  
Notes to Consolidated Financial Statements  
December 31, 2022 and 2021

**3. Fair Value Measurements** (continued)

*Fair Value of Financial Instruments*

The carrying amount and fair value of the Company's financial assets and financial liabilities disclosed, but not carried, at fair value as of December 31, 2022 and 2021, and the level within the fair value hierarchy at which such assets and liabilities are measured on a recurring basis are summarized as follows:

	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
December 31, 2022					
<b>Financial assets</b>					
Mortgage loans on real estate					
Commercial	\$ 18,329,934	\$ 17,393,284	\$ -	\$ -	\$ 17,393,284
Residential	223,984,194	202,476,647	-	-	202,476,647
Policy loans	2,840,887	2,840,887	-	-	2,840,887
Short-term investments	1,860,578	1,860,578	1,860,578	-	-
Other long-term investments	67,500,783	74,155,822	-	-	74,155,822
Cash and cash equivalents	33,542,725	33,542,725	33,542,725	-	-
Accrued investment income	5,580,175	5,580,175	-	-	5,580,175
<b>Total financial assets</b>	<b>\$ 353,639,276</b>	<b>\$ 337,850,118</b>	<b>\$ 35,403,303</b>	<b>\$ -</b>	<b>\$ 302,446,815</b>
<b>Held in trust under coinsurance agreement</b>					
Mortgage loans on real estate					
Commercial	\$ 31,076,883	\$ 31,076,883	\$ -	\$ -	\$ 31,076,883
Less unearned interest on mortgage loans	48,308	48,308	-	-	48,308
Short-term investments	982,404	982,404	982,404	-	-
Cash and cash equivalents	3,813,750	3,813,750	3,813,750	-	-
<b>Total financial assets held in trust under coinsurance agreement</b>	<b>\$ 35,824,729</b>	<b>\$ 35,824,729</b>	<b>\$ 4,796,154</b>	<b>\$ -</b>	<b>\$ 31,028,575</b>
<b>Financial liabilities</b>					
Policyholders' account balances	\$ 391,359,944	\$ 359,044,740	\$ -	\$ -	\$ 359,044,740
Policy claims	2,541,088	2,541,088	-	-	2,541,088
<b>Total financial liabilities</b>	<b>\$ 393,901,032</b>	<b>\$ 361,585,828</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 361,585,828</b>
December 31, 2021					
<b>Financial assets</b>					
Mortgage loans on real estate					
Commercial	\$ 8,140,003	\$ 8,917,023	\$ -	\$ -	\$ 8,917,023
Residential	169,368,048	187,336,689	-	-	187,336,689
Policy loans	2,272,629	2,272,629	-	-	2,272,629
Short-term investments	3,296,838	3,296,838	3,296,838	-	-
Other long-term investments	65,929,215	80,667,966	-	-	80,667,966
Cash and cash equivalents	42,528,046	42,528,046	42,528,046	-	-
Accrued investment income	4,879,290	4,879,290	-	-	4,879,290
<b>Total financial assets</b>	<b>\$ 296,414,069</b>	<b>\$ 329,898,481</b>	<b>\$ 45,824,884</b>	<b>\$ -</b>	<b>\$ 284,073,597</b>
<b>Held in trust under coinsurance agreement</b>					
Mortgage loans on real estate					
Commercial	\$ 30,013,132	\$ 30,013,132	\$ -	\$ -	\$ 30,013,132
Residential	3,803,847	3,803,847	-	-	3,803,847
Less unearned interest on mortgage loans	767,650	767,650	-	-	767,650
Cash and cash equivalents	4,413,384	4,413,384	4,413,384	-	-
<b>Total financial assets held in trust under coinsurance agreement</b>	<b>\$ 37,462,713</b>	<b>\$ 37,462,713</b>	<b>\$ 4,413,384</b>	<b>\$ -</b>	<b>\$ 33,049,329</b>
<b>Financial liabilities</b>					
Policyholders' account balances	\$ 373,647,869	\$ 373,412,607	\$ -	\$ -	\$ 373,412,607
Policy claims	2,381,183	2,381,183	-	-	2,381,183
<b>Total financial liabilities</b>	<b>\$ 376,029,052</b>	<b>\$ 375,793,790</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 375,793,790</b>

First Trinity Financial Corporation and Subsidiaries  
Notes to Consolidated Financial Statements  
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**3. Fair Value Measurements** (continued)

The estimated fair value amounts have been determined using available market information and appropriate valuation methodologies. However, considerable judgment was required to interpret market data to develop these estimates. Accordingly, the estimates are not necessarily indicative of the amounts which could be realized in a current market exchange. The use of different market assumptions or estimation methodologies may have a material effect on the fair value amounts.

The following methods and assumptions were used in estimating the fair value disclosures for financial instruments in the accompanying financial statements and notes thereto:

***Fixed Maturity Securities and Equity Securities***

The fair value of fixed maturity securities and equity securities are based on the principles previously discussed as Level 1, Level 2 and Level 3.

***Mortgage Loans on Real Estate***

The fair values for mortgage loans are estimated using discounted cash flow analyses. For both residential and commercial mortgage loans, the discount rate used was indexed to the Secured Overnight Financing Rate and LIBOR yield curve as of December 31, 2022 and 2021, respectively.

***Cash and Cash Equivalents, Short-Term Investments, Accrued Investment Income and Policy Loans***

The carrying value of these financial instruments approximates their fair values. Cash and cash equivalents and short-term investments are included in Level 1 of the fair value hierarchy due to their highly liquid nature.

***Other Long-Term Investments***

Other long-term investments are comprised of lottery prize receivables and fair value is derived by using a discounted cash flow approach. Projected cash flows are discounted using the average FTSE Pension Liability Index in effect at the end of each period.

***Investment Contracts – Policyholders’ Account Balances***

The fair value for liabilities under investment-type insurance contracts (accumulation annuities) is calculated using a discounted cash flow approach. Cash flows are projected using actuarial assumptions and discounted to the valuation date using risk-free rates adjusted for credit risk and the nonperformance risk of the liabilities.

The fair values for insurance contracts other than investment-type contracts are not required to be disclosed.

***Policy Claims***

The carrying amounts reported for these liabilities approximate their fair value.

**4. Special Deposits**

TLIC and FBLIC are required to hold assets on deposit for the benefit of policyholders and other special deposits in accordance with statutory rules and regulations. As of December 31, 2022 and 2021, these required deposits had amortized costs that totaled \$4,634,898 and \$4,673,271, respectively. As of December 31, 2022 and 2021, these required deposits had fair values that totaled \$4,590,193 and \$4,715,350, respectively.

First Trinity Financial Corporation and Subsidiaries  
Notes to Consolidated Financial Statements  
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**5. Allowance for Loan Losses from Mortgage Loans on Real Estate**

As of December 31, 2022, \$753,648 of independent residential mortgage loans on real estate are held in escrow by a third party for the benefit of the Company. As of December 31, 2022, \$656,924 of that escrow amount is available to the Company as additional collateral on \$4,743,041 of advances to the loan originator. The remaining December 31, 2022 escrow amount of \$96,724 is available to the Company as additional collateral on its investment of \$19,344,898 in mortgage loans on real estate. In addition, the Company has an additional \$1,120,448 allowance for possible loan losses in the remaining \$222,969,230 of investments in mortgage loans on real estate as of December 31, 2022.

As of December 31, 2021, \$795,730 of independent residential mortgage loans on real estate are held in escrow by a third party for the benefit of the Company. As of December 31, 2021, \$611,176 of that escrow amount is available to the Company as additional collateral on \$4,382,896 of advances to the loan originator. The remaining December 31, 2021 escrow amount of \$184,554 is available to the Company as additional collateral on its investment of \$36,910,814 in residential mortgage loans on real estate. In addition, the Company has an additional \$706,519 allowance for possible loan losses in the remaining \$140,597,237 of investments in mortgage loans on real estate as of December 31, 2021.

The balances of and changes in the Company's credit losses related to residential and commercial (includes apartment, industrial, lodging, office building and retail) mortgage loans on real estate as of and for the years ended December 31, 2022 and 2021 are summarized as follows (excluding \$19,344,898 and \$36,910,814 of mortgage loans on real estate as of December 31, 2022 and 2021, respectively, with one loan originator where independent mortgage loan balances are held in escrow by a third party for the benefit of the Company):

	Years Ended December 31,					
	Residential Mortgage Loans		Commercial Mortgage Loans		Total	
	2022	2021	2022	2021	2022	2021
Allowance, beginning	\$ 675,162	\$ 486,604	\$ 31,357	\$ 55,290	\$ 706,519	\$ 541,894
Charge offs	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-
Provision	355,262	188,558	58,667	(23,933)	413,929	164,625
Allowance, ending	<u>\$ 1,030,424</u>	<u>\$ 675,162</u>	<u>\$ 90,024</u>	<u>\$ 31,357</u>	<u>\$ 1,120,448</u>	<u>\$ 706,519</u>
Allowance, ending:						
Individually evaluated for impairment	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Collectively evaluated for impairment	<u>\$ 1,030,424</u>	<u>\$ 675,162</u>	<u>\$ 90,024</u>	<u>\$ 31,357</u>	<u>\$ 1,120,448</u>	<u>\$ 706,519</u>
Carrying Values:						
Individually evaluated for reserve allowance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Collectively evaluated for reserve allowance	<u>\$ 205,054,480</u>	<u>\$ 132,457,234</u>	<u>\$ 17,914,750</u>	<u>\$ 8,140,003</u>	<u>\$ 222,969,230</u>	<u>\$ 140,597,237</u>

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**6. Deferred Policy Acquisition Costs**

The balances of and changes in deferred acquisition costs as of and for the years ended December 31, 2022 and 2021 are summarized as follows:

	2022	2021
Balance, beginning of year	\$ 49,717,323	\$ 44,513,669
Capitalization of commissions, sales and issue expenses	13,734,859	12,102,070
Amortization	(7,280,457)	(6,932,504)
Deferred acquisition costs allocated to investments	12,060	34,088
Balance, end of year	\$ 56,183,785	\$ 49,717,323

**7. Federal Income Taxes**

FTFC filed 2021 and 2020 consolidated federal income tax returns that included TLIC, FBLIC, FTFC and TMC since all companies had been members of a consolidated group for five years.

Certain items included in income reported for financial statement purposes are not included in taxable income for the current period, resulting in deferred income taxes.

A reconciliation of federal income tax expense computed by applying the federal income tax rate of 21% to income before federal income tax expense for the years ended December 31, 2022 and 2021, respectively, is summarized as follows:

	Years Ended December 31,	
	2022	2021
Expected tax expense	\$ 1,673,837	\$ 771,390
Unearned investment income	110,215	8,505
Capital gains (losses) taxes	100,366	(188,534)
Net operating losses	78,242	122,654
Non taxable international losses	35,331	31,864
Reinsurance recoverable	20,273	(31,356)
Policy loans	-	32,494
Difference in book versus tax basis of available-for-sale securities	(31,897)	142,199
Future policy benefits	(45,901)	(1,672)
Discount accretion (premium amortization)	(65,439)	60,066
Adjustment of prior years' taxes	(77,434)	(154,921)
Other	(11,644)	23,229
Total income tax expense	\$ 1,785,949	\$ 815,918

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**7. Federal Income Taxes** (continued)

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax liabilities and assets as of December 31, 2022 and 2021 are summarized as follows:

	December 31,	
	2022	2021
Deferred tax liabilities:		
Net unrealized investment gains	\$ -	\$ 3,509,878
Deferred policy acquisition costs	10,001,063	8,794,233
Value of insurance business acquired	850,102	906,884
Other liabilities	512,499	204,772
Reinsurance recoverable	237,092	216,819
Due premiums	85,369	79,368
Investment real estate	23,425	23,425
Available-for-sale fixed maturity securities	16,520	42,030
Available-for-sale fixed equity securities	917	-
Other	60	183
Total deferred tax liabilities	<u>11,727,047</u>	<u>13,777,592</u>
Deferred tax assets:		
Net unrealized investment losses	\$ 3,806,498	\$ -
Policyholders' account balances and future policy benefits	4,408,278	3,761,239
Mortgage loans	232,646	148,369
Agents' balances	217,718	178,006
Cash equivalents	206,305	-
Net operating loss carryforward	157,094	683,720
Unearned investment income	12,293	19,154
Available-for-sale equity securities	-	11,860
Dividend liability	8,804	8,941
Total deferred tax assets	<u>9,049,636</u>	<u>4,811,289</u>
Net deferred tax liabilities	<u>\$ 2,677,411</u>	<u>\$ 8,966,303</u>

FTFC has net operating loss carryforwards of \$748,067 expiring in 2029 through 2033. During 2022, FTFC utilized \$1,822,633 of its net operating loss carryforward existing as of January 1, 2022 to offset 2022 federal taxable income. During 2021, FTFC utilized \$129,363 of the net operating loss carryforward existing as of January 1, 2021 to offset 2021 federal taxable income. During 2022, TLIC utilized its remaining \$685,110 net operating loss carryforwards existing as of December 31, 2021. TLIC generated \$150,397 and \$534,713 of that net operating losses during 2021 and 2020, respectively.

The Company has no known uncertain tax benefits within its provision for income taxes. In addition, the Company does not believe it would be subject to any penalties or interest relative to any open tax years and, therefore, have not accrued any such amounts. The Company files U.S. federal income tax returns and income tax returns in various state jurisdictions. The 2019 through 2022 U.S. federal tax years are subject to income tax examination by tax authorities. The Company classifies any interest and penalties (if applicable) as income tax expense in the financial statements.



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## 8. Reinsurance

TLIC participates in ceded and assumed reinsurance in order to provide risk diversification, additional capacity for future growth and limit the maximum net loss potential arising from large risks. TLIC reinsures all amounts of risk on any one life in excess of \$100,000 for individual life insurance with Investors Heritage Life Insurance Company, Optimum Re Insurance Company (“Optimum Re”), RGA Reinsurance Company and Wilton Reassurance Company (“Wilton Re”).

TLIC is a party to an Automatic Retrocession Pool Agreement (the “Reinsurance Pool”) with Optimum Re, Catholic Order of Foresters, American Home Life Insurance Company and Woodmen of the World. The agreement provides for automatic retrocession of coverage in excess of Optimum Re’s retention on business ceded to Optimum Re by the other parties to the Reinsurance Pool. TLIC’s maximum exposure on any one insured under the Reinsurance Pool is \$100,000. As of January 1, 2008, the Reinsurance Pool stopped accepting new cessions.

Effective September 29, 2005, FLAC and Wilton Re executed a binding letter of intent whereby both parties agreed that FLAC would cede the simplified issue version of its Golden Eagle Whole Life (Final Expense) product to Wilton Re on a 50/50 quota share original term coinsurance basis. The letter of intent was executed on a retroactive basis to cover all applicable business issued by FLAC subsequent to January 1, 2005. Wilton Re agreed to provide various commission and expense allowances to FLAC in exchange for FLAC ceding 50% of the applicable premiums to Wilton Re as they were collected. As of June 24, 2006, Wilton Re terminated the reinsurance agreement for new business issued after the termination date.

FBLIC also participates in reinsurance in order to provide risk diversification, additional capacity for future growth and limit the maximum net loss potential arising from large risks. FBLIC reinsures initial amounts of risk on any one life in excess of \$100,000 for individual life insurance with Optimum Re. TLIC and FBLIC also reinsure the accidental death benefit portion of their life policies under a bulk agreement with Optimum Re.

To the extent that the reinsurance companies are unable to meet their obligations under the reinsurance agreements, TLIC and FBLIC remain primarily liable for the entire amount at risk.

Statutory reinsurance assumed and ceded amounts for TLIC and FBLIC for 2022 and 2021 are summarized as follows:

	2022	2021
Premiums assumed	\$ 6,338,775	\$ 4,745,854
Commissions and expense allowances assumed	2,903,368	1,920,939
Benefits assumed	81,512	78,203
Reserve credits assumed	8,924,307	5,714,631
In force amount assumed	229,765,011	78,467,315
Premiums ceded	1,054,085	1,679,793
Commissions and expense allowances ceded	21,715	50,407
Benefits ceded	5,009,861	3,036,438
Reserve credits ceded	109,521,784	103,209,641
In force amount ceded	63,424,357	50,756,838

Effective January 1, 2018, TLIC entered into an annuity coinsurance agreement with an offshore annuity and life insurance company whereby 90% of TLIC’s annuity considerations originated after December 31, 2017 were ceded to the assuming company. The assuming company contractually reimburses TLIC for the related commissions, withdrawals, settlements, interest credited, submission costs, maintenance costs, marketing costs, excise taxes and other costs plus a placement fee. Effective April 1, 2020, the Company and an offshore annuity and life insurance company mutually agreed that the Quota Share under its existing reinsurance agreement shall be 0% for future business instead of the original contractual amount of 90%.

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**8. Reinsurance** (continued)

In accordance with this annuity coinsurance agreement, TLIC holds assets and recognizes a funds withheld liability for the benefit of the assuming company in an amount at least equal to the annuity reserves in accordance with U.S. statutory accounting principles generated by this ceded business. In addition, the assuming company maintains a trust related to this ceded business amounting to at least an additional 4% of assets above the annuity reserve required under U.S. statutory accounting principles. This coinsurance agreement may be terminated for new business by either party at any time upon 30 days prior written notice to the other party.

In 2019, TLIC entered into a life insurance coinsurance agreement with TAI, effective October 1, 2018, whereby 100% of TAI's life insurance policies and annuity contracts issued after September 30, 2018 were ceded to TLIC. TLIC contractually reimburses TAI for the related commissions, submission costs, maintenance costs, marketing costs and other costs related to the production of life insurance policies and annuity contracts. These transactions are eliminated in consolidation.

In 2022, FBLIC entered into group life insurance coinsurance agreement with Texas Republic Life Insurance Company ("TRLIC"), whereby generally 50% of TRLIC group life insurance policies and premiums were ceded to FBLIC. FBLIC contractually reimburses TRLIC for generally 50% of the related commissions, submission costs, maintenance costs, marketing costs and other costs related to the production of group life insurance policies.

With the acquisition of RCLIC in 2022, FBLIC reinsures individual life insurance and annuity contracts with Security National Life Insurance Company ("SNLIC"). In addition, an agreement was established with SNLIC in which all funds associated with the reinsurance agreement are held in a trust by SNLIC. There are no cash transfers between FBLIC and SNLIC associated with this agreement. Under the trust agreement, FBLIC would have access to the funds to satisfy policy obligations in the event SNLIC's inability to meet policy obligations.

**9. Leases**

The Company leases 7,302 square feet of office space in Tulsa, Oklahoma. The lease began on October 1, 2015 and ended on September 30, 2020. The Company signed an amended lease agreement effective August 1, 2020 and ending on September 30, 2027. The amended lease agreement provides for the expansion of the existing premises from 6,769 square feet to 7,302 square feet. The Company incurred rent expense (including charges for the lessor's building operating expenses above those specified in the lease agreement less monthly amortization of the leasehold improvement allowance received from the lessor) of \$105,494 and \$109,695 for the years ended December 31, 2022 and 2021, respectively.

In accordance with the current lease, the Company was provided an allowance of \$54,152 for leasehold improvements. For the amended lease, the Company was provided allowance of \$77,000 for leasehold improvements. The leasehold improvement allowance is amortized over the non-cancellable lease term and reduced rent expense by \$11,000 and \$13,750 for the years ended December 31, 2022 and 2021, respectively. The future minimum lease payments to be paid under the non-cancellable lease agreement are \$118,365, \$120,720, \$123,130, \$125,576 and \$95,620 for the years 2023, 2024, 2025, 2026 and 2027, respectively.

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**10. Shareholders' Equity and Statutory Accounting Practices**

TLIC is domiciled in Oklahoma and prepares its statutory financial statements in accordance with statutory accounting practices prescribed or permitted by the OID. FBLIC is domiciled in Missouri and prepares its statutory financial statements in accordance with statutory accounting practices prescribed or permitted by the MDIC. Prescribed statutory accounting practices include publications of the National Association of Insurance Commissioners, state laws, regulations, and general administrative rules. Permitted statutory accounting practices encompass all accounting practices not so prescribed. Statutory accounting practices primarily differ from U.S. GAAP by charging policy acquisition costs to expense as incurred, establishing future policy benefit liabilities using different actuarial assumptions and valuing investments, deferred taxes, and certain assets on a different basis.

The statutory net income (loss) for TLIC amounted to \$2,765,732 and (\$563,056) for the years ended December 31, 2022 and 2021, respectively. The statutory capital and surplus of TLIC was \$15,593,424 and \$14,305,969 as of December 31, 2022 and 2021, respectively. The statutory net income for FBLIC amounted to \$679,295 and \$1,201,700 for the years ended December 31, 2022 and 2021, respectively. The statutory capital and surplus of FBLIC was \$12,377,689 and \$14,839,207 as of December 31, 2022 and 2021, respectively.

TLIC is subject to Oklahoma laws and FBLIC is subject to Missouri laws that limit the amount of dividends insurance companies can pay to stockholders without approval of the respective Departments of Insurance. The maximum dividend, which may be paid in any twelve-month period without notification or approval, is limited to the greater of 10% of statutory surplus as of December 31 of the preceding year or the net gain from operations of the preceding calendar year. Cash dividends may only be paid out of surplus derived from realized net profits. Based on these limitations, there is no capacity for TLIC to pay a dividend due to a negative unassigned surplus of \$3,633,769 as of December 31, 2022. In addition, based on those limitations, there is the capacity for FBLIC to pay a dividend up to \$1,237,769 in 2023 without prior approval. In 2022, FBLIC paid a \$3,200,000 dividend to TLIC, of which \$1,495,631 was considered ordinary and \$1,704,369 was considered extraordinary. Dividends paid by FBLIC to TLIC are eliminated in consolidation. TLIC has paid no dividends to FTFC. In 2022, TLIC returned \$2,200,000 of capital to FTFC. Return of capital paid by TLIC to FTFC is eliminated in consolidation.

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**11. Segment Data**

The Company has a life insurance segment, consisting of the life insurance operations of TLIC, FBLIC and TAI, an annuity segment, consisting of the annuity operations of TLIC, FBLIC and TAI and a corporate segment. Results for the parent company and the operations of TMC, after elimination of intercompany amounts, are allocated to the corporate segment.

These segments as of and for the years ended December 31, 2022 and 2021 are summarized as follows:

	Year Ended December 31,	
	2022	2021
Revenues:		
Life insurance operations	\$ 41,826,391	\$ 36,680,116
Annuity operations	21,351,816	19,842,580
Corporate operations	2,380,892	593,545
Total	<u>\$ 65,559,099</u>	<u>\$ 57,116,241</u>
Income before income taxes:		
Life insurance operations	\$ 3,139,886	\$ 2,498,832
Annuity operations	3,028,852	1,110,528
Corporate operations	1,801,914	63,928
Total	<u>\$ 7,970,652</u>	<u>\$ 3,673,288</u>
Amortization expense:		
Life insurance operations	\$ 6,417,370	\$ 6,179,866
Annuity operations	1,133,481	1,070,701
Total	<u>\$ 7,550,851</u>	<u>\$ 7,250,567</u>
	December 31,	
	2022	2021
Assets:		
Life insurance operations	\$ 149,949,283	\$ 133,378,698
Annuity operations	505,990,810	521,742,643
Corporate operations	9,923,944	4,637,593
Total	<u>\$ 665,864,037</u>	<u>\$ 659,758,934</u>

**12. Concentrations of Credit Risk**

Credit risk is limited by diversifying the Company's investments. The Company maintains cash and cash equivalents at multiple institutions. The Federal Deposit Insurance Corporation insures accounts up to \$250,000. Uninsured balances aggregate \$32,933,850 as of December 31, 2022. Other funds are invested in mutual funds that invest in U.S. government securities. The Company monitors the solvency of all financial institutions in which it has funds to minimize the exposure for loss. The Company has not experienced any losses in such accounts.

The Company's lottery prize receivables due from various states and the geographical distribution of the Company's mortgage loans by state are summarized in Note 2.

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### 13. Contingent Liabilities

From time to time, we are a party to various legal proceedings in the ordinary course of business. While management is unable to predict the ultimate outcome of these actions, it believes that any ultimate liability arising from them will not have a material effect on the Company's financial position, results of operations or cash flow. We are not currently a party to any bankruptcy, receivership, reorganization, adjustment or similar proceeding, and we are not aware of any material threatened litigation. As summarized below, the Company is currently involved in three pending lawsuits.

A lawsuit filed by the Company and its Chairman and Chief Executive Officer, Gregg E. Zahn ("Mr. Zahn") styled First Trinity Financial Corporation and Gregg E. Zahn vs. C. Wayne Pettigrew and Group & Pension Planners was originally filed in 2013 in the District Court of Tulsa County, Oklahoma against former Company Board of Director, C. Wayne Pettigrew ("Mr. Pettigrew"). The Company and Mr. Zahn alleged that Mr. Pettigrew defamed Mr. Zahn and the Company and that Mr. Pettigrew breached his fiduciary duties to the Company by making untrue statements about the Company and Mr. Zahn to the press, state regulators and to certain shareholders.

In February 2017, the lawsuit resulted in a jury verdict in favor of the Company and Mr. Zahn, with the jury awarding damages of \$800,000 to the Company and \$3,500,000 to Mr. Zahn. In February 2020, the Oklahoma Court of Civil Appeals, upon an appeal by Mr. Pettigrew, reversed the judgment and remanded the case for a new trial. A Petition for Certiorari review with the Oklahoma Supreme Court by the Company and Mr. Zahn was declined in December, 2020. The case is now scheduled to be retried in the District Court. The Company is vigorously prosecuting this case. The Company faces no exposure in connection with this action since there were no counterclaims or cross claims made against the Company. Management believes that this lawsuit is not material in relation to the Company's financial position or results of operations.

The Company, through its life insurance subsidiary, TLIC, commenced two lawsuits as plaintiff, both in the New York Supreme Court, New York County, one on June 29, 2020 and another on March 4, 2022, for breach of contract against a company for failure to advance funding to lottery ticket winners to the detriment of TLIC and against various of that company's associated persons for unjust enrichment and fraud perpetuated on TLIC. The cases are entitled "Trinity Life Insurance Company v. Advance Funding LLC, Dan Cevallos, and Monica L. Ray, Index No. 652780/2020" (New York Supreme Court, New York County) and "Trinity Life Insurance Company v. Advance Funding LLC, Dan Cevallos, Julie Casal, and Monica L. Ray, Index No. 651023/2022" (New York Supreme Court, New York County). The Company is vigorously prosecuting this case against the defendants. The Company faces no exposure in connection with either action since no counterclaims or cross claims have been made against the Company. Management believes that this lawsuit is not material in relation to the Company's financial position or results of operations.

The third lawsuit involves an insurance holding company and one of its insurance subsidiaries, which was instituted suit in District Court of Travis County, Texas, entitled Citizens, Inc., CICA Life Ltd., and CICA Life Insurance Company of America, Plaintiffs, v. Randall H. Riley, Citizens American Life, LLC, Citizens American Life, Inc., Alexis Enrique Delgado, Carlos Nalsen Landa, Enrique Pinzon Ruiz, Johan Emilio Mikuski Silva, Esperanza Peralta De Delgado, Michael P. Buchweitz, Jonathan M. Pollio, Steven A. Rekedal, First Trinity Financial Corporation, Trinity American, Inc., and International Marketing Group S.A., LLC, Defendants, against the Company and several associated persons on November 7, 2018. The plaintiffs accused the several defendants, including the Company and its subsidiary company, Trinity American, Inc. ("Trinity American") of misappropriating trade secrets under the Texas Uniform Trade Secrets Act. The plaintiffs have also alleged claims for common law unfair competition, civil conspiracy, and unjust enrichment against all of the defendants. The plaintiffs also alleged that Trinity American's predecessor entity tortiously interfered with the plaintiffs' contracts, and alleged several other causes of action, including breaches of contract and tortious interference with contract against the remaining defendants.

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**13. Contingent Liabilities** (continued)

The causes of action all are alleged to have arisen from the alleged conduct of the various individual defendants, three of whom are former employees of the plaintiffs. The plaintiffs alleged that defendant Randall H. Riley and other terminated employees, after being terminated by the plaintiffs, worked on creating a competing business selling whole life insurance in international markets. Several of the individual defendants have counterclaimed against the plaintiffs seeking damages for breach of contract based on commissions they were denied when the plaintiffs wrongfully terminated their sales agreements. Mr. Riley died in October 2022. Trial of the case has been delayed indefinitely pending action from the Travis County Probate Court with respect to the estate of Mr. Riley. The Company believes the plaintiffs' claims against the Company are entirely without merit and it is conducting a vigorous defense. Management believes that the ultimate resolution of this lawsuit will not be material in relation to the Company's financial position or results of operations.

Guaranty fund assessments, brought about by the insolvency of life and health insurers, are levied at the discretion of the various state guaranty fund associations to cover association obligations. In most states, guaranty fund assessments may be taken as a credit against premium taxes, typically over a five-year period.

**14. Related Party Transactions**

On June 28, 2021, the Company received payment of \$400,000 on a loan with interest at 5.00% from the estate of the Company's former chairman.

**15. Other Comprehensive Loss and Accumulated Other Comprehensive Income (Loss)**

The changes in the components of the Company's accumulated other comprehensive income (loss) for the years ended December 31, 2022 and 2021 are summarized as follows:

	Unrealized Appreciation (Depreciation) on Available-For-Sale Securities	Adjustment to Deferred Acquisition Costs	Accumulated Other Comprehensive Income (Loss)
<b>Year Ended December 31, 2022</b>			
Balance as of January 1, 2022	\$ 13,209,319	\$ (5,492)	\$ 13,203,827
Other comprehensive loss before reclassifications, net of tax	(26,852,226)	9,528	(26,842,698)
Less amounts reclassified from accumulated other comprehensive income (loss) having no credit losses, net of tax	680,808	-	680,808
Other comprehensive loss	(27,533,034)	9,528	(27,523,506)
Balance as of December 31, 2022	<u>\$ (14,323,715)</u>	<u>\$ 4,036</u>	<u>\$ (14,319,679)</u>
<b>Year Ended December 31, 2021</b>			
Balance as of January 1, 2021	\$ 17,551,279	\$ (32,421)	\$ 17,518,858
Other comprehensive loss before reclassifications, net of tax	(3,857,078)	26,929	(3,830,149)
Less amounts reclassified from accumulated other comprehensive income (loss) having no credit losses, net of tax	484,882	-	484,882
Other comprehensive loss	(4,341,960)	26,929	(4,315,031)
Balance as of December 31, 2021	<u>\$ 13,209,319</u>	<u>\$ (5,492)</u>	<u>\$ 13,203,827</u>

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**15. Other Comprehensive Loss and Accumulated Other Comprehensive Income (Loss) (continued)**

The pretax components of the Company's other comprehensive loss and the related income tax expense (benefit) for each component for the years ended December 31, 2022 and 2021 are summarized as follows:

	Pretax	Income Tax Expense (Benefit)	Net of Tax
	<u>Year Ended December 31, 2022</u>		
Other comprehensive loss:			
Change in net unrealized losses on available-for-sale securities:			
Unrealized holding losses arising during the period	\$ (33,990,160)	\$ (7,137,934)	\$ (26,852,226)
Reclassification adjustment for net gains included in operation	861,782	180,974	680,808
Net unrealized losses on investments	(34,851,942)	(7,318,908)	(27,533,034)
Adjustment to deferred acquisition costs	12,060	2,532	9,528
Total other comprehensive loss	<u>\$ (34,839,882)</u>	<u>\$ (7,316,376)</u>	<u>\$ (27,523,506)</u>
	<u>Year Ended December 31, 2021</u>		
Other comprehensive loss:			
Change in net unrealized losses on available-for-sale securities:			
Unrealized holding losses arising during the period	\$ (4,882,377)	\$ (1,025,299)	\$ (3,857,078)
Reclassification adjustment for net gains included in operation	613,775	128,893	484,882
Net unrealized losses on investments	(5,496,152)	(1,154,192)	(4,341,960)
Adjustment to deferred acquisition costs	34,088	7,159	26,929
Total other comprehensive loss	<u>\$ (5,462,064)</u>	<u>\$ (1,147,033)</u>	<u>\$ (4,315,031)</u>

Realized gains and losses on the sales of investments are determined based upon the specific identification method and include provisions for other-than-temporary impairments where appropriate.

The pretax and the related income tax components of the amounts reclassified from the Company's accumulated other comprehensive income (loss) to the Company's consolidated statements of operations for the years ended December 31, 2022 and 2021 are summarized as follows:

Reclassification Adjustments	Years Ended December 31,	
	2022	2021
Realized gains on sales of securities (a)	\$ 861,782	\$ 613,775
Income tax expense (b)	180,974	128,893
Total reclassification adjustments	<u>\$ 680,808</u>	<u>\$ 484,882</u>

(a) These items appear within net realized investment gains in the consolidated statements of operations.

(b) These items appear within federal income taxes in the consolidated statements of operations.

**16. Line of Credit**

On September 15, 2022, the Company did not renew its \$1.5 million line of credit with a bank to provide working capital and funds for expansion. For the one-year period ending September 15, 2022, the Company's line of credit with a bank allowed for advances, repayments and re-borrowings. Any outstanding advances would have incurred interest at a variable interest rate of the prime rate set forth in the Wall Street Journal plus 1% per annum adjusting monthly based on a 360-day year with a minimum interest rate floor of 5.75%. The non-utilized portion of the \$1.5 million line of credit would have been assessed a 1% non-usage fee calculated in arrears and paid at the maturity date. No amounts were outstanding on this line of credit during the years it was available.

## **Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None

### **Item 9A. Controls and Procedures.**

#### **Evaluation of Disclosure Controls and Procedures**

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer (“Certifying Officers”), has evaluated the effectiveness of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934 as amended (“Exchange Act”) as of the end of the fiscal period covered by this Annual Report on Form 10-K (“Annual Report”). Based upon such evaluation, the Certifying Officers have concluded that the Company’s disclosure controls and procedures were effective to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is made known to management, including our Certifying Officers, as appropriate, to allow timely decisions regarding disclosure and that such information is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms.

In designing and evaluating our disclosure controls and procedures, our management recognizes that any controls and procedures, no matter how well designed and operating, can provide only reasonable assurance of achieving the desired control objectives, and our management necessarily is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

#### **Management’s Report on Internal Control over Financial Reporting**

The Company’s management is responsible for establishing and maintaining adequate internal control over financial reporting. As of the end of the period covered by this Annual Report, the Company carried out an evaluation, under the supervision and with the participation of the Company’s management, including the Certifying Officers, of the effectiveness of the design and operation of the Company’s internal controls over financial reporting as defined in Rule 13a-15(e) and 15d-15(e) of the Exchange Act. The standard measures adopted by management in making its evaluation are the measures in the *Internal-Control Integrated Framework (2013)* published by the Committee of Sponsoring Organizations of the Treadway Commission. Based upon such evaluation, management has determined that internal control over financial reporting was effective as of December 31, 2022.

This Annual Report does not include an attestation report of the Company’s registered public accounting firm regarding internal control over financial reporting. Management’s report was not subject to the attestation by the Company’s registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permit the Company to provide only management’s report in this Annual Report.

#### **Limitations on the Effectiveness of Controls**

The Company’s management, including the Certifying Officers, does not expect that the disclosure controls and internal controls will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs.

Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management or board override of the control.



The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

### Changes to Internal Control over Financial Reporting

There were no changes in the Company’s internal control over financial reporting during the fiscal quarter ended December 31, 2022 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

### Item 9B. Other Information

None

### Part III

## ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

### Directors

The following sets forth certain information regarding the current Class A Directors of First Trinity Financial Corporation (“FTFC”) including age, position with the Company, principal occupation and term of service. The Company Class A Directors serve until the next Annual Meeting of Shareholders or until their successors are duly elected and qualified.

Name of Nominee	Age	Position/Principal Occupation	Director Since
Gregg E. Zahn (4)	61	Director; Chairman, President and Chief Executive Officer of First Trinity	2004
Charles W. Owens (3) (4)	68	Director; Insurance and Marketing Services	2004
George E. Peintner (2) (4)	69	Director; Marketing Company	2004

- (1) Member Audit Committee
- (2) Member Compensation Committee
- (3) Member Nominating and Corporate Governance Committee
- (4) Member Investment Committee

The following is a brief description of the business backgrounds of the Class A directors.

**Gregg E. Zahn** has been a member of the Board of Directors since inception in 2004. He is President, Chief Executive Officer and Chairman of the Board of Directors of First Trinity. He has been President and Chief Executive Officer since October 2007 and became Chairman in 2011. From 2004 until October 2007 he was First Trinity’s Director of Training and Recruiting. He is President, Chief Executive Officer, Chairman and Director of Trinity Life Insurance Company (“TLIC”) and Trinity Mortgage Corporation (“TMC”) and has served in those positions since October 2007. He was Executive Vice President of First Life America Corporation of Topeka, Kansas (acquired in 2008 and merged with TLIC in 2009) from December 2008 until August 2009. He became Chairman, Chief Executive Officer and Director of Family Benefit Life Insurance Company (“FBLIC”) in December 2011. He became Chairman of Texas Republic Capital Corporation (“TRCC”) in 2012. He also was Chairman of Royalty Capital Corporation (“RCC”) from its inception in 2013 through its dissolution in 2022 when RCC’s life insurance subsidiary, Royalty Capital Life Insurance Company (“RCLIC”), was sold to FTFC. Between 1997 and March 2004, Mr. Zahn served as Marketing Vice President of First Alliance Insurance Company of Lexington, Kentucky and as Assistant to the President of First Alliance Corporation and Mid American Alliance Corporation. He was President of Alliance Insurance Management from 2001 to 2003.

**Charles W. Owens** has been a member of the Board of Directors since inception in 2004. He is a Director of TLIC, FBLIC and TMC. Mr. Owens has served as the President and Owner of Tinker Owens Insurance and Marketing Services since its inception in 1988.

**George E. Peintner** has been a member of the Board of Directors since inception in 2004. He is a Director of TLIC, FBLIC and TMC. Mr. Peintner is the Owner of Peintner Enterprises. Peintner Enterprises is a Marketing Company established in 1980.

The following sets forth certain information regarding the current directors that were appointed by a vote of the Class B shareholders including age, position with the Company, principal occupation and term of service. The Company Class A Directors serve until the next Annual Meeting of Shareholders or until their successors are duly elected and qualified.

Name of Nominee	Age	Position/Principal Occupation	Director Since
William S. Lay (3) (4)	83	Director; Former Vice President and Chief Investment Officer of FTFC	2007
Bill H. Hill (1) (2)	82	Director; Former President of Eastern Oklahoma State College	2004
Gary L. Sherrer (1) (3)	74	Director; Former Assistant Vice President, Division of Agricultural Sciences and Natural Resources for Oklahoma State University Foundation	2004
Will W. Klein (1) (2)	90	Director; Insurance Company Chief Executive Officer	2011
Gerald J. Kohout (1) (2)	82	Director; Former Officer and Director of Life and Health Insurance	2015

- (1) Member Audit Committee
- (2) Member Compensation Committee
- (3) Member Nominating and Corporate Governance Committee
- (4) Member Investment Committee

The following is a brief description of the business backgrounds of the current directors that were appointed by a vote of the Class B shareholders.

**Bill H. Hill** has been a member of the Board of Directors since inception in 2004. He also serves as a Director of TLIC, FBLIC and TMC. He was President of Eastern Oklahoma State College, in Wilburton, OK from 1986-2000. He retired in 2000 and has been a rancher since that time.

**Will W. Klein** has been a member of the Board of Directors since 2011. He also serves as a Director of TLIC, FBLIC and TMC. He has been Chief Executive Officer of SkyMed International, Inc. since 1993. Mr. Klein was named to The Order of Canada in 1983, the country's highest civilian honor.

**Gerald J. Kohout** has been a member of the FBLIC Board of Directors since 2013. He also has served as a Director of FTFC, TLIC and TMC since 2015 and TRCC since 2021. He is a retired officer and director of numerous life and health insurance companies spanning a period of several decades. Mr. Kohout has extensive experience in the administrative operations of life and health insurance companies with significant experience in business mergers, acquisitions, logistics and reorganizations.

**William S. Lay** has been a member of the Board of Directors since 2007. He was FTFC's Vice President, Chief Investment Officer from March 2011 through his retirement in December 2022 and served as Chief Financial Officer from April of 2007 through June 2010 and Secretary and Treasurer from April 2007 through March 2011. He continues to serve as a Director of TLIC, FBLIC, TMC and TRCC. Mr. Lay was a director of RCC from its inception in 2013 through its dissolution in 2022 when RCC's life insurance subsidiary, RCLIC, was sold to FTFC. Prior to his retirement, Mr. Lay was a financial officer and business consultant, specializing in corporate financial and consulting services for small-sized entrepreneurial companies. Prior to that, Mr. Lay was an officer and director of numerous life insurance companies and has experience in business acquisitions, mergers and reorganizations.

**Gary L. Sherrer** has been a member of the Board of Directors since inception in 2004 and in 2017 was appointed the Company's Oklahoma Legislative Liaison. He is a Director of TLIC, FBLIC and TMC. He retired from Oklahoma State University where he was serving as Assistant Vice President for External Affairs for the Division of Agricultural Sciences and Natural Resources.

Mr. Sherrer previously was Assistant Chief Executive Officer of KAMO Power, Oklahoma's first Secretary of Agriculture, Oklahoma's Commissioner of Agriculture, Oklahoma's second and sixth Secretary of Environment and Director of Oklahoma's Water Resources Board. He also served for four terms in the Oklahoma House of Representatives and in the United States Army as a combat medic in Vietnam.

### Director Compensation

Effective January 1, 2020, Directors who are not employees of the Company receive a \$9,500 annual retainer paid monthly, \$5,500 plus expenses for each Board of Directors meeting attended in person, \$500 for each meeting in which they participate telephonically and \$500 for any committee meeting they attend not held in conjunction with a Board of Directors' meeting. Committee Chairman receive an additional \$9,500 annual retainer paid monthly. Also effective January 1, 2020, Directors who are not employees, would have the following increases in directors compensation: for each \$100,000,000 in asset growth of the Company beyond \$600,000,000, there will be an annual retainer increase of \$1,000, a meeting attendance in person increase of \$500 and an increase in the annual retainer of committee chairmen of \$1,000.

The Director Compensation Table for 2022 is set forth below.

Name	Fees Earned or Paid in Cash (\$)	Stock Awards (\$)	Option Awards (\$)	Non-Equity Incentive Plan Compensation (\$)	Change in	All Other Compensation ( \$)	Total (\$)
					Pension value and Nonqualified Deferred Compensation Earnings (\$)		
Bill H. Hill	44,500	-	-	-	-	-	44,500
Will W. Klein	54,000	-	-	-	-	-	54,000
Gerald J. Kohout	44,500	-	-	-	-	-	44,500
Charles W. Owens	51,500	-	-	-	-	-	51,500
George E. Peintner	52,000	-	-	-	-	-	52,000
Gary L. Sherrer	53,500	-	-	-	-	-	53,500

### Executive Officers

The following sets forth information regarding the current executive officers of FTFC including age, current and prior positions with the Company and term of service. The Company's Executive Officers serve a term of one year as elected by the Board of Directors or until their successors are duly elected and qualified.

Name of Officer	Age	Position/Principal Occupation	Employee Since
Gregg E. Zahn (1)	61	Chairman, President and Chief Executive Officer	2004
Jeffrey J. Wood (2)	68	Chief Financial Officer, Secretary and Treasurer	2010

- (1) Mr. Zahn was elected President and Chief Executive Officer in October 2007 and Chairman in May 2011 and previously served as Director of Training and Recruiting from 2004 through October 2007.
- (2) Mr. Wood was elected Chief Financial Officer in June 2010 and Secretary and Treasurer in March 2011.

## **Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Exchange Act (“Section 16(a)”) requires the Company’s executive officers and directors, and certain persons who own more than 10% of a registered class of the Company’s equity securities (“10% Stockholders”), to file reports of ownership on Form 3 and changes in ownership on Forms 4 or 5 with the SEC. Such executive officers, directors and 10% Stockholders are also required by SEC rules to furnish the Company with copies of all Section 16(a) forms they file.

Based solely on its review of the copies of such reports furnished to the Company and written representations that no other reports were required to be filed during 2022, the Company believes that its executive officers, directors and 10% Stockholders have complied with all Section 16(a) filing requirements applicable to them.

## **Corporate Governance**

The Company has a Code of Conduct and Ethics (“Code”) applicable to all directors and employees, including our Chairman of the Board, Chief Executive Officer and other senior executives, to help ensure that our business is conducted in accordance with high standards of ethical behavior. The Code is published on our website at [www.firsttrinityfinancial.com](http://www.firsttrinityfinancial.com) under “Corporate Governance” and may be obtained free of charge by contacting our corporate offices at (918) 249-2438 or requesting a copy in writing to 7633 East 63<sup>rd</sup> Place, Suite 230, Tulsa, Oklahoma 74113-1246.

The Company’s Board of Directors, Executive Officers, Officers and Management annually complete and verify biographical affidavits, questionnaires and conflict and interest forms to document compliance with the Code.

The Company has four major committees to ensure that First Trinity Financial Corporation’s activities, decisions and transactions are subject to review and scrutiny.

### **Audit Committee**

The Audit Committee of the Board of Directors is currently composed of four directors: Will W. Klein (chairman), Bill H. Hill, Gerald J. Kohout and Gary L. Sherrer, each of whom is determined to be an independent director as the term is defined by the NASDAQ listing standards. The Board of Directors has also determined that Mr. Klein qualifies as an "audit committee financial expert," as defined in applicable SEC rules.

The Audit Committee was established by the Board of Directors in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934 to oversee the Company's financial reporting process, the system of internal financial controls and audits of its financial statements. The Audit Committee (1) provides oversight of the Company’s accounting and financial reporting processes and the audit of the Company’s financial statements, (2) assists the Board of Directors in oversight of the integrity of the Company’s financial statements, the Company’s compliance with legal and regulatory requirements, the independent public accounting firm’s qualifications, independence and performance, and the Company’s internal accounting and financial controls and (3) provides to the Board of Directors such information and materials as it may deem necessary to make the Board of Directors aware of significant financial matters that require the attention of the Board of Directors. The Audit Committee acts pursuant to a written charter adopted by the Board of Directors, which is available in the “Corporate Governance” section of the Company’s website at [www.firsttrinityfinancial.com](http://www.firsttrinityfinancial.com).

### **Compensation Committee**

The Compensation Committee is currently composed of four directors: George E. Peintner (chairman), Bill H. Hill, Gerald J. Kohout and Will W. Klein, each of whom is determined to be an independent director as the term is defined by the NASDAQ listing standards. The Compensation Committee reviews and approves the compensation and benefits for the Company’s executive officers and performs such other duties as may from time to time be determined by the Board of Directors. The Compensation committee acts pursuant to a written Charter adopted by the Board of Directors, which is available in the “Corporate Governance” section of the Company’s website at [www.firsttrinityfinancial.com](http://www.firsttrinityfinancial.com).

## **Nominating and Corporate Governance Committee**

The Board of Directors has a Nominating and Corporate Governance Committee. This committee meets on call and submits recommendations to the Board of Directors for the number of members to be included in the Company's Board of Directors, the individuals to be submitted to the shareholders for election for the Company's Board of Directors and coordinates the corporate governance activities of the Company. The Nominating and Corporate Governance Committee currently consists of independent (as the term is defined by the NASDAQ listing standards) directors Charles W. Owens (Chairman) and Gary L. Sherrer and non-independent director William S. Lay. The Nominating and Corporate Governance committee acts pursuant to a written Charter adopted by the Board of Directors, which is available in the "Corporate Governance" section of the Company's website at [www.firsttrinityfinancial.com](http://www.firsttrinityfinancial.com).

## **Investment Committee**

The Investment Committee of the Board of Directors is currently composed of four directors: Gregg E. Zahn (chairman), William S. Lay, Charles W. Owens and George E. Peintner. The Investment Committee (1) reviews and approves investment transactions on at least a quarterly basis, (2) establishes the Company's investment policy, (3) provides specific guidelines for the allocation of the Company's available funds for investments and other purposes and (4) monitors those guidelines to ensure that available funds are properly allocated into investment categories consistent with the Company's investment policies.

## **ITEM 11. EXECUTIVE COMPENSATION**

### **Executive Compensation**

The Compensation Committee assists the Board of Directors in overseeing the management of the Company's compensation and benefits program, chief executive officer performance and executive development and succession efforts. In addition, the Compensation Committee oversees the evaluation of management and compensation of the officers of the Company.

The primary objective of our compensation program is to offer executive officers competitive compensation packages that will permit the Company to attract and retain individuals with superior abilities and to motivate and reward these individuals in an appropriate manner in the long-term interest of the Company and its shareholders. Management provides recommendations to the Compensation Committee regarding most compensation matters, including executive compensation; however, the Compensation Committee does not delegate any of its functions to others in setting compensation. The Company does not currently engage any consultant related to executive compensation.

The Company's compensation program for executive officers consists of base salary, consideration for annual bonuses, 401(k) plan and life, health and dental insurance coverage. These elements are intended to provide an overall compensation package that is commensurate with the Company's financial resources, that is appropriate to assure the retention of experienced management personnel and that aligns their financial interest with those of our shareholders.

**Base Salary:** Salary levels recommended by the Compensation Committee are intended to be competitive with salary levels of similarly situated companies, commensurate with the executive officers' respective duties and responsibilities, and reflect the financial performance of the Company. Annual salary increases are considered based on the same criteria.

**Cash Bonuses:** Bonus amounts are based on individual performance and are intended to reward superior performance. The Compensation Committee may also take into account additional considerations that it deems appropriate. Bonuses are discretionary and there is no formal bonus plan in place except for Gregg E. Zahn's asset and net profit bonus discussed below.

The following Summary Compensation Table sets forth the compensation of our most highly compensated executive officers for the years indicated.

### Summary Compensation Table

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	All Other Compensation (\$) (3)	Total (\$)
Gregg E. Zahn (1) President and Chief Executive Officer	2022	537,254	142,869	24,000	704,122
	2021	506,843	158,935	22,500	688,278
Jeffrey J. Wood (2) Chief Financial Officer, Secretary and Treasurer	2022	304,484	25,000	-	329,484
	2021	295,615	20,000	-	315,615

(1) Mr. Zahn was elected President and Chief Executive Officer on October 4, 2007.

(2) Mr. Wood was elected Chief Financial Officer in June 2010 and Secretary and Treasurer in March 2011.

(3) Represents auto allowance

### Employment Agreements

**Gregg E. Zahn** entered into an employment agreement with FTFC on June 7, 2010, with amendments on December 8, 2011, October 8, 2012 and April 9, 2013, September 5, 2017 and May 23, 2022. The employment agreement and amendments were reported by the Company in its Reports on Form 8-K filed on June 11, 2010, December 13, 2011, October 10, 2012, April 11, 2013, September 8, 2017 and May 25, 2022, respectively. The employment agreement dated June 7, 2010, contained the terms and conditions of the agreement.

The most recent amended agreement is continuous with automatic monthly extensions on the first day of each month, provides health, dental and vision benefits for a three year period following the date of separation, grosses up separation payments for up to three years of salary following the date of separation, establishes a minimum Change in Control Payment and is subject to earlier termination based on disability, death, termination by the Company, with or without cause.

Under the May 23, 2022, amendment:

In the event the Company undergoes a Change in Control, and so long as Employee is employed with the Company immediately before the Change in Control, Employee will receive a payment (the "Change in Control Payment"), subject to applicable withholdings and deductions, equal to the greater of (a) 2.99 times the average of Employee's W-2 compensation (as reported in box 1) for the three completed years that immediately precede the Change in Control; and (b) three million nine hundred fifty thousand dollars (\$3,950,000). The Change in Control Payment will be paid to Employee no later than sixty (60) days after the effective date of the Change in Control.

Under the September 5, 2017, amendment:

- Mr. Zahn's annual salary of \$300,000 increased annually on January 1<sup>st</sup> of each year by 6% (retroactive to January 1, 2013) during 2013 and in subsequent years as follows: 2013 - \$318,000; 2014 - \$337,080; 2015 - \$357,304; 2016 - \$378,743; 2017 - \$401,467, 2018 - \$425,556, 2019 - \$451,089, 2020 - \$478,154, 2021 - \$506,843 and 2022 - \$537,254.
- Mr. Zahn receives a net profit bonus of 5% of the net income (with operating results measured using the audited U.S. GAAP basis of accounting) of the Company each year after completion of the annual audit and the filing of the Company's Form 10-K. The net profit bonus will be capped at 200% of Mr. Zahn's base salary for the year the net profit bonus was calculated. The initial net profit bonus was calculated for the year ended December 31, 2012.

- Mr. Zahn received an asset growth bonus (with assets measured using the audited U.S. GAAP basis of accounting) as follows: \$200,000 bonus when the Company's assets reached \$200,000,000; \$250,000 bonus when the Company's assets reached \$250,000,000; \$300,000 bonus when the Company's assets reached \$300,000,000; \$350,000 bonus when the Company's assets reached \$350,000,000; \$400,000 bonus when the Company's assets reached \$400,000,000; \$450,000 bonus when the Company's assets reached \$450,000,000 and \$500,000 bonus when the Company's assets reached \$500,000,000. More than one asset growth bonus could be received in any given year. Mr. Zahn was granted a \$600,000 bonus at the discretion of the Board of Directors in 2020 when the Company's assets exceeded \$600,000,000.

Mr. Zahn also received a monthly auto allowance of \$1,100 through March 31, 2020 that was increased to a monthly auto allowance of \$1,500 effective April 1, 2020 and \$2,000 effective April 1, 2021. He is entitled to participate in the Company's employee benefit plans available to other executives. Amounts payable, as of December 31, 2022, in the event of Mr. Zahn's termination of employment by the Company not for cause or for good reason (including salaries, bonus, auto allowance, benefits and tax rate adjustment for three years) is \$3,950,000.

**Jeffrey J. Wood** entered into an employment agreement dated December 8, 2011 with the Company, effective and retroactive to August 1, 2011. The agreement was for a term through December 31, 2013 with automatic one-year extensions each year on December 31 and is subject to earlier termination based on disability, death, termination by the Company, with or without cause. Mr. Wood's base salary of \$200,000 effective August 1, 2011 was increased to \$225,000 per year pursuant to an amendment to his employment agreement as of April 9, 2013, and effective as of January 1, 2013. The amendment was reported in the Company's Report on Form 8-K filed on April 11, 2013.

Mr. Wood's base salary of \$225,000 retroactively effective January 1, 2013 was increased to \$240,000 per year pursuant to an amendment to his employment agreement as of December 23, 2015, and effective as of January 1, 2015. The amendment was reported in the Company's Report on Form 8-K filed on December 28, 2015. Mr. Wood's base salary of \$240,000 retroactively effective to January 1, 2015 was increased to \$255,000 per year pursuant to an amendment to his employment agreement as of February 26, 2016, and effective as of January 1, 2016. This annual salary of \$255,000 will increase annually beginning January 1, 2017 by 3%. The amendment was reported in the Company's Report on Form 8-K filed on February 29, 2016.

The most recent amended agreement dated March 18, 2019 and reported in the Company's Form 8-K filed on March 20, 2019 is continuous with automatic monthly extensions on the first day of each month, provides health, dental and vision benefits for a three year period following the date of separation, grosses up separation payments for up to three years of salary following the date of separation and is subject to earlier termination based on disability, death, termination by the Company, with or without cause. He is entitled to participate in the Company's employee benefit plans available to other executives. He is eligible for a bonus at the discretion of the Compensation Committee and the Board of Directors, based on performance. Amounts payable, as of December 31, 2021, in the event of Mr. Wood's termination of employment by the Company not for cause or for good reason (including salary, bonus, benefits and tax adjustment for two years) is \$813,768.

**2022 Compensation Disclosure Ratio of the Median Annual Total Compensation of All Company Employees to the Annual Total Compensation of the Company’s Chief Executive Officer**

The 2022 compensation disclosure ratio of the median annual total compensation of all Company employees to the annual total compensation of the Company’s chief executive officer is as follows:

Category	2022 Total Compensation and Ratio
Median annual total compensation of all employees (excluding Gregg E. Zahn)	<u>\$ 114,882</u>
Annual total compensation of Gregg E. Zahn, Chief Executive Officer	<u>\$ 704,122</u>
Ratio of the median annual total compensation of all employees to the Annual total compensation of Gregg E. Zahn, Chief Executive Officer	<u>16.32%</u>

**COMPENSATION DISCUSSION AND ANALYSIS (CD&A)**

The following Compensation Discussion and Analysis ("CD&A") describes the material elements of compensation for executive officers identified in the Summary Compensation Table.

**Compensation Philosophy**

The Compensation Committee, composed of four outside directors, is responsible for implementing our compensation philosophy for directors, executive officers and employees. Our goal is to ensure we employ qualified, experienced executive officers whose financial interests are aligned with that of our shareholders.

Because we do believe a systematic pattern exists between executive compensation and performance, our compensation philosophy is structured to "motivate" managerial behaviors through a combination of base and incentive compensation. Another of our objectives is to acquire and retain people of integrity who take pride in delivering positive results. The final objective, due to our philosophy to outsource many functions and retain a low number of full-time and part-time employees, requires us to have executive officers that are able to perform and have an intimate knowledge of a combination of executive, actuarial, accounting, operating and other understandings inherent in supervising and growing a successful life insurance company.

**Overview of Compensation Program**

Our compensation consists of salary, bonuses, allowances and benefit plans generally administered equally for all qualified Company employees. The Compensation Committee establishes a salary for each senior executive based on long-term corporate objectives, competitive industry practices and each executive officer's contributions. The Compensation Committee seeks to ensure executive compensation is reasonable, fair and competitive. In order to make this determination, after the end of each calendar year and when financial results for the year are finalized and affirmed by the issuance of an unqualified opinion by the Company’s independent registered public accounting firm, the Compensation Committee generally evaluates the Company's performance and then conducts a similar exercise with respect to a group of comparable companies.

**"Say-on-Pay" and "Say-When-on-Pay"**

We believe our compensation philosophy and structure is fair for our executive officers. Shareholders will not find complex compensation formulas to evaluate and approve. However, to retain our limited number of corporate executives, we generally allow a minimum of one year to a maximum of 2.99 years of compensation in the event of termination of employment by the Company not for cause or for good reason.



Our straightforward and simplified approach to executive compensation insulates our shareholders from the types of corporate excesses which led to the enactment of "Say-on-Pay" and "Say-When-on Pay." We believe our compensation solution favorably serves our shareholders on matters of executive pay.

### **Compensation Performance Analysis**

Our executive management team is led by Gregg E. Zahn and Jeffrey J. Wood who are full-time employees. The Compensation Committee conducted a review of the performance of Gregg E. Zahn and Jeffrey J. Wood for the year 2022. This review included an evaluation of the progress made towards the attainment of our corporate objectives and the role these individuals played in meeting those objectives. The review also included a broad-based comparison of salaries with senior executives of other publicly traded life insurance companies.

Due to being a smaller public reporting company and that our Class A common stock is not publicly traded, it is difficult to find public life insurance companies that are comparable to us. With the growth of our life insurance business, achieving investment opportunities with attractive yields and pursuing acquisition and growth opportunities, the Company achieved increased assets of \$6,105,103 from \$659,758,934 (grossed up by reinsurance and coinsurance amounting to \$106,210,246) as of December 31, 2021 to \$665,864,037 (grossed up by reinsurance and coinsurance amounting to \$92,033,769) as of December 31, 2022 and decreased shareholders' equity of \$16,742,039 from \$68,394,551 (grossed up by accumulated other comprehensive income of \$13,203,827) as of December 31, 2021 to \$51,652,512 (decreased by accumulated other comprehensive loss of (\$14,319,679)) as of December 31, 2022. The Company also achieved increased revenues of \$8,442,858 from \$57,116,241 in 2021 to \$65,559,099 in 2022 and increased net income of \$3,327,333 from \$2,857,370 in 2021 to \$6,184,703 in 2022.

The Company's performance in 2022 reflected the business philosophy and leadership primarily of Gregg E. Zahn supported by Jeffrey J. Wood. Giving consideration to these factors, the Compensation Committee was encouraged by executive management's demonstrated leadership. The Compensation Committee considers Gregg E. Zahn and Jeffrey J. Wood to be valuable executive officers in implementing our corporate objectives.

Gregg E. Zahn continues to lead the Company in accordance with the ideals and philosophies of acquisition of companies, organic growth of the life insurance and annuity business and pursuit of secure, attractive yielding investment returns coupled with the ultimate goal of either establishing a publicly traded stock or inclusion by an already established company with attractive liquidity settlements for FTFC's shareholders.

Jeffrey J. Wood reports to Gregg E. Zahn and leads the daily financial and related operations of the Company in accordance with those same ideals and philosophies.

In 2022, Gregg E. Zahn and Jeffrey J. Wood met the subjective expectations of our Board of Directors and shareholders.

The Compensation Committee remains cautious about its responsibility to shareholders in setting executive compensation and has asked executive management to focus on continued asset growth and profitability. Gregg E. Zahn received a 6.00% increase in base salary to \$537,254 in 2022, received a \$142,869 bonus in 2022 representing 5.00% of FTFC's U.S. GAAP net income of \$2,857,370 and also received an automobile allowance of \$24,000. Jeffrey J. Wood received a 3.00% increase in base salary to \$304,484 in 2022 and received a bonus of \$25,000 in 2022.

### **Compensation Comparable Companies**

To assist in evaluating the compensation for 2022 and establishing compensation for future years, the Compensation Committee utilized independent sources to identify "comparable" companies within the life insurance industry. We believe a comparable is a point of reference for measurement, but not the determinative factor for our executives' compensation. Because the comparative compensation information is one of several analytic tools used in setting executive compensation, the Compensation Committee has discretion in determining the manner and extent of its use.

Six comparables were selected for discussion of salaries and bonuses. Four of these comparable companies were: Atlantic American Life and Health, Midwest Holding, Inc., U.S. Alliance Corporation and Texas Republic Capital Corporation. These four comparable companies have different operating activities and product mixes compared to FTFC but there is insufficient public information available on compensations for life insurance companies closer to our size.

We also analyzed the results of two other companies: Citizens, Inc. and Securities National Financial Corporation. These two companies are larger than us in size, but we are familiar with their operations and executives due to third party administrative services arrangements, prior employment history and participation in reinsurance agreements and national life insurance and mortgage loan associations. Data obtained on each comparable company included executive salaries (including bonuses and all forms of current and deferred compensation), fees paid to independent members of Board of Directors, total assets, liabilities, shareholders' equity, revenues, benefits and expenses, taxes and net income.

Compensation data found on these comparable companies was limited to only those individuals for whom compensation information was disclosed publicly and for the most recent public information that was only through 2021 since 2022 information is not yet publicly available. As a result, the data typically included only the most highly compensated officers at each company as of their latest public filing. Generally, this correlated to the Chairman/CEO, President and the individuals who are chief level officers (Chief Financial Officer, Chief Operating Officer and Chief Investment Officer) or the equivalent with us.

### **Comparative Compensation Analysis**

The overall results of the study of comparable companies provided additional information for the Compensation Committee to consider. As noted above, the Compensation Committee reviewed a number of factors within the comparable companies; however, with the focus on base salary compensation.

Based on the Compensation Committee's analysis, the recommended 2022 base salary compensation for Gregg E. Zahn, our Chairman, President and Chief Executive Officer, and Jeffrey J. Wood, our Chief Financial Officer, Secretary and Treasurer, was determined to be low by the Compensation Committee, especially with the many roles that they perform for our Company. These amounts are within the low range of the base compensation and total compensation for the comparable companies but some of those companies have had little or no success in producing profitable results.

In analyzing these factors, the Compensation Committee concluded that \$537,254 is a low base salary compensation for our Chairman, President and Chief Executive Officer and \$304,484 is also a low base salary compensation for our Chief Financial Officer, Secretary and Treasurer. The Compensation Committee believes, however, that through the use of appropriate bonuses and other incentives, these compensation shortages can be managed most efficiently and effectively using Company asset growth and profitability as measurement standards with additional consideration for the many roles that these officers fulfill for the Company.

### **Board Process and Conclusion**

The Board of Directors discussed the Compensation Committee's recommended 2022 compensation and adopted the recommendations as proposed. The Compensation Committee of the Company has reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K with management and, based on such review and discussions, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this Proxy Statement, which the Board of Directors approved.

### **COMPENSATION COMMITTEE OF THE BOARD OF DIRECTORS**

George E. Peintner, Chairman  
Bill H. Hill  
Will W. Klein  
Gerald J. Kohout

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

**Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

The following table sets forth the beneficial ownership of the Company’s Class A and Class B common stock as of March 6, 2023 (i) by all persons known to the Company, based on statements filed by such persons pursuant to Section 13(d) or 13(g) of the exchange act, to be the beneficial owners of more than 5% of FTFC’s common stock, (ii) by the executive officers named in the Summary Compensation Table under “Executive Compensation”, (iii) by each director, and (iv) by all current directors and executive officers as a group.

Name	Class A Common Stock Beneficially Owned (1)	Percentage Beneficially Owned (1)
Gregg E. Zahn	636,366	6.78%
William S. Lay	30,027	*
Bill H. Hill	36,989	*
Charles W. Owens (2)	52,957	*
George E. Peintner	53,191	*
Gary L. Sherrer	57,042	*
Will W. Klein	13,021	*
Jeffrey J. Wood	5,189	*
Gerald J. Kohout	3,121	*
All directors and executive officers as a group (8 persons)	887,903	9.46%

\* represents less than 1%

- (1) As of March 6, 2023, there were 9,384,340 Class A shares issued and outstanding and entitled to vote.
- (2) Includes 4,626 shares jointly owned by Mr. Owens and his children.

Name	Class B Common Stock Beneficially Owned (1)	Percentage Beneficially Owned (1)
Gregg E. Zahn	100,000	98.91%
William S. Lay	-	*
Bill H. Hill	-	*
Charles W. Owens	-	*
George E. Peintner	-	*
Gary L. Sherrer	-	*
Will W. Klein	-	*
Jeffrey J. Wood	-	*
Gerald J. Kohout	-	*
All directors and executive officers as a group (8 persons)	100,000	98.91%

\* represents less than 1%

- (1) As of March 6, 2023, there are 101,102 Class B shares issued and outstanding and entitled to vote.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

None.

## ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

### REPORT OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

The Audit Committee has reviewed and discussed the audited financial statements for the year ended December 31, 2021 with the Company's management. The Company's management has primary responsibility for the Company's financial reporting process and internal controls as well as preparation of the Company's consolidated financial statements. The independent registered public accounting firm is responsible for performing an audit in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB) to obtain reasonable assurance that the Company's consolidated financial statements are free from material misstatement and expressing an opinion on the conformity of such financial statements with accounting principles generally accepted in the United States. The Audit Committee is responsible for overseeing and monitoring the independent registered accounting firm's audit process on behalf of the Board of Directors.

The Audit Committee has discussed with KEB, the Company's independent registered public accounting firm for the year ended December 31, 2022, the matters required to be discussed by PCAOB Auditing Standard No. 1301, "Communications with Audit Committees" as amended and adopted by PCAOB. PCAOB Auditing Standard No. 1301 requires an auditor to discuss with the Audit Committee, among other things, the auditor's judgments about the quality, not just the acceptability, of the accounting principles applied in the Company's financial reporting. The Audit Committee has also received the written disclosures and the letter from KEB required by PCAOB Rule 3526, "Communication with Audit Committees Concerning Independence," and has discussed with KEB its independence from FTFC.

Based on the review and discussions referred to above, the Audit Committee recommended to FTFC's Board of Directors and the Company's Board of Directors approved the recommendation that the audited financial statements were properly included in FTFC's Annual Report on Form 10-K for the year ended December 31, 2022, for filing with the Securities and Exchange Commission.

### AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

Will W. Klein, Chairman  
Bill H. Hill  
Gerald J. Kohout  
Gary L. Sherrer

### Principal Accounting Fees and Services

The following table shows the fees paid or accrued by the Company for the audit and other services provided by its independent registered public accounting firm, Kerber, Eck & Braeckel LLP.

	Years Ended December 31,	
	2022	2021
Audit Fees (including expenses)	\$ 155,547	\$ 148,703
Audit Related Fees	44,250	42,600
Tax Fees	11,500	12,750
All Other Fees	-	3,760
Total	<u>\$ 211,297</u>	<u>\$ 207,813</u>

Audit fees primarily represent fees for financial services provided in connection with the audit of the Company's consolidated financial statements, statutory financial statements of TLIC and FBLIC and Securities and Exchange Commission Form 10-K. Audit related services primarily represent fees for financial services in connection with the review of the Company's quarterly reports and Securities and Exchange Commission Form 10-Q. The tax fees are related to the filing of the Company's annual tax return with the Internal Revenue Service.

## Item 15. Exhibits

The exhibits are listed in the Exhibit Index, which is incorporated herein by reference.

## Item 16. Form 10-K Summary

None

### EXHIBIT INDEX

<u>Exhibit Number</u>	<u>Description of Exhibit</u>
3.1	Amended Certificate of Incorporation, incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed June 17, 2009.
3.2	By-laws, as amended and restated, incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed May 1, 2009.
3.3	Amended and Restated Certificate of Incorporation, incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed March 30, 2020.
4.1	Specimen Stock Certificate, incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form 10-SB filed April 30, 2007.
10.1	Amended and Restated Employment Agreement of Gregg E. Zahn, president, dated May 23, 2022, incorporated by reference as Exhibit 10.8 of the Company's Current Report on Form 8-K filed May 25, 2022.
10.2	Amended and Restated Employment Agreement of Jeffrey J. Wood, dated March 18, 2019, incorporated by reference as Exhibit 10.28 of the Company's Current Report on Form 8-K filed March 20, 2019.
10.3	2019 Long-Term Incentive Plan, incorporated by reference as Exhibit 10.15 of the Company's Current Report on Form 8-K filed March 13, 2020.
10.4	Employment Agreement of William S. Lay, dated December 6, 2021, incorporated by reference as Exhibit 10.16 of the Company's Current Report on Form 8-K filed December 7, 2021.
21.1*	Subsidiaries of First Trinity Financial Corporation.
24.1*	Powers of Attorney (included in the signature pages hereto, and incorporated herein by reference).
31.1*	Rule 13a-14(a)/15d-14(a) Certification of Principal Executive Officer.
31.2*	Rule 13a-14(a)/15d-14(a) Certification of Principal Financial Officer.
32.1*	Section 1350 Certification of Principal Executive Officer.
32.2*	Section 1350 Certification of Principal Financial Officer.
101.INS**	Inline XBRL Instance
101.SCH**	Inline XBRL Taxonomy Extension Schema
101.CAL**	Inline XBRL Taxonomy Extension Calculation

EXHIBIT INDEX (continued)

<u>Exhibit Number</u>	<u>Description of Exhibit</u>
101.DEF**	Inline XBRL Taxonomy Extension Definition
101.LAB**	Inline XBRL Taxonomy Extension Labels
101.PRE**	Inline XBRL Taxonomy Extension Presentation
104	Cover Page Interactive Data (formatted as Inline XBRL and continued in Exhibit 101)
**XBRL	Information is furnished and not filed as part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

\* Filed herewith

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

FIRST TRINITY FINANCIAL CORPORATION

Date March 9, 2023

By /s/ Gregg E. Zahn  
Gregg E. Zahn  
President, Chief Executive Officer and Director

In accordance with Section 13 or 15(d) of the Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

FIRST TRINITY FINANCIAL CORPORATION

Date March 9, 2023

By /s/ Jeffrey J. Wood  
Jeffrey J. Wood  
Chief Financial Officer

SIGNATURES

In accordance with the requirements of the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By /s/ Gregg E. Zahn Date March 9, 2023  
Gregg E. Zahn  
Chairman of the Board, President, Chief Executive Officer and Director

By /s/ William S. Lay Date March 9, 2023  
William S. Lay, Director

By /s/ Bill H. Hill Date March 9, 2023  
Bill H. Hill, Director

By /s/ Will W. Klein Date March 9, 2023  
Will W. Klein, Director

By /s/ Gerald J. Kohout Date March 9, 2023  
Gerald J. Kohout, Director

By /s/ Charles W. Owens Date March 9, 2023  
Charles W. Owens, Director

By /s/ George E. Peintner Date March 9, 2023  
George E. Peintner, Director

By /s/ Gary L. Sherrer Date March 9, 2023  
Gary L. Sherrer, Director

EXHIBIT NO. 21.1

**SUBSIDIARIES OF FIRST TRINITY FINANCIAL CORPORATION  
AN OKLAHOMA CORPORATION**

<u>Company Name</u>	<u>State of Incorporation</u>	<u>Ownership</u>
Trinity Mortgage Corporation	Oklahoma	100% Direct
Trinity Life Insurance Company	Oklahoma	100% Direct
Family Benefit Life Insurance Company	Missouri	100% Indirect
Trinity American, Inc.	Barbados, West Indies	100% Direct



CERTIFICATION

I, Gregg Zahn, Chief Executive Officer, certify that:

1. I have reviewed this annual report on Form 10-K, for the year ended December 31, 2022, of First Trinity Financial Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant, and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter, the registrant's fourth quarter in the case of an annual report, that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions);

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 9, 2023

By: /s/ Gregg E. Zahn  
Gregg E. Zahn, President and Chief Executive Officer

CERTIFICATION

I, Jeffrey J. Wood, Chief Financial Officer, certify that:

1. I have reviewed this annual report on Form 10-K, for the year ended December 31, 2022, of First Trinity Financial Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant, and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter, the registrant's fourth quarter in the case of an annual report, that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 9, 2023

By: /s/ Jeffrey J. Wood  
Jeffrey J. Wood, Chief Financial Officer

EXHIBIT NO. 32.1

Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Pursuant to 18 U.S.C. ss. 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of First Trinity Financial Corporation, an Oklahoma corporation (the "Company"), hereby certifies that:

To my knowledge, the Annual Report on Form 10-K of the Company for the year ended December 31, 2022 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 9, 2023

By: /s/ Gregg E. Zahn

Gregg E. Zahn, President and Chief Executive Officer

EXHIBIT NO. 32.2

Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Pursuant to 18 U.S.C. ss. 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of First Trinity Financial Corporation, an Oklahoma corporation (the "Company"), hereby certifies that:

To my knowledge, the Annual Report on Form 10-K of the Company for the year ended December 31, 2022 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 9, 2023

By: /s/ Jeffrey J. Wood  
Jeffrey J. Wood, Chief Financial Officer