

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, 2023

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 4, 2024, 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 2024 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 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

Our operations have been financed primarily through the private placement of equity securities and intrastate public stock offerings. Through December 31, 2023, 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.

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.

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, 2023 and 2022 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, 2023 and 2022, in accordance with statutory accounting practices prescribed by the states of domicile of TLIC and FBLIC.

State	Year Ended December 31, 2023			
	Life		Annuity	
	Premiums	Percentage	Considerations	Percentage
Alabama	\$ 925,134	2.93%	\$ -	0.00%
Arizona	535,611	1.69%	824,122	1.22%
Arkansas	631,492	2.00%	5,002	0.01%
Colorado	964,553	3.05%	53,067	0.08%
Georgia	1,708,051	5.40%	1,046,986	1.54%
Illinois	1,991,234	6.30%	137,150	0.20%
Indiana	1,286,901	4.07%	3,380,944	4.99%
Kansas	1,716,912	5.43%	1,952,140	2.88%
Kentucky	1,009,116	3.19%	-	0.00%
Louisiana	892,269	2.82%	49,900	0.07%
Michigan	677,515	2.14%	255,029	0.38%
Missouri	1,626,367	5.15%	286,550	0.42%
Nebraska	392,476	1.24%	5,953,567	8.78%
North Carolina	3,441,716	10.89%	12,118,420	17.87%
North Dakota	75,454	0.24%	15,384,458	22.68%
Ohio	3,419,283	10.82%	1,725	0.00%
Oklahoma	1,044,670	3.31%	680,666	1.00%
Pennsylvania	1,211,847	3.83%	505,058	0.74%
South Carolina	34,346	0.11%	997,303	1.47%
Tennessee	1,170,322	3.70%	343,350	0.51%
Texas	4,750,577	15.04%	21,485,887	31.68%
Virginia	933,283	2.95%	1,166,022	1.72%
All other states	1,168,264	3.70%	1,191,523	1.76%
Total direct collected premiums and considerations	<u>\$ 31,607,393</u>	<u>100.00%</u>	<u>\$ 67,818,869</u>	<u>100.00%</u>

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%
South Carolina	35,316	0.11%	613,483	0.98%
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	1,056,096	3.43%	630,707	1.00%
Total direct collected premiums and considerations	<u>\$ 30,848,540</u>	<u>100.00%</u>	<u>\$ 62,836,167</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 are subject to regulation and supervision by the OID. The insurance laws of Oklahoma give the OID 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 and FBLIC are subject to Oklahoma laws that limit the amount of dividends insurance companies can pay to stockholders without approval of the 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 \$2,247,082 as of December 31, 2023. In addition, based on those limitations, there is the capacity for FBLIC to pay a dividend up to \$1,373,511 in 2024 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 2023. 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 7, 2024, the Company had nineteen 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 2023, the Company foreclosed on residential mortgage loans of real estate totaling \$764,967 and transferred those properties to investment real estate held for sale.

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, filed on November 7, 2018, involves an insurance holding company and its insurance subsidiaries as plaintiffs in the District Court of Travis County, Texas, entitled *Citizens, Inc., CICA Life Ltd., and CICA Life Insurance Company of America, v. Randall H. Riley, Citizens American Life, LLC, Citizens American Life, Inc., Alexis Delgado, Carlos Landa, Enrique Ruiz, Johan Silva, Esperanza Delgado, Michael Buchweitz, Jonathan Pollio, Steven Rekedal, First Trinity Financial Corporation, Trinity American, Inc., and International Marketing Group S.A. LLC, defendants*. The plaintiffs claimed common law unfair competition, misappropriation of trade secrets under the Texas Uniform Trade Secrets Act and various breaches of and interference with contracts. Several of the individual defendants counterclaimed seeking damages for breach of contract based on commissions they were denied due to wrongful termination of their sales agreement by the plaintiffs. Trial of the case occurred from February 26, 2024 through March 8, 2024 and the defendants offered a vigorous defense. In its verdict, delivered on March 8, 2024, the jury confirmed the Company's position that the plaintiffs' claims were without merit, found no liability on any cause of action against the Company and awarded no damages against any defendant. In addition, the jury found the plaintiffs owed over \$1.2 million to two individual defendants for wrongfully withheld sales commissions.

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 7, 2024, there were approximately 7,800 shareholders of the Company's outstanding common stock.

FTFC has authorized 40,000,000 shares of Class A common stock and 10,000,000 shares of Class B common stock. 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.

(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 dividend (amounting to \$393,178) on our Class A common stock.

The Board of Directors of the Company has not adopted a formal dividend payment policy. 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.

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.

The Company considers its most critical accounting estimates to be those applied to investments in fixed maturities securities, mortgage loans on real estate, deferred policy acquisition costs, value of insurance business acquired and future policy benefits. There has been a material change to the Company's critical accounting policies and estimates involving Investments in Fixed Maturity Securities and Mortgage Loans on Real Estate since December 31, 2022 involving the current estimates of credit losses related to the Company's first quarter 2023 adoption of Accounting Standards Update 2016-13 *Financial Instruments – Credit Losses: Measurement of Credit Losses on Financial Instruments* and all related guidance dealing with the FASB's pronouncements dealing with changes in accounting for and recognizing credit losses. These revised critical accounting policies are summarized as follows:

Investments in Fixed Maturity Securities

We hold fixed maturity interests in a variety of companies. The Company continuously 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 the result of a credit loss or other factors. An allowance for credit losses is recorded against available-for-sale securities to reflect the amount of an unrealized loss attributed to credit. This impairment is limited by the amount that the fair value is less than the amortized cost basis. Any remaining unrealized loss is recognized in other comprehensive income (loss) with no change to the cost basis of the security. This determination involves a degree of uncertainty. Changes in the allowance for credit losses are recognized in earnings.

The assessment and determination of whether or not a credit loss exists is based on consideration of the cash flows expected to be collected from the fixed maturity security. The Company develops those expectations after considering various factors such as agency ratings, the financial condition of the issuer or underlying obligors, payment history, payment structure of the security, industry and market conditions, underlying collateral, and other factors that may be relevant based on the facts and circumstances pertaining to individual securities.

If the Company intends to sell the fixed maturity security or will be more likely than not be required to sell the fixed maturity security before recovery of its amortized cost basis, then any allowance for credit losses, if previously recorded is written off and the fixed maturity security's amortized cost is written down to the security's fair value as of the reporting date with any incremental impairment recorded as a charge to noninterest income.

Prior to 2023, the Company evaluated the difference between the amortized cost and estimated fair value of its fixed maturity investments to determine whether any decline in fair value was other-than-temporary in nature. This determination involved a degree of uncertainty. If a decline in the fair value of a fixed maturity security was determined to be temporary, the decline was recognized in other comprehensive income (loss) within shareholders' equity. If a decline in a security's fair value was considered to be other-than-temporary, we then determined 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 was 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 was 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 was considered temporary or other-than-temporary included 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. If an other-than-temporary impairment related to a credit loss occurred with respect to a fixed maturity security, we amortized the reduced book value back to the security's expected recovery value over the remaining term of the fixed maturity investment.

Mortgage Loans on Real Estate

Mortgage loans are carried at unpaid balances, net of unamortized premium or discounts. This measurement of mortgage loans on an amortized cost basis is reduced by an allowance for credit losses representing a valuation allowance that is deducted from the amortized costs basis of mortgage loans to present the net carrying value at the amount expected to be collected on the mortgage loans.

Mortgage loans on real estate 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 statement of operations reflects the measurement of credit losses for newly recognized mortgage loans as well as the expected increases or decreases of expected credit losses that have taken place during the period. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions and reasonable and supportable forecasts that affect the collectability of the reported mortgage loan balances. The Company uses judgment in determining the relevant information and estimation methods that are appropriate in establishing the valuation allowance for credit losses. The allowance for credit losses for mortgage loans with a more-than-insignificant amount of credit determination since origination is determined and the initial allowance for credit losses should be added to the purchase price of mortgage loans rather than being reported as a credit loss expenses.

The Company, however, has established and will continue to establish a valuation allowance for mortgage loans on real estate that are not supported by funds held in escrow based on historical patterns. The Company's foreclosed properties have not resulted in accumulated losses and due to the low loan-to-value the Company holds with respect to its mortgage loans, the Company has not recorded and does not expect to record the addition to the purchase price of mortgage loans an initial allowance for credit losses to be amortized over the life of the mortgage loans. The Company will continue to record credit losses for mortgage loans not supported by funds held in escrow in accordance with its valuation policy for mortgage loans on real estate followed before 2023.

Prior to and continuing in 2023, the Company established a valuation allowance for mortgage loans on real estate that are not supported by funds held in escrow based on historical patterns. This allowance for possible loan losses from investments in mortgage loans on real estate continues to be 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 the Company's 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 the Company utilizes its 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. The 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.

The Company considers mortgage loans on real estate 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. Impairment is measured on a loan-by-loan basis. Factors that the Company considers 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 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, 2023 and 2022, there was \$4,962,525 and \$4,691,773, 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: \$169,840 in 2024, \$152,011 in 2025, \$157,225 in 2026, \$148,123 in 2027 and \$153,251 in 2028.

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.

Adopted Accounting Standards

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 applied 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 required an entity to estimate the credit losses expected over the life of an exposure or pool of exposures.

The estimate of expected credit losses considers 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, are 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 amended the current other-than-temporary impairment model for available-for-sale debt securities and requires 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 Company adopted this standard in first quarter 2023 on a modified retrospective basis. The cumulative effect adjustment to January 1, 2023 accumulated earnings for the adoption of this standard was a charge of \$230,036.

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 introduced new requirements related to certain modifications of receivables made to borrowers experiencing financial difficulties. The amendments promulgated 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 required that an entity disclose current-period gross write-offs by year of origination for financing receivables and net investment in leases. The Company adopted the amendments in this standard in first quarter 2023. The adoption of this guidance did not have a material effect on the Company's results of operations, financial position or liquidity.

Recent Accounting Pronouncements

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.

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.

Improvements to Reportable Segment Disclosures

In November 2023, the FASB issued amendments (Accounting Standards Update 2023-07) to improve reportable segment disclosure requirements primarily through enhanced disclosures about significant segment expenses on both an annual and interim basis. The amendments require public entities to follow the *significant expense principle* and disclose on an annual and interim basis significant segment expenses that are regularly provided to the chief operating decision maker ("CODM") with additional disclosure of the CODM's title, position and how the reported measure(s) of segment profit or loss are used in assessing segment performance and allocating resources. In addition, amounts for *other segment items* are required to be disclosed including a description of its composition. If the CODM uses more than one measure in assessing segment performance and allocating resources, at least one of the measures should be consistent with the corresponding amounts utilized in the public entity's consolidated financial statements.

The amendments in this guidance are effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. Early adoption is permitted. The Company anticipates adopting and disclosing this Update for year-end reporting in 2024 and for interim periods beginning in 2025.

Improvements to Income Tax Disclosures

In December 2023, the FASB issued amendments (Accounting Standards Update 2023-09) to enhance the transparency and decision usefulness of income tax disclosures. The amendments require that public business entities on an annual basis disclose information about taxes paid and a tabular reconciliation using both percentages and amounts of specific categories in the rate reconciliation. In addition, separate disclosure is required for any reconciling item equal to or greater than five (5) percent of the amount computed by multiplying the income or loss from continuing operations before income taxes by the statutory income tax rate. If not otherwise evident, a public business entity is required to provide an explanation of the individual reconciling items such as the nature, effect and causes of the reconciling items.

The amendments in this guidance are effective for public companies for fiscal years beginning after December 15, 2024, and interim periods within fiscal years beginning after December 15, 2024. This guidance should be applied on a prospective basis but retrospective application is permitted. Early adoption is permitted. The Company anticipates adopting and disclosing this Update for year-end reporting in 2025.

Cybersecurity Risk Management, Strategy, Governance and Incident Disclosures by Public Companies

On July 26, 2023, the U.S. Securities and Exchange Commission adopted this Final Rule (the "Cybersecurity Final Rule") enhancing disclosure requirements for registered companies covering cybersecurity risk and management. The Cybersecurity Final Rule requires registrants to disclose material cybersecurity incidents on Form 8-K within four business days of a determination that a cybersecurity incident is material, and such materiality determination must be made without unreasonable delay.

The rule also requires periodic disclosures of, among other things, details on the company's processes to assess, identify, and manage cybersecurity risks, cybersecurity governance, and management's role in overseeing such a compliance program, including the board of directors' oversight of cybersecurity risks. Certain reporting requirements under the Cybersecurity Final Rule become effective as early as December 2023.

The Company has not ever had a material cyber security incident but will follow the Cybersecurity Final Rule regarding timely disclosure of a material cyber security incident. The Company has also disclosed its strategy and governance with respect to its cybersecurity risk management program in this December 31, 2023 Form 10-K.

FINANCIAL HIGHLIGHTS

Consolidated Condensed Results of Operations for the Years Ended December 31, 2023 and 2022

	Years Ended December 31,		Amount Change
	2023	2022	2023 less 2022
Premiums	\$ 38,912,934	\$ 35,705,560	\$ 3,207,374
Net investment income	31,655,321	26,221,172	5,434,149
Net realized investment gains (losses)	(180,152)	544,217	(724,369)
Service fees	4,701,960	3,004,324	1,697,636
Other income	666,409	83,826	582,583
Total revenues	75,756,472	65,559,099	10,197,373
Benefits and claims	46,141,488	41,171,820	4,969,668
Expenses	19,552,536	16,416,627	3,135,909
Total benefits, claims and expenses	65,694,024	57,588,447	8,105,577
Income before federal income tax expense	10,062,448	7,970,652	2,091,796
Federal income tax expense	2,147,087	1,785,949	361,138
Net income	\$ 7,915,361	\$ 6,184,703	\$ 1,730,658
Net income per common share			
Class A common stock	\$ 0.8358	\$ 0.6531	\$ 0.1827
Class B common stock	\$ 0.7104	\$ 0.5551	\$ 0.1553

Consolidated Condensed Financial Position as of December 31, 2023 and 2022

	December 31, 2023	December 31, 2022	Amount Change
			2023 less 2022
Investment assets	\$ 456,517,640	\$ 442,069,335	\$ 14,448,305
Assets held in trust under coinsurance agreement	79,940,459	92,033,769	(12,093,310)
Other assets	135,563,436	131,760,933	3,802,503
Total assets	\$ 672,021,535	\$ 665,864,037	\$ 6,157,498
Policy liabilities	\$ 517,637,743	\$ 504,059,423	\$ 13,578,320
Funds withheld under coinsurance agreement	77,257,253	92,301,039	(15,043,786)
Deferred federal income taxes	4,228,189	2,677,411	1,550,778
Other liabilities	8,882,142	15,173,652	(6,291,510)
Total liabilities	608,005,327	614,211,525	(6,206,198)
Shareholders' equity	64,016,208	51,652,512	12,363,696
Total liabilities and shareholders' equity	\$ 672,021,535	\$ 665,864,037	\$ 6,157,498
Shareholders' equity per common share			
Class A common stock	\$ 6.7597	\$ 5.4542	\$ 1.3055
Class B common stock	\$ 5.7457	\$ 4.6360	\$ 1.1097

Results of Operations – Years Ended December 31, 2023 and 2022

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, 2023 and 2022 are summarized as follows:

	Years Ended December 31,		Amount Change
	2023	2022	2023 less 2022
Premiums	\$ 38,912,934	\$ 35,705,560	\$ 3,207,374
Net investment income	31,655,321	26,221,172	5,434,149
Net realized investment gains (losses)	(180,152)	544,217	(724,369)
Service fees	4,701,960	3,004,324	1,697,636
Other income	666,409	83,826	582,583
Total revenues	<u>\$ 75,756,472</u>	<u>\$ 65,559,099</u>	<u>\$ 10,197,373</u>

The \$10,197,373 increase in total revenues for the year ended December 31, 2023 is discussed below.

Premiums

Our premiums for the years ended December 31, 2023 and 2022 are summarized as follows:

	Years Ended December 31,		Amount Change
	2023	2022	2023 less 2022
Ordinary life first year	\$ 3,074,078	\$ 2,654,456	\$ 419,622
Ordinary life renewal	7,130,477	4,958,248	2,172,229
Final expense first year	3,498,043	4,314,119	(816,076)
Final expense renewal	25,210,336	23,778,737	1,431,599
Total premiums	<u>\$ 38,912,934</u>	<u>\$ 35,705,560</u>	<u>\$ 3,207,374</u>

The \$3,207,374 increase in premiums for the year ended December 31, 2023 is primarily due to the \$2,172,229 increase in ordinary life renewal premiums, \$1,431,599 increase in final expense renewal premiums and \$419,622 increase in ordinary life first year premiums that exceeded a \$816,076 decrease in final expense first year premiums.

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

Net Investment Income

The major components of our net investment income for the years ended December 31, 2023 and 2022 are summarized as follows:

	Years Ended December 31,		Amount Change
	2023	2022	2023 less 2022
Fixed maturity securities	\$ 6,550,360	\$ 7,061,501	\$ (511,141)
Equity securities	118,780	211,290	(92,510)
Other long-term investments	4,948,734	4,975,205	(26,471)
Mortgage loans	19,678,014	16,850,320	2,827,694
Policy loans	240,385	194,814	45,571
Short-term and other investments	2,600,099	243,315	2,356,784
Gross investment income	34,136,372	29,536,445	4,599,927
Investment expenses	(2,481,051)	(3,315,273)	(834,222)
Net investment income	<u>\$ 31,655,321</u>	<u>\$ 26,221,172</u>	<u>\$ 5,434,149</u>

The \$4,599,927 increase in gross investment income for the year ended December 31, 2023 is primarily due to \$2,827,694 increase in mortgage loans and a \$2,356,784 increase in short term and other investments that exceeded a \$511,141 decrease in fixed maturity securities.

The increase in mortgage loans gross investment income is due to an increase in average mortgage loans balance of \$31.2 million comparing the years ended December 31, 2023 to 2022. The increase in short term and other investments gross investment income is due to efficiently investing available cash at higher yields on securities held in the portfolio and other investments. The decline in fixed maturity securities is due to a decrease in the average fixed maturity securities holdings of \$17.2 million comparing the years ended December 31, 2023 to 2022.

The \$834,222 decrease in investment expense for the year ended December 31, 2023 is primarily due to the reallocation of mortgage loan cost to operations for brokering mortgage loans to third parties and a decrease in fixed maturity securities acquisition expenses.

Net Realized Investment Gains (Losses)

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

Our net realized investment gains (losses) for the years ended December 31, 2023 and 2022 are summarized as follows:

	Years Ended December 31,		Amount Change
	2023	2022	2023 less 2022
Fixed maturity securities available-for-sale:			
Sale proceeds and maturities	\$ 5,287,601	\$ 58,393,624	\$ (53,106,023)
Amortized cost at sale date	5,339,617	57,531,842	(52,192,225)
Net realized gains (losses)	<u>\$ (52,016)</u>	<u>\$ 861,782</u>	<u>\$ (913,798)</u>
Mortgage loans on real estate:			
Sale proceeds	\$ 132,634,814	\$ 118,132,864	\$ 14,501,950
Cost at sale date	132,632,318	118,132,864	14,499,454
Net realized gains	<u>\$ 2,496</u>	<u>\$ -</u>	<u>\$ 2,496</u>
Investment real estate:			
Sale proceeds	\$ -	\$ 200,080	\$ (200,080)
Carrying value at sale date	-	147,909	(147,909)
Net realized gains	<u>\$ -</u>	<u>\$ 52,171</u>	<u>\$ (52,171)</u>
Equity securities at fair value:			
Sale proceeds	\$ -	\$ -	\$ -
Cost at sale date	-	8,000	(8,000)
Net realized losses	<u>\$ -</u>	<u>\$ (8,000)</u>	<u>\$ 8,000</u>
Other long-term investments:			
Sale proceeds	\$ -	\$ 16,308,664	\$ (16,308,664)
Carrying value at sale date	-	16,731,242	(16,731,242)
Net realized losses	<u>\$ -</u>	<u>\$ (422,578)</u>	<u>\$ 422,578</u>
Equity securities, changes in fair value	<u>\$ 8,653</u>	<u>\$ 60,842</u>	<u>\$ (52,189)</u>
Changes in current estimate of credit losses	<u>\$ (139,285)</u>	<u>\$ -</u>	<u>\$ (139,285)</u>
Net realized investment gains (losses)	<u>\$ (180,152)</u>	<u>\$ 544,217</u>	<u>\$ (724,369)</u>

Service Fees

The \$1,697,636 increase in service fees for the year ended December 31, 2023 is primarily due to brokerage fees earned on selling mortgage loans to a third party.

Other Income

The \$582,583 increase in other income for the year ended December 31, 2023 is primarily due to interest on collateralized loans to an investment vendor.

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, 2023 and 2022 are summarized as follows:

	Years Ended December 31,		Amount Change
	2023	2022	2023 less 2022
Benefits and claims			
Increase in future policy benefits	\$ 14,212,615	\$ 13,713,452	\$ 499,163
Death benefits	14,298,818	12,998,679	1,300,139
Surrenders	2,173,694	1,414,622	759,072
Interest credited to policyholders	15,093,685	12,714,469	2,379,216
Dividend, endowment and supplementary life contract benefits	362,676	330,598	32,078
Total benefits and claims	46,141,488	41,171,820	4,969,668
Expenses			
Policy acquisition costs deferred	(13,476,834)	(13,734,859)	258,025
Amortization of deferred policy acquisition costs	8,863,514	7,280,457	1,583,057
Amortization of value of insurance business acquired	270,752	270,394	358
Commissions	12,803,764	12,776,046	27,718
Other underwriting, insurance and acquisition expenses	11,091,340	9,824,589	1,266,751
Total expenses	19,552,536	16,416,627	3,135,909
Total benefits, claims and expenses	\$ 65,694,024	\$ 57,588,447	\$ 8,105,577

The \$8,105,577 increase in total benefits, claims and expenses for the year ended December 31, 2023 is discussed below.

Benefits and Claims

The \$4,969,668 increase in total benefits and claims for the year ended December 31, 2023 is primarily due to the following:

- \$2,379,216 increase in interest credited to policyholders is primarily due to an increase in the crediting rate on new contracts issued during 2023 compared to contracts surrendered during 2023.
- \$1,300,139 increase in death benefits is primarily due to approximately \$759,000 of increased ordinary life benefits and \$540,000 of increased final expense benefits.
- \$759,072 increase in surrenders is based upon policyholder election.
- \$499,163 increase in future policy benefits is primarily due to the increased number of life policies in force and the aging of existing life 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, 2023 and 2022, capitalized costs were \$13,476,834 and \$13,734,859, respectively. Amortization of deferred policy acquisition costs for the years ended December 31, 2023 and 2022 were \$8,863,514 and \$7,280,457.

The \$258,025 increase in the 2023 acquisition costs deferred primarily relates to slightly increased ordinary life first year and annuity production and deferral of slightly increased eligible commissions and expenses. There was an \$1,583,057 increase in the 2023 amortization of deferred acquisition costs due to 2023 surrenders and withdrawal activity and the impact of increased 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 \$270,752 and \$270,394 for the years ended December 31, 2023 and 2022, respectively.

Commissions

Our commissions for the years ended December 31, 2023 and 2022 are summarized as follows:

	Years Ended December 31,		Amount Change 2023 less 2022
	2023	2022	
Annuity	\$ 2,204,946	\$ 2,099,439	\$ 105,507
Ordinary life first year	3,224,247	2,760,258	463,989
Ordinary life renewal	750,566	440,973	309,593
Final expense first year	4,245,077	5,180,713	(935,636)
Final expense renewal	2,378,928	2,294,663	84,265
Total commissions	<u>\$ 12,803,764</u>	<u>\$ 12,776,046</u>	<u>\$ 27,718</u>

The \$27,718 increase in commissions for the year ended December 31, 2023 is primarily due to a \$463,989 increase in ordinary life first year commissions (corresponding to \$419,622 increased ordinary life first year premiums), \$309,593 increase in ordinary life renewal commissions (corresponding to \$2,172,229 increased ordinary life renewal premiums) and a \$105,507 increase annuity commissions (corresponding to \$2,283,991 of increased annuity deposits retained) that exceed a \$935,636 decrease in final expense first year commissions (corresponding to \$816,076 decreased final expense first year premiums).

Other Underwriting, Insurance and Acquisition Expenses

The \$1,266,751 increase in other underwriting, insurance and acquisition expenses for the year ended December 31, 2023 was primarily related to an increase in salaries and benefits, third party administrative fees, advisor fees and legal fees.

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, 2023 and 2022, current income tax expense was \$1,778,778 and \$758,465, respectively. Deferred federal income tax expense was \$368,309 and \$1,027,484 for the years ended December 31, 2023 and 2022, respectively.

Net Income Per Common Share Basic

For the year ended December 31, 2023 and 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, 2023, the net income allocated to the Class A shareholders of \$7,843,534 is the total net income \$7,915,361 less the net income allocated to the Class B shareholders \$71,827. 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.

The weighted average outstanding common shares basic for the year ended December 31, 2023 and 2022 were 9,384,340 for Class A shares 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, 2023 and 2022 are summarized as follows:

	Years Ended December 31,		Amount Change 2023 less 2022
	2023	2022	
Revenues:			
Life insurance operations	\$ 46,859,649	\$ 41,826,391	\$ 5,033,258
Annuity operations	24,531,347	21,351,816	3,179,531
Corporate operations	4,365,476	2,380,892	1,984,584
Total	<u>\$ 75,756,472</u>	<u>\$ 65,559,099</u>	<u>\$ 10,197,373</u>
Income before federal income taxes:			
Life insurance operations	\$ 3,463,203	\$ 3,139,886	\$ 323,317
Annuity operations	3,453,174	3,028,852	424,322
Corporate operations	3,146,071	1,801,914	1,344,157
Total	<u>\$ 10,062,448</u>	<u>\$ 7,970,652</u>	<u>\$ 2,091,796</u>

The increases and decreases of revenues and profitability from our business segments for the years ended December 31, 2023 and 2022 are summarized as follows:

	Life Insurance Operations	Annuity Operations	Corporate Operations	Total
Revenues				
Premiums	\$ 3,207,374	\$ -	\$ -	\$ 3,207,374
Net investment income	1,841,394	3,475,889	116,866	5,434,149
Net realized investment gains (losses)	(157,161)	(575,208)	8,000	(724,369)
Service fees and other income	141,651	278,850	1,859,718	2,280,219
Total revenue	5,033,258	3,179,531	1,984,584	10,197,373
Benefits and claims				
Increase in future policy benefits	499,163	-	-	499,163
Death benefits	1,300,139	-	-	1,300,139
Surrenders	759,072	-	-	759,072
Interest credited to policyholders	-	2,379,216	-	2,379,216
Dividend, endowment and supplementary life contract benefits	32,078	-	-	32,078
Total benefits and claims	2,590,452	2,379,216	-	4,969,668
Expenses				
Policy acquisition costs deferred net of amortization	1,794,256	46,826	-	1,841,082
Amortization of value of insurance business acquired	179	179	-	358
Commissions	(77,789)	105,507	-	27,718
Other underwriting, insurance and acquisition expenses	402,843	223,481	640,427	1,266,751
Total expenses	2,119,489	375,993	640,427	3,135,909
Total benefits, claims and expenses	4,709,941	2,755,209	640,427	8,105,577
Income before federal income tax expense	\$ 323,317	\$ 424,322	\$ 1,344,157	\$ 2,091,796

Consolidated Financial Condition

Our invested assets as of December 31, 2023 and 2022 are summarized as follows:

	December 31, 2023	December 31, 2022	Amount Change 2023 less 2022
Assets			
Investments			
Available-for-sale fixed maturity securities at fair value (amortized cost: \$161,908,230 and \$144,744,158 as of December 31, 2023 and 2022, respectively)	\$ 149,700,948	\$ 126,612,890	\$ 23,088,058
Equity securities at fair value (cost: \$287,375 and \$276,131 as of December 31, 2023 and 2022, respectively)	419,530	399,633	19,897
Mortgage loans on real estate	239,831,447	242,314,128	(2,482,681)
Investment real estate	1,305,403	540,436	764,967
Policy loans	3,474,116	2,840,887	633,229
Short-term investments	298,257	1,860,578	(1,562,321)
Other long-term investments	61,487,939	67,500,783	(6,012,844)
Total investments	\$ 456,517,640	\$ 442,069,335	\$ 14,448,305

The increase and decrease in fixed maturity available-for-sale securities for the years ended December 31, 2023 and 2022, respectively, are summarized as follows:

	Years Ended December 31,	
	2023	2022
Fixed maturity securities, available-for-sale, beginning	\$ 126,612,890	\$ 184,077,038
Purchases	23,059,491	35,249,421
Unrealized appreciation (depreciation)	5,632,801	(34,851,942)
Net realized investment losses (gains)	(191,301)	861,782
Sales proceeds	(457,601)	(57,441,624)
Maturities	(4,830,000)	(952,000)
Premium amortization	(125,332)	(329,785)
Increase (decrease)	<u>23,088,058</u>	<u>(57,464,148)</u>
Fixed maturity securities, available-for-sale, ending	<u>\$ 149,700,948</u>	<u>\$ 126,612,890</u>

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 loss. The available-for-sale fixed maturity securities portfolio is invested in U.S. government, U.S. government agencies, state and political subdivisions, U.S. government agency mortgage backed securities, mortgage-backed securities, corporate bonds, asset-backed securities, exchange traded securities, foreign bonds, redeemable preferred stocks and certificate of deposits.

The increase in equity securities available-for-sale for the years ended December 31, 2023 and 2022 are summarized as follows:

	Years Ended December 31,	
	2023	2022
Equity securities, available-for-sale, beginning	\$ 399,633	\$ 348,218
Purchases	130,550	215,470
Joint venture distribution	(119,306)	(216,897)
Net realized investment loss, sale of securities	-	(8,000)
Net realized investment gains, changes in fair value	<u>8,653</u>	<u>60,842</u>
Increase	<u>19,897</u>	<u>51,415</u>
Equity securities, available-for-sale, ending	<u>\$ 419,530</u>	<u>\$ 399,633</u>

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

The decrease and increase in mortgage loans on real estate for the years ended December 31, 2023 and 2022, respectively, are summarized as follows:

	Years Ended December 31,	
	2023	2022
Mortgage loans on real estate, beginning	\$ 242,314,128	\$ 177,508,051
Purchases	130,956,402	183,102,781
Discount accretion	1,856	250,089
Net realized investment gains	2,496	-
Payments	(132,634,814)	(118,132,864)
Foreclosed - transferred to real estate	(764,967)	-
Increase in allowance for bad debts	(43,654)	(413,929)
Increase (decrease)	(2,482,681)	64,806,077
Mortgage loans on real estate, ending	\$ 239,831,447	\$ 242,314,128

The increase and decrease in investment real estate for the years ended December 31, 2023 and 2022, respectively, are summarized as follows:

	Years Ended December 31,	
	2023	2022
Investment real estate, beginning	\$ 540,436	\$ 688,345
Real estate acquired through mortgage loan foreclosure	764,967	-
Sales proceeds	-	(200,080)
Net realized investment gains	-	52,171
Increase (decrease)	764,967	(147,909)
Investment real estate, ending	\$ 1,305,403	\$ 540,436

The decrease and increase in other long-term investments (comprised of lottery receivables) for the years ended December 31, 2023 and 2022, respectively, are summarized as follows:

	Years Ended December 31,	
	2023	2022
Other long-term investments, beginning	\$ 67,500,783	\$ 65,929,215
Purchases	7,385,062	13,327,014
Discount accretion	4,948,951	4,975,796
Net realized investment losses	-	(422,578)
Payments	(18,346,857)	(16,308,664)
Increase (decrease)	(6,012,844)	1,571,568
Other long-term investments, ending	\$ 61,487,939	\$ 67,500,783

Our assets other than invested assets as of December 31, 2023 and 2022 are summarized as follows:

	<u>December 31, 2023</u>	<u>December 31, 2022</u>	<u>Amount Change</u> <u>2023 less 2022</u>
Cash and cash equivalents	\$ 33,839,741	\$ 33,542,725	\$ 297,016
Accrued investment income	6,214,459	5,580,175	634,284
Recoverable from reinsurers	10,353,674	11,102,875	(749,201)
Assets held in trust under coinsurance agreement	79,940,459	92,033,769	(12,093,310)
Agents' balances and due premiums	1,284,003	1,253,077	30,926
Deferred policy acquisition costs	60,795,108	56,183,785	4,611,323
Value of insurance business acquired	3,777,353	4,048,105	(270,752)
Other assets	19,299,098	20,050,191	(751,093)
Assets other than investment assets	<u>\$ 215,503,895</u>	<u>\$ 223,794,702</u>	<u>\$ (8,290,807)</u>

The \$297,016 increase in cash and cash equivalents for the year ended December 31, 2023 and the corresponding decrease of \$8,985,321 for the year ended December 31, 2022 are summarized in the Company's consolidated statements of cash flows.

The \$12,093,310 decrease in assets held in trust under the coinsurance agreement is due to a reduction in assets 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, 2023 and 2022, respectively, are summarized as follows:

	<u>Years Ended December 31,</u>	
	<u>2023</u>	<u>2022</u>
Balance, beginning of year	\$ 56,183,785	\$ 49,717,323
Capitalization of commissions, sales and issue expenses	13,476,834	13,734,859
Amortization	(8,863,514)	(7,280,457)
Deferred acquisition costs allocated to investments	<u>(1,997)</u>	<u>12,060</u>
Balance, end of year	<u>\$ 60,795,108</u>	<u>\$ 56,183,785</u>

Our other assets as of December 31, 2023 and December 31, 2022 are summarized as follows:

	<u>December 31, 2023</u>	<u>December 31, 2022</u>	<u>Amount Change</u> <u>2023 less 2022</u>
Federal and state income taxes recoverable	\$ 10,845,790	\$ 8,887,609	\$ 1,958,181
Advances to mortgage loan originator	4,487,715	4,743,041	(255,326)
Advances to an independently owned investment firm	2,045,191	5,000,000	(2,954,809)
Guaranty funds	723,767	699,865	23,902
Accrued management fee	345,148	-	345,148
Lease asset - right to use	369,107	467,536	(98,429)
Receivables from lottery vendor	278,207	-	278,207
Other receivables, prepaid assets and deposits	159,854	194,737	(34,883)
Notes receivable	44,319	57,403	(13,084)
Total other assets	<u>\$ 19,299,098</u>	<u>\$ 20,050,191</u>	<u>\$ (751,093)</u>

There was a \$1,958,181 increase in federal and state income taxes recoverable primarily due to federal and state tax withholdings on lottery receivables.

There was a \$345,148 increase in accrued management fees for managing mortgage loans for a third party.

There was a \$278,207 increase in receivables from a lottery vendor.

There was a \$255,326 decrease in advances to one mortgage loan originator who acquires residential mortgage loans for our life insurance companies.

There was a \$2,954,809 decrease in advances to an independently owned investment firm. The promissory note bears interest and is collateralized by structured settlement receivables, lottery receivables and annuity payment receivables.

Our liabilities as of December 31, 2023 and 2022 are summarized as follows:

	<u>December 31, 2023</u>	<u>December 31, 2022</u>	<u>Amount Change 2023 less 2022</u>
Policy liabilities			
Policyholders' account balances	\$ 391,247,676	\$ 391,359,944	\$ (112,268)
Future policy benefits	123,729,530	110,012,174	13,717,356
Policy claims	2,410,243	2,541,088	(130,845)
Other policy liabilities	<u>250,294</u>	<u>146,217</u>	<u>104,077</u>
Total policy liabilities	517,637,743	504,059,423	13,578,320
Funds withheld under coinsurance agreement	77,257,253	92,301,039	(15,043,786)
Deferred federal income taxes	4,228,189	2,677,411	1,550,778
Other liabilities	<u>8,882,142</u>	<u>15,173,652</u>	<u>(6,291,510)</u>
Total liabilities	<u>\$ 608,005,327</u>	<u>\$ 614,211,525</u>	<u>\$ (6,206,198)</u>

The \$13,717,356 increase in future policy benefits is primarily related to the production of new life insurance policies and the aging of existing policies an additional year.

The decrease and increase in policyholders' account balances for the years ended December 31, 2023 and 2022, respectively, are summarized as follows:

	<u>Years Ended December 31,</u>	
	<u>2023</u>	<u>2022</u>
Policyholders' account balances, beginning	\$ 391,359,944	\$ 373,647,869
Deposits	69,082,635	67,308,368
Withdrawals	(104,579,076)	(72,595,697)
Funds withheld under coinsurance agreement	20,290,488	7,265,325
Acquisition of Royalty Capital Life Insurance Company	-	3,019,610
Interest credited	15,093,685	12,714,469
Increase (decrease)	<u>(112,268)</u>	<u>17,712,075</u>
Policyholders' account balances, ending	<u>\$ 391,247,676</u>	<u>\$ 391,359,944</u>

The \$1,550,778 increase in deferred federal income taxes was due to \$1,182,469 of increased deferred federal income taxes on the unrealized appreciation of fixed maturity securities available-for-sale and \$368,309 of operating deferred federal tax expense.

The \$15,043,786 decrease in funds withheld under coinsurance agreement is due to significant 2023 surrenders of coinsured annuity contracts under coinsurance agreement with an offshore annuity and life insurance company.

Our other liabilities as of December 31, 2023 and December 31, 2022 are summarized as follows:

	December 31, 2023	December 31, 2022	Amount Change 2023 less 2022
Mortgage loans suspense	\$ 5,841,113	\$ 2,655,185	\$ 3,185,928
Suspense accounts payable	800,262	9,706,063	(8,905,801)
Guaranty fund assessments	713,000	681,000	32,000
Accrued expenses payable	696,000	830,000	(134,000)
Unclaimed funds	488,492	338,204	150,288
Lease liability	369,107	467,536	(98,429)
Unearned investment income	115,166	105,236	9,930
Accounts payable	53,804	80,964	(27,160)
Deferred revenue	41,250	52,250	(11,000)
Payable for securities purchased	7,082	390,508	(383,426)
Other payables, withholdings and escrows	(243,134)	(133,294)	(109,840)
Total other liabilities	<u>\$ 8,882,142</u>	<u>\$ 15,173,652</u>	<u>\$ (6,291,510)</u>

The \$8,905,801 decrease in suspense accounts payable is due to decreased annuity deposits on policy applications that had not been issued as of the financial reporting date.

As of December 31, 2023, the Company had \$7,082 in security purchases where the trade date and settlement date were in different financial reporting periods compared to \$390,508 of security purchases overlapping financial reporting periods as of December 31, 2022.

The \$134,000 decrease in accrued expense payable is due to a decrease in the regulatory financial examination accrual.

The \$109,840 decrease in other payables, withholdings and escrows is primarily due to the increase in escrow advances.

The increase in unclaimed funds of \$150,288 is due to increased outstanding checks that will be escheated to the states.

The increase in mortgage loan suspense of \$3,185,928 is primarily due to timing of principal loan payments on mortgage loans.

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, 2023, 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 common stock and additional paid-in capital.

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.

As of December 31, 2023, we had cash and cash equivalents totaling \$33,839,741. As of December 31, 2022, cash and cash equivalents of \$13,862,341 and \$12,652,783, respectively, totaling \$26,515,124 were held by TLIC and FBLIC and may not be available for use by FTFC due to the required pre-approval by the OID 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 \$2,247,082 as of December 31, 2023. In addition, based on those limitations, there is the capacity for FBLIC to pay a dividend up to \$1,373,511 in 2024 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 \$26,017,084 and \$32,933,850 as of December 31, 2023 and December 31, 2022, 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.

Our cash flows for the years ended December 31, 2023 and 2022 are summarized as follows:

	Years Ended December 31,		Amount Change 2023 less 2022
	2023	2022	
Net cash provided by operating activities	\$ 40,390,718	\$ 30,038,812	\$ 10,351,906
Net cash used in investing activities	(4,597,261)	(33,736,804)	29,139,543
Net cash used in financing activities	<u>(35,496,441)</u>	<u>(5,287,329)</u>	<u>(30,209,112)</u>
Increase (decrease) in cash	297,016	(8,985,321)	9,282,337
Cash and cash equivalents, beginning of period	<u>33,542,725</u>	<u>42,528,046</u>	<u>(8,985,321)</u>
Cash and cash equivalents, end of period	<u><u>\$ 33,839,741</u></u>	<u><u>\$ 33,542,725</u></u>	<u><u>\$ 297,016</u></u>

The cash provided by operating activities for the years ended December 31, 2023 and 2022 are summarized as follows:

	Years Ended December 31,		Amount Change
	2023	2022	2023 less 2022
Premiums collected	\$ 38,693,776	\$ 35,760,183	\$ 2,933,593
Net investment income collected	26,205,489	20,638,225	5,567,264
Service fees and other income collected	5,135,220	3,027,055	2,108,165
Death benefits paid	(13,680,462)	(12,311,907)	(1,368,555)
Surrenders paid	(2,173,694)	(1,414,622)	(759,072)
Dividends and endowments paid	(365,276)	(331,245)	(34,031)
Commissions paid	(12,744,748)	(12,287,493)	(457,255)
Other underwriting, insurance and acquisition expenses paid	(11,217,061)	(9,075,210)	(2,141,851)
Taxes paid	(3,736,959)	(2,541,283)	(1,195,676)
(Increased) decreased advances to mortgage loan originator	255,326	(411,050)	666,376
Decreased advances to private equity company	-	3,000,000	(3,000,000)
(Increased) decreased advances to independently owned investment firm	2,954,809	(5,000,000)	7,954,809
Increased advances to an investment vendor	(296,477)	-	(296,477)
Decreased funds under coinsurance agreement	17,340,015	7,156,208	10,183,807
Increased (decreased) deposits of pending policy applications	(8,905,801)	9,270,592	(18,176,393)
Increased (decreased) mortgage loan suspense	3,185,928	(4,901,553)	8,087,481
Other	(259,367)	(539,088)	279,721
Cash provided by operating activities	\$ 40,390,718	\$ 30,038,812	\$ 10,351,906

Please see the consolidated statements of cash flows for the years ended December 31, 2023 and 2022 for a summary of the components of net cash used in investing activities and financing activities.

Our shareholders' equity as of December 31, 2023 and 2022 is summarized as follows:

	December 31, 2023	December 31, 2022	Amount Change 2023 less 2022
Class A common stock, par value \$.01 per share (40,000,000 shares authorized as of December 31, 2023 and 2022, 9,631,920 issued as of December 31, 2023 and 2022, 9,384,340 outstanding as of December 31, 2023 and 2022)	\$ 96,319	\$ 96,319	\$ -
Class B common stock, par value \$.01 per share (10,000,000 shares authorized, 101,102 issued and outstanding as of December 31, 2023 and 2022)	1,011	1,011	-
Additional paid-in capital	43,668,023	43,668,023	-
Treasury stock, at cost (247,580 shares as of December 31, 2023 and 2022)	(893,947)	(893,947)	-
Accumulated other comprehensive loss	(9,641,308)	(14,319,679)	4,678,371
Accumulated earnings	30,786,110	23,100,785	7,685,325
Total shareholders' equity	\$ 64,016,208	\$ 51,652,512	\$ 12,363,696

The increase in shareholders' equity of \$12,363,696 for the year ended December 31, 2023 is primarily due to \$7,915,361 of net income less a \$230,036 credit loss cumulative effect adjustment and \$4,678,371 decrease in accumulated other comprehensive loss.

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 2023 or 2022. 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 depreciation on available-for-sale securities of (\$12,207,282) and (\$18,131,268) as of December 31, 2023 and 2022, respectively, prior to the impact of income taxes and deferred acquisition cost adjustments. A decrease of \$5,580,785 in unrealized losses arising for year ended December 31, 2023 has been decreased by 2023 net realized investment losses of \$52,016 originating from the sale, calls and maturities for fixed maturity securities available-for-sale resulting in net unrealized gains on investments of \$5,632,801.

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, 2023, 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 9.9% 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 2023, 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, 2023, the Company has outstanding advances to this loan originator totaling \$4,487,715. The advances are secured by \$7,919,165 of residential mortgage loans on real estate that are assigned to the Company. The Company has committed to fund up to an additional \$1,512,285 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, 2023, \$890,915 of additional and secured residential mortgage loan balances on real estate are held in escrow by the loan originator. As of December 31, 2023, \$850,039 of that escrow amount is available to the Company as additional collateral on \$4,487,715 of advances to the loan originator. The remaining December 31, 2023 escrow amount of \$40,876 is available to the Company as additional collateral on its investment of \$8,175,212 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, 2023 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, 2023 AND 2022

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Report of Independent Registered Public Accounting Firm

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, 2023 and 2022, and the related consolidated statements of operations, comprehensive income (loss), changes in shareholders' equity, and cash flows for each of the years in the two-year period ended December 31, 2023, 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, 2023 and 2022, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2023, 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 \$60.8 million as of December 31, 2023.

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 testing of amortization and 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 \$123.7 million as of December 31, 2023.

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 13, 2024

First Trinity Financial Corporation and Subsidiaries
Consolidated Statements of Financial Position

	December 31, 2023	December 31, 2022
Assets		
Investments		
Available-for-sale fixed maturity securities at fair value (amortized cost: \$161,908,230 and \$144,744,158 as of December 31, 2023 and 2022, respectively)	\$ 149,700,948	\$ 126,612,890
Equity securities at fair value (cost: \$287,375 and \$276,131 as of December 31, 2023 and 2022, respectively)	419,530	399,633
Mortgage loans on real estate	239,831,447	242,314,128
Investment real estate	1,305,403	540,436
Policy loans	3,474,116	2,840,887
Short-term investments	298,257	1,860,578
Other long-term investments	61,487,939	67,500,783
Total investments	456,517,640	442,069,335
Cash and cash equivalents	33,839,741	33,542,725
Accrued investment income	6,214,459	5,580,175
Recoverable from reinsurers	10,353,674	11,102,875
Assets held in trust under coinsurance agreement		
Available-for-sale fixed maturity securities at fair value (amortized cost: \$56,824,160 and \$63,649,991 as of December 31, 2023 and 2022, respectively)	51,651,259	56,209,040
Mortgage loans on real estate	27,581,881	31,028,575
Short-term investments	-	982,404
Payable for securities	(4,414)	-
Cash and cash equivalents	711,733	3,813,750
Total assets held in trust under coinsurance agreement	79,940,459	92,033,769
Agents' balances and due premiums	1,284,003	1,253,077
Deferred policy acquisition costs	60,795,108	56,183,785
Value of insurance business acquired	3,777,353	4,048,105
Other assets	19,299,098	20,050,191
Total assets	\$ 672,021,535	\$ 665,864,037
Liabilities and Shareholders' Equity		
Policy liabilities		
Policyholders' account balances	\$ 391,247,676	\$ 391,359,944
Future policy benefits	123,729,530	110,012,174
Policy claims	2,410,243	2,541,088
Other policy liabilities	250,294	146,217
Total policy liabilities	517,637,743	504,059,423
Funds withheld under coinsurance agreement	77,257,253	92,301,039
Deferred federal income taxes	4,228,189	2,677,411
Other liabilities	8,882,142	15,173,652
Total liabilities	608,005,327	614,211,525
Shareholders' equity		
Class A common stock, par value \$.01 per share (40,000,000 shares authorized as of December 31, 2023 and 2022, 9,631,920 issued as of December 31, 2023 and 2022, 9,384,340 outstanding as of December 31, 2023 and 2022)	96,319	96,319
Class B common stock, par value \$.01 per share (10,000,000 shares authorized, 101,102 issued and outstanding as of December 31, 2023 and 2022)	1,011	1,011
Additional paid-in capital	43,668,023	43,668,023
Treasury stock, at cost (247,580 shares as of December 31, 2023 and 2022)	(893,947)	(893,947)
Accumulated other comprehensive loss	(9,641,308)	(14,319,679)
Accumulated earnings	30,786,110	23,100,785
Total shareholders' equity	64,016,208	51,652,512
Total liabilities and shareholders' equity	\$ 672,021,535	\$ 665,864,037

See notes to consolidated financial statements.

First Trinity Financial Corporation and Subsidiaries
Consolidated Statements of Operations

	Years Ended December 31,	
	2023	2022
Revenues		
Premiums	\$ 38,912,934	\$ 35,705,560
Net investment income	31,655,321	26,221,172
Net realized investment gains (losses)	(180,152)	544,217
Service fees	4,701,960	3,004,324
Other income	666,409	83,826
Total revenues	75,756,472	65,559,099
Benefits, Claims and Expenses		
Benefits and claims		
Increase in future policy benefits	14,212,615	13,713,452
Death benefits	14,298,818	12,998,679
Surrenders	2,173,694	1,414,622
Interest credited to policyholders	15,093,685	12,714,469
Dividend, endowment and supplementary life contract benefits	362,676	330,598
Total benefits and claims	46,141,488	41,171,820
Policy acquisition costs deferred	(13,476,834)	(13,734,859)
Amortization of deferred policy acquisition costs	8,863,514	7,280,457
Amortization of value of insurance business acquired	270,752	270,394
Commissions	12,803,764	12,776,046
Other underwriting, insurance and acquisition expenses	11,091,340	9,824,589
Total expenses	19,552,536	16,416,627
Total benefits, claims and expenses	65,694,024	57,588,447
Income before total federal income tax expense	10,062,448	7,970,652
Current federal income tax expense	1,778,778	758,465
Deferred federal income tax expense	368,309	1,027,484
Total federal income tax expense	2,147,087	1,785,949
Net income	\$ 7,915,361	\$ 6,184,703
Net income per common share		
Class A common stock	\$ 0.8358	\$ 0.6531
Class B common stock	\$ 0.7104	\$ 0.5551

See notes to consolidated financial statements.

First Trinity Financial Corporation and Subsidiaries
Consolidated Statements of Comprehensive Income (Loss)

	Years Ended December 31,	
	2023	2022
Net income	\$ 7,915,361	\$ 6,184,703
Other comprehensive income (loss)		
Total net unrealized investment gains (losses) arising during the period	5,580,785	(33,990,160)
Less net realized investment gains (losses)	(52,016)	861,782
Net unrealized investment gains (losses)	5,632,801	(34,851,942)
Adjustment to deferred acquisition costs	1,997	(12,060)
Other comprehensive income (loss) before federal income tax expense (benefit)	5,630,804	(34,839,882)
Federal income tax expense (benefit)	1,182,469	(7,316,376)
Total other comprehensive income (loss)	4,448,335	(27,523,506)
Total comprehensive income (loss)	<u>\$ 12,363,696</u>	<u>\$ (21,338,803)</u>

See notes to consolidated financial statements.

First Trinity Financial Corporation and Subsidiaries
Consolidated Statements of Changes in Shareholders' Equity
Years Ended December 31, 2023 and 2022

	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
Balance as of January 1, 2022	\$ 89,093	\$ 1,011	\$ 39,078,485	\$ (893,947)	\$ 13,203,827	\$ 16,916,082	\$ 68,394,551
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
Balance as of December 31, 2022	<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>
Cumulative effect adjustment as of January 1, 2023:							
Accumulated credit loss January 1, 2023	-	-	-	-	230,036	(230,036)	-
Adjusted balance as of January 1, 2023	96,319	1,011	43,668,023	(893,947)	(14,089,643)	22,870,749	51,652,512
Comprehensive income:							
Net income	-	-	-	-	-	7,915,361	7,915,361
Other comprehensive income	-	-	-	-	4,448,335	-	4,448,335
Balance as of December 31, 2023	<u>\$ 96,319</u>	<u>\$ 1,011</u>	<u>\$ 43,668,023</u>	<u>\$ (893,947)</u>	<u>\$ (9,641,308)</u>	<u>\$ 30,786,110</u>	<u>\$ 64,016,208</u>

See notes to consolidated financial statements.

First Trinity Financial Corporation and Subsidiaries
Consolidated Statements of Cash Flows

	Years Ended December 31,	
	2023	2022
Operating activities		
Net income	\$ 7,915,361	\$ 6,184,703
Adjustments to reconcile net income to net cash provided by operating activities:		
Accretion of discount on investments	(4,825,475)	(4,896,100)
Net realized investment (gains) losses	180,152	(544,217)
Amortization of policy acquisition cost	8,863,514	7,280,457
Policy acquisition cost deferred	(13,476,834)	(13,734,859)
Amortization of value of insurance business acquired	270,752	270,394
Allowance for mortgage loan losses	43,654	413,929
Provision for deferred federal income tax expense	368,309	1,027,484
Interest credited to policyholders	15,093,685	12,714,469
Change in assets and liabilities:		
Accrued investment income	(634,284)	(700,877)
Recoverable from reinsurers	749,201	578,259
Assets held in trust under coinsurance agreement	17,340,012	7,156,208
Agents' balances and due premiums	(30,926)	485,160
Other assets	751,093	(4,818,426)
Future policy benefits	13,717,356	13,174,365
Policy claims	(130,845)	108,513
Other policy liabilities	104,077	57,370
Other liabilities (excludes change in payable of securities purchased of (\$383,426) and (\$1,074,665) in 2023 and 2022, respectively)	(5,908,084)	5,281,980
Net cash provided by operating activities	<u>40,390,718</u>	<u>30,038,812</u>
Investing activities		
Purchases of fixed maturity securities	(23,059,491)	(35,249,421)
Maturities of fixed maturity securities	4,830,000	952,000
Sales of fixed maturity securities	457,601	57,441,624
Purchases of equity securities	(130,550)	(215,470)
Acquisition of Royalty Capital life Insurance Company	-	3,525,749
Joint venture distribution	119,306	216,897
Purchases of mortgage loans	(130,956,402)	(183,102,781)
Payments on mortgage loans	132,634,814	118,132,864
Purchases of other long-term investments	(7,385,062)	(13,327,014)
Collections on other long-term investments	18,346,857	16,308,664
Sales of real estate	-	200,080
Policy loans	(633,229)	(568,258)
Short-term investments	1,562,321	3,022,927
Net change in receivable and payable for securities sold and purchased	(383,426)	(1,074,665)
Net cash used in investing activities	<u>(4,597,261)</u>	<u>(33,736,804)</u>
Financing activities		
Policyholders' account deposits	69,082,635	67,308,368
Policyholders' account withdrawals	(104,579,076)	(72,595,697)
Net cash used in financing activities	<u>(35,496,441)</u>	<u>(5,287,329)</u>
Increase (decrease) in cash and cash equivalents	297,016	(8,985,321)
Cash and cash equivalents, beginning of period	33,542,725	42,528,046
Cash and cash equivalents, end of period	<u>\$ 33,839,741</u>	<u>\$ 33,542,725</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 2023, the Company foreclosed on residential mortgage loans of real estate totaling \$764,967 and transferred the property to investment real estate that is now held for sale.

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

	Year Ended December 31, 2023
Reductions in mortgage loans due to foreclosure	\$ 764,967
Investment real estate held-for-sale acquired through foreclosure	(764,967)
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, 2023 and 2022

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.

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, 2023 and 2022

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”).

Investments

Change in significant Accounting Policies – Credit Losses on Investments and Allowance for Loan Losses from Mortgage Loans

In first quarter 2023, the Company adopted Accounting Standards Update 2016-13 Financial Instruments – Credit Losses: Measurement of Credit Losses on Financial Instruments and all related guidance dealing with the FASB’s pronouncements dealing with changes in accounting for and recognizing credit losses.

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2023 and 2022

1. Organization and Significant Accounting Policies (continued)

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 (loss). 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 the result of a credit loss or other factors. An allowance for credit losses is recorded against available-for-sale securities to reflect the amount of an unrealized loss attributed to credit. This impairment is limited by the amount that the fair value is less than the amortized cost basis. Any remaining unrealized loss is recognized in other comprehensive income (loss) with no change to the cost basis of the security. This determination involves a degree of uncertainty. Changes in the allowance for credit losses are recognized in earnings.

The assessment and determination of whether or not a credit loss exists is based on consideration of the cash flows expected to be collected from the fixed maturity security. The Company develops those expectations after considering various factors such as agency ratings, the financial condition of the issuer or underlying obligors, payment history, payment structure of the security, industry and market conditions, underlying collateral, and other factors that may be relevant based on the facts and circumstances pertaining to individual securities.

If the Company intends to sell the fixed maturity security or will be more likely than not be required to sell the fixed maturity security before recovery of its amortized cost basis, then any allowance for credit losses, if previously recorded is written off and the fixed maturity security's amortized cost is written down to the security's fair value as of the reporting date with any incremental impairment recorded as a charge to noninterest income.

Prior to 2023, the Company evaluated the difference between the cost or amortized cost and estimated fair value of its fixed maturity securities to determine whether any decline in value was other-than-temporary in nature. That determination involved a degree of uncertainty. If a decline in the fair value of a security was determined to be temporary, the decline was recorded as an unrealized loss in shareholders' equity. If a decline in a security's fair value is considered to be other-than-temporary, the Company then determined the proper treatment for the other-than-temporary impairment. The amount of any other-than-temporary impairment related to a credit loss was 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. If an other-than-temporary impairment related to a credit loss occurs with respect to a bond, the Company amortized the reduced book value back to the security's expected recovery value over the remaining term of the bond. The Company continued 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. This measurement of mortgage loans on an amortized cost basis is reduced by an allowance for credit losses representing a valuation allowance that is deducted from the amortized costs basis of mortgage loans to present the net carrying value at the amount expected to be collected on the mortgage loans.

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.

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2023 and 2022

1. Organization and Significant Accounting Policies (continued)

The statement of operations reflects the measurement of credit losses for newly recognized mortgage loans as well as the expected increases or decreases of expected credit losses that have taken place during the period. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions and reasonable and supportable forecasts that affect the collectability of the reported mortgage loan balances. The Company uses judgment in determining the relevant information and estimation methods that are appropriate in establishing the valuation allowance for credit losses. The allowance for credit losses for mortgage loans with a more-than-insignificant amount of credit determination since origination is determined and the initial allowance for credit losses should be added to the purchase price of mortgage loans rather than being reported as a credit loss expenses.

The Company, however, has established and will continue to establish a valuation allowance for mortgage loans on real estate that are not supported by funds held in escrow based on historical patterns. The Company's foreclosed properties have not resulted in accumulated losses and due to the low loan-to-value the Company holds with respect to its mortgage loans, the Company has not recorded and does not expect to record the addition to the purchase price of mortgage loans an initial allowance for credit losses to be amortized over the life of the mortgage loans. The Company will continue to record credit losses for mortgage loans not supported by funds held in escrow in accordance with its valuation policy for mortgage loans on real estate followed before 2023.

Prior to and continuing in 2023, the Company established a valuation allowance for mortgage loans on real estate that are not supported by funds held in escrow based on historical patterns. This allowance for possible loan losses from investments in mortgage loans on real estate continues to be 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 the Company's 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 the Company utilizes its 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. The 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.

The Company considers mortgage loans on real estate 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. Impairment is measured on a loan-by-loan basis. Factors that the Company considers 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 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.

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.

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2023 and 2022

1. Organization and Significant Accounting Policies (continued)

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. These investments are backed by the lottery departments at the various states by U.S. Treasury Bonds and Notes or in the case of Pennsylvania, by annuities purchased from a highly rated life insurance company. Given this support to lottery prize receivables, the Company has not recorded and does not expect to incur any current estimated credit losses on its investments in lottery prize receivables.

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.

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 and Treasury 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, 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.

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.

1. Organization and Significant Accounting Policies (continued)

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.

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.

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.

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.

Funds Withheld Coinsurance

In accordance with an annuity coinsurance agreement with an offshore annuity and life insurance company, 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.

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2023 and 2022

1. Organization and Significant Accounting Policies (continued)

In addition, in accordance with this annuity coinsurance agreement, investment income, investment expenses, other income and other expenses earned or incurred in relation to the operations of this annuity coinsurance agreement are not reported on the Company's *Consolidated Statements of Operations*. The unrealized appreciation (depreciation) of fixed available-for-sale fixed maturity securities and the related income tax expense (benefit) is not reported as accumulated other comprehensive income in the shareholders' equity section of the Company's *Consolidated Statements of Financial Position*. Correspondingly, the net unrealized gains (losses) arising during the period, the net realized gains (losses) having no credit gains (losses) and the related income tax expense (benefit) associated with the available-for-sale fixed maturities held under this coinsurance agreement are not included in the computation of total other comprehensive income (loss) in the Company's *Consolidated Statement of Comprehensive Loss*.

The Company's *Consolidated Statement of Cash Flows* only includes the cash flow activities related to the assets and funds withheld under the coinsurance agreement in a one-line presentation and does not include those cash flow activities in the other financial captions and categories presented in that financial statement.

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, 2023 and 2022, there was \$4,962,525 and \$4,691,773, 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: \$169,840 in 2024, \$152,011 in 2025, \$157,225 in 2026, \$148,123 in 2027 and \$153,251 in 2028.

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 Service Fees caption of the Statement of Operations for the years ended December 31, 2023 and 2022. The primary source of this fee income during 2023 and 2022 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
December 31, 2023 and 2022

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, 2023 and 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, 2023, the net income allocated to the Class A shareholders of \$7,843,534 is the total net income \$7,915,361 less the net income allocated to the Class B shareholders \$71,827. 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.

The weighted average outstanding common shares basic for the year ended December 31, 2023 and 2022 were 9,384,340 for Class A shares and 101,102 for Class B shares.

Subsequent Events

Management has evaluated all events subsequent to December 31, 2023 through the date that these financial statements have been issued.

On February 23, 2024, the Board of Directors of the Company unanimously voted to terminate the Share Acquisition Agreement dated April 24, 2023 (the "Agreement") among the Company, MTCP LLC, a Florida limited liability company (the "Buyer") and Brickell L&A Holdings LLC, a Delaware limited liability company wholly owned by the Buyer, pursuant to provisions of an amendment to the Agreement giving the Company the right to terminate the Agreement. The Company gave notice of the termination on February 26, 2024.

Adopted Accounting Standards

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 applied 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 required an entity to estimate the credit losses expected over the life of an exposure or pool of exposures.

The estimate of expected credit losses considers 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, are 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.

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

The updated guidance also amended the current other-than-temporary impairment model for available-for-sale debt securities and requires 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 Company adopted this standard in first quarter 2023 on a modified retrospective basis. The cumulative effect adjustment to January 1, 2023 accumulated earnings for the adoption of this standard was a charge of \$230,036.

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 introduced new requirements related to certain modifications of receivables made to borrowers experiencing financial difficulties. The amendments promulgated 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 required that an entity disclose current-period gross write-offs by year of origination for financing receivables and net investment in leases. The Company adopted the amendments in this standard in first quarter 2023. The adoption of this guidance did not have a material effect on the Company's results of operations, financial position or liquidity.

Recent Accounting Pronouncements

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.

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.

Improvements to Reportable Segment Disclosures

In November 2023, the FASB issued amendments (Accounting Standards Update 2023-07) to improve reportable segment disclosure requirements primarily through enhanced disclosures about significant segment expenses on both an annual and interim basis. The amendments require public entities to follow the *significant expense principle* and disclose on an annual and interim basis significant segment expenses that are regularly provided to the chief operating decision maker ("CODM") with additional disclosure of the CODM's title, position and how the reported measure(s) of segment profit or loss are used in assessing segment performance and allocating resources. In addition, amounts for *other segment items* are required to be disclosed including a description of its composition. If the CODM uses more than one measure in assessing segment performance and allocating resources, at least one of the measures should be consistent with the corresponding amounts utilized in the public entity's consolidated financial statements.

The amendments in this guidance are effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. Early adoption is permitted. The Company anticipates adopting and disclosing this Update for year-end reporting in 2024 and for interim periods beginning in 2025.

Improvements to Income Tax Disclosures

In December 2023, the FASB issued amendments (Accounting Standards Update 2023-09) to enhance the transparency and decision usefulness of income tax disclosures. The amendments require that public business entities on an annual basis disclose information about taxes paid and a tabular reconciliation using both percentages and amounts of specific categories in the rate reconciliation. In addition, separate disclosure is required for any reconciling item equal to or greater than five (5) percent of the amount computed by multiplying the income or loss from continuing operations before income taxes by the statutory income tax rate. If not otherwise evident, a public business entity is required to provide an explanation of the individual reconciling items such as the nature, effect and causes of the reconciling items.

The amendments in this guidance are effective for public companies for fiscal years beginning after December 15, 2024, and interim periods within fiscal years beginning after December 15, 2024. This guidance should be applied on a prospective basis but retrospective application is permitted. Early adoption is permitted. The Company anticipates adopting and disclosing this Update for year-end reporting in 2025.

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

Cybersecurity Risk Management, Strategy, Governance and Incident Disclosures by Public Companies

On July 26, 2023, the U.S. Securities and Exchange Commission adopted this Final Rule (the “Cybersecurity Final Rule”) enhancing disclosure requirements for registered companies covering cybersecurity risk and management. The Cybersecurity Final Rule requires registrants to disclose material cybersecurity incidents on Form 8-K within four business days of a determination that a cybersecurity incident is material, and such materiality determination must be made without unreasonable delay.

The rule also requires periodic disclosures of, among other things, details on the company’s processes to assess, identify, and manage cybersecurity risks, cybersecurity governance, and management’s role in overseeing such a compliance program, including the board of directors’ oversight of cybersecurity risks. Certain reporting requirements under the Cybersecurity Final Rule become effective as early as December 2023.

The Company has not ever had a material cyber security incident but will follow the Cybersecurity Final Rule regarding timely disclosure of a material cyber security incident. The Company has also disclosed its strategy and governance with respect to its cybersecurity risk management program in this December 31, 2023 Form 10-K.

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2023 and 2022

2. Investments

Fixed Maturity Securities

Investments in fixed maturity securities as of December 31, 2023 and 2022 are summarized as follows:

	Amortized Cost or Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2023				
Fixed maturity securities				
U.S. government and U.S. government agencies	\$ 3,806,419	\$ 14,360	\$ 22,495	\$ 3,798,284
States and political subdivisions	9,773,549	97,215	338,894	9,531,870
U.S. government agency mortgage backed securities	10,097,479	208,985	-	10,306,464
Commercial mortgage-backed securities	10,629,003	-	2,157,465	8,471,538
Residential mortgage-backed securities	9,986	4,328	-	14,314
Corporate bonds	85,901,454	65,239	6,625,386	79,341,307
Asset-backed securities	12,466,601	43,424	1,017,529	11,492,496
Exchange traded securities	882,631	-	406,631	476,000
Foreign bonds	27,091,108	24,186	1,902,619	25,212,675
Redeemable preferred securities	1,250,000	-	194,000	1,056,000
Total fixed maturity securities	<u>\$ 161,908,230</u>	<u>\$ 457,737</u>	<u>\$ 12,665,019</u>	<u>\$ 149,700,948</u>
Fixed maturity securities held in trust under coinsurance agreement	<u>\$ 56,824,160</u>	<u>\$ 53,496</u>	<u>\$ 5,226,397</u>	<u>\$ 51,651,259</u>
December 31, 2022				
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>

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2023 and 2022

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, 2023 and 2022 are summarized as follows:

	Fair Value	Unrealized Loss	Number of Securities
December 31, 2023			
Fixed maturity securities			
Less than 12 months in an unrealized loss position			
U.S. government and U.S. government agencies	\$ 231,010	\$ 100	1
States and political subdivisions	120,734	588	1
Corporate bonds	3,762,988	78,589	14
Foreign bonds	502,835	8,573	2
Total less than 12 months in an unrealized loss position	4,617,567	87,850	18
More than 12 months in an unrealized loss position			
U.S. government and U.S. government agencies	1,876,612	22,395	3
States and political subdivisions	4,411,017	338,306	21
Commercial mortgage-backed securities	8,471,538	2,157,465	24
Corporate bonds	72,550,042	6,546,797	214
Asset-backed securities	7,390,830	1,017,529	20
Exchange traded securities	476,000	406,631	2
Foreign bonds	23,164,587	1,894,046	61
Redeemable preferred securities	306,000	194,000	2
Total more than 12 months in an unrealized loss position	118,646,626	12,577,169	347
Total fixed maturity securities in an unrealized loss position	<u>\$ 123,264,193</u>	<u>\$ 12,665,019</u>	<u>365</u>
Fixed maturity securities held in trust under coinsurance agreement			
Total less than 12 months in an unrealized loss position	\$ 1,400,820	\$ 5,810	7
Total more than 12 months in an unrealized loss position	47,082,945	5,220,587	180
Total fixed maturity securities held in trust under coinsurance agreement in a unrealized loss position	<u>\$ 48,483,765</u>	<u>\$ 5,226,397</u>	<u>187</u>
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
Foreign bonds	21,766,704	2,785,419	61
Certificate of deposits	199,070	930	1
Total less than 12 months in an unrealized loss position	107,408,203	14,136,582	329
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
Foreign bonds	2,003,376	440,132	6
Redeemable preferred securities	351,200	148,800	2
Total more than 12 months in an unrealized loss position	15,624,282	4,037,118	51
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	\$ 49,918,808	\$ 5,679,624	231
Total more than 12 months in an unrealized loss position	5,524,318	1,769,551	21
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>

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2023 and 2022

2. Investments (continued)

As of December 31, 2023, the Company held 365 available-for-sale fixed maturity securities with an unrealized loss of \$12,665,019, fair value of \$123,264,193 and amortized cost of \$135,929,212. These unrealized losses were primarily due to market interest rate movements in the bond market as of December 31, 2023. The ratio of the fair value to the amortized cost of these 365 securities is 91%.

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%.

The change in the current estimate of credit losses on fixed maturity available-for-sale securities for the year ended December 31, 2023 is summarized as follows:

	(Unaudited) <u>December 31, 2023</u>
Beginning balance	\$ -
Cumulative adjustment to accumulated earnings as of January 1, 2023	(291,185)
Current estimate of credit losses	<u>(139,285)</u>
Ending balance	<u><u>\$ (430,470)</u></u>

Net unrealized losses included in other comprehensive income (loss) for investments classified as available-for-sale, net of the effect of deferred income taxes and deferred acquisition costs assuming that the depreciation had been realized as of December 31, 2023 and 2022 are summarized as follows:

	<u>December 31, 2023</u>	<u>December 31, 2022</u>
Unrealized depreciation on available-for-sale securities	\$ (12,207,282)	\$ (18,131,268)
Adjustment to deferred acquisition costs	3,094	5,091
Deferred income taxes	<u>2,562,880</u>	<u>3,806,498</u>
Net unrealized depreciation on available-for-sale securities	<u><u>\$ (9,641,308)</u></u>	<u><u>\$ (14,319,679)</u></u>
Assets held in trust under coinsurance agreement		
Unrealized depreciation on fixed maturity securities available-for-sale	<u><u>\$ (5,172,901)</u></u>	<u><u>\$ (7,440,951)</u></u>

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2023 and 2022

2. Investments (continued)

The amortized cost and fair value of fixed maturity available-for-sale securities as of December 31, 2023, by contractual maturity, are summarized as follows:

	December 31, 2023	
	Fixed Maturities Available-For-Sale Securities	
	Amortized Cost	Fair Value
Due in one year or less	\$ 3,303,802	\$ 3,370,422
Due in one year through five years	31,689,156	30,411,513
Due after five years through ten years	24,768,591	23,731,965
Due after ten years	90,257,692	82,645,196
Due at multiple maturity dates	11,888,989	9,541,852
	\$ 161,908,230	\$ 149,700,948

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, 2023, by contractual maturity, are summarized as follows:

	December 31, 2023	
	Fixed Maturity Available-For-Sale Securities	
	Amortized Cost	Fair Value
Due in one year or less	\$ 1,183,080	\$ 1,177,915
Due after one year through five years	27,579,589	27,071,969
Due after five years through ten years	8,120,483	7,893,466
Due after ten years	16,827,762	12,909,324
Due at multiple maturity dates	3,113,246	2,598,585
	\$ 56,824,160	\$ 51,651,259

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2023 and 2022

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, 2023 and 2022 are summarized as follows:

	Years Ended December 31,					
	Fixed Maturity Securities		Equity Securities		Investment Real Estate	
	2023	2022	2023	2022	2023	2022
Proceeds	\$ 5,287,601	\$ 58,393,624	\$ -	\$ -	\$ -	\$ 200,080
Gross realized gains	265,625	1,230,951	-	-	-	55,867
Gross realized losses	(317,641)	(369,169)	-	(8,000)	-	(3,696)

	Years Ended December 31,			
	Mortgage Loans on Real Estate		Other Long-Term Investments	
	2023	2022	2023	2022
Proceeds	\$ 132,634,814	\$ 118,132,864	\$ -	\$ 16,308,664
Gross realized gains	2,496	-	-	-
Gross realized losses	-	-	-	(422,578)

The accumulated change in net unrealized investment gains (losses) for fixed maturity available-for-sale securities for the years ended December 31, 2023 and 2022 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, 2023 and 2022 are summarized as follows:

	Years Ended December 31,	
	2023	2022
Change in unrealized investment gains (losses):		
Available-for-sale securities:		
Fixed maturity securities	\$ 5,632,801	\$ (34,851,942)
Fixed maturity securities held in trust under coinsurance agreement	2,268,050	(10,918,940)
Net realized investment gains (losses):		
Available-for-sale securities:		
Fixed maturity securities	(52,016)	861,782
Fixed maturity securities credit losses	(139,285)	-
Equity securities, sale of securities	-	(8,000)
Equity securities, changes in fair value	8,653	60,842
Investment real estate	-	52,171
Mortgage loans on real estate	2,496	-
Other long-term investments	-	(422,578)

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2023 and 2022

2. Investments (continued)

Mortgage Loans on Real Estate

The Company's mortgage loans by property type as of December 31, 2023 and 2022 are summarized as follows:

	<u>December 31, 2023</u>	<u>December 31, 2022</u>
Residential mortgage loans	\$ 224,258,534	\$ 223,984,194
Commercial mortgage loans by property type		
Agricultural	986,207	994,691
Apartment	3,108,829	3,625,533
Industrial	1,267,264	1,999,438
Lodging	24,727	268,741
Office building	5,652,487	5,681,946
Retail	<u>4,533,399</u>	<u>5,759,585</u>
Total commercial mortgage loans by property type	<u>15,572,913</u>	<u>18,329,934</u>
Total mortgage loans	<u>\$ 239,831,447</u>	<u>\$ 242,314,128</u>
Mortgage loans held in trust under coinsurance agreement		
Commercial mortgage loans	\$ 27,714,891	\$ 31,076,883
Less unearned interest on mortgage loans	<u>133,010</u>	<u>48,308</u>
Total mortgage loans held in trust under coinsurance agreement	<u>\$ 27,581,881</u>	<u>\$ 31,028,575</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, 2023 and 2022 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>	
	2023	2022	2023	2022	2023	2022
Over 70% to 80%	\$ 75,718,654	\$ 72,013,555	\$ 2,099,950	\$ 3,287,048	\$ 77,818,604	\$ 75,300,603
Over 60% to 70%	65,525,308	67,780,388	2,958,186	3,033,504	68,483,494	70,813,892
Over 50% to 60%	38,548,660	36,929,025	1,809,817	1,839,272	40,358,477	38,768,297
Over 40% to 50%	22,283,148	20,100,407	2,394,557	1,272,088	24,677,705	21,372,495
Over 30% to 40%	10,056,308	13,143,773	3,817,212	5,123,894	13,873,520	18,267,667
Over 20% to 30%	7,929,094	8,898,731	463,856	733,238	8,392,950	9,631,969
Over 10% to 20%	3,178,001	3,976,357	1,714,394	3,040,890	4,892,395	7,017,247
10% or less	1,019,361	1,141,958	314,941	-	1,334,302	1,141,958
Total	<u>\$ 224,258,534</u>	<u>\$ 223,984,194</u>	<u>\$ 15,572,913</u>	<u>\$ 18,329,934</u>	<u>\$ 239,831,447</u>	<u>\$ 242,314,128</u>

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2023 and 2022

2. Investments (continued)

The outstanding principal balance of mortgage loans, by state, as of December 31, 2023 and 2022 are summarized as follows:

	December 31, 2023		December 31, 2022	
	Amount	Percentage	Amount	Percentage
Alabama	\$ 516,657	0.22%	\$ 1,631,291	0.67%
Arizona	2,564,148	1.07%	1,095,402	0.45%
Arkansas	792,495	0.33%	736,037	0.30%
California	15,612,618	6.51%	13,811,582	5.70%
Colorado	1,420,410	0.59%	1,536,180	0.63%
Connecticut	1,301,749	0.54%	2,882,731	1.19%
Delaware	360,334	0.15%	155,840	0.06%
District of Columbia	53,031	0.02%	53,653	0.02%
Florida	88,891,627	37.07%	94,748,560	39.11%
Georgia	6,302,274	2.63%	7,314,430	3.02%
Hawaii	473,360	0.20%	-	0.00%
Idaho	115,286	0.05%	-	0.00%
Illinois	2,562,076	1.07%	2,634,689	1.09%
Indiana	622,476	0.26%	335,817	0.14%
Kansas	153,307	0.06%	251,815	0.10%
Kentucky	192,485	0.08%	-	0.00%
Louisiana	177,027	0.07%	189,335	0.08%
Maine	118,911	0.05%	200,056	0.08%
Maryland	1,357,240	0.57%	1,285,510	0.53%
Massachusetts	1,858,981	0.78%	2,580,335	1.06%
Michigan	591,204	0.25%	363,570	0.15%
Minnesota	908,114	0.38%	922,025	0.38%
Mississippi	54,560	0.02%	-	0.00%
Missouri	4,233,592	1.77%	3,505,416	1.45%
Nevada	696,957	0.29%	469,713	0.19%
New Jersey	12,610,602	5.26%	15,465,715	6.38%
New Mexico	79,122	0.03%	79,815	0.03%
New York	28,845,873	12.03%	24,960,742	10.30%
North Carolina	4,250,466	1.77%	5,975,930	2.47%
Ohio	10,048,860	4.19%	8,230,523	3.40%
Oklahoma	438,268	0.18%	739,753	0.31%
Oregon	648,535	0.27%	459,193	0.19%
Pennsylvania	1,904,171	0.79%	1,477,938	0.61%
Rhode Island	232,866	0.10%	235,713	0.10%
South Carolina	1,227,942	0.51%	682,167	0.28%
Tennessee	3,863,355	1.61%	1,865,345	0.77%
Texas	40,130,295	16.73%	43,134,683	17.80%
Utah	409,443	0.17%	134,668	0.06%
Vermont	200,295	0.08%	208,045	0.09%
Virginia	2,307,904	0.96%	2,013,668	0.83%
Washington	1,320,541	0.55%	517,963	0.21%
Wisconsin	499,987	0.21%	502,127	0.21%
West Virginia	46,105	0.02%	46,601	0.02%
Mortgage loan allowance	(1,164,102)	-0.49%	(1,120,448)	-0.46%
	\$ 239,831,447	100%	\$ 242,314,128	100%

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2023 and 2022

2. Investments (continued)

During 2023, the Company foreclosed on residential mortgage loans of real estate totaling \$764,967 and transferred those properties to investment real estate held for sale. During 2022, the Company did not foreclose on residential mortgage loans of real estate.

The principal balances of the 1,870 residential mortgage loans owned by the Company as of December 31, 2023 that aggregated to \$224,258,534 ranged from a low of \$286 to a high of \$1,650,000 and the interest rates ranged from 3.43% to 16.00%. The principal balances of the 37 commercial (includes agricultural, apartment, industrial, lodging, office building and retail) mortgage loans owned by the Company as of December 31, 2023 that aggregated to \$15,572,913 ranged from a low of \$14,478 to a high of \$1,493,157 and the interest rates ranged from 5.50% to 10.51%.

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%.

There were 18 mortgage loans with a remaining principal balance of \$6,043,282 that were more than 90 days past due as of December 31, 2023. There were six mortgage loans in default and in the foreclosure process with a remaining principal balance of \$2,129,576 as of December 31, 2023.

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 are allowances for losses on mortgage loans of \$1,164,102 and \$1,120,448 as of December 31, 2023 and 2022, respectively. As of December 31, 2023, \$890,915 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, 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.

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 2023, the Company foreclosed on residential mortgage loans of real estate totaling \$764,967 and transferred those properties to investment real estate held for sale.

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.

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2023 and 2022

2. Investments (continued)

The Company's investment real estate as of December 31, 2023 and 2022 is summarized as follows:

	December 31,	
	2023	2022
Land - held for investment	\$ 540,436	\$ 540,436
Residential real estate - held for sale	764,967	-
Total investment in real estate	\$ 1,305,403	\$ 540,436

Other Long-Term Investments

The Company's investment in lottery prize cash flows was \$61,487,939 and \$67,500,783 as of December 31, 2023 and 2022, 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, 2023 are summarized as follows:

	December 31, 2023	
	Amortized Cost	Fair Value
Due in one year or less	\$ 13,606,873	\$ 13,827,135
Due in one year through five years	32,445,768	34,786,621
Due after five years through ten years	10,536,206	12,493,922
Due after ten years	4,899,092	6,916,039
	\$ 61,487,939	\$ 68,023,717

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2023 and 2022

2. Investments (continued)

The outstanding balance of lottery prize cash flows, by state lottery, as of December 31, 2023 and 2022 are summarized as follows:

	December 31, 2023		December 31, 2022	
	Amount	Percentage	Amount	Percentage
Arizona	\$ 301,299	0.49%	\$ 343,698	0.51%
California	7,327,724	11.92%	7,891,340	11.69%
Connecticut	2,285,266	3.72%	2,334,369	3.46%
Florida	529,803	0.86%	851,727	1.26%
Georgia	3,947,186	6.42%	5,249,187	7.78%
Illinois	2,587,537	4.21%	1,422,002	2.11%
Indiana	4,229,571	6.88%	4,852,536	7.19%
Maine	-	0.00%	40,686	0.06%
Massachusetts	13,632,982	22.17%	14,736,084	21.83%
Michigan	190,457	0.31%	210,900	0.31%
Missouri	62,782	0.10%	73,107	0.11%
New Jersey	68,823	0.11%	99,031	0.15%
New York	19,004,811	30.90%	20,785,835	30.78%
Ohio	3,755,995	6.11%	4,092,128	6.06%
Oregon	29,272	0.05%	42,158	0.06%
Pennsylvania	935,798	1.52%	1,522,210	2.26%
Texas	1,774,744	2.89%	1,997,313	2.96%
Virginia	17,774	0.03%	33,506	0.05%
Vermont	550,235	0.89%	658,585	0.98%
Washington	255,880	0.42%	264,381	0.39%
	<u>\$ 61,487,939</u>	<u>100.00%</u>	<u>\$ 67,500,783</u>	<u>100.00%</u>

Major categories of net investment income for the years ended December 31, 2023 and 2022 are summarized as follows:

	Years Ended December 31,	
	2023	2022
Fixed maturity securities	\$ 6,550,360	\$ 7,061,501
Equity securities	118,780	211,290
Other long-term investments	4,948,734	4,975,205
Mortgage loans	19,678,014	16,850,320
Policy loans	240,385	194,814
Short-term and other investments	2,600,099	243,315
	<u>34,136,372</u>	<u>29,536,445</u>
Gross investment income		
Investment expenses	(2,481,051)	(3,315,273)
	<u>\$ 31,655,321</u>	<u>\$ 26,221,172</u>
Net investment income		

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2023 and 2022

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, U.S. government agency mortgage backed securities, mortgage-backed securities, corporate bonds, asset-backed securities, exchange traded securities, foreign bonds, redeemable preferred stocks and certificate of deposits.

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, 2023 and 2022

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, 2023 and 2022 is summarized as follows:

	Level 1	Level 2	Level 3	Total
<u>December 31, 2023</u>				
Fixed maturity securities, available-for-sale				
U.S. government and U.S. government agencies	\$ -	\$ 3,798,284	\$ -	\$ 3,798,284
States and political subdivisions	-	9,531,870	-	9,531,870
U.S. government agency mortgage backed securities	-	10,306,464	-	10,306,464
Commercial mortgage-backed securities	-	8,471,538	-	8,471,538
Residential mortgage-backed securities	-	14,314	-	14,314
Corporate bonds	-	79,341,307	-	79,341,307
Asset-backed securities	-	11,492,496	-	11,492,496
Exchange traded securities	-	476,000	-	476,000
Foreign bonds	-	25,212,675	-	25,212,675
Redeemable preferred securities	-	1,056,000	-	1,056,000
Total fixed maturity securities	<u>\$ -</u>	<u>\$ 149,700,948</u>	<u>\$ -</u>	<u>\$ 149,700,948</u>
Fixed maturity securities, available-for-sale held in trust under coinsurance agreement	<u>\$ -</u>	<u>\$ 51,651,259</u>	<u>\$ -</u>	<u>\$ 51,651,259</u>
Equity securities				
Mutual funds	\$ -	\$ 50,226	\$ -	\$ 50,226
Corporate common stock	304,064	-	65,240	369,304
Total equity securities	<u>\$ 304,064</u>	<u>\$ 50,226</u>	<u>\$ 65,240</u>	<u>\$ 419,530</u>
<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>

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2023 and 2022

3. Fair Value Measurements (continued)

As of December 31, 2023 and 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, U.S. government agency mortgage backed securities, mortgage-backed securities, corporate bonds, asset-backed securities, exchange traded securities, foreign bonds, redeemable preferred stocks and certificate of deposits.

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, 2023 and 2022 is summarized as follows:

	December 31,	
	2023	2022
Beginning balance	\$ 53,996	\$ 63,423
Joint venture net income	130,550	215,470
Joint venture distribution	(119,306)	(216,897)
Net realized investment losses	-	(8,000)
Ending balance	<u>\$ 65,240</u>	<u>\$ 53,996</u>

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2023 and 2022

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, 2023 and 2022, 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, 2023					
Financial assets					
Mortgage loans on real estate					
Commercial	\$ 15,572,913	\$ 14,803,724	\$ -	\$ -	\$ 14,803,724
Residential	224,258,534	196,514,414	-	-	196,514,414
Policy loans	3,474,116	3,474,116	-	-	3,474,116
Short-term investments	298,257	298,257	298,257	-	-
Other long-term investments	61,487,939	68,023,717	-	-	68,023,717
Cash and cash equivalents	33,839,741	33,839,741	33,839,741	-	-
Accrued investment income	6,214,459	6,214,459	-	-	6,214,459
Total financial assets	<u>\$ 345,145,959</u>	<u>\$ 323,168,428</u>	<u>\$ 34,137,998</u>	<u>\$ -</u>	<u>\$ 289,030,430</u>
Held in trust under coinsurance agreement					
Mortgage loans on real estate					
Commercial	\$ 27,714,891	\$ 27,714,891	\$ -	\$ -	\$ 27,714,891
Less unearned interest on mortgage loans	133,010	133,010	-	-	133,010
Cash and cash equivalents	711,733	711,733	711,733	-	-
Total financial assets held in trust under coinsurance agreement	<u>\$ 28,293,614</u>	<u>\$ 28,293,614</u>	<u>\$ 711,733</u>	<u>\$ -</u>	<u>\$ 27,581,881</u>
Financial liabilities					
Policyholders' account balances	\$ 391,247,676	\$ 344,806,580	\$ -	\$ -	\$ 344,806,580
Policy claims	2,410,243	2,410,243	-	-	2,410,243
Total financial liabilities	<u>\$ 393,657,919</u>	<u>\$ 347,216,823</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 347,216,823</u>
December 31, 2022					
Financial assets					
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
Total financial assets	<u>\$ 353,639,276</u>	<u>\$ 337,850,118</u>	<u>\$ 35,403,303</u>	<u>\$ -</u>	<u>\$ 302,446,815</u>
Held in trust under coinsurance agreement					
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	-	-
Total financial assets held in trust under coinsurance agreement	<u>\$ 35,824,729</u>	<u>\$ 35,824,729</u>	<u>\$ 4,796,154</u>	<u>\$ -</u>	<u>\$ 31,028,575</u>
Financial liabilities					
Policyholders' account balances	\$ 391,359,944	\$ 359,044,740	\$ -	\$ -	\$ 359,044,740
Policy claims	2,541,088	2,541,088	-	-	2,541,088
Total financial liabilities	<u>\$ 393,901,032</u>	<u>\$ 361,585,828</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 361,585,828</u>

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2023 and 2022

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 as of December 31, 2023 and 2022.

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, 2023 and 2022, these required deposits had amortized costs that totaled \$4,609,927 and \$4,634,898, respectively. As of December 31, 2023 and 2022, these required deposits had fair values that totaled \$4,596,130 and \$4,590,193, respectively.

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Notes to Consolidated Financial Statements
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5. Allowance for Loan Losses from Mortgage Loans on Real Estate

As of December 31, 2023, \$890,915 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, 2023, \$850,039 of that escrow amount is available to the Company as additional collateral on \$4,487,715 of advances to the loan originator. The remaining December 31, 2023 escrow amount of \$40,876 is available to the Company as additional collateral on its investment of \$8,175,212 in mortgage loans on real estate. In addition, the Company has an additional \$1,164,102 allowance for possible loan losses in the remaining \$231,656,235 of investments in mortgage loans on real estate as of December 31, 2023.

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, 2023, the Company's Chairman, President and Chief Executive Officer has provided approximately \$2,040,000 of loans to this mortgage loan originator and with Board of Directors approval, may provide an additional amount of \$960,000 so not to exceed \$3.0 million in the aggregate.

The balances of and changes in the Company's credit losses related to residential and commercial (includes agricultural, apartment, industrial, lodging, office building and retail) mortgage loans on real estate as of and for the years ended December 31, 2023 and 2022 are summarized as follows (excluding \$8,175,212 and \$19,344,898 of mortgage loans on real estate as of December 31, 2023 and 2022, 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	
	2023	2022	2023	2022	2023	2022
Allowance, beginning	\$ 1,030,424	\$ 675,162	\$ 90,024	\$ 31,357	\$ 1,120,448	\$ 706,519
Charge offs	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-
Provision	55,495	355,262	(11,841)	58,667	43,654	413,929
Allowance, ending	<u>\$ 1,085,919</u>	<u>\$ 1,030,424</u>	<u>\$ 78,183</u>	<u>\$ 90,024</u>	<u>\$ 1,164,102</u>	<u>\$ 1,120,448</u>
Allowance, ending:						
Individually evaluated for impairment	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Collectively evaluated for impairment	<u>\$ 1,085,919</u>	<u>\$ 1,030,424</u>	<u>\$ 78,183</u>	<u>\$ 90,024</u>	<u>\$ 1,164,102</u>	<u>\$ 1,120,448</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>\$ 216,097,800</u>	<u>\$ 205,054,480</u>	<u>\$ 15,558,435</u>	<u>\$ 17,914,750</u>	<u>\$ 231,656,235</u>	<u>\$ 222,969,230</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, 2023 and 2022 are summarized as follows:

	2023	2022
Balance, beginning of year	\$ 56,183,785	\$ 49,717,323
Capitalization of commissions, sales and issue expenses	13,476,834	13,734,859
Amortization	(8,863,514)	(7,280,457)
Deferred acquisition costs allocated to investments	(1,997)	12,060
Balance, end of year	\$ 60,795,108	\$ 56,183,785

7. Federal Income Taxes

FTFC filed 2022 and 2021 consolidated federal income tax returns that included TLIC, FBLIC, FTFC and TMC since all companies had been members of a consolidated group for over 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, 2023 and 2022, respectively, is summarized as follows:

	Years Ended December 31,	
	2023	2022
Expected tax expense	\$ 2,113,114	\$ 1,673,837
Future policy benefits	116,934	(45,901)
Non taxable international losses	44,775	35,331
Adjustment of prior years' taxes	36,495	(77,434)
Capital gains taxes	28,398	100,366
Net operating losses	-	78,242
Difference in book versus tax basis of available-for-sale securities	(3,341)	(31,897)
Unearned investment income	(23,446)	110,215
Premium amortization	(47,081)	(65,439)
Reinsurance recoverable (payable)	(158,863)	20,273
Other	40,102	(11,644)
Total income tax expense	\$ 2,147,087	\$ 1,785,949

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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, 2023 and 2022 are summarized as follows:

	December 31,	
	2023	2022
Deferred tax liabilities:		
Deferred policy acquisition costs	\$ 10,880,652	\$ 10,001,063
Value of insurance business acquired	793,244	850,102
Other liabilities	290,470	512,499
Reinsurance recoverable	260,169	237,092
Due premiums	104,257	85,369
Investment real estate	23,425	23,425
Available-for-sale fixed maturity securities	-	16,520
Available-for-sale fixed equity securities	2,734	917
Other	12	60
Total deferred tax liabilities	<u>12,354,963</u>	<u>11,727,047</u>
Deferred tax assets:		
Policyholders' account balances and future policy benefits	\$ 5,027,661	\$ 4,408,278
Net unrealized investment losses	2,562,880	3,806,498
Mortgage loans	241,819	232,646
Agents' balances	185,954	217,718
Cash equivalents	-	206,305
Net operating loss carryforward	-	157,094
Available-for-sale fixed maturity securities	76,016	-
Unearned investment income	24,186	12,293
Dividend liability	8,258	8,804
Total deferred tax assets	<u>8,126,774</u>	<u>9,049,636</u>
Net deferred tax liabilities	<u>\$ 4,228,189</u>	<u>\$ 2,677,411</u>

FTFC, TLIC, FBLIC and TMC have no remaining net operating loss carryforwards as of December 31, 2023. During 2023, FTFC utilized its remaining \$748,067 net operating loss carryforwards existing as of January 1, 2023 to offset 2023 federal taxable income. 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 2022, TLIC utilized its remaining \$685,110 net operating loss carryforwards existing as of December 31, 2022.

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, has not accrued any such amounts. The Company files U.S. federal income tax returns and income tax returns in various state jurisdictions. The 2020 through 2023 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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Notes to Consolidated Financial Statements
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8. Reinsurance

Statutory reinsurance assumed and ceded amounts for TLIC and FBLIC for 2023 and 2022 are summarized as follows:

	2023	2022
Premiums assumed	\$ 9,272,154	\$ 6,338,775
Commissions and expense allowances assumed	3,652,842	2,903,368
Benefits assumed	229,729	81,512
Reserve credits assumed	14,087,640	8,924,307
In force amount assumed	249,019,338	229,765,011
Premiums ceded	532,288	1,054,085
Commissions and expense allowances ceded	11,180	21,715
Benefits ceded	5,070,456	5,009,861
Reserve credits ceded	92,309,889	109,521,784
In force amount ceded	64,278,984	63,424,357

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.

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%.

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
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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 \$111,755 and \$105,494 for the years ended December 31, 2023 and 2022, 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 for the years ended December 31, 2023 and 2022. The future minimum lease payments to be paid under the non-cancellable lease agreement are \$120,720, \$123,130, \$125,576 and \$95,620 for the years 2024, 2025, 2026 and 2027, respectively.

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10. Shareholders' Equity and Statutory Accounting Practices

FBLIC and TLIC are domiciled in Oklahoma and prepares their statutory financial statements in accordance with statutory accounting practices prescribed or permitted by the OID. 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 (\$249,030) and \$2,765,732 for the years ended December 31, 2023 and 2022, respectively. The statutory capital and surplus of TLIC was \$17,980,111 and \$15,593,424 as of December 31, 2023 and 2022, respectively. The statutory net income for FBLIC amounted to \$1,027,432 and \$679,295 for the years ended December 31, 2023 and 2022, respectively. The statutory capital and surplus of FBLIC was \$13,735,110 and \$12,377,689 as of December 31, 2023 and 2022, respectively.

TLIC and FBLIC are subject to Oklahoma laws that limit the amount of dividends insurance companies can pay to stockholders without approval of the Oklahoma Department 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 \$2,247,082 as of December 31, 2023. In addition, based on those limitations, there is the capacity for FBLIC to pay a dividend up to \$1,373,511 in 2024 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.

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Notes to Consolidated Financial Statements
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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, 2023 and 2022 are summarized as follows:

	Year Ended December 31,	
	2023	2022
Revenues:		
Life insurance operations	\$ 46,859,649	\$ 41,826,391
Annuity operations	24,531,347	21,351,816
Corporate operations	4,365,476	2,380,892
Total	<u>\$ 75,756,472</u>	<u>\$ 65,559,099</u>
Income before income taxes:		
Life insurance operations	\$ 3,463,203	\$ 3,139,886
Annuity operations	3,453,174	3,028,852
Corporate operations	3,146,071	1,801,914
Total	<u>\$ 10,062,448</u>	<u>\$ 7,970,652</u>
Amortization expense:		
Life insurance operations	\$ 7,705,997	\$ 6,417,370
Annuity operations	1,428,269	1,133,481
Total	<u>\$ 9,134,266</u>	<u>\$ 7,550,851</u>
	December 31,	
	2023	2022
Assets:		
Life insurance operations	\$ 164,653,497	\$ 149,949,283
Annuity operations	495,979,724	505,990,810
Corporate operations	11,388,314	9,923,944
Total	<u>\$ 672,021,535</u>	<u>\$ 665,864,037</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 \$26,017,084 as of December 31, 2023. 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 perpetrated 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, filed on November 7, 2018, involves an insurance holding company and its insurance subsidiaries as plaintiffs in the District Court of Travis County, Texas, entitled *Citizens, Inc., CICA Life Ltd., and CICA Life Insurance Company of America, v. Randall H. Riley, Citizens American Life, LLC, Citizens American Life, Inc., Alexis Delgado, Carlos Landa, Enrique Ruiz, Johan Silva, Esperanza Delgado, Michael Buchweitz, Jonathan Pollio, Steven Rekedal, First Trinity Financial Corporation, Trinity American, Inc., and International Marketing Group S.A. LLC, defendants*. The plaintiffs claimed common law unfair competition, misappropriation of trade secrets under the Texas Uniform Trade Secrets Act and various breaches of and interference with contracts. Several of the individual defendants counterclaimed seeking damages for breach of contract based on commissions they were denied due to wrongful termination of their sales agreement by the plaintiffs. Trial of the case occurred from February 26, 2024 through March 8, 2024 and the defendants offered a vigorous defense. In its verdict, delivered on March 8, 2024, the jury confirmed the Company's position that the plaintiffs' claims were without merit, found no liability on any cause of action against the Company and awarded no damages against any defendant. In addition, the jury found the plaintiffs owed over \$1.2 million to two individual defendants for wrongfully withheld sales commissions.

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.

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14. Other Comprehensive Income (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, 2023 and 2022 are summarized as follows:

	Unrealized Appreciation (Depreciation) on Available-For-Sale Securities	Adjustment to Deferred Acquisition Costs	Accumulated Other Comprehensive Income (Loss)
<u>Year Ended December 31, 2023</u>			
Balance as of January 1, 2023	\$ (14,323,715)	\$ 4,036	\$ (14,319,679)
Cumulative effect adjustment as of January 1, 2023			
Accumulated credit loss January 1, 2023	230,036	-	230,036
Other comprehensive income before reclassifications, net of tax	4,408,820	(1,578)	4,407,242
Less amounts reclassified from accumulated other comprehensive income (loss) having no credit losses, net of tax	<u>(41,093)</u>	<u>-</u>	<u>(41,093)</u>
Other comprehensive income	<u>4,449,913</u>	<u>(1,578)</u>	<u>4,448,335</u>
Balance as of December 31, 2023	<u>\$ (9,643,766)</u>	<u>\$ 2,458</u>	<u>\$ (9,641,308)</u>
<u>Year Ended December 31, 2022</u>			
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	<u>680,808</u>	<u>-</u>	<u>680,808</u>
Other comprehensive loss	<u>(27,533,034)</u>	<u>9,528</u>	<u>(27,523,506)</u>
Balance as of December 31, 2022	<u>\$ (14,323,715)</u>	<u>\$ 4,036</u>	<u>\$ (14,319,679)</u>

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Notes to Consolidated Financial Statements
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14. Other Comprehensive Income (Loss) and Accumulated Other Comprehensive Income (Loss) (continued)

The pretax components of the Company's other comprehensive income (loss) and the related income tax expense (benefit) for each component for the years ended December 31, 2023 and 2022 are summarized as follows:

	Pretax	Income Tax Expense (Benefit)	Net of Tax
	<u>Year Ended December 31, 2023</u>		
Other comprehensive income:			
Change in net unrealized gains on available-for-sale securities:			
Unrealized holding gains arising during the period	\$ 5,580,785	\$ 1,171,965	\$ 4,408,820
Reclassification adjustment for net losses included in operation	(52,016)	(10,923)	(41,093)
Net unrealized gains on investments	5,632,801	1,182,888	4,449,913
Adjustment to deferred acquisition costs	(1,997)	(419)	(1,578)
Total other comprehensive income	<u>\$ 5,630,804</u>	<u>\$ 1,182,469</u>	<u>\$ 4,448,335</u>
	<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>

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, 2023 and 2022 are summarized as follows:

Reclassification Adjustments	Years Ended December 31,	
	2023	2022
Realized gains (losses) on sales of securities (a)	\$ (52,016)	\$ 861,782
Income tax expense (benefit) (b)	(10,923)	180,974
Total reclassification adjustments	<u>\$ (41,093)</u>	<u>\$ 680,808</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.

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, 2023.

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 year ended December 31, 2023 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

The information required by this Item is incorporated by reference from the Company's proxy statement for the 2024 annual meeting of shareholders to be filed pursuant to Regulation 14A under the Securities Exchange Act of 1934.

Item 11. Executive Compensation

The information required by this Item is incorporated by reference from the Company's proxy statement for the 2024 annual meeting of shareholders to be filed pursuant to Regulation 14A under the Securities Exchange Act of 1934.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this Item is incorporated by reference from the Company's proxy statement for the 2024 annual meeting of shareholders to be filed pursuant to Regulation 14A under the Securities Exchange Act of 1934 not later than 120 days subsequent to December 31, 2023.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this Item is incorporated by reference from the Company's proxy statement for the 2024 annual meeting of shareholders to be filed pursuant to Regulation 14A under the Securities Exchange Act of 1934 not later than 120 days subsequent to December 31, 2023.

Item 14. Principal Accounting Fees and Services

The information required by this Item is incorporated by reference from the Company's proxy statement for the 2024 annual meeting of shareholders to be filed pursuant to Regulation 14A under the Securities Exchange Act of 1934 not later than 120 days subsequent to December 31, 2023.

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 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.
3.2	Amended and Restated Bylaws, incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on October 6, 2021.
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	Share Acquisition Agreement by and among the Company and MTCP LLC, Brickell L+A Holdings LLC and Will Klein and Gerald Kohout as Shareholders' Representatives dated April 24, 2023, incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed on April 26, 2023.
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.

EXHIBIT INDEX (continued)

<u>Exhibit Number</u>	<u>Description of Exhibit</u>
101.INS**	Inline XBRL Instance
101.SCH**	Inline XBRL Taxonomy Extension Schema
101.CAL**	Inline XBRL Taxonomy Extension Calculation
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 13, 2024

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 13, 2024

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 13, 2024
Gregg E. Zahn
Chairman of the Board, President, Chief Executive Officer and Director

By /s/ William S. Lay Date: March 13, 2024
William S. Lay, Director

By /s/ Bill H. Hill Date: March 13, 2024
Bill H. Hill, Director

By /s/ Will W. Klein Date: March 13, 2024
Will W. Klein, Director

By /s/ Gerald J. Kohout Date: March 13, 2024
Gerald J. Kohout, Director

By /s/ Charles W. Owens Date: March 13, 2024
Charles W. Owens, Director

By /s/ George E. Peintner Date: March 13, 2024
George E. Peintner, Director

By /s/ Gary L. Sherrer Date: March 13, 2024
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	Oklahoma	100% Indirect
Trinity American, Inc.	Barbados, West Indies	100% Direct

EXHIBIT NO. 31.1

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, 2023, 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 13, 2024

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

EXHIBIT NO. 31.2

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, 2023, 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 13, 2024

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, 2023 (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 13, 2024

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, 2023 (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 13, 2024

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