

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

FORM 10-Q

(Mark One)

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended March 31, 2020

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 registrant as specified in its charter)

Oklahoma

(State or other jurisdiction of incorporation or organization)

34-1991436

(I.R.S. Employer Identification Number)

7633 East 63rd Place, Suite 230

Tulsa, Oklahoma 74133-1246

(Address of principal executive offices)

(918) 249-2438

(Registrant's telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Exchange Act during the past 12 months (or for 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 check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act).

Yes No

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: As of May 8, 2020, the registrant had 7,854,912 shares of Class A common stock, .01 par value, outstanding and 116,547 shares of Class B common stock, .01 par value, outstanding.

Securities registered pursuant to section 12(b) of the Act: None.

**FIRST TRINITY FINANCIAL CORPORATION
QUARTERLY REPORT ON FORM 10-Q
FOR QUARTERLY PERIOD ENDED MARCH 31, 2020**

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PART I – FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

First Trinity Financial Corporation and Subsidiaries
Consolidated Statements of Financial Position

	(Unaudited)	
	<u>March 31, 2020</u>	<u>December 31, 2019</u>
Assets		
Investments		
Available-for-sale fixed maturity securities at fair value (amortized cost: \$162,916,429 and \$166,760,448 as of March 31, 2020 and December 31, 2019, respectively)	\$ 161,876,414	\$ 178,951,324
Available-for-sale preferred stock at fair value (cost: \$49,945 as of March 31, 2020 and December 31, 2019)	49,600	51,900
Equity securities at fair value (cost: \$182,375 and \$180,194 as of March 31, 2020 and December 31, 2019, respectively)	164,788	201,024
Mortgage loans on real estate	166,881,532	162,404,640
Investment real estate	2,659,478	1,951,759
Policy loans	2,087,602	2,026,301
Short-term investments	1,832,872	1,831,087
Other long-term investments	73,146,105	71,824,480
Total investments	<u>408,698,391</u>	<u>419,242,515</u>
Cash and cash equivalents	16,728,153	23,212,170
Accrued investment income	5,348,548	5,207,823
Recoverable from reinsurers	3,455,756	1,244,733
Assets held in trust under coinsurance agreement	100,291,192	105,089,240
Agents' balances and due premiums	1,980,608	1,618,115
Deferred policy acquisition costs	39,199,188	38,005,639
Value of insurance business acquired	4,811,474	4,891,448
Other assets	11,018,287	6,424,691
Total assets	<u>\$ 591,531,597</u>	<u>\$ 604,936,374</u>
Liabilities and Shareholders' Equity		
Policy liabilities		
Policyholders' account balances	\$ 362,198,197	\$ 363,083,838
Future policy benefits	67,807,951	65,015,390
Policy claims	1,139,262	1,399,393
Other policy liabilities	84,921	132,975
Total policy liabilities	<u>431,230,331</u>	<u>429,631,596</u>
Funds withheld under coinsurance agreement	101,038,693	105,638,974
Deferred federal income taxes	3,752,091	6,345,918
Other liabilities	5,993,680	5,901,624
Total liabilities	<u>542,014,795</u>	<u>547,518,112</u>
Shareholders' equity		
Class A common stock, par value \$.01 per share (40,000,000 and 20,000,000 shares authorized as of March 31, 2020 and December 31, 2019, respectively, 8,102,492 and 8,050,173 issued as of March 31, 2020 and December 31, 2019, respectively, 7,854,912 and 7,802,593 outstanding as of March 31, 2020 and December 31, 2019, respectively)	81,025	80,502
Class B common stock, par value \$.01 per share (10,000,000 shares authorized, 116,547 issued and outstanding as of March 31, 2020)	1,165	-
Additional paid-in capital	30,429,150	28,684,598
Treasury stock, at cost (247,580 shares as of March 31, 2020 and December 31, 2019)	(893,947)	(893,947)
Accumulated other comprehensive income (loss)	(820,296)	9,616,660
Accumulated earnings	20,719,705	19,930,449
Total shareholders' equity	<u>49,516,802</u>	<u>57,418,262</u>
Total liabilities and shareholders' equity	<u>\$ 591,531,597</u>	<u>\$ 604,936,374</u>

See notes to consolidated financial statements (unaudited).

First Trinity Financial Corporation and Subsidiaries

Consolidated Statements of Operations

(Unaudited)

	Three Months Ended March 31,	
	2020	2019
Revenues		
Premiums	\$ 6,365,876	\$ 5,530,806
Net investment income	6,269,843	5,573,456
Net realized investment gains	23,502	53,720
Service fees	10,871	427,734
Other income	13,414	38,984
Total revenues	12,683,506	11,624,700
Benefits, Claims and Expenses		
Benefits and claims		
Increase in future policy benefits	2,641,119	2,151,600
Death benefits	1,611,780	1,632,780
Surrenders	410,364	350,407
Interest credited to policyholders	3,063,245	2,550,672
Dividend, endowment and supplementary life contract benefits	82,699	68,669
Total benefits and claims	7,809,207	6,754,128
Policy acquisition costs deferred	(2,384,968)	(3,615,460)
Amortization of deferred policy acquisition costs	1,213,274	764,346
Amortization of value of insurance business acquired	79,974	81,447
Commissions	2,308,163	3,572,572
Other underwriting, insurance and acquisition expenses	2,641,472	2,265,575
Total expenses	3,857,915	3,068,480
Total benefits, claims and expenses	11,667,122	9,822,608
Income before total federal income tax expense	1,016,384	1,802,092
Current federal income tax expense	46,575	303,002
Deferred federal income tax expense	180,553	76,894
Total federal income tax expense	227,128	379,896
Net income	\$ 789,256	\$ 1,422,196
Net income per common share basic and diluted		
Class A common stock	\$ 0.0992	\$ 0.1823
Class B common stock	\$ 0.0843	\$ -

See notes to consolidated financial statements (unaudited).

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

	Three Months Ended March 31,	
	2020	2019
Net income	\$ 789,256	\$ 1,422,196
Other comprehensive income (loss)		
Total net unrealized gains (losses) arising during the period	(13,171,272)	5,127,250
Less net realized investment gains having no credit losses	61,919	40,075
Net unrealized gains (losses)	(13,233,191)	5,087,175
Less adjustment to deferred acquisition costs	(21,855)	12,497
Other comprehensive income (loss) before income tax expense (benefit)	(13,211,336)	5,074,678
Income tax expense (benefit)	(2,774,380)	1,065,684
Total other comprehensive income (loss)	(10,436,956)	4,008,994
Total comprehensive income (loss)	\$ (9,647,700)	\$ 5,431,190

See notes to consolidated financial statements (unaudited).

First Trinity Financial Corporation and Subsidiaries
Consolidated Statements of Changes in Shareholders' Equity
Three Months Ended March 31, 2020 and 2019
(Unaudited)

	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, 2019	\$ 80,502	\$ -	\$ 28,684,598	\$ (893,947)	\$ (2,576,631)	\$ 13,830,729	\$ 39,125,251
Comprehensive income:							
Net income	-	-	-	-	-	1,422,196	1,422,196
Other comprehensive income	-	-	-	-	4,008,994	-	4,008,994
Balance as of March 31, 2019	<u>\$ 80,502</u>	<u>\$ -</u>	<u>\$ 28,684,598</u>	<u>\$ (893,947)</u>	<u>\$ 1,432,363</u>	<u>\$ 15,252,925</u>	<u>\$ 44,556,441</u>
Balance as of January 1, 2020	\$ 80,502	\$ -	\$ 28,684,598	\$ (893,947)	\$ 9,616,660	\$ 19,930,449	\$ 57,418,262
Comprehensive income:							
Net income	-	-	-	-	-	789,256	789,256
Other comprehensive loss	-	-	-	-	(10,436,956)	-	(10,436,956)
Acquisition of K-TENN Insurance Company	1,688	-	1,744,552	-	-	-	1,746,240
Recapitalization	(1,165)	1,165	-	-	-	-	-
Balance as of March 31, 2020	<u>\$ 81,025</u>	<u>\$ 1,165</u>	<u>\$ 30,429,150</u>	<u>\$ (893,947)</u>	<u>\$ (820,296)</u>	<u>\$ 20,719,705</u>	<u>\$ 49,516,802</u>

See notes to consolidated financial statements (unaudited).

First Trinity Financial Corporation and Subsidiaries
Consolidated Statements of Cash Flows
(Unaudited)

	Three Months Ended March 31,	
	2020	2019
Operating activities		
Net income	\$ 789,256	\$ 1,422,196
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Provision for depreciation	36,372	36,372
Accretion of discount on investments	(1,253,547)	(1,167,169)
Net realized investment gains	(23,502)	(53,720)
Amortization of policy acquisition cost	1,213,274	764,346
Policy acquisition cost deferred	(2,384,968)	(3,615,460)
Amortization of loan origination fees	5,117	7,460
Amortization of value of insurance business acquired	79,974	81,447
Allowance for mortgage loan losses	(1,860)	33,217
Provision for deferred federal income tax expense	180,553	76,894
Interest credited to policyholders	3,063,245	2,550,672
Change in assets and liabilities:		
Policy loans	(60,256)	(25,467)
Short-term investments	(1,785)	(914,153)
Accrued investment income	(140,235)	(509,603)
Recoverable from reinsurers	(2,211,023)	(149,010)
Assets held in trust under coinsurance agreement	4,798,048	(19,715,191)
Agents' balances and due premiums	(358,507)	(102,830)
Other assets (excludes change in receivable for securities sold of \$33,600 in 2019)	(4,593,135)	(1,152,822)
Future policy benefits	2,641,978	2,115,019
Policy claims	(260,131)	347,272
Other policy liabilities	(57,266)	5,338
Other liabilities (exclude change in payable for securities purchased of \$575,435 and (\$124,160) in 2020 and 2019, respectively)	(493,625)	16,749,404
Net cash provided by (used in) operating activities	<u>967,977</u>	<u>(3,215,788)</u>
Investing activities		
Purchases of fixed maturity securities	(1,005,000)	(6,536,434)
Maturities of fixed maturity securities	200,000	2,600,000
Sales of fixed maturity securities	5,350,987	799,846
Purchases of equity securities	(29,220)	(27,784)
Acquisition of K-TENN Insurance Company	1,110,299	-
Joint venture distribution	27,039	23,824
Purchases of mortgage loans	(19,403,227)	(21,818,443)
Payments on mortgage loans	14,244,785	8,694,982
Purchases of other long-term investments	(3,258,188)	(5,629,292)
Payments on other long-term investments	3,284,263	2,850,460
Net change in receivable and payable for securities sold and purchased	575,435	(90,560)
Net cash provided by (used in) investing activities	<u>1,097,173</u>	<u>(19,133,401)</u>
Financing activities		
Policyholders' account deposits	1,769,421	70,719,584
Policyholders' account withdrawals	(10,318,588)	(8,740,280)
Net cash provided by (used in) financing activities	<u>(8,549,167)</u>	<u>61,979,304</u>
Increase (decrease) in cash and cash equivalents	(6,484,017)	39,630,115
Cash and cash equivalents, beginning of period	23,212,170	29,665,605
Cash and cash equivalents, end of period	<u>\$ 16,728,153</u>	<u>\$ 69,295,720</u>

See notes to consolidated financial statements (unaudited).

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 the three months ended March 31, 2020 and 2019, the Company foreclosed on residential mortgage loans of real estate totaling \$744,091 and \$99,218, respectively and transferred that 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:

	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019
Reductions in mortgage loans due to foreclosure	\$ 744,091	\$ 99,218
Investment real estate held-for-sale acquired through foreclosure	(744,091)	(99,218)
Net cash used in investing activities	<u>\$ -</u>	<u>\$ -</u>

On January 1, 2020, the Company acquired K-TENN Insurance Company. The Company acquired assets of \$1,916,281 (including cash) and assumed liabilities of \$170,041.

In conjunction with this 2020 acquisition, the cash and non-cash impact on operating, investing and financing activities is summarized as follows.

	March 31, 2020
Cash used in acquisition of K-TENN Insurance Company	\$ -
Cash provided in acquisition of K-TENN Insurance Company	<u>1,110,299</u>
Increase in cash from acquisition of K-TENN Insurance Company	1,110,299
Fair value of assets acquired in acquisition of K-TENN Insurance Company (excluding cash)	
Available-for-sale fixed maturity securities	800,000
Policy loans	1,045
Accrued investment income	490
Due premiums	3,986
Other assets	<u>461</u>
Total fair value of assets acquired (excluding cash)	805,982
Fair value of liabilities assumed in acquisition of K-TENN Insurance Company	
Future policy benefits	150,583
Other policy liabilities	9,212
Other liabilities	<u>10,246</u>
Total fair value of liabilities assumed	<u>170,041</u>
Fair value of net assets acquired in acquisition of K-TENN Insurance Company (excluding cash)	<u>635,941</u>
Fair value of net assets acquired in acquisition of K-TENN Insurance Company (including cash)	<u>\$ 1,746,240</u>

See notes to consolidated financial statements (unaudited).

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
March 31, 2020
(Unaudited)

1. Organization and Significant Accounting Policies

Nature of Operations

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”), First Trinity Capital Corporation (“FTCC”) 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 Illinois, Kansas, Kentucky, Montana, Nebraska, North Dakota, Ohio, Oklahoma, Tennessee and Texas. 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 FTCC that was incorporated in 2006, and began operations in January 2007. FTCC provided financing for casualty insurance premiums for individuals and companies and was licensed to conduct premium financing business in the states of Alabama, Arkansas, Louisiana, Mississippi and Oklahoma. FTCC has made no premium financing loans since June 30, 2012.

The Company owns 100% of TAI (formerly known as Citizens American Life, Inc.). 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 and annuity contracts through an association with distribution channels but is now issuing life insurance policies and annuity contracts. 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.

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.

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
March 31, 2020
(Unaudited)

1. Organization and Significant Accounting Policies (continued)

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 (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.

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (consisting primarily of normal recurring accruals) considered necessary for a fair presentation of the results for the interim periods have been included.

The results of operations for the three months ended March 31, 2020 are not necessarily indicative of the results to be expected for the year ended December 31, 2020 or for any other interim period or for any other future year. Certain financial information which is normally included in notes to consolidated financial statements prepared in accordance with U.S. GAAP, but which is not required for interim reporting purposes, has been condensed or omitted. The accompanying consolidated financial statements and notes thereto should be read in conjunction with the financial statements and notes thereto included in the Company’s report on Form 10-K for the year ended December 31, 2019.

As a result of Coronavirus Disease 2019, which was declared a pandemic on March 11, 2020, the United States Federal, State and Local Governments, and other countries around the world have taken measures that have suddenly limited economic output. Due to the decline in economic activity, the Company is faced with a sudden uncertainty as of the date of this report on its operations when considering its revenue sources and potential future liquidity needs. Management is actively monitoring the situation and the impact to the Company’s operations. As the pandemic continues, should liquidity conditions worsen in the short-term, management will work with its financial institutions to assist with liquidity needs.

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.

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
March 31, 2020
(Unaudited)

1. Organization and Significant Accounting Policies (continued)

Reclassifications

Certain reclassifications have been made in the prior year and prior quarter financial statements to conform to current year and current quarter 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

Common stock is fully paid, non-assessable and has a par value of \$.01 per share.

On October 2, 2019, at the Company Annual Shareholders' Meeting, FTFC's shareholders approved the following proposals subject to regulatory approval and adoption by FTFC's Board of Directors:

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

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

Treasury Stock

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

Subsequent Events

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%.

Management has evaluated all events subsequent to March 31, 2020 through the date that these financial statements have been issued.

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
March 31, 2020
(Unaudited)

1. Organization and Significant Accounting Policies (continued)

Recent Accounting Pronouncements

Leases

In February 2016, the FASB issued updated guidance (Accounting Standards Update 2016-02) to require lessees to recognize a right-of-use asset and a lease liability for leases with terms of more than 12 months. The updated guidance retains the two classifications of a lease as either an operating or finance lease (previously referred to as a capital lease). Both lease classifications require the lessee to record the right-of-use asset and the lease liability based upon the present value of cash flows. Finance leases will reflect the financial arrangement by recognizing interest expense on the lease liability separately from the amortization expense of the right-of-use asset. Operating leases will recognize lease expense (with no separate recognition of interest expense) on a straight-line basis over the term of the lease. The accounting by lessors is not significantly changed by the updated guidance. The updated guidance requires expanded qualitative and quantitative disclosures, including additional information about the amounts recorded in the financial statements.

In July 2018, the FASB amended the updated guidance on leases that was issued in February 2016 (Accounting Standards Update 2018-11) and provided an additional transition method with which to adopt the updated guidance. Under the additional transition method, entities may elect to recognize a cumulative-effect adjustment to the opening balance of retained earnings in the year of adoption.

Consequently, if this transition method is elected, an entity's reporting for the comparative periods prior to adoption presented in the financial statements would continue to be in accordance with current lease guidance. The amendments also provide lessors with a practical expedient to combine non-lease components (e.g., a fee for common area maintenance when leasing office space) with the associated lease component rather than accounting for those components separately if certain criteria are met. The updated guidance requires entities to recognize a right-of-use asset and lease liability equal to the present value of lease payments for all leases other than those that are less than one year. The updated guidance, as amended, is effective for reporting periods beginning after December 15, 2018.

In December 2018, the FASB issued additional guidance (Accounting Standards Update 2018-20) that permits an accounting policy election for lessors to not evaluate whether certain sales taxes and other similar taxes are lessor costs or lessee costs. A lessor making this election will exclude from the consideration in the contract and from variable payments not included in the consideration of the contract all collections from lessees of certain sales taxes and other similar taxes and to provide certain disclosures.

The Company adopted this guidance in first quarter 2019. The adoption of this guidance in 2019 did not have a material effect on the Company's results of operations, financial position or liquidity.

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

In June 2016, the FASB issued updated guidance (Accounting Standards Update 2016-13) for the accounting for credit losses for financial instruments. The updated guidance applies a new credit loss model (current expected credit losses or CECL) for determining credit-related impairments for financial instruments measured at amortized cost (e.g. reinsurance recoverables, including structured settlements that are recorded as part of reinsurance recoverables) and requires an entity to estimate the credit losses expected over the life of an exposure or pool of exposures. The estimate of expected credit losses should consider historical information, current information, as well as reasonable and supportable forecasts, including estimates of prepayments. The expected credit losses, and subsequent adjustments to such losses, will be recorded through an allowance account that is deducted from the amortized cost basis of the financial asset, with the net carrying value of the financial asset presented on the consolidated balance sheet at the amount expected to be collected.

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
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(Unaudited)

1. Organization and Significant Accounting Policies (continued)

The updated guidance also amends the current other-than-temporary impairment model for available-for-sale debt securities by requiring the recognition of impairments relating to credit losses through an allowance account and limits the amount of credit loss to the difference between a security's amortized cost basis and its fair value. In addition, the length of time a security has been in an unrealized loss position will no longer impact the determination of whether a credit loss exists.

The updated guidance was effective for reporting periods beginning after December 15, 2019. As a Smaller Reporting Company, the effective date was recently changed and the delayed effective date is now for reporting periods beginning after December 15, 2022. Early adoption is permitted for reporting periods beginning after December 15, 2018. Based on the financial instruments currently held by the Company, there would not be a material effect on the Company's results of operations, financial position or liquidity if the new guidance had been adopted in the current accounting period. The impact on the Company's results of operations, financial position or liquidity at the date of adoption of the updated guidance will be determined by the financial instruments held by the Company and the economic conditions at that time.

Intangibles - Goodwill and Other

In January 2017, the FASB issued updated guidance (Accounting Standards Update 2017-04) that eliminates the requirement to calculate the implied fair value of goodwill (i.e., Step 2 of the current goodwill impairment test) to measure a goodwill impairment charge. Instead, entities will record an impairment charge by comparing a reporting unit's fair value with its carrying amount and recognizing an impairment charge for the excess of the carrying amount over estimated fair value (i.e., Step 1 of current guidance).

The implied fair value of goodwill is currently determined in Step 2 by deducting the fair value of all assets and liabilities of the reporting unit (determined in the same manner as a business combination) from the reporting unit's fair value as determined in Step 1 (including any corporate-level assets or liabilities that were included in the determination of the carrying amount and fair value of the reporting unit in Step 1). The updated guidance requires an entity to perform its annual, or interim, impairment test by either: (1) an initial qualitative assessment of factors (such as changes in management, key personnel, strategy, key technology or customers) that may impact a reporting unit's fair value and lead to the determination that it is more likely than not that the reporting unit's fair value is less than its carrying value, including goodwill (consistent with current guidance), or (2) applying Step 1.

The Company adopted this guidance in first quarter 2020. The adoption of this guidance in 2020 did not have a material effect on the Company's results of operations, financial position or liquidity.

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 acquisition 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 was recently changed and the delayed effective date is now for reporting periods beginning after December 15, 2023. Early adoption is permitted. 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.

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
March 31, 2020
(Unaudited)

1. Organization and Significant Accounting Policies (continued)

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 2024 will be determined by the long-duration contracts then held by the Company and the economic conditions at that time.

Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement

In August 2018, the FASB issued amendments (Accounting Standards Update 2018-13) to modify the disclosure requirements related to fair value measurements including the consideration of costs and benefits of producing the modified disclosures.

The Company adopted this guidance in first quarter 2020. The adoption of this guidance in 2020 did not have a material effect on the Company's results of operations, financial position or liquidity.

Income Taxes - Simplifying the Accounting for Income Taxes

In December 2019, the FASB issued updated guidance (Accounting Standards Update 2019-12) for the accounting for income taxes. The updated guidance is intended to simplify the accounting for income taxes by removing several exceptions contained in existing guidance and amending other existing guidance to simplify several other income tax accounting matters. The updated guidance is effective for the quarter ending March 31, 2021. Early adoption is permitted. The adoption of this guidance is not expected to have a material effect on the Company's results of operations, financial position or liquidity.

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
March 31, 2020
(Unaudited)

2. Investments

Investments in fixed maturity and preferred stock available-for-sale and equity securities as of March 31, 2020 and December 31, 2019 are summarized as follows:

	Amortized Cost or Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	March 31, 2020 (Unaudited)			
Fixed maturity securities				
U.S. government and U.S. government agencies	\$ 1,679,790	\$ 3,497	\$ -	\$ 1,683,287
States and political subdivisions	9,317,430	720,408	-	10,037,838
Residential mortgage-backed securities	18,043	15,291	-	33,334
Corporate bonds	117,044,796	5,155,796	5,415,004	116,785,588
Asset-backed securities	2,082,445	8,330	107,083	1,983,692
Exchange traded securities	500,000	-	200,000	300,000
Foreign bonds	31,473,925	973,199	2,194,449	30,252,675
Certificate of deposits	800,000	-	-	800,000
Total fixed maturity securities	162,916,429	6,876,521	7,916,536	161,876,414
Preferred stock	49,945	-	345	49,600
Equity securities				
Mutual funds	91,981	-	21,713	70,268
Corporate common stock	90,394	4,126	-	94,520
Total equity securities	182,375	4,126	21,713	164,788
Total fixed maturity, preferred stock and equity securities	\$ 163,148,749	\$ 6,880,647	\$ 7,938,594	\$ 162,090,802
December 31, 2019				
Fixed maturity securities				
U.S. government and U.S. government agencies	\$ 1,679,731	\$ 431	\$ 11,129	\$ 1,669,033
States and political subdivisions	9,536,120	617,063	2,252	10,150,931
Residential mortgage-backed securities	20,289	22,167	-	42,456
Corporate bonds	121,143,923	9,528,168	144,337	130,527,754
Asset-backed securities	2,116,056	68,395	-	2,184,451
Exchange traded securities	500,000	48,400	-	548,400
Foreign bonds	31,764,329	2,427,523	363,553	33,828,299
Total fixed maturity securities	166,760,448	12,712,147	521,271	178,951,324
Preferred stock	49,945	1,955	-	51,900
Equity securities				
Mutual funds	91,981	-	2,629	89,352
Corporate common stock	88,213	23,459	-	111,672
Total equity securities	180,194	23,459	2,629	201,024
Total fixed maturity, preferred stock and equity securities	\$ 166,990,587	\$ 12,737,561	\$ 523,900	\$ 179,204,248

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
March 31, 2020
(Unaudited)

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 March 31, 2020 and December 31, 2019 are summarized as follows:

	Fair Value	Unrealized Loss	Number of Securities
	March 31, 2020 (Unaudited)		
Fixed maturity securities			
Less than 12 months in an unrealized loss position			
Corporate bonds	\$ 46,202,498	\$ 4,859,166	159
Asset-backed securities	1,270,692	107,083	4
Exchange traded securities	300,000	200,000	2
Foreign bonds	12,033,032	1,393,462	38
Total less than 12 months in an unrealized loss position	59,806,222	6,559,711	203
More than 12 months in an unrealized loss position			
Corporate bonds	523,430	555,838	5
Foreign bonds	623,575	800,987	4
Total more than 12 months in an unrealized loss position	1,147,005	1,356,825	9
Total fixed maturity securities in an unrealized loss position	60,953,227	7,916,536	212
Preferred stock, less than 12 months in an unrealized loss position	49,600	345	1
Equity securities (mutual funds), less than 12 months in an unrealized loss position	70,268	21,713	1
Total fixed maturity, preferred stock and equity securities in an unrealized loss position	\$ 61,073,095	\$ 7,938,594	\$ 214
	December 31, 2019		
Fixed maturity securities			
Less than 12 months in an unrealized loss position			
U.S. government and U.S. government agencies	\$ 1,097,626	\$ 6,841	3
States and political subdivisions	103,007	2,252	1
Corporate bonds	3,049,765	59,915	7
Foreign bonds	345,243	7,857	1
Total less than 12 months in an unrealized loss position	4,595,641	76,865	12
More than 12 months in an unrealized loss position			
U.S. government and U.S. government agencies	445,943	4,288	2
Corporate bonds	1,245,410	84,422	6
Foreign bonds	1,070,459	355,696	4
Total more than 12 months in an unrealized loss position	2,761,812	444,406	12
Total fixed maturity securities in an unrealized loss position	7,357,453	521,271	24
Equity securities (mutual funds), greater than 12 months in an unrealized loss position	89,352	2,629	1
Total fixed maturity, preferred stock and equity securities in an unrealized loss position	\$ 7,446,805	\$ 523,900	\$ 25

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
March 31, 2020
(Unaudited)

2. Investments (continued)

As of March 31, 2020, the Company held 212 available-for-sale fixed maturity securities with an unrealized loss of \$7,916,536, fair value of \$60,953,227 and amortized cost of \$68,869,763. These unrealized losses were primarily due to the Coronavirus pandemic impact on the bond market as of March 31, 2020. The ratio of the fair value to the amortized cost of these 212 securities is 89%.

As of December 31, 2019, the Company held 24 available-for-sale fixed maturity securities with an unrealized loss of \$521,271, fair value of \$7,357,453 and amortized cost of \$7,878,724. These unrealized losses were primarily due to market interest rate movements in the bond market as of December 31, 2019. The ratio of the fair value to the amortized cost of these 24 securities is 93%.

As of March 31, 2020, the Company held one equity security with an unrealized loss of \$21,713, fair value of \$70,268 and cost of \$91,981. The ratio of fair value to cost of this security is 76%.

As of December 31, 2019, the Company held one equity security with an unrealized loss of \$2,629, fair value of \$89,352 and cost of \$91,981. The ratio of fair value to cost of this security is 97%.

As of March 31, 2020, the Company held one preferred stock with an unrealized loss of \$345, fair value of \$49,600 and cost of \$49,945. The ratio of fair value to cost of this preferred stock is 99%.

Fixed maturity securities were 97% investment grade as rated by Standard & Poor's as of March 31, 2020 and December 31, 2019.

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

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

There were no other-than-temporary impairments during the three months ended March 31, 2020 and 2019.

Management believes that the Company will fully recover its cost basis in the securities held as of March 31, 2020, and management does not have the intent to sell nor is it more likely than not that the Company will be required to sell such securities until they recover or mature. The remaining temporary impairments shown herein are primarily the result of the current interest rate environment rather than credit factors that would imply other-than-temporary impairment.

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
March 31, 2020
(Unaudited)

2. Investments (continued)

Net unrealized gains (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 appreciation (depreciation) had been realized as of March 31, 2020 and December 31, 2019, are summarized as follows:

	(Unaudited)	
	March 31, 2020	December 31, 2019
Unrealized appreciation (depreciation)		
on available-for-sale securities	\$ (1,040,360)	\$ 12,192,831
Adjustment to deferred acquisition costs	2,011	(19,844)
Deferred income taxes	218,053	(2,556,327)
Net unrealized appreciation (depreciation)		
on available-for-sale securities	\$ (820,296)	\$ 9,616,660

The Company's investment in lottery prize cash flows categorized as other long-term investments in the statement of financial position was \$73,146,105 and \$71,824,480 as of March 31, 2020 and December 31, 2019, 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 fair value of fixed maturity available-for-sale securities and other long-term investments as of March 31, 2020, by contractual maturity, are summarized as follows:

	March 31, 2020 (Unaudited)			
	Fixed Maturity Available-For-Sale Securities		Other Long-Term Investments	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	\$ 2,664,450	\$ 2,655,860	\$ 11,233,730	\$ 11,466,462
Due after one year through five years	26,292,616	24,761,240	35,104,570	39,433,436
Due after five years through ten years	55,372,399	54,289,104	19,387,198	25,495,424
Due after ten years	78,568,921	80,136,876	7,420,607	13,500,163
Due at multiple maturity dates	18,043	33,334	-	-
	\$ 162,916,429	\$ 161,876,414	\$ 73,146,105	\$ 89,895,485

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.

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
March 31, 2020
(Unaudited)

2. Investments (continued)

Proceeds and gross realized gains (losses) from the sales, calls and maturities of fixed maturity securities available-for-sale for the three months ended March 31, 2020 and 2019 are summarized as follows:

	Three Months Ended March 31, (Unaudited)			
	Fixed Maturity Securities			
	2020	2019		
Proceeds	\$ 5,550,987	\$	3,399,846	
Gross realized gains	65,309		44,555	
Gross realized losses	(3,390)		(4,480)	

The accumulated change in unrealized investment gains (losses) for fixed maturity and preferred stock available-for-sale for the three months ended March 31, 2020 and 2019 and the amount of net realized investment gains (losses) on fixed maturity securities available-for-sale and equity securities for the three months ended March 31, 2020 and 2019 are summarized as follows:

	Three Months Ended March 31, (Unaudited)			
	2020	2019		
Change in unrealized investment gains (losses):				
Available-for-sale securities:				
Fixed maturity securities	\$ (13,230,891)	\$	5,077,355	
Preferred stock	(2,300)		9,820	
Net realized investment gains (losses):				
Available-for-sale securities:				
Fixed maturity securities	61,919		40,075	
Equity securities, changes in fair value	(38,417)		13,645	

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
March 31, 2020
(Unaudited)

2. Investments (continued)

Major categories of net investment income for the three months ended March 31, 2020 and 2019 are summarized as follows:

	Three Months Ended March 31, (Unaudited)	
	2020	2019
Fixed maturity securities	\$ 1,838,382	\$ 1,529,476
Preferred stock and equity securities	32,323	34,218
Other long-term investments	1,347,138	1,150,757
Mortgage loans	3,570,405	3,182,848
Policy loans	37,707	32,273
Real estate	68,682	64,296
Short-term and other investments	24,537	244,840
Gross investment income	6,919,174	6,238,708
Investment expenses	(649,331)	(665,252)
Net investment income	<u>\$ 6,269,843</u>	<u>\$ 5,573,456</u>

TLIC and FBLIC are required to hold assets on deposit with various state insurance departments for the benefit of policyholders and other special deposits in accordance with statutory rules and regulations. As of March 31, 2020 and December 31, 2019, these required deposits, included in investment assets, had amortized costs that totaled \$4,798,357 and \$4,434,662, respectively. As of March 31, 2020 and December 31, 2019, these required deposits had fair values that totaled \$4,844,525 and \$4,468,783, respectively.

The Company's mortgage loans by property type as of March 31, 2020 and December 31, 2019 are summarized as follows:

	(Unaudited)	
	March 31, 2020	December 31, 2019
Residential mortgage loans	\$ 153,328,603	\$ 150,002,865
Commercial mortgage loans by property type		
Apartment	964,351	1,604,934
Industrial	1,605,214	1,619,250
Lodging	729,042	729,603
Office building	4,322,652	3,676,396
Retail	5,931,670	4,771,592
Total commercial mortgage loans by property type	<u>13,552,929</u>	<u>12,401,775</u>
Total mortgage loans	<u>\$ 166,881,532</u>	<u>\$ 162,404,640</u>

There were 35 loans with a remaining principal balance of \$5,727,927 that were more than 90 days past due as of March 31, 2020. There were 23 loans with a remaining principal balance of \$4,427,317 that were more than 90 days past due as of December 31, 2019.

There were no mortgage loans in default and in the foreclosure process as of March 31, 2020. There were \$1,691,980 of mortgage loans in default and foreclosure as of December 31, 2019 and the Company estimates that it will not incur losses on these foreclosures due to the anticipated sales prices less disposal costs exceeding the carrying values of these foreclosed mortgage loans.

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
March 31, 2020
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2. Investments (continued)

The Company's investment real estate as of March 31, 2020 and December 31, 2019 is summarized as follows:

	(Unaudited)	
	March 31, 2020	December 31, 2019
Land - held for the production of income	\$ 213,160	\$ 213,160
Land - held for investment	745,155	745,155
Total land	958,315	958,315
Building - held for the production of income	2,267,557	2,267,557
Less - accumulated depreciation	(1,522,531)	(1,486,159)
Buildings net of accumulated depreciation	745,026	781,398
Residential real estate - held for sale	956,137	212,046
Total residential real estate	956,137	212,046
Investment real estate, net of accumulated depreciation	\$ 2,659,478	\$ 1,951,759

TLIC owns approximately six and one-half acres of land located in Topeka, Kansas that includes a 20,000 square foot office building on approximately one-fourth of this land. This building and land on one of the four lots is held for the production of income. The other three lots of land owned in Topeka, Kansas are held for investment. In addition, FBLIC owns one-half acre of undeveloped land located in Jefferson City, Missouri.

During 2020 the Company foreclosed on two residential mortgage loans of real estate totaling \$744,091 and transferred those properties to investment real estate held for sale. During 2019, the Company foreclosed on one residential mortgage loans of real estate totaling \$99,218 and transferred that property to investment real estate that is now held for sale.

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, preferred stock 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 preferred stock and 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, mortgage-backed securities, corporate bonds, asset-backed securities, exchange traded securities, foreign bonds and certificate of deposits.

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
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(Unaudited)

3. Fair Value Measurements (continued)

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
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(Unaudited)

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 March 31, 2020 and December 31, 2019 is summarized as follows:

	Level 1	Level 2	Level 3	Total
	March 31, 2020 (Unaudited)			
Fixed maturity securities, available-for-sale				
U.S. government and U.S. government agencies	\$ -	\$ 1,683,287	\$ -	\$ 1,683,287
States and political subdivisions	-	10,037,838	-	10,037,838
Residential mortgage-backed securities	-	33,334	-	33,334
Corporate bonds	-	116,785,588	-	116,785,588
Asset-backed securities	-	1,983,692	-	1,983,692
Exchange traded securities	-	300,000	-	300,000
Foreign bonds	-	30,252,675	-	30,252,675
Certificate of deposits	-	800,000	-	800,000
Total fixed maturity securities	<u>\$ -</u>	<u>\$ 161,876,414</u>	<u>\$ -</u>	<u>\$ 161,876,414</u>
Preferred stock, available-for-sale	<u>\$ 49,600</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 49,600</u>
Equity securities				
Mutual funds	\$ -	\$ 70,268	\$ -	\$ 70,268
Corporate common stock	28,232	-	66,288	94,520
Total equity securities	<u>\$ 28,232</u>	<u>\$ 70,268</u>	<u>\$ 66,288</u>	<u>\$ 164,788</u>
December 31, 2019				
Fixed maturity securities, available-for-sale				
U.S. government and U.S. government agencies	\$ -	\$ 1,669,033	\$ -	\$ 1,669,033
States and political subdivisions	-	10,150,931	-	10,150,931
Residential mortgage-backed securities	-	42,456	-	42,456
Corporate bonds	-	130,527,754	-	130,527,754
Asset-backed securities	-	2,184,451	-	2,184,451
Exchange traded securities	-	548,400	-	548,400
Foreign bonds	-	33,828,299	-	33,828,299
Total fixed maturity securities	<u>\$ -</u>	<u>\$ 178,951,324</u>	<u>\$ -</u>	<u>\$ 178,951,324</u>
Preferred stock, available-for-sale	<u>\$ 51,900</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 51,900</u>
Equity securities				
Mutual funds	\$ -	\$ 89,352	\$ -	\$ 89,352
Corporate common stock	47,565	-	64,107	111,672
Total equity securities	<u>\$ 47,565</u>	<u>\$ 89,352</u>	<u>\$ 64,107</u>	<u>\$ 201,024</u>

As of March 31, 2020 and December 31, 2019, Level 3 financial instruments consisted of two private placement common stocks that have no active trading and a joint venture investment with a mortgage loan originator.

These private placement common stocks represent investments in small insurance holding companies. The fair value for these securities was determined through the use of unobservable assumptions about market participants. The Company has assumed a willing market participant would purchase the securities for the same price as the Company paid until such time as these small insurance holding companies commence significant operations. The joint venture investment with a mortgage loan originator is accounted for under the equity method of accounting.

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3. Fair Value Measurements (continued)

Fair values for Level 1 and Level 2 assets for the Company's fixed maturity and preferred stock available-for-sale 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, mortgage-backed securities, corporate bonds, asset-backed securities, exchange traded securities, foreign bonds and certificate of deposits.

The Company's preferred stock is included in Level 1 and 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 preferred stock and those 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 and preferred stock 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 three months ended March 31, 2020 and March 31, 2019 is summarized as follows:

	Unaudited	
	Three Months Ended March 31,	
	2020	2019
Beginning balance	\$ 64,107	\$ 64,036
Joint venture net income	29,220	27,784
Joint venture distribution	(27,039)	(23,824)
Ending balance	\$ 66,288	\$ 67,996

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3. Fair Value Measurements (continued)

The carrying amount and fair value of the Company's financial assets and financial liabilities disclosed, but not carried, at fair value as of March 31, 2020 and December 31, 2019, and the level within the fair value hierarchy at which such assets and liabilities are measured on a recurring basis are summarized as follows:

Financial instruments disclosed, but not carried, at fair value:

	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
March 31, 2020 (Unaudited)					
Financial assets					
Mortgage loans on real estate					
Commercial	\$ 13,552,929	\$ 13,043,147	\$ -	\$ -	\$ 13,043,147
Residential	153,328,603	166,202,080	-	-	166,202,080
Policy loans	2,087,602	2,087,602	-	-	2,087,602
Short-term investments	1,832,872	1,832,872	1,832,872	-	-
Other long-term investments	73,146,105	89,895,485	-	-	89,895,485
Cash and cash equivalents	16,728,153	16,728,153	16,728,153	-	-
Accrued investment income	5,348,548	5,348,548	-	-	5,348,548
Total financial assets	<u>\$ 266,024,812</u>	<u>\$ 295,137,887</u>	<u>\$ 18,561,025</u>	<u>\$ -</u>	<u>\$ 276,576,862</u>
Financial liabilities					
Policyholders' account balances	\$ 362,198,197	\$ 383,873,719	\$ -	\$ -	\$ 383,873,719
Policy claims	1,139,262	1,139,262	-	-	1,139,262
Total financial liabilities	<u>\$ 363,337,459</u>	<u>\$ 385,012,981</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 385,012,981</u>
December 31, 2019					
Financial assets					
Mortgage loans on real estate					
Commercial	\$ 12,401,775	\$ 12,280,704	\$ -	\$ -	\$ 12,280,704
Residential	150,002,865	152,443,349	-	-	152,443,349
Policy loans	2,026,301	2,026,301	-	-	2,026,301
Short-term investments	1,831,087	1,831,087	1,831,087	-	-
Other long-term investments	71,824,480	88,235,019	-	-	88,235,019
Cash and cash equivalents	23,212,170	23,212,170	23,212,170	-	-
Accrued investment income	5,207,823	5,207,823	-	-	5,207,823
Total financial assets	<u>\$ 266,506,501</u>	<u>\$ 285,236,453</u>	<u>\$ 25,043,257</u>	<u>\$ -</u>	<u>\$ 260,193,196</u>
Financial liabilities					
Policyholders' account balances	\$ 363,083,838	\$ 355,557,123	\$ -	\$ -	\$ 355,557,123
Policy claims	1,399,393	1,399,393	-	-	1,399,393
Total financial liabilities	<u>\$ 364,483,231</u>	<u>\$ 356,956,516</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 356,956,516</u>

First Trinity Financial Corporation and Subsidiaries
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3. Fair Value Measurements (continued)

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

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

Fixed Maturity Securities, Preferred Stock 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 residential mortgage loans, the discount rate used was indexed to the LIBOR yield curve adjusted for an appropriate credit spread. For commercial (includes apartment, industrial, lodging, office building and retail) mortgage loans, the discount rate used was assumed to be the interest rate on the last commercial mortgage acquired by the Company.

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.

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4. Segment Data

The Company has a life insurance segment, consisting of the life insurance operations of TLIC and FBLIC, an annuity segment, consisting of the annuity operations of TLIC and FBLIC and a corporate segment. Results for the parent company and the operations of FTCC, after elimination of intercompany amounts, are allocated to the corporate segment. These segments as of March 31, 2020 and December 31, 2019 and for the three months ended March 31, 2020 and 2019 are summarized as follows:

	Three Months Ended March 31, (Unaudited)	
	2020	2019
Revenues:		
Life insurance operations	\$ 7,325,468	\$ 6,471,048
Annuity operations	5,220,251	4,970,032
Corporate operations	137,787	183,620
Total	<u>\$ 12,683,506</u>	<u>\$ 11,624,700</u>
Income before income taxes:		
Life insurance operations	\$ 64,404	\$ 197,559
Annuity operations	911,918	1,502,612
Corporate operations	40,062	101,921
Total	<u>\$ 1,016,384</u>	<u>\$ 1,802,092</u>
Depreciation and amortization expense:		
Life insurance operations	\$ 1,032,387	\$ 830,461
Annuity operations	302,350	59,164
Total	<u>\$ 1,334,737</u>	<u>\$ 889,625</u>
	(Unaudited)	
	March 31, 2020	December 31, 2019
Assets:		
Life insurance operations	\$ 100,203,463	\$ 99,612,420
Annuity operations	487,458,536	500,738,949
Corporate operations	3,869,598	4,585,005
Total	<u>\$ 591,531,597</u>	<u>\$ 604,936,374</u>

5. Federal Income Taxes

The provision for federal income taxes is based on the asset and liability method of accounting for income taxes. Deferred income taxes are provided for the cumulative temporary differences between balances of assets and liabilities determined under GAAP and the balances using tax bases.

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 2016 through 2019 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.

First Trinity Financial Corporation and Subsidiaries
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6. Legal Matters and Contingent Liabilities

A lawsuit filed by the Company and Chairman, President and Chief Executive Officer, Gregg E. Zahn, in 2013 against former Company Board of Directors member Wayne Pettigrew and Mr. Pettigrew's company, Group & Pension Planners, Inc. (the "Defendants"), concluded on February 17, 2017. The lawsuit was filed in the District Court of Tulsa County, Oklahoma (Case No. CJ-2013-03385). In the lawsuit, the Company alleged that Mr. Pettigrew had defamed the Company by making untrue statements to certain shareholders of the Company, to the press and to regulators of the state of Oklahoma and had breached his fiduciary duties. Mr. Pettigrew denied the allegations.

The jury concluded that Mr. Pettigrew, while still a member of the Company's Board of Directors, did, in fact, make untrue statements regarding the Company and Mr. Zahn and committed breaches of his fiduciary duties to the Company and the jury awarded the Company \$800,000 of damages against Mr. Pettigrew. In addition, the jury found that Mr. Pettigrew had defamed Mr. Zahn and intentionally inflicted emotional distress on Mr. Zahn and awarded Mr. Zahn \$3,500,000 of damages against Mr. Pettigrew. In addition to the damages awarded by the jury, the Company and Mr. Zahn have initiated steps to aggressively communicate the correction of the untrue statements to outside parties.

Mr. Pettigrew appealed this decision. The appeal challenged two trial court judgments based on separate verdicts against him in the jury trial. On February 28, 2020, the Court of Civil Appeals of the state of Oklahoma reversed the judgments entered by the trial court and remanded the case for a new trial. The Court of Appeals reversal, however, is not final. The Company will request that the Court of Appeals grant a rehearing and reverse its decision. Should it not do so, the Company will petition the Oklahoma Supreme Court to reverse the Court of Appeals decision.

In 2013, the Company's Board of Directors, represented by independent counsel, concluded that there was no action to be taken against Mr. Zahn and that the allegations by Mr. Pettigrew were without substance. The Company was also informed back in 2013 by the Oklahoma Insurance Department that it would take no action and was also informed in 2013 that the Oklahoma Department of Securities, after its investigation of the allegations, concluded that no proceedings were needed with respect to the alleged matters. It remains the Company's intention to again vigorously prosecute this action against the Defendants for damages and for correction of the defamatory statements. In the opinion of the Company's management, the ultimate resolution of any contingencies that may arise from this litigation is not considered material in relation to the financial position or results of operations of the Company.

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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7. 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 three months ended March 31, 2020 and 2019 are summarized as follows:

	Three Months Ended March 31, 2020 and 2019 (Unaudited)		
	Unrealized Appreciation (Depreciation) on Available-For-Sale Securities	Adjustment to Deferred Acquisition Costs	Accumulated Other Comprehensive Income (Loss)
Balance as of January 1, 2020	\$ 9,632,323	\$ (15,663)	\$ 9,616,660
Other comprehensive loss before reclassifications, net of tax	(10,405,305)	17,265	(10,388,040)
Less amounts reclassified from accumulated other comprehensive loss having no credit losses, net of tax	48,916	-	48,916
Other comprehensive loss	(10,454,221)	17,265	(10,436,956)
Balance as of March 31, 2020	<u>\$ (821,898)</u>	<u>\$ 1,602</u>	<u>\$ (820,296)</u>
Balance as of January 1, 2019	\$ (2,584,643)	\$ 8,012	\$ (2,576,631)
Other comprehensive income before reclassifications, net of tax	4,050,528	(9,874)	4,040,654
Less amounts reclassified from accumulated other comprehensive income having no credit losses, net of tax	31,660	-	31,660
Other comprehensive income	4,018,868	(9,874)	4,008,994
Balance as of March 31, 2019	<u>\$ 1,434,225</u>	<u>\$ (1,862)</u>	<u>\$ 1,432,363</u>

The pretax components of the Company's other comprehensive income (loss) and the related income tax expense (benefit) for each component for the three months ended March 31, 2020 and 2019 are summarized as follows:

	Income Tax		
	Pretax	Expense (Benefit)	Net of Tax
Three Months Ended March 31, 2020 (Unaudited)			
Other comprehensive loss:			
Change in net unrealized losses on available-for-sale securities:			
Unrealized holding losses arising during the period	\$ (13,171,272)	\$ (2,765,967)	\$ (10,405,305)
Reclassification adjustment for net gains included in operations having no credit losses	61,919	13,003	48,916
Net unrealized losses on investments	(13,233,191)	(2,778,970)	(10,454,221)
Adjustment to deferred acquisition costs	21,855	4,590	17,265
Total other comprehensive loss	<u>\$ (13,211,336)</u>	<u>\$ (2,774,380)</u>	<u>\$ (10,436,956)</u>
Three Months Ended March 31, 2019 (Unaudited)			
Other comprehensive income:			
Change in net unrealized gains on available-for-sale securities:			
Unrealized holding gains arising during the period	\$ 5,127,250	\$ 1,076,722	\$ 4,050,528
Reclassification adjustment for net gains included in operations having no credit losses	40,075	8,415	31,660
Net unrealized gains on investments	5,087,175	1,068,307	4,018,868
Adjustment to deferred acquisition costs	(12,497)	(2,623)	(9,874)
Total other comprehensive income	<u>\$ 5,074,678</u>	<u>\$ 1,065,684</u>	<u>\$ 4,008,994</u>

First Trinity Financial Corporation and Subsidiaries
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7. Other Comprehensive Income (Loss) and Accumulated Other Comprehensive Income (Loss) (continued)

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 statement of operations for the three months ended March 31, 2020 and 2019 are summarized as follows:

Reclassification Adjustments	Three Months Ended March 31, (Unaudited)	
	2020	2019
Unrealized gains (losses) on available-for-sale securities		
having no credit losses:		
Realized gains on sales of securities (a)	\$ 61,919	\$ 40,075
Income tax expense (b)	13,003	8,415
Total reclassification adjustments	<u>\$ 48,916</u>	<u>\$ 31,660</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.

8. Allowance for Loan Losses from Mortgage Loans on Real Estate

The allowance for possible loan losses from investments in mortgage loans on real estate is a reserve established through a provision for possible loan losses charged to expense which represents, in the Company's judgment, the known and inherent credit losses existing in the mortgage loan portfolio. The allowance, in the judgment of the Company, is necessary to reserve for estimated loan losses inherent in the 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 the allowance is dependent upon a variety of factors beyond the Company's control, including the performance of the mortgage loan portfolio, the economy and changes in interest rates. The Company's allowance for possible mortgage loan losses consists of specific valuation allowances established for probable losses on specific loans and a portfolio reserve for probable incurred but not specifically identified loans.

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

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

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8. Allowance for Loan Losses from Mortgage Loans on Real Estate (continued)

As of March 31, 2020, \$808,028 of independent residential mortgage loans on real estate are held in escrow by a third party for the benefit of the Company. As of March 31, 2020, \$480,196 of that escrow amount is available to the Company as additional collateral on \$4,717,541 of advances to the loan originator. The remaining March 31, 2020 escrow amount of \$327,832 is available to the Company as additional collateral on its investment of \$66,609,678 in residential mortgage loans on real estate. In addition, the Company has an additional \$503,518 allowance for possible loan losses in the remaining \$100,271,854 of investments in mortgage loans on real estate as of March 31, 2020.

As of December 31, 2019, \$798,753 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, 2019, \$489,965 of that escrow amount is available to the Company as additional collateral on \$4,436,787 of advances to the loan originator. The remaining December 31, 2019 escrow amount of \$308,788 is available to the Company as additional collateral on its investment of \$61,757,602 in residential mortgage loans on real estate. In addition, the Company has an additional \$505,378 allowance for possible loan losses in the remaining \$100,647,038 of investments in mortgage loans on real estate as of December 31, 2019.

The balances of and changes in the Company's credit losses related to mortgage loans on real estate as of and for the three months ended March 31, 2020 and 2019 are summarized as follows (excluding \$66,609,678 and \$51,127,965 of mortgage loans on real estate as of March 31, 2020 and 2019, respectively, with one loan originator where independent mortgage loan balances are held in escrow by a third party for the benefit of the Company):

	As of and for the Three Months Ended March 31, (Unaudited)					
	Residential Mortgage Loans		Commercial Mortgage Loans		Total	
	2020	2019	2020	2019	2020	2019
Allowance, beginning	\$ 443,057	\$ 374,209	\$ 62,321	\$ 49,957	\$ 505,378	\$ 424,166
Charge offs	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-
Provision	(7,644)	31,339	5,784	1,878	(1,860)	33,217
Allowance, ending	<u>\$ 435,413</u>	<u>\$ 405,548</u>	<u>\$ 68,105</u>	<u>\$ 51,835</u>	<u>\$ 503,518</u>	<u>\$ 457,383</u>
Allowance, ending:						
Individually evaluated for impairment	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Collectively evaluated for impairment	<u>\$ 435,413</u>	<u>\$ 405,548</u>	<u>\$ 68,105</u>	<u>\$ 51,835</u>	<u>\$ 503,518</u>	<u>\$ 457,383</u>
Carrying Values:						
Individually evaluated for impairment	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Collectively evaluated for impairment	<u>\$ 86,718,925</u>	<u>\$ 81,739,302</u>	<u>\$ 13,552,929</u>	<u>\$ 10,315,019</u>	<u>\$ 100,271,854</u>	<u>\$ 92,054,321</u>

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8. Allowance for Loan Losses from Mortgage Loans on Real Estate (continued)

The Company utilizes the ratio of the carrying value of individual residential and commercial 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 mortgage loans on real estate by credit quality using this ratio as of March 31, 2020 and December 31, 2019 are summarized as follows:

Loan-To-Value Ratio	Residential Mortgage Loans		Commercial Mortgage Loans		Total Mortgage Loans	
	(Unaudited)		(Unaudited)		(Unaudited)	
	March 31, 2020	December 31, 2019	March 31, 2020	December 31, 2019	March 31, 2020	December 31, 2019
Over 70% to 80%	\$ 45,759,251	\$ 42,607,615	\$ 273,446	\$ 274,954	\$ 46,032,697	\$ 42,882,569
Over 60% to 70%	50,222,292	50,158,843	1,789,787	2,320,734	52,012,079	52,479,577
Over 50% to 60%	28,572,276	28,939,576	2,159,117	1,318,536	30,731,393	30,258,112
Over 40% to 50%	13,369,016	13,160,306	2,122,389	2,142,354	15,491,405	15,302,660
Over 30% to 40%	8,711,066	8,023,690	1,166,313	1,800,952	9,877,379	9,824,642
Over 20% to 30%	3,076,206	3,806,361	2,694,374	1,235,799	5,770,580	5,042,160
Over 10% to 20%	2,711,189	2,677,037	3,297,865	3,308,446	6,009,054	5,985,483
10% or less	907,307	629,437	49,638	-	956,945	629,437
Total	<u>\$ 153,328,603</u>	<u>\$ 150,002,865</u>	<u>\$ 13,552,929</u>	<u>\$ 12,401,775</u>	<u>\$ 166,881,532</u>	<u>\$ 162,404,640</u>

9. 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.

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 with a corresponding funds withheld liability recorded. In addition, the assuming company maintains a trust related to this ceded business amounting to at least an additional 4% of assets above the required 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.

10. Line of Credit

On November 8, 2019, the Company renewed its \$1.5 million line of credit with a bank to provide working capital and funds for expansion. The terms of the line of credit allows for advances, repayments and re-borrowings through a maturity date of September 15, 2020. Any outstanding advances will incur interest at a variable interest rate of the prime rate set forth in the Wall Street Journal plus 1% per annum adjusting monthly based on a 360 day year with a minimum interest rate floor of 5%. No amounts were outstanding on this line of credit as of March 31, 2020 and December 31, 2019.

Item 2: 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.

Acquisitions, Recapitalizations and Reclassifications

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 October 2, 2019, at the Company Annual Shareholders’ Meeting, FTFC’s shareholders approved the following proposals subject to regulatory approval and adoption by FTFC’s Board of Directors:

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

These proposals received Form A regulatory approval from the OID on February 27, 2020 and the Missouri Department of Commerce and Insurance on December 31, 2019. These proposals have been fully implemented after formal adoption by FTFC’s Board of Directors on March 12, 2020. Effective March 12, 2020, FTFC’s 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.

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.

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 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, allowance for loan losses from mortgages, value of insurance business acquired, policy liabilities, regulatory requirements, contingencies and litigation. 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.

For a description of the Company's critical accounting policies and estimates, please refer to "Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies and Estimates" in the Company's Annual Report on Form 10-K for the year ended December 31, 2019. 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 have been no material changes to the Company's critical accounting policies and estimates since December 31, 2019.

Recent Accounting Pronouncements

Leases

In February 2016, the FASB issued updated guidance (Accounting Standards Update 2016-02) to require lessees to recognize a right-of-use asset and a lease liability for leases with terms of more than 12 months. The updated guidance retains the two classifications of a lease as either an operating or finance lease (previously referred to as a capital lease). Both lease classifications require the lessee to record the right-of-use asset and the lease liability based upon the present value of cash flows. Finance leases will reflect the financial arrangement by recognizing interest expense on the lease liability separately from the amortization expense of the right-of-use asset. Operating leases will recognize lease expense (with no separate recognition of interest expense) on a straight-line basis over the term of the lease. The accounting by lessors is not significantly changed by the updated guidance. The updated guidance requires expanded qualitative and quantitative disclosures, including additional information about the amounts recorded in the financial statements.

In July 2018, the FASB amended the updated guidance on leases that was issued in February 2016 (Accounting Standards Update 2018-11) and provided an additional transition method with which to adopt the updated guidance. Under the additional transition method, entities may elect to recognize a cumulative-effect adjustment to the opening balance of retained earnings in the year of adoption

Consequently, if this transition method is elected, an entity's reporting for the comparative periods prior to adoption presented in the financial statements would continue to be in accordance with current lease guidance. The amendments also provide lessors with a practical expedient to combine non-lease components (e.g., a fee for common area maintenance when leasing office space) with the associated lease component rather than accounting for those components separately if certain criteria are met. The updated guidance requires entities to recognize a right-of-use asset and lease liability equal to the present value of lease payments for all leases other than those that are less than one year. The updated guidance, as amended, is effective for reporting periods beginning after December 15, 2018.

In December 2018, the FASB issued additional guidance (Accounting Standards Update 2018-20) that permits an accounting policy election for lessors to not evaluate whether certain sales taxes and other similar taxes are lessor costs or lessee costs. A lessor making this election will exclude from the consideration in the contract and from variable payments not included in the consideration of the contract all collections from lessees of certain sales taxes and other similar taxes and to provide certain disclosures.

The Company adopted this guidance in first quarter 2019. The adoption of this guidance in 2019 did not have a material effect on the Company's results of operations, financial position or liquidity.

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

In June 2016, the FASB issued updated guidance (Accounting Standards Update 2016-13) for the accounting for credit losses for financial instruments. The updated guidance applies a new credit loss model (current expected credit losses or CECL) for determining credit-related impairments for financial instruments measured at amortized cost (e.g. reinsurance recoverables, including structured settlements that are recorded as part of reinsurance recoverables) and requires an entity to estimate the credit losses expected over the life of an exposure or pool of exposures. The estimate of expected credit losses should consider historical information, current information, as well as reasonable and supportable forecasts, including estimates of prepayments. The expected credit losses, and subsequent adjustments to such losses, will be recorded through an allowance account that is deducted from the amortized cost basis of the financial asset, with the net carrying value of the financial asset presented on the consolidated balance sheet at the amount expected to be collected.

The updated guidance also amends the current other-than-temporary impairment model for available-for-sale debt securities by requiring the recognition of impairments relating to credit losses through an allowance account and limits the amount of credit loss to the difference between a security's amortized cost basis and its fair value. In addition, the length of time a security has been in an unrealized loss position will no longer impact the determination of whether a credit loss exists.

The updated guidance was effective for reporting periods beginning after December 15, 2019. As a Smaller Reporting Company, the effective date was recently changed and the delayed effective date is now for reporting periods beginning after December 15, 2022. Early adoption is permitted for reporting periods beginning after December 15, 2018. Based on the financial instruments currently held by the Company, there would not be a material effect on the Company's results of operations, financial position or liquidity if the new guidance had been adopted in the current accounting period. The impact on the Company's results of operations, financial position or liquidity at the date of adoption of the updated guidance will be determined by the financial instruments held by the Company and the economic conditions at that time.

Intangibles - Goodwill and Other

In January 2017, the FASB issued updated guidance (Accounting Standards Update 2017-04) that eliminates the requirement to calculate the implied fair value of goodwill (i.e., Step 2 of the current goodwill impairment test) to measure a goodwill impairment charge. Instead, entities will record an impairment charge by comparing a reporting unit's fair value with its carrying amount and recognizing an impairment charge for the excess of the carrying amount over estimated fair value (i.e., Step 1 of current guidance).

The implied fair value of goodwill is currently determined in Step 2 by deducting the fair value of all assets and liabilities of the reporting unit (determined in the same manner as a business combination) from the reporting unit's fair value as determined in Step 1 (including any corporate-level assets or liabilities that were included in the determination of the carrying amount and fair value of the reporting unit in Step 1). The updated guidance requires an entity to perform its annual, or interim, impairment test by either: (1) an initial qualitative assessment of factors (such as changes in management, key personnel, strategy, key technology or customers) that may impact a reporting unit's fair value and lead to the determination that it is more likely than not that the reporting unit's fair value is less than its carrying value, including goodwill (consistent with current guidance), or (2) applying Step 1.

The Company adopted this guidance in first quarter 2020. The adoption of this guidance in 2020 did not have a material effect on the Company's results of operations, financial position or liquidity.

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 was recently changed and the delayed effective date is now for reporting periods beginning after December 15, 2023. Early adoption is permitted. 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 2024 will be determined by the long-duration contracts then held by the Company and the economic conditions at that time.

Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement

In August 2018, the FASB issued amendments (Accounting Standards Update 2018-13) to modify the disclosure requirements related to fair value measurements including the consideration of costs and benefits of producing the modified disclosures. The Company adopted this guidance in first quarter 2020. The adoption of this guidance in 2020 did not have a material effect on the Company's results of operations, financial position or liquidity.

Income Taxes - Simplifying the Accounting for Income Taxes

In December 2019, the FASB issued updated guidance (Accounting Standards Update 2019-12) for the accounting for income taxes. The updated guidance is intended to simplify the accounting for income taxes by removing several exceptions contained in existing guidance and amending other existing guidance to simplify several other income tax accounting matters. The updated guidance is effective for the quarter ending March 31, 2021. Early adoption is permitted. The adoption of this guidance is not expected to have a material effect on the Company's results of operations, financial position or liquidity.

Business Segments

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 and FBLIC;
- Annuity operations, consisting of the annuity operations of TLIC and FBLIC and
- Corporate operations, which includes the results of the parent company and FTCC after the elimination of intercompany amounts.

Please see below and Note 4 to the Consolidated Financial Statements for the three months ended March 31, 2020 and 2019 and as of March 31, 2020 and December 31, 2019 for additional information regarding segment information.

The following is a discussion and analysis of our financial condition, results of operations and liquidity and capital resources.

FINANCIAL HIGHLIGHTS

Consolidated Condensed Results of Operations for the Three Months Ended March 31, 2020 and 2019

	(Unaudited)		Amount Change 2020 less 2019
	Three Months Ended March 31,		
	2020	2019	
Premiums	\$ 6,365,876	\$ 5,530,806	\$ 835,070
Net investment income	6,269,843	5,573,456	696,387
Net realized investment gains	23,502	53,720	(30,218)
Service fees	10,871	427,734	(416,863)
Other income	13,414	38,984	(25,570)
Total revenues	<u>12,683,506</u>	<u>11,624,700</u>	<u>1,058,806</u>
Benefits and claims	7,809,207	6,754,128	1,055,079
Expenses	3,857,915	3,068,480	789,435
Total benefits, claims and expenses	<u>11,667,122</u>	<u>9,822,608</u>	<u>1,844,514</u>
Income before federal income tax expense	1,016,384	1,802,092	(785,708)
Federal income tax expense	227,128	379,896	(152,768)
Net income	<u>\$ 789,256</u>	<u>\$ 1,422,196</u>	<u>\$ (632,940)</u>
Net income per common share basic and diluted			
Class A common stock	<u>\$ 0.0992</u>	<u>\$ 0.1823</u>	<u>\$ (0.0831)</u>
Class B common stock	<u>\$ 0.0843</u>	<u>\$ -</u>	<u>\$ 0.0843</u>

Consolidated Condensed Financial Position as of March 31, 2020 and December 31, 2019

	(Unaudited)		Amount Change 2020 to 2019
	March 31, 2020	December 31, 2019	
Investment assets	\$ 408,698,391	\$ 419,242,515	\$ (10,544,124)
Assets held in trust under coinsurance agreement	100,291,192	105,089,240	(4,798,048)
Other assets	82,542,014	80,604,619	1,937,395
Total assets	<u>\$ 591,531,597</u>	<u>\$ 604,936,374</u>	<u>\$ (13,404,777)</u>
Policy liabilities	\$ 431,230,331	\$ 429,631,596	\$ 1,598,735
Funds withheld under coinsurance agreement	101,038,693	105,638,974	(4,600,281)
Deferred federal income taxes	3,752,091	6,345,918	(2,593,827)
Other liabilities	5,993,680	5,901,624	92,056
Total liabilities	<u>542,014,795</u>	<u>547,518,112</u>	<u>(5,503,317)</u>
Shareholders' equity	<u>49,516,802</u>	<u>57,418,262</u>	<u>(7,901,460)</u>
Total liabilities and shareholders' equity	<u>\$ 591,531,597</u>	<u>\$ 604,936,374</u>	<u>\$ (13,404,777)</u>
Shareholders' equity per common share			
Class A common stock	<u>\$ 6.2254</u>	<u>\$ 7.3589</u>	<u>\$ (1.1335)</u>
Class B common stock	<u>\$ 5.2916</u>	<u>\$ -</u>	<u>\$ 5.2916</u>

Results of Operations – Three Months Ended March 31, 2020 and 2019

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 on investment holdings can significantly impact revenues from period to period.

Our revenues for the three months ended March 31, 2020 and 2019 are summarized as follows:

	(Unaudited)		Amount Change 2020 less 2019
	Three Months Ended March 31,		
	2020	2019	
Premiums	\$ 6,365,876	\$ 5,530,806	\$ 835,070
Net investment income	6,269,843	5,573,456	696,387
Net realized investment gains	23,502	53,720	(30,218)
Service fees	10,871	427,734	(416,863)
Other income	13,414	38,984	(25,570)
Total revenues	<u>\$ 12,683,506</u>	<u>\$ 11,624,700</u>	<u>\$ 1,058,806</u>

The \$1,058,806 increase in total revenues for the three months ended March 31, 2020 is discussed below.

Premiums

Our premiums for the three months ended March 31, 2020 and 2019 are summarized as follows:

	(Unaudited)		Amount Change 2020 less 2019
	Three Months Ended March 31,		
	2020	2019	
Ordinary life first year	\$ 437,246	\$ 344,885	\$ 92,361
Ordinary life renewal	739,559	575,496	164,063
Final expense first year	1,199,052	1,164,306	34,746
Final expense renewal	3,990,019	3,318,628	671,391
Supplementary contracts with life contingencies	-	127,491	(127,491)
Total premiums	<u>\$ 6,365,876</u>	<u>\$ 5,530,806</u>	<u>\$ 835,070</u>

The \$835,070 increase in premiums for the three months ended March 31, 2020 is primarily due to a \$671,391 increase in final expense renewal premiums and a \$164,063 increase in ordinary life renewal premiums.

The increase in final expense renewal premiums reflects the persistency of prior years' final expense production. The increase in ordinary life renewal premiums primarily reflects ordinary life insurance policies sold in the international market that the Company started assuming in fourth quarter 2018.

The decrease in supplementary contracts with life contingencies reflects policyholder decisions to receive future payment streams during their remaining lifetime instead of a lump sum payment.

Net Investment Income

The major components of our net investment income for the three months ended March 31, 2020 and 2019 are summarized as follows:

	(Unaudited)		Amount Change 2020 less 2019
	Three Months Ended March 31,		
	2020	2019	
Fixed maturity securities	\$ 1,838,382	\$ 1,529,476	\$ 308,906
Preferred stock and equity securities	32,323	34,218	(1,895)
Other long-term investments	1,347,138	1,150,757	196,381
Mortgage loans	3,570,405	3,182,848	387,557
Policy loans	37,707	32,273	5,434
Real estate	68,682	64,296	4,386
Short-term and other investments	24,537	244,840	(220,303)
Gross investment income	6,919,174	6,238,708	680,466
Investment expenses	(649,331)	(665,252)	(15,921)
Net investment income	\$ 6,269,843	\$ 5,573,456	\$ 696,387

The \$680,466 increase in gross investment income for the three months ended March 31, 2020 is primarily due to the increase in investments in mortgage loans, fixed maturity securities and other long-term investments that exceeded a decrease in short-term and other investments. In the twelve months since March 31, 2019, we had increased investments in mortgage loans of \$23.7 million, fixed maturity securities of \$22.6 million and other long term investments of \$10.0 million. The decrease in short-term and other investments is due to the decrease in cash and cash equivalents of \$52.6 million comparing the balance as of March 31, 2020 and March 31, 2019.

Net Realized Investment Gains (Losses)

Our net realized investment gains result from sales of fixed maturity securities available-for-sale and changes in fair value of equity securities. Our net realized investment gains for the three months ended March 31, 2020 and 2019 are summarized as follows:

	(Unaudited)		Amount Change 2020 less 2019
	Three Months Ended March 31,		
	2020	2019	
Fixed maturity securities available-for-sale:			
Sale proceeds / maturities	\$ 5,550,987	\$ 3,399,846	\$ 2,151,141
Amortized cost at sale date	5,489,068	3,359,771	2,129,297
Net realized gains	\$ 61,919	\$ 40,075	\$ 21,844
Equity securities, changes in fair value	\$ (38,417)	\$ 13,645	\$ (52,062)
Net realized investment gains	\$ 23,502	\$ 53,720	\$ (30,218)

Service Fees

The \$416,863 decrease in service fees for the three months ended March 31, 2020 is primarily due to a decrease in ceding fees related to TLIC's annuity coinsurance agreement with an offshore annuity and life insurance company.

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 three months ended March 31, 2020 and 2019 are summarized as follows:

	(Unaudited)		Amount Change 2020 less 2019
	Three Months Ended March 31,		
	2020	2019	
Benefits and claims			
Increase in future policy benefits	\$ 2,641,119	\$ 2,151,600	\$ 489,519
Death benefits	1,611,780	1,632,780	(21,000)
Surrenders	410,364	350,407	59,957
Interest credited to policyholders	3,063,245	2,550,672	512,573
Dividend, endowment and supplementary life contract benefits	82,699	68,669	14,030
Total benefits and claims	7,809,207	6,754,128	1,055,079
Expenses			
Policy acquisition costs deferred	(2,384,968)	(3,615,460)	1,230,492
Amortization of deferred policy acquisition costs	1,213,274	764,346	448,928
Amortization of value of insurance business acquired	79,974	81,447	(1,473)
Commissions	2,308,163	3,572,572	(1,264,409)
Other underwriting, insurance and acquisition expenses	2,641,472	2,265,575	375,897
Total expenses	3,857,915	3,068,480	789,435
Total benefits, claims and expenses	\$ 11,667,122	\$ 9,822,608	\$ 1,844,514

The \$1,844,514 increase in total benefits, claims and expenses for the three months ended March 31, 2020 is discussed below.

Benefits and Claims

The \$1,055,079 increase in benefits and claims for the three months ended March 31, 2020 is primarily due to the following:

- \$512,573 increase in interest credited to policyholders is primarily due to an increase of approximately \$28.9 million in the amount of policyholders' account balances in the consolidated statement of financial position (increased deposits and interest credited in excess of withdrawals) since March 31, 2019.
- \$489,519 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 life insurance policies and annuity contracts.

For the three months ended March 31, 2020 and 2019, capitalized costs were \$2,384,968 and \$3,615,460, respectively. Amortization of deferred policy acquisition costs for the three months ended March 31, 2020 and 2019 were \$1,213,274 and \$764,346, respectively.

The \$1,230,492 decrease in the 2020 acquisition costs deferred primarily relates to decreased annuity production. There was a \$448,928 increase in the 2020 amortization of deferred acquisition costs primarily due to annuity withdrawals.

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 \$79,974 and \$81,447 for the three months ended March 31, 2020 and 2019, respectively.

Commissions

Our commissions for the three months ended March 31, 2020 and 2019 are summarized as follows:

	(Unaudited)		
	Three Months Ended March 31,		Amount Change
	2020	2019	2020 less 2019
Annuity	\$ 23,151	\$ 1,466,822	\$ (1,443,671)
Ordinary life first year	446,901	378,455	68,446
Ordinary life renewal	20,686	13,368	7,318
Final expense first year	1,428,339	1,387,243	41,096
Final expense renewal	389,086	326,684	62,402
Total commissions	<u>\$ 2,308,163</u>	<u>\$ 3,572,572</u>	<u>\$ (1,264,409)</u>

The \$1,264,409 decrease in commissions for the three months ended March 31, 2020 is primarily due to a \$1,443,671 (due to a \$41,180,754 decrease in retained annuity deposits) decrease in annuity commissions.

Other Underwriting, Insurance and Acquisition Expenses

The \$375,897 increase in other underwriting, insurance and acquisition expenses for the three months ended March 31, 2020 was primarily due to staffing increases and bonuses, legal fees and a decrease in fees reimbursed from TLIC's annuity coinsurance agreement with an offshore annuity and life insurance company.

Federal Income Taxes

FTFC filed its 2018 consolidated federal income tax return with TLIC, FBLIC and FTCC. 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 three months ended March 31, 2020 and 2019, current income tax expense was \$46,575 and \$303,002, respectively. For the three months ended March 31, 2020 and 2019, deferred federal income tax expense was \$180,553 and \$76,894, respectively.

Net Income Per Common Share Basic and Diluted

For the three months ended March 31, 2020, 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 (99,065) as of the reporting date divided by the allocated total shares (7,953,977) of Class A shares (7,854,912) and Class B shares (99,065) as of the reporting date.

For the three months ended March 31, 2020, the net income allocated to the Class A shareholders is the total net income less the net income allocated to the Class B shareholders.

The weighted average outstanding common shares basic for the three months ended March 31, 2020 were 7,854,912 for Class A shares and 116,547 for Class B shares. The weighted average outstanding common shares diluted for the three months ended March 31, 2020 were 7,953,977 for Class A shares.

The weighted average outstanding common shares basic and diluted for the three months ended March 31, 2019 were 7,802,593.

Business Segments

The Company has a life insurance segment, consisting of the life insurance operations of TLIC and FBLIC, an annuity segment, consisting of the annuity operations of TLIC and FBLIC and a corporate segment. Results for the parent company and the operations of FTCC, 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 three months ended March 31, 2020 and 2019 are summarized as follows:

	(Unaudited)		
	Three Months Ended March 31,		Amount Change
	2020	2019	2020 less 2019
Revenues:			
Life insurance operations	\$ 7,325,468	\$ 6,471,048	\$ 854,420
Annuity operations	5,220,251	4,970,032	250,219
Corporate operations	137,787	183,620	(45,833)
Total	<u>\$ 12,683,506</u>	<u>\$ 11,624,700</u>	<u>\$ 1,058,806</u>
Income before federal income taxes:			
Life insurance operations	\$ 64,404	\$ 197,559	\$ (133,155)
Annuity operations	911,918	1,502,612	(590,694)
Corporate operations	40,062	101,921	(61,859)
Total	<u>\$ 1,016,384</u>	<u>\$ 1,802,092</u>	<u>\$ (785,708)</u>

Life Insurance Operations

The \$854,420 increase in revenues from Life Insurance Operations for the three months ended March 31, 2020 is primarily due to the following:

- \$835,070 increase in premiums
- \$55,181 increase in net investment income
- \$9,372 decrease in net realized investment gains
- \$26,459 decrease in other income

The \$133,155 decreased profitability from Life Insurance Operations for the three months ended March 31, 2020 is primarily due to the following:

- \$489,519 increase in future policy benefits
- \$189,180 decrease in policy acquisition costs deferred net of amortization
- \$179,262 increase in commissions
- \$77,364 increase in other underwriting, insurance and acquisition expenses
- \$59,957 increase in surrenders
- \$26,459 decrease in other income
- \$14,030 increase in dividend, endowment and supplementary life contract benefits
- \$9,372 decrease in net realized investment gains
- \$737 decrease in amortization of value of insurance business acquired
- \$21,000 decrease in death benefits
- \$55,181 increase in net investment income
- \$835,070 increase in premiums

Annuity Operations

The \$250,219 increase in revenues from Annuity Operations for the three months ended March 31, 2020 is due to the following:

- \$687,929 increase in net investment income
- \$20,846 decrease in net realized investment gains
- \$416,864 decrease in service fees and other income

The \$590,694 decreased profitability from Annuity Operations for the three months ended March 31, 2020 is due to the following:

- \$1,490,240 decrease in policy acquisition costs deferred net of amortization
- \$512,573 increase in interest credited to policyholders
- \$416,864 decrease in service fees and other income
- \$282,507 increase in other underwriting, insurance and acquisition expenses

- \$20,846 decrease in net realized investment gains
- \$736 decrease in amortization of value of insurance business acquired
- \$687,929 increase in net investment income
- \$1,443,671 decrease in commissions

Corporate Operations

The \$45,833 decrease in revenues from Corporate Operations for the three months ended March 31, 2020 is due to \$46,723 of decreased net investment income that exceeded \$890 of increased service fees and other income.

The \$61,859 decrease in Corporate Operations profitability for the three months ended March 31, 2020 is primarily due to \$46,723 decreased net investment income and \$16,026 of increased operating expenses that exceeded \$890 of increased service fees and other income.

Consolidated Financial Condition

Our invested assets as of March 31, 2020 and December 31, 2019 are summarized as follows:

	(Unaudited) March 31, 2020	December 31, 2019	Amount Change 2020 less 2019
Assets			
Investments			
Available-for-sale fixed maturity securities at fair value (amortized cost: \$162,916,429 and \$166,760,448 as of March 31, 2020 and December 31, 2019, respectively)	\$ 161,876,414	\$ 178,951,324	\$ (17,074,910)
Available-for-sale preferred stock at fair value (cost: 49,945 as of March 31, 2020 and December 31, 2019)	49,600	51,900	(2,300)
Equity securities at fair value (cost: \$182,375 and \$180,194 as of March 31, 2020 and December 31, 2019, respectively)	164,788	201,024	(36,236)
Mortgage loans on real estate	166,881,532	162,404,640	4,476,892
Investment real estate	2,659,478	1,951,759	707,719
Policy loans	2,087,602	2,026,301	61,301
Short-term investments	1,832,872	1,831,087	1,785
Other long-term investments	73,146,105	71,824,480	1,321,625
Total investments	<u>\$ 408,698,391</u>	<u>\$ 419,242,515</u>	<u>\$ (10,544,124)</u>

The \$17,074,910 decrease and \$8,120,491 increase in fixed maturity available-for-sale securities for the three months ended March 31, 2020 and 2019, respectively, are summarized as follows:

	(Unaudited)	
	Three Months Ended March 31,	
	2020	2019
	Amount	Amount
Fixed maturity securities, available-for-sale, beginning	\$ 178,951,324	\$ 131,152,199
Purchases	1,005,000	6,536,434
Acquisition of K-TENN Insurance Company	800,000	-
Unrealized appreciation (depreciation)	(13,230,891)	5,077,355
Net realized investment gains	61,919	40,075
Sales proceeds	(5,350,987)	(799,846)
Maturities	(200,000)	(2,600,000)
Premium amortization	(159,951)	(133,527)
Increase (decrease)	<u>(17,074,910)</u>	<u>8,120,491</u>
Fixed maturity securities, available-for-sale, ending	<u>\$ 161,876,414</u>	<u>\$ 139,272,690</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 Income (Loss)". The available-for-sale fixed maturity securities portfolio is invested primarily in a variety of companies, U. S. government and government agencies, states and political subdivisions and foreign securities.

The \$2,300 decrease and \$9,820 increase in preferred stock available-for-sale for the three months ended March 31, 2020 and 2019, respectively, are summarized as follows:

	(Unaudited)	
	Three Months Ended March 31,	
	2020	2019
	Amount	Amount
Preferred stock, available-for-sale, beginning	\$ 51,900	\$ 90,580
Unrealized appreciation (depreciation)	(2,300)	9,820
Increase (decrease)	<u>(2,300)</u>	<u>9,820</u>
Preferred stock, available-for-sale, ending	<u>\$ 49,600</u>	<u>\$ 100,400</u>

Preferred stock available-for-sale are also reported at fair value with unrealized gains and losses, net of applicable income taxes, reflected as a separate component in shareholders' equity within "Accumulated Other Comprehensive Income (Loss)".

The \$36,236 decrease and \$17,605 increase in equity securities for the three months ended March 31, 2020 and 2019, respectively, are summarized as follows:

	(Unaudited)	
	Three Months Ended March 31,	
	2020	2019
	Amount	Amount
Equity securities, beginning	\$ 201,024	\$ 198,668
Purchases	29,220	27,784
Joint venture distributions	(27,039)	(23,824)
Net realized investment gains (losses), changes in fair value	<u>(38,417)</u>	<u>13,645</u>
Increase (decrease)	<u>(36,236)</u>	<u>17,605</u>
Equity securities, ending	<u>\$ 164,788</u>	<u>\$ 216,273</u>

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

The \$4,476,892 and \$13,132,676 increases in mortgage loans on real estate for the three months ended March 31, 2020 and 2019, respectively, are summarized as follows:

	(Unaudited)	
	Three Months Ended March 31,	
	2020	2019
	Amount	Amount
Mortgage loans on real estate, beginning	\$ 162,404,640	\$ 130,049,610
Purchases	19,403,227	21,818,443
Discount accretion	65,798	149,110
Payments	(14,244,785)	(8,694,982)
Foreclosed - transferred to real estate	(744,091)	(99,218)
Decrease (increase) in allowance for bad debts	1,860	(33,217)
Amortization of loan origination fees	<u>(5,117)</u>	<u>(7,460)</u>
Increase	<u>4,476,892</u>	<u>13,132,676</u>
Mortgage loans on real estate, ending	<u>\$ 166,881,532</u>	<u>\$ 143,182,286</u>

The \$707,719 and \$62,846 increases in investment real estate for the three months ended March 31, 2020 and 2019, respectively, are summarized as follows:

	(Unaudited)	
	Three Months Ended March 31,	
	2020	2019
	Amount	Amount
Investment real estate, beginning	\$ 1,951,759	\$ 2,392,031
Real estate acquired through mortgage loan foreclosure	744,091	99,218
Depreciation of building	<u>(36,372)</u>	<u>(36,372)</u>
Increase	<u>707,719</u>	<u>62,846</u>
Investment real estate, ending	<u>\$ 2,659,478</u>	<u>\$ 2,454,877</u>

The \$1,321,625 and \$3,930,418 increases in other long-term investments (composed of lottery receivables) for the three months ended March 31, 2020 and 2019, respectively, are summarized as follows:

	(Unaudited)	
	Three Months Ended March 31,	
	2020	2019
	Amount	Amount
Other long-term investments, beginning	\$ 71,824,480	\$ 59,255,477
Purchases	3,258,188	5,629,292
Accretion of discount	1,347,700	1,151,586
Payments	<u>(3,284,263)</u>	<u>(2,850,460)</u>
Increase	<u>1,321,625</u>	<u>3,930,418</u>
Other long-term investments, ending	<u>\$ 73,146,105</u>	<u>\$ 63,185,895</u>

Our assets other than invested assets as of March 31, 2020 and December 31, 2019 are summarized as follows:

	(Unaudited)		Amount Change
	March 31, 2020	December 31, 2019	2020 less 2019
Cash and cash equivalents	\$ 16,728,153	\$ 23,212,170	\$ (6,484,017)
Accrued investment income	5,348,548	5,207,823	140,725
Recoverable from reinsurers	3,455,756	1,244,733	2,211,023
Assets held in trust under coinsurance agreement	100,291,192	105,089,240	(4,798,048)
Agents' balances and due premiums	1,980,608	1,618,115	362,493
Deferred policy acquisition costs	39,199,188	38,005,639	1,193,549
Value of insurance business acquired	4,811,474	4,891,448	(79,974)
Other assets	<u>11,018,287</u>	<u>6,424,691</u>	<u>4,593,596</u>
Assets other than investment assets	<u>\$ 182,833,206</u>	<u>\$ 185,693,859</u>	<u>\$ (2,860,653)</u>

The \$6,484,017 decrease in cash and cash equivalents is discussed below in the “Liquidity and Capital Resources” section where cash flows are addressed.

The \$4,798,048 decrease in assets held in trust under the coinsurance agreement is due to a change in assets held under TLIC’s annuity coinsurance agreement with an offshore annuity and life insurance company that is administered on a fund withheld basis.

The \$1,193,549 and \$2,838,617 increases in deferred policy acquisition costs for the three months ended March 31, 2020 and 2019, respectively, are summarized as follows:

	(Unaudited)	
	Three Months Ended March 31,	
	2020	2019
Balance, beginning of year	\$ 38,005,639	\$ 29,681,737
Capitalization of commissions, sales and issue expenses	2,384,968	3,615,460
Amortization	(1,213,274)	(764,346)
Deferred acquisition costs allocated to investments	21,855	(12,497)
Increase	<u>1,193,549</u>	<u>2,838,617</u>
Balance, end of year	<u>\$ 39,199,188</u>	<u>\$ 32,520,354</u>

Our other assets as of March 31, 2020 and December 31, 2019 are summarized as follows:

	(Unaudited)		Amount Change
	March 31, 2020	December 31, 2019	2020 less 2019
Advances to mortgage loan originator	\$ 4,717,541	\$ 4,436,787	\$ 280,754
Federal and state income taxes recoverable	2,177,427	1,301,868	875,559
Notes receivable	483,318	445,778	37,540
Long-term investment receivable	3,446,905	-	3,446,905
Guaranty funds	63,180	71,455	(8,275)
Lease asset - right to use	51,140	76,711	(25,571)
Other receivables, prepaid assets and deposits	78,776	92,092	(13,316)
Total other assets	<u>\$ 11,018,287</u>	<u>\$ 6,424,691</u>	<u>\$ 4,593,596</u>

As of March 31, 2020, the Company had \$3,446,905 in long-term investment purchases where the trade date and settlement date are in different financial reporting periods.

There was an \$875,559 increase in federal and state income taxes recoverable primarily due to federal and state tax withholdings on lottery receivables.

There was a \$280,754 increase in advances to one mortgage loan originator who acquires residential mortgage loans for our life companies.

On April 15, 2019, the Company renewed its previous one-year loan of \$400,000 to its former Chairman. The renewed loan has a term of one year and a contractual interest rate of 5.00%. The loan is collateralized by 100,000 shares of the Company's Class A Common stock owned by the former Chairman. As a result of Coronavirus Disease, the Company extended the maturity date of the loan by 90 days.

Our liabilities as of March 31, 2020 and December 31, 2019 are summarized as follows:

	(Unaudited)		Amount Change
	March 31, 2020	December 31, 2019	2020 less 2019
Policy liabilities			
Policyholders' account balances	\$ 362,198,197	\$ 363,083,838	\$ (885,641)
Future policy benefits	67,807,951	65,015,390	2,792,561
Policy claims	1,139,262	1,399,393	(260,131)
Other policy liabilities	84,921	132,975	(48,054)
Total policy liabilities	<u>431,230,331</u>	<u>429,631,596</u>	<u>1,598,735</u>
Funds withheld under coinsurance agreement	101,038,693	105,638,974	(4,600,281)
Deferred federal income taxes	3,752,091	6,345,918	(2,593,827)
Other liabilities	5,993,680	5,901,624	92,056
Total liabilities	<u>\$ 542,014,795</u>	<u>\$ 547,518,112</u>	<u>\$ (5,503,317)</u>

The \$885,641 decrease and \$36,142,005 increase in policyholders' account balances for the three months ended March 31, 2020 and 2019, respectively, are summarized as follows:

	(Unaudited)	
	Three Months Ended March 31,	
	2020	2019
	Amount	Amount
Policyholders' account balances, beginning	\$ 363,083,838	\$ 297,168,411
Deposits	1,769,421	70,719,584
Withdrawals	(10,318,588)	(8,740,280)
Change in funds withheld under coinsurance agreement	4,600,281	(28,387,971)
Interest credited	3,063,245	2,550,672
Increase (decrease)	<u>(885,641)</u>	<u>36,142,005</u>
Policyholders' account balances, ending	<u>\$ 362,198,197</u>	<u>\$ 333,310,416</u>

The \$2,792,561 increase in future policy benefits during the three months ended March 31, 2020 is primarily related to the production of new life insurance policies, initial sales of policies to older age bands (resulting in increased mortality reserve charges) and the aging of existing policies.

The \$2,593,827 decrease in deferred federal income taxes during the three months ended March 31, 2020 was due to \$2,774,380 of decreased deferred federal income taxes on the unrealized appreciation (depreciation) of fixed maturity securities and preferred stock available-for-sale that exceeded \$180,553 of operating deferred federal tax expense.

The \$4,600,281 decrease in funds withheld under coinsurance agreement is due to the liability related to TLIC's annuity coinsurance agreement with an offshore annuity and life insurance company.

Our other liabilities as of March 31, 2020 and December 31, 2019 are summarized as follows:

	(Unaudited)		Amount Change 2020 less 2019
	March 31, 2020	December 31, 2019	
Suspense accounts payable	\$ 59,467	\$ 20,166	\$ 39,301
Accounts payable	102,178	21,387	80,791
Accrued expenses payable	516,370	679,000	(162,630)
Payable for securities purchased	576,000	564	575,436
Guaranty fund assessments	25,000	25,000	-
Unearned investment income	85,957	62,404	23,553
Deferred revenue	5,415	8,123	(2,708)
Unclaimed funds	65,515	38,273	27,242
Lease liability	51,140	76,711	(25,571)
Mortgage loans suspense	5,404,046	5,782,427	(378,381)
Other payables, withholdings and escrows	(897,408)	(812,431)	(84,977)
Total other liabilities	<u>\$ 5,993,680</u>	<u>\$ 5,901,624</u>	<u>\$ 92,056</u>

As of March 31, 2020, the Company had \$576,000 in security purchases where the trade date and settlement date were in different financial reporting periods compared to \$564 of security purchases overlapping financial reporting periods as of December 31, 2019.

The reduction in mortgage loan suspense of \$378,381 is primarily due to timing of principal loan payments on mortgage loans.

The \$162,630 decrease in accrued expenses payable is primarily due to a reduction in the March 2020 accrual for agency conference and acquisition expenses.

Liquidity and Capital Resources

Our operations have been financed primarily through the private placement of equity securities and intrastate public stock offerings. Through March 31, 2020, 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.

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

As of March 31, 2020, we had cash and cash equivalents totaling \$16,728,153. As of March 31, 2020, cash and cash equivalents of \$10,388,545 and \$5,017,908, respectively, totaling \$15,406,453 were held by TLIC and FBLIC and may not be available for use by FTFC due to the required pre-approval by the OID and Missouri Department of Commerce and Insurance 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 capacity for TLIC to pay a dividend up to \$1,245,184 in 2020 without prior approval. In addition, based on those limitations, there is the capacity for FBLIC to pay a dividend up to \$918,511 in 2020 without prior approval. FBLIC has paid no dividends to TLIC in 2020 and 2019. TLIC has paid no dividends to FTFC in 2020 and 2019.

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 \$10,400,336 and \$18,089,331 as of March 31, 2020 and December 31, 2019, respectively. Other funds are invested in mutual funds that invest in U.S. government securities. We monitor the solvency of all financial institutions in which we have funds to minimize the exposure for loss. The Company has not experienced any losses in such accounts.

On November 8, 2019, the Company renewed its \$1.5 million line of credit with a bank to provide working capital and funds for expansion. The terms of the line of credit allows for advances, repayments and re-borrowings through a maturity date of September 15, 2020. Any outstanding advances will incur interest at a variable interest rate of the prime rate set forth in the Wall Street Journal plus 1% per annum adjusting monthly based on a 360 day year with a minimum interest rate floor of 5%. No amounts were outstanding on this line of credit as of March 31, 2020 and December 31, 2019.

Our cash flows for the three months ended March 31, 2020 and 2019 are summarized as follows:

	(Unaudited)		Amount Change 2020 less 2019
	Three Months Ended March 31,		
	2020	2019	
Net cash provided by (used in) operating activities	\$ 967,977	\$ (3,215,788)	\$ 4,183,765
Net cash provided by (used in) investing activities	1,097,173	(19,133,401)	20,230,574
Net cash provided by (used in) financing activities	<u>(8,549,167)</u>	<u>61,979,304</u>	<u>(70,528,471)</u>
Increase (decrease) in cash and cash equivalents	(6,484,017)	39,630,115	(46,114,132)
Cash and cash equivalents, beginning of period	<u>23,212,170</u>	<u>29,665,605</u>	<u>(6,453,435)</u>
Cash and cash equivalents, end of period	<u>\$ 16,728,153</u>	<u>\$ 69,295,720</u>	<u>\$ (52,567,567)</u>

The \$967,977 of cash provided by operating activities and \$3,215,788 of cash used in operating activities for the three months ended March 31, 2020 and 2019, respectively, are summarized as follows:

	(Unaudited)		Amount Change 2019 less 2018
	Three Months Ended March 31,		
	2020	2019	
Premiums collected	\$ 6,124,439	\$ 5,520,968	\$ 603,471
Net investment income collected	4,899,617	4,131,003	768,614
Service fees and other income collected	24,284	466,718	(442,434)
Death benefits paid	(4,082,934)	(1,434,518)	(2,648,416)
Surrenders paid	(410,364)	(350,407)	(59,957)
Dividends and endowments paid	(82,033)	(68,641)	(13,392)
Commissions paid	(2,483,383)	(3,661,303)	1,177,920
Other underwriting, insurance and acquisition expenses paid	(3,148,023)	(2,258,740)	(889,283)
Taxes paid	(922,133)	(718,166)	(203,967)
(Increased) decreased assets held in trust under coinsurance agreement	4,798,048	(19,715,191)	24,513,239
Increased long-term investment receivable	(3,446,905)	-	(3,446,905)
Increased advances to mortgage loan originator	(280,754)	(770,232)	489,478
Increased deposits of pending policy applications	39,302	16,618,921	(16,579,619)
Increased short-term investments	(1,785)	(914,153)	912,368
Increased policy loans	(60,256)	(25,467)	(34,789)
Other	<u>857</u>	<u>(36,580)</u>	<u>37,437</u>
Increase (decrease) in cash provided by operating activities	<u>\$ 967,977</u>	<u>\$ (3,215,788)</u>	<u>\$ 4,183,765</u>

Please see the statements of cash flows for the three months ended March 31, 2020 and 2019 for a summary of the components of net cash used in investing activities and net cash provided by financing activities.

Our shareholders' equity as of March 31, 2020 and December 31, 2019 is summarized as follows:

	(Unaudited) March 31, 2020	December 31, 2019	Amount Change 2020 less 2019
Class A common stock, par value \$.01 per share (40,000,000 and 20,000,000 shares authorized as of March 31, 2020 and December 31, 2019, respectively, 8,102,492 and 8,050,173 issued as of March 31, 2020 and December 31, 2019, respectively, 7,854,912 and 7,802,593 outstanding as of March 31, 2020 and December 31, 2019, respectively)	\$ 81,025	\$ 80,502	\$ 523
Class B common stock, par value \$.01 per share (10,000,000 shares authorized, 116,547 issued and outstanding as of March 31, 2020)	1,165	-	1,165
Additional paid-in capital	30,429,150	28,684,598	1,744,552
Treasury stock, at cost (247,580 shares as of March 31, 2020 and December 31, 2019)	(893,947)	(893,947)	-
Accumulated other comprehensive income (loss)	(820,296)	9,616,660	(10,436,956)
Accumulated earnings	20,719,705	19,930,449	789,256
Total shareholders' equity	<u>\$ 49,516,802</u>	<u>\$ 57,418,262</u>	<u>\$ (7,901,460)</u>

The decrease in shareholders' equity of \$7,901,460 for the three months ended March 31, 2020 is due to \$10,436,956 in other comprehensive loss that exceeded an increase in additional paid-in capital of \$1,744,552 (acquisition of K-TENN Insurance Company) and \$789,256 in net income.

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 2020 or 2019. Our investments include marketable debt securities that could be readily converted to cash for liquidity needs.

We are subject to various market risks. During first quarter 2020, the world market and the Company have been impacted by the Coronavirus disease. The quality of our investment portfolio and the current level of shareholders' equity continue to provide a sound financial base as we strive to expand our marketing to offer competitive products. Our investment portfolio had unrealized appreciation (depreciation) on available-for-sale securities of (\$1,040,360) and \$12,192,831 as of March 31, 2020 and December 31, 2019, respectively, prior to the impact of income taxes and deferred acquisition cost adjustments. A decrease of \$13,171,272 in unrealized gains arising for the three months ended March 31, 2020 has been offset by 2020 net realized investment gains of \$61,919 originating from the sale and call activity for fixed maturity securities available-for-sale resulting in net unrealized losses on investments of \$13,233,191.

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 March 31, 2020, 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 7.6% 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 2019, 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.

Given the impact of the Coronavirus Disease on the current economic environment, the Company still maintains that it can raise funds through public and private offering of our common stock and corporate markets.

Effective January 1, 2019, the Company entered into a revised advance agreement with one loan originator. As of March 31, 2020, the Company has outstanding advances to this loan originator totaling \$4,717,541. The advances are secured by \$7,023,016 of residential mortgage loans on real estate that are assigned to the Company. The Company has committed to fund up to an additional \$1,782,459 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 March 31, 2020, \$808,028 of additional and secured residential mortgage loan balances on real estate are held in escrow by the Company. As of March 31, 2020, \$480,196 of that escrow amount is available to the Company as additional collateral on \$4,717,541 of advances to the loan originator. The remaining March 31, 2020 escrow amount of \$327,832 is available to the Company as additional collateral on its investment of \$66,609,678 in residential mortgage loans on real estate.

As a result of Coronavirus Disease 2019, which was declared a pandemic on March 11, 2020, the United States Federal, State and Local Governments, and other countries around the world have taken measures that have suddenly limited economic output. Due to the decline in economic activity, the Company is faced with a sudden uncertainty as of the date of this report on its operations when considering its revenue sources and potential future liquidity needs. Management is actively monitoring the situation and the impact to the Company's operations. As the pandemic continues, should liquidity conditions worsen in the short-term, management will work with its financial institutions to assist with liquidity needs.

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 March 31, 2020 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, including and in connection with our divestiture or winding down of businesses such as FTCC;
- 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 4. 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 and Exchange Act of 1934 as amended (“Exchange Act”) as of the end of the fiscal period covered by this Quarterly Report on Form 10-Q. 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.

Changes to Internal Control over Financial Reporting

There were no changes in the Company’s internal control over financial reporting during the three months ended March 31, 2020 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

A lawsuit filed by the Company and Chairman, President and Chief Executive Officer, Gregg E. Zahn, in 2013 against former Company Board of Directors member Wayne Pettigrew and Mr. Pettigrew's company, Group & Pension Planners, Inc. (the "Defendants"), concluded on February 17, 2017. The lawsuit was filed in the District Court of Tulsa County, Oklahoma (Case No. CJ-2013-03385). In the lawsuit, the Company alleged that Mr. Pettigrew had defamed the Company by making untrue statements to certain shareholders of the Company, to the press and to regulators of the state of Oklahoma and had breached his fiduciary duties. Mr. Pettigrew denied the allegations.

The jury concluded that Mr. Pettigrew, while still a member of the Company’s Board of Directors, did, in fact, make untrue statements regarding the Company and Mr. Zahn and committed breaches of his fiduciary duties to the Company and the jury awarded the Company \$800,000 of damages against Mr. Pettigrew. In addition, the jury found that Mr. Pettigrew had defamed Mr. Zahn and intentionally inflicted emotional distress on Mr. Zahn and awarded Mr. Zahn \$3,500,000 of damages against Mr. Pettigrew. In addition to the damages awarded by the jury, the Company and Mr. Zahn have initiated steps to aggressively communicate the correction of the untrue statements to outside parties.

Mr. Pettigrew appealed this decision. The appeal challenged two trial court judgments based on separate verdicts against him in the jury trial. On February 28, 2020, the Court of Civil Appeals of the state of Oklahoma reversed the judgments entered by the trial court and remanded the case for a new trial. The Court of Appeals reversal, however, is not final. The Company will request that the Court of Appeals grant a rehearing and reverse its decision. Should it not do so, the Company will petition the Oklahoma Supreme Court to reverse the Court of Appeals decision.

In 2013, the Company’s Board of Directors, represented by independent counsel, concluded that there was no action to be taken against Mr. Zahn and that the allegations by Mr. Pettigrew were without substance. The Company was also informed back in 2013 by the Oklahoma Insurance Department that it would take no action and was also informed in 2013 that the Oklahoma Department of Securities, after its investigation of the allegations, concluded that no proceedings were needed with respect to the alleged matters. It remains the Company’s intention to again vigorously prosecute this action against the Defendants for damages and for correction of the defamatory statements. In the opinion of the Company’s management, the ultimate resolution of any contingencies that may arise from this litigation is not considered material in relation to the financial position or results of operations of the Company.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

None

Item 5. Other Information

None

Item 6. Exhibits

31.1 Rule 13a-14(a)/15d-14(a) Certification of Principal Executive Officer

31.2 Rule 13a-14(a)/15d-14(a) Certification of Principal Financial Officer

32.1 Section 1350 Certification of Principal Executive Officer

32.2 Section 1350 Certification of Principal Financial Officer

101.INS** XBRL Instance

101.SCH** XBRL Taxonomy Extension Schema

101.CAL** XBRL Taxonomy Extension Calculation

101.DEF** XBRL Taxonomy Extension Definition

101.LAB** XBRL Taxonomy Extension Labels

101.PRE** XBRL Taxonomy Extension Presentation

**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.

SIGNATURES

In accordance with requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

FIRST TRINITY FINANCIAL CORPORATION
an Oklahoma corporation

May 15, 2020

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

May 15, 2020

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

CERTIFICATION

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

1. I have reviewed this Quarterly report on Form 10-Q 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 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 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: May 15, 2020

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

CERTIFICATION

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

1. I have reviewed this Quarterly report on Form 10-Q 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 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 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: May 15, 2020

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 Quarterly Report on Form 10-Q of the Company for the quarter ended March 31, 2020 (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: May 15, 2020

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 Quarterly Report on Form 10-Q of the Company for the quarter ended March 31, 2020 (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: May 15, 2020

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