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

FORM **10-Q**

(Mark One)

[ **X** ] **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange act of 1934**

For the quarterly period ended June 30, 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** | **34-1991436** |
| (State or other jurisdiction of incorporation or organization) | (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 August 10, 2020, the registrant had 7,867,145 shares of Class A common stock, .01 par value, outstanding and 104,314 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 JUNE 30, 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) June 30, 2020 | December 31, 2019 |
|---|---|---|
| **Assets** | | |
| Investments | | |
| Available-for-sale fixed maturity securities at fair value (amortized cost: $156,866,874 and $166,760,448 as of June 30, 2020 and December 31, 2019, respectively) | $ 171,450,389 | $ 178,951,324 |
| Available-for-sale preferred stock at fair value (cost: $49,945 as of June 30, 2020 and December 31, 2019) | 50,440 | 51,900 |
| Equity securities at fair value (cost: $178,224 and $180,194 as of June 30, 2020 and December 31, 2019, respectively) | 173,002 | 201,024 |
| Mortgage loans on real estate | 166,927,369 | 162,404,640 |
| Investment real estate | 1,973,857 | 1,951,759 |
| Policy loans | 2,044,954 | 2,026,301 |
| Short-term investments | 2,949,229 | 1,831,087 |
| Other long-term investments | 72,877,350 | 71,824,480 |
| Total investments | 418,446,590 | 419,242,515 |
| Cash and cash equivalents | 17,051,412 | 23,212,170 |
| Accrued investment income | 5,475,458 | 5,207,823 |
| Recoverable from reinsurers | 1,221,856 | 1,244,733 |
| Assets held in trust under coinsurance agreement | 107,548,422 | 105,089,240 |
| Agents' balances and due premiums | 2,034,272 | 1,618,115 |
| Deferred policy acquisition costs | 40,553,380 | 38,005,639 |
| Value of insurance business acquired | 4,737,898 | 4,891,448 |
| Other assets | 15,123,435 | 6,424,691 |
| **Total assets** | $ 612,192,723 | $ 604,936,374 |
| **Liabilities and Shareholders' Equity** | | |
| Policy liabilities | | |
| Policyholders' account balances | $ 358,137,860 | $ 363,083,838 |
| Future policy benefits | 70,243,025 | 65,015,390 |
| Policy claims | 1,267,125 | 1,399,393 |
| Other policy liabilities | 136,988 | 132,975 |
| Total policy liabilities | 429,784,998 | 429,631,596 |
| Funds withheld under coinsurance agreement | 108,073,060 | 105,638,974 |
| Deferred federal income taxes | 7,210,919 | 6,345,918 |
| Other liabilities | 5,199,851 | 5,901,624 |
| **Total liabilities** | 550,268,828 | 547,518,112 |
| **Shareholders' equity** | | |
| Class A common stock, par value $.01 per share (40,000,000 and 20,000,000 shares authorized as of June 30, 2020 and December 31, 2019, respectively, 8,114,725 and 8,050,173 issued as of June 30, 2020 and December 31, 2019, respectively, 7,867,145 and 7,802,593 outstanding as of June 30, 2020 and December 31, 2019, respectively) | 81,147 | 80,502 |
| Class B common stock, par value $.01 per share (10,000,000 shares authorized, 104,314 issued and outstanding as of June 30, 2020) | 1,043 | - |
| Additional paid-in capital | 30,429,150 | 28,684,598 |
| Treasury stock, at cost (247,580 shares as of June 30, 2020 and December 31, 2019) | (893,947) | (893,947) |
| Accumulated other comprehensive income | 11,497,935 | 9,616,660 |
| Accumulated earnings | 20,808,567 | 19,930,449 |
| **Total shareholders' equity** | 61,923,895 | 57,418,262 |
| **Total liabilities and shareholders' equity** | $ 612,192,723 | $ 604,936,374 |

*See notes to consolidated financial statements (unaudited).*

First Trinity Financial Corporation and Subsidiaries

Consolidated Statements of Operations

(Unaudited)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| **Revenues** | | | | |
| Premiums | $ 6,439,224 | $ 5,546,081 | $ 12,805,100 | $ 11,076,887 |
| Net investment income | 5,876,073 | 6,283,043 | 12,145,916 | 11,856,499 |
| Net realized investment gains (losses) | 410,380 | (67,632) | 433,882 | (13,912) |
| Service fees | 7,025 | 593,144 | 17,896 | 1,020,878 |
| Other income | 105,377 | 23,755 | 118,791 | 62,739 |
| **Total revenues** | 12,838,079 | 12,378,391 | 25,521,585 | 24,003,091 |
| **Benefits, Claims and Expenses** | | | | |
| Benefits and claims | | | | |
| Increase in future policy benefits | 2,467,039 | 2,029,177 | 5,108,158 | 4,180,777 |
| Death benefits | 2,482,528 | 1,474,125 | 4,094,308 | 3,106,905 |
| Surrenders | 228,541 | 246,074 | 638,905 | 596,481 |
| Interest credited to policyholders | 3,056,982 | 3,011,733 | 6,120,227 | 5,562,405 |
| Dividend, endowment and supplementary life contract benefits | 70,519 | 75,121 | 153,218 | 143,790 |
| Total benefits and claims | 8,305,609 | 6,836,230 | 16,114,816 | 13,590,358 |
| Policy acquisition costs deferred | (2,693,003) | (3,657,057) | (5,077,971) | (7,272,517) |
| Amortization of deferred policy acquisition costs | 1,307,138 | 1,077,534 | 2,520,412 | 1,841,880 |
| Amortization of value of insurance business acquired | 73,576 | 73,544 | 153,550 | 154,991 |
| Commissions | 2,497,928 | 3,723,265 | 4,806,091 | 7,295,837 |
| Other underwriting, insurance and acquisition expenses | 2,735,448 | 2,857,284 | 5,376,920 | 5,122,859 |
| Total expenses | 3,921,087 | 4,074,570 | 7,779,002 | 7,143,050 |
| **Total benefits, claims and expenses** | 12,226,696 | 10,910,800 | 23,893,818 | 20,733,408 |
| **Income before total federal income tax expense** | 611,383 | 1,467,591 | 1,627,767 | 3,269,683 |
| Current federal income tax expense (benefit) | (46,575) | 398,052 | - | 701,054 |
| Deferred federal income tax expense (benefit) | 184,362 | (64,027) | 364,915 | 12,867 |
| **Total federal income tax expense** | 137,787 | 334,025 | 364,915 | 713,921 |
| **Net income** | $ 473,596 | $ 1,133,566 | $ 1,262,852 | $ 2,555,762 |
| **Net income per common share basic and diluted** | | | | |
| **Class A common stock** | $ 0.0601 | $ 0.1453 | $ 0.1594 | $ 0.3276 |
| **Class B common stock** | $ 0.0095 | $ - | $ 0.0938 | $ - |

*See notes to consolidated financial statements (unaudited).*

First Trinity Financial Corporation and Subsidiaries

Consolidated Statements of Comprehensive Income

(Unaudited)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| **Net income** | $ 473,596 | $ 1,133,566 | $ 1,262,852 | $ 2,555,762 |
| **Other comprehensive income** | | | | |
| Total net unrealized investment gains arising during the period | 15,880,590 | 6,494,324 | 2,709,318 | 11,621,574 |
| Less net realized investment gains (losses) having no credit losses | 256,220 | (30,913) | 318,139 | 9,162 |
| Net unrealized investment gains | 15,624,370 | 6,525,237 | 2,391,179 | 11,612,412 |
| Less adjustment to deferred acquisition costs | 31,673 | 10,599 | 9,818 | 23,096 |
| Other comprehensive income before federal income tax expense | 15,592,697 | 6,514,638 | 2,381,361 | 11,589,316 |
| Federal income tax expense | 3,274,466 | 1,368,073 | 500,086 | 2,433,757 |
| **Total other comprehensive income** | 12,318,231 | 5,146,565 | 1,881,275 | 9,155,559 |
| **Total comprehensive income** | $ 12,791,827 | $ 6,280,131 | $ 3,144,127 | $ 11,711,321 |

*See notes to consolidated financial statements (unaudited).*

First Trinity Financial Corporation and Subsidiaries
Consolidated Statements of Changes in Shareholders' Equity
Three and Six Months Ended June 30, 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 |
|---|---|---|---|---|---|---|---|
| **Three months ended June 30, 2019** | | | | | | | |
| **Balance as of April 1, 2019** | $ 80,502 | $ - | $ 28,684,598 | $ (893,947) | $ 1,432,363 | $ 15,252,925 | $ 44,556,441 |
| Comprehensive income: | | | | | | | |
| Net income | - | - | - | - | - | 1,133,566 | 1,133,566 |
| Other comprehensive income | - | - | - | - | 5,146,565 | - | 5,146,565 |
| **Balance as of June 30, 2019** | $ 80,502 | $ - | $ 28,684,598 | $ (893,947) | $ 6,578,928 | $ 16,386,491 | $ 50,836,572 |
| | | | | | | | |
| **Six months ended June 30, 2019** | | | | | | | |
| **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 | - | - | - | - | - | 2,555,762 | 2,555,762 |
| Other comprehensive income | - | - | - | - | 9,155,559 | - | 9,155,559 |
| **Balance as of June 30, 2019** | $ 80,502 | $ - | $ 28,684,598 | $ (893,947) | $ 6,578,928 | $ 16,386,491 | $ 50,836,572 |
| | | | | | | | |
| **Three months ended June 30, 2020** | | | | | | | |
| **Balance as of April 1, 2020** | $ 81,025 | $ 1,165 | $ 30,429,150 | $ (893,947) | $ (820,296) | $ 20,719,705 | $ 49,516,802 |
| Comprehensive income: | | | | | | | |
| Net income | - | - | - | - | - | 473,596 | 473,596 |
| Other comprehensive income | - | - | - | - | 12,318,231 | - | 12,318,231 |
| Shareholders' cash dividend | - | - | - | - | - | (384,734) | (384,734) |
| Recapitalization | 122 | (122) | - | - | - | - | - |
| **Balance as of June 30, 2020** | $ 81,147 | $ 1,043 | $ 30,429,150 | $ (893,947) | $ 11,497,935 | $ 20,808,567 | $ 61,923,895 |
| | | | | | | | |
| **Six months ended June 30, 2020** | | | | | | | |
| **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 | - | - | - | - | - | 1,262,852 | 1,262,852 |
| Other comprehensive income | - | - | - | - | 1,881,275 | - | 1,881,275 |
| Shareholders' cash dividend | - | - | - | - | - | (384,734) | (384,734) |
| Acquisition of K-TENN Insurance Company | 1,688 | - | 1,744,552 | - | - | - | 1,746,240 |
| Recapitalization | (1,043) | 1,043 | - | - | - | - | - |
| **Balance as of June 30, 2020** | $ 81,147 | $ 1,043 | $ 30,429,150 | $ (893,947) | $ 11,497,935 | $ 20,808,567 | $ 61,923,895 |

*See notes to consolidated financial statements (unaudited).*

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

| | Six Months Ended June 30, 2020 | Six Months Ended June 30, 2019 |
|---|---|---|
| **Operating activities** | | |
| Net income | $ 1,262,852 | $ 2,555,762 |
| Adjustments to reconcile net income to net cash used in operating activities: | | |
| Provision for depreciation | 72,744 | 72,744 |
| Accretion of discount on investments | (2,538,970) | (2,255,182) |
| Net realized investment (gains) losses | (433,882) | 13,912 |
| Amortization of policy acquisition cost | 2,520,412 | 1,841,880 |
| Policy acquisition cost deferred | (5,077,971) | (7,272,517) |
| Amortization of loan origination fees | 26,508 | 14,975 |
| Amortization of value of insurance business acquired | 153,550 | 154,991 |
| Allowance for mortgage loan losses | 4,069 | 85,935 |
| Provision for deferred federal income tax expense | 364,915 | 12,867 |
| Interest credited to policyholders | 6,120,227 | 5,562,405 |
| Change in assets and liabilities: | | |
| Policy loans | (17,608) | (81,011) |
| Short-term investments | (1,118,142) | (918,406) |
| Accrued investment income | (267,145) | (2,418,865) |
| Recoverable from reinsurers | 22,877 | 1,101,384 |
| Assets held in trust under coinsurance agreement | (2,459,182) | (67,483,048) |
| Agents' balances and due premiums | (412,171) | (268,807) |
| Other assets (excludes change in receivable for securities sold of $33,600 in 2019) | (8,698,283) | 1,128,955 |
| Future policy benefits | 5,077,052 | 4,138,206 |
| Policy claims | (132,268) | 100,581 |
| Other policy liabilities | (5,199) | 3,112 |
| Other liabilities (excludes change in payable for securities purchased of $333,156 and ($391,171) in 2020 and 2019, respectively) | (1,045,175) | 873,460 |
| **Net cash used in operating activities** | (6,580,790) | (63,036,667) |
| | | |
| **Investing activities** | | |
| Purchases of fixed maturity securities | (1,005,000) | (64,687,943) |
| Maturities of fixed maturity securities | 548,500 | 3,450,000 |
| Sales of fixed maturity securities | 11,165,264 | 14,677,913 |
| Purchases of equity securities | (47,963) | (57,746) |
| Sales of equity securities | - | 19,370 |
| Acquisition of K-TENN Insurance Company | 1,110,299 | - |
| Joint venture distributions | 49,933 | 53,786 |
| Purchases of mortgage loans | (37,894,403) | (44,710,559) |
| Payments on mortgage loans | 32,894,590 | 18,955,492 |
| Purchases of other long-term investments | (3,942,291) | (8,750,363) |
| Payments on other long-term investments | 5,541,855 | 5,579,448 |
| Sale of real estate | 682,945 | 253,564 |
| Net change in receivable and payable for securities sold and purchased | 333,156 | (357,571) |
| **Net cash provided by (used in) investing activities** | 9,436,885 | (75,574,609) |
| | | |
| **Financing activities** | | |
| Policyholders' account deposits | 6,012,739 | 153,716,133 |
| Policyholders' account withdrawals | (14,644,858) | (17,224,086) |
| Shareholders' cash dividend | (384,734) | - |
| **Net cash provided by (used in) financing activities** | (9,016,853) | 136,492,047 |
| | | |
| **Decrease in cash and cash equivalents** | (6,160,758) | (2,119,229) |
| Cash and cash equivalents, beginning of period | 23,212,170 | 29,665,605 |
| Cash and cash equivalents, end of period | $ 17,051,412 | $ 27,546,376 |

*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 Investing Activities
(Unaudited)

During the six months ended June 30, 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:

| | Six Months Ended June 30, 2020 | Six Months Ended June 30, 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 | $ - | $ - |

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.

| | June 30, 2020 |
|---|---|
| Cash used in acquisition of K-TENN Insurance Company | $ - |
| Cash provided in acquisition of K-TENN Insurance Company | 1,110,299 |
| 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 | 461 |
| 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 | 10,246 |
| Total fair value of liabilities assumed | 170,041 |
| Fair value of net assets acquired in acquisition of K-TENN Insurance Company (excluding cash) | 635,941 |
| Fair value of net assets acquired in acquisition of K-TENN Insurance Company (including cash) | $ 1,746,240 |

*See notes to consolidated financial statements (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.

**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 six months ended June 30, 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 continue to limit economic output. Due to the decline in economic activity, the Company is faced with 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.

**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***

Management has evaluated all events subsequent to June 30, 2020 through the date that these financial statements have been issued.

**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.

**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 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.

**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.

## 2. Investments

Investments in fixed maturity and preferred stock available-for-sale and equity securities as of June 30, 2020 and December 31, 2019 are summarized as follows:

| | Amortized Cost or Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| | June 30, 2020 (Unaudited) | | | |
| Fixed maturity securities | | | | |
| U.S. government and U.S. government agencies | $ 575,171 | $ 4,671 | $ - | $ 579,842 |
| States and political subdivisions | 9,299,232 | 758,439 | 38,152 | 10,019,519 |
| Residential mortgage-backed securities | 17,598 | 17,520 | - | 35,118 |
| Corporate bonds | 112,695,301 | 12,810,803 | 944,851 | 124,561,253 |
| Asset-backed securities | 2,074,459 | 28,530 | 191,755 | 1,911,234 |
| Exchange traded securities | 500,000 | - | 115,200 | 384,800 |
| Foreign bonds | 30,905,113 | 3,317,832 | 1,064,322 | 33,158,623 |
| Certificate of deposits | 800,000 | - | - | 800,000 |
| Total fixed maturity securities | 156,866,874 | 16,937,795 | 2,354,280 | 171,450,389 |
| Preferred stock | 49,945 | 495 | - | 50,440 |
| Equity securities | | | | |
| Mutual funds | 91,981 | - | 12,770 | 79,211 |
| Corporate common stock | 86,243 | 7,548 | - | 93,791 |
| Total equity securities | 178,224 | 7,548 | 12,770 | 173,002 |
| Total fixed maturity, preferred stock and equity securities | $ 157,095,043 | $ 16,945,838 | $ 2,367,050 | $ 171,673,831 |
| | 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 |

**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 June 30, 2020 and December 31, 2019 are summarized as follows:

| | Fair Value | Unrealized Loss | Number of Securities |
|---|---|---|---|
| | June 30, 2020 (Unaudited) | | |
| Fixed maturity securities | | | |
| Less than 12 months in an unrealized loss position | | | |
| States and political subdivisions | $ 622,488 | $ 38,152 | 1 |
| Corporate bonds | 8,338,880 | 622,600 | 27 |
| Asset-backed securities | 925,147 | 191,755 | 3 |
| Exchange traded securities | 384,800 | 115,200 | 2 |
| Foreign bonds | 3,135,319 | 228,743 | 8 |
| Total less than 12 months in an unrealized loss position | 13,406,634 | 1,196,450 | 41 |
| More than 12 months in an unrealized loss position | | | |
| Corporate bonds | 1,359,685 | 322,251 | 6 |
| Foreign bonds | 587,385 | 835,579 | 4 |
| Total more than 12 months in an unrealized loss position | 1,947,070 | 1,157,830 | 10 |
| Total fixed maturity securities in an unrealized loss position | 15,353,704 | 2,354,280 | 51 |
| Equity securities (mutual funds), less than 12 months in an unrealized loss position | 79,211 | 12,770 | 1 |
| Total fixed maturity, preferred stock and equity securities in an unrealized loss position | $ 15,432,915 | $ 2,367,050 | $ 52 |
| | 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 |

**2. Investments** (continued)

As of June 30, 2020, the Company held 51 available-for-sale fixed maturity securities with an unrealized loss of $2,354,280, fair value of $15,353,704 and amortized cost of $17,707,984. These unrealized losses were primarily due to the market interest rate movements in the bond market as of June 30, 2020. The ratio of the fair value to the amortized cost of these 51 securities is 87%.

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 June 30, 2020, the Company held one equity security with an unrealized loss of $12,770, fair value of $79,211 and cost of $91,981. The ratio of fair value to cost of this security is 86%.

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%.

Fixed maturity securities were 96% and 97% investment grade as rated by Standard & Poor's as of June 30, 2020 and December 31, 2019, respectively.

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 impairments during the six months ended June 30, 2020 and 2019.

Management believes that the Company will fully recover its cost basis in the securities held as of June 30, 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.

**2. Investments** (continued)

Net unrealized gains included in other comprehensive income for investments classified as available-for-sale, net of the effect of deferred income taxes and deferred acquisition costs assuming that the appreciation had been realized as of June 30, 2020 and December 31, 2019, are summarized as follows:

| | (Unaudited) June 30, 2020 | December 31, 2019 |
|---|---|---|
| Unrealized appreciation on available-for-sale securities | $ 14,584,010 | $ 12,192,831 |
| Adjustment to deferred acquisition costs | (29,662) | (19,844) |
| Deferred income taxes | (3,056,413) | (2,556,327) |
| Net unrealized appreciation on available-for-sale securities | $ 11,497,935 | $ 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 $72,877,350 and $71,824,480 as of June 30, 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 June 30, 2020, by contractual maturity, are summarized as follows:

| | June 30, 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 | $ 1,799,108 | $ 1,819,722 | $ 11,819,627 | $ 12,064,365 |
| Due after one year through five years | 27,314,876 | 27,386,769 | 35,214,992 | 39,984,521 |
| Due after five years through ten years | 50,079,887 | 54,170,957 | 18,710,987 | 25,285,290 |
| Due after ten years | 59,487,350 | 67,594,322 | 7,131,744 | 13,875,106 |
| Due at multiple maturity dates | 18,185,653 | 20,478,619 | - | - |
| | $ 156,866,874 | $ 171,450,389 | $ 72,877,350 | $ 91,209,282 |

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.

**2. Investments** (continued)

Proceeds and gross realized gains (losses) from the sales, calls and maturities of fixed maturity securities available-for-sale, equity securities, investment real estate and mortgage loans on real estate for the three and six months ended June 30, 2020 and 2019 are summarized as follows:

| | Three Months Ended June 30, (Unaudited) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Fixed Maturity Securities | | Equity Securities | | Investment Real Estate | | Mortgage Loans on Real Estate | |
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| Proceeds | $ 6,162,777 | $ 14,728,067 | $ - | $ 19,370 | $ 682,945 | $ 253,564 | $ 18,649,805 | $ - |
| Gross realized gains | 281,178 | 227,024 | - | 12,372 | 33,696 | 5,158 | 108,099 | - |
| Gross realized losses | (24,958) | (257,937) | - | - | - | (46,378) | - | - |

| | Six Months Ended June 30, (Unaudited) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Fixed Maturity Securities | | Equity Securities | | Investment Real Estate | | Mortgage Loans on Real Estate | |
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| Proceeds | $ 11,713,764 | $ 18,127,913 | $ - | $ 19,370 | $ 682,945 | $ 253,564 | $ 32,894,590 | $ - |
| Gross realized gains | 346,487 | 271,579 | - | 12,372 | 33,696 | 5,158 | 108,099 | - |
| Gross realized losses | (28,348) | (262,417) | - | - | - | (46,378) | - | - |

The accumulated change in unrealized investment gains (losses) for fixed maturity and preferred stock available-for-sale for the three and six months ended June 30, 2020 and 2019 and the amount of net realized investment gains (losses) on fixed maturity securities available-for-sale, equity securities, investment real estate and mortgage loans on real estate for the three and six months ended June 30, 2020 and 2019 are summarized as follows:

| | Three Months Ended June 30, (Unaudited) | | Six Months Ended June 30, (Unaudited) | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| Change in unrealized investment gains (losses): | | | | |
| Available-for-sale securities: | | | | |
| Fixed maturity securities | $ 15,623,530 | $ 6,525,157 | $ 2,392,639 | $ 11,602,512 |
| Preferred stock | 840 | 80 | (1,460) | 9,900 |
| Net realized investment gains (losses): | | | | |
| Available-for-sale securities: | | | | |
| Fixed maturity securities | 256,220 | (30,913) | 318,139 | 9,162 |
| Equity securities, sale of securities | - | 12,372 | - | 12,372 |
| Equity securities, changes in fair value | 12,365 | (7,871) | (26,052) | 5,774 |
| Investment real estate | 33,696 | (41,220) | 33,696 | (41,220) |
| Mortgage loans on real estate | 108,099 | - | 108,099 | - |

**2. Investments** (continued)

Major categories of net investment income for the three and six months ended June 30, 2020 and 2019 are summarized as follows:

| | Three Months Ended June 30, (Unaudited) | | Six Months Ended June 30, (Unaudited) | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| Fixed maturity securities | $ 1,674,340 | $ 2,077,206 | $ 3,512,722 | $ 3,606,682 |
| Preferred stock and equity securities | 23,746 | 33,528 | 56,069 | 67,746 |
| Other long-term investments | 1,304,285 | 1,166,240 | 2,651,423 | 2,316,997 |
| Mortgage loans | 3,796,491 | 3,410,617 | 7,366,896 | 6,593,465 |
| Policy loans | 38,122 | 33,495 | 75,829 | 65,768 |
| Real estate | 68,681 | 67,514 | 137,363 | 131,810 |
| Short-term and other investments | 29,280 | 250,455 | 53,817 | 495,295 |
| Gross investment income | 6,934,945 | 7,039,055 | 13,854,119 | 13,277,763 |
| Investment expenses | (1,058,872) | (756,012) | (1,708,203) | (1,421,264) |
| Net investment income | $ 5,876,073 | $ 6,283,043 | $ 12,145,916 | $ 11,856,499 |

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 June 30, 2020 and December 31, 2019, these required deposits, included in investment assets, had amortized costs that totaled $4,540,543 and $4,434,662, respectively. As of June 30, 2020 and December 31, 2019, these required deposits had fair values that totaled $4,615,534 and $4,468,783, respectively.

The Company's mortgage loans by property type as of June 30, 2020 and December 31, 2019 are summarized as follows:

| | (Unaudited) June 30, 2020 | December 31, 2019 |
|---|---|---|
| Residential mortgage loans | $ 153,801,921 | $ 150,002,865 |
| Commercial mortgage loans by property type | | |
| Apartment | 962,997 | 1,604,934 |
| Industrial | 1,067,772 | 1,619,250 |
| Lodging | 717,940 | 729,603 |
| Office building | 4,541,237 | 3,676,396 |
| Retail | 5,835,502 | 4,771,592 |
| Total commercial mortgage loans by property type | 13,125,448 | 12,401,775 |
| Total mortgage loans | $ 166,927,369 | $ 162,404,640 |

There were 25 loans with a remaining principal balance of $4,473,139 that were more than 90 days past due as of June 30, 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 June 30, 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.

**2. Investments** (continued)

The Company's investment real estate as of June 30, 2020 and December 31, 2019 is summarized as follows:

| | (Unaudited) June 30, 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 | (1,558,903) | (1,486,159) |
| Buildings net of accumulated depreciation | 708,654 | 781,398 |
| Residential real estate - held for sale | 306,888 | 212,046 |
| Total residential real estate | 306,888 | 212,046 |
| Investment real estate, net of accumulated depreciation | $ 1,973,857 | $ 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 2020, the Company sold investment real estate property with an aggregate carrying value of $649,249. The Company recorded a gross realized investment gain on sale of $33,696 based on an aggregate sales price of $682,945.

During 2019, the Company foreclosed on one residential mortgage loan of real estate totaling $99,218 and transferred that property to investment real estate held for sale. During 2019, the Company sold investment real estate property with an aggregate carrying value of $294,784. The Company recorded a gross realized investment loss on sale of $41,220 based on an aggregate sales price of $253,564.

**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.

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

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.

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.

**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 June 30, 2020 and December 31, 2019 is summarized as follows:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| | June 30, 2020 (Unaudited) | | | |
| Fixed maturity securities, available-for-sale | | | | |
| U.S. government and U.S. government agencies | $ - | $ 579,842 | $ - | $ 579,842 |
| States and political subdivisions | - | 10,019,519 | - | 10,019,519 |
| Residential mortgage-backed securities | - | 35,118 | - | 35,118 |
| Corporate bonds | - | 124,561,253 | - | 124,561,253 |
| Asset-backed securities | - | 1,911,234 | - | 1,911,234 |
| Exchange traded securities | - | 384,800 | - | 384,800 |
| Foreign bonds | - | 33,158,623 | - | 33,158,623 |
| Certificate of deposits | - | 800,000 | - | 800,000 |
| Total fixed maturity securities | $ - | $ 171,450,389 | $ - | $ 171,450,389 |
| Preferred stock, available-for-sale | $ 50,440 | $ - | $ - | $ 50,440 |
| Equity securities | | | | |
| Mutual funds | $ - | $ 79,211 | $ - | $ 79,211 |
| Corporate common stock | 31,654 | - | 62,137 | 93,791 |
| Total equity securities | $ 31,654 | $ 79,211 | $ 62,137 | $ 173,002 |
| | 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 | $ - | $ 178,951,324 | $ - | $ 178,951,324 |
| Preferred stock, available-for-sale | $ 51,900 | $ - | $ - | $ 51,900 |
| Equity securities | | | | |
| Mutual funds | $ - | $ 89,352 | $ - | $ 89,352 |
| Corporate common stock | 47,565 | - | 64,107 | 111,672 |
| Total equity securities | $ 47,565 | $ 89,352 | $ 64,107 | $ 201,024 |

As of June 30, 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.

**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 six months ended June 30, 2020 and 2019 is summarized as follows:

| | Unaudited | |
|---|---|---|
| | Six Months Ended June 30, | |
| | 2020 | 2019 |
| Beginning balance | $ 64,107 | $ 64,036 |
| Joint venture net income | 47,963 | 57,746 |
| Joint venture distribution | (49,933) | (53,786) |
| Ending balance | $ 62,137 | $ 67,996 |

**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 June 30, 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 |
|---|---|---|---|---|---|
| | | | June 30, 2020 (Unaudited) | | |
| Financial assets | | | | | |
| Mortgage loans on real estate | | | | | |
| Commercial and Industrial | $ 13,125,448 | $ 13,257,361 | $ - | $ - | $ 13,257,361 |
| Residential | 153,801,921 | 170,269,217 | - | - | 170,269,217 |
| Policy loans | 2,044,954 | 2,044,954 | - | - | 2,044,954 |
| Short-term investments | 2,949,229 | 2,949,229 | 2,949,229 | - | - |
| Other long-term investments | 72,877,350 | 91,209,282 | - | - | 91,209,282 |
| Cash and cash equivalents | 17,051,412 | 17,051,412 | 17,051,412 | - | - |
| Accrued investment income | 5,475,458 | 5,475,458 | - | - | 5,475,458 |
| Total financial assets | $ 267,325,772 | $ 302,256,913 | $ 20,000,641 | $ - | $ 282,256,272 |
| Financial liabilities | | | | | |
| Policyholders' account balances | $ 358,137,860 | $ 382,256,280 | $ - | $ - | $ 382,256,280 |
| Policy claims | 1,267,125 | 1,267,125 | - | - | 1,267,125 |
| Total financial liabilities | $ 359,404,985 | $ 383,523,405 | $ - | $ - | $ 383,523,405 |
| | | | 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 | $ 266,506,501 | $ 285,236,453 | $ 25,043,257 | $ - | $ 260,193,196 |
| 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 | $ 364,483,231 | $ 356,956,516 | $ - | $ - | $ 356,956,516 |

**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.

## 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 June 30, 2020 and December 31, 2019 and for the three and six months ended June 30, 2020 and 2019 are summarized as follows:

| | Three Months Ended June 30, (Unaudited) | | Six Months Ended June 30, (Unaudited) | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| Revenues: | | | | |
| Life insurance operations | $ 7,517,213 | $ 6,492,824 | $ 14,842,681 | $ 12,963,871 |
| Annuity operations | 5,129,076 | 5,710,825 | 10,349,328 | 10,680,857 |
| Corporate operations | 191,790 | 174,742 | 329,576 | 358,363 |
| Total | $ 12,838,079 | $ 12,378,391 | $ 25,521,585 | $ 24,003,091 |
| Income (loss) before income taxes: | | | | |
| Life insurance operations | $ (400,643) | $ 66,906 | $ (336,239) | $ 264,465 |
| Annuity operations | 799,259 | 1,246,058 | 1,711,177 | 2,748,670 |
| Corporate operations | 212,767 | 154,627 | 252,829 | 256,548 |
| Total | $ 611,383 | $ 1,467,591 | $ 1,627,767 | $ 3,269,683 |
| Depreciation and amortization expense: | | | | |
| Life insurance operations | $ 1,151,910 | $ 701,973 | $ 2,184,297 | $ 1,532,434 |
| Annuity operations | 286,567 | 492,992 | 588,917 | 552,156 |
| Total | $ 1,438,477 | $ 1,194,965 | $ 2,773,214 | $ 2,084,590 |

| | (Unaudited) June 30, 2020 | December 31, 2019 |
|---|---|---|
| Assets: | | |
| Life insurance operations | $ 108,033,765 | $ 99,612,420 |
| Annuity operations | 499,686,857 | 500,738,949 |
| Corporate operations | 4,472,101 | 4,585,005 |
| Total | $ 612,192,723 | $ 604,936,374 |

## 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.

## 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. 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 has filed a Petition for Certiorari with the Oklahoma Supreme Court to request that it reverse and vacate the decision of the Court of Appeals.

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.

## 7. 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 June 30, 2020 and December 31, 2019.

## 8. Other Comprehensive Income and Accumulated Other Comprehensive Income (Loss)

The changes in the components of the Company's accumulated other comprehensive income (loss) for the three and six months ended June 30, 2020 and 2019 are summarized as follows:

| | Three Months Ended June 30, 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 April 1, 2020 | $ (821,898) | $ 1,602 | $ (820,296) |
| Other comprehensive income before reclassifications, net of tax | 12,545,666 | (25,021) | 12,520,645 |
| Less amounts reclassified from accumulated other comprehensive income having no credit losses, net of tax | 202,414 | - | 202,414 |
| Other comprehensive income | 12,343,252 | (25,021) | 12,318,231 |
| Balance as of June 30, 2020 | $ 11,521,354 | $ (23,419) | $ 11,497,935 |
| Balance as of April 1, 2019 | $ 1,434,225 | $ (1,862) | $ 1,432,363 |
| Other comprehensive income before reclassifications, net of tax | 5,130,516 | (8,372) | 5,122,144 |
| Less amounts reclassified from accumulated other comprehensive income having no credit losses, net of tax | (24,421) | - | (24,421) |
| Other comprehensive income | 5,154,937 | (8,372) | 5,146,565 |
| Balance as of June 30, 2019 | $ 6,589,162 | $ (10,234) | $ 6,578,928 |

| | Six Months Ended June 30, 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 income before reclassifications, net of tax | 2,140,361 | (7,756) | 2,132,605 |
| Less amounts reclassified from accumulated other comprehensive income having no credit losses, net of tax | 251,330 | - | 251,330 |
| Other comprehensive income | 1,889,031 | (7,756) | 1,881,275 |
| Balance as of June 30, 2020 | $ 11,521,354 | $ (23,419) | $ 11,497,935 |
| Balance as of January 1, 2019 | $ (2,584,643) | $ 8,012 | $ (2,576,631) |
| Other comprehensive income before reclassifications, net of tax | 9,181,043 | (18,246) | 9,162,797 |
| Less amounts reclassified from accumulated other comprehensive income having no credit losses, net of tax | 7,238 | - | 7,238 |
| Other comprehensive income | 9,173,805 | (18,246) | 9,155,559 |
| Balance as of June 30, 2019 | $ 6,589,162 | $ (10,234) | $ 6,578,928 |

## 8. Other Comprehensive Income and Accumulated Other Comprehensive Income (Loss) (continued)

The pretax components of the Company's other comprehensive income and the related income tax expense (benefit) for each component for the three and six months ended June 30, 2020 and 2019 are summarized as follows:

| | Three Months Ended June 30, 2020 (Unaudited) | | |
|---|---|---|---|
| | Pretax | Income Tax Expense (Benefit) | Net of Tax |
| Other comprehensive income: | | | |
| Change in net unrealized gains on available-for-sale securities: | | | |
| Unrealized holding gains arising during the period | $ 15,880,590 | $ 3,334,924 | $ 12,545,666 |
| Reclassification adjustment for net gains included in operations having no credit losses | 256,220 | 53,806 | 202,414 |
| Net unrealized gains on investments | 15,624,370 | 3,281,118 | 12,343,252 |
| Adjustment to deferred acquisition costs | (31,673) | (6,652) | (25,021) |
| Total other comprehensive income | $ 15,592,697 | $ 3,274,466 | $ 12,318,231 |

| | Three Months Ended June 30, 2019 (Unaudited) | | |
|---|---|---|---|
| | Pretax | Income Tax Expense (Benefit) | Net of Tax |
| Other comprehensive income: | | | |
| Change in net unrealized gains on available-for-sale securities: | | | |
| Unrealized holding gains arising during the period | $ 6,494,324 | $ 1,363,808 | $ 5,130,516 |
| Reclassification adjustment for net losses included in operations having no credit losses | (30,913) | (6,492) | (24,421) |
| Net unrealized gains on investments | 6,525,237 | 1,370,300 | 5,154,937 |
| Adjustment to deferred acquisition costs | (10,599) | (2,227) | (8,372) |
| Total other comprehensive income | $ 6,514,638 | $ 1,368,073 | $ 5,146,565 |

| | Six Months Ended June 30, 2020 (Unaudited) | | |
|---|---|---|---|
| | Pretax | Income Tax Expense (Benefit) | Net of Tax |
| Other comprehensive income: | | | |
| Change in net unrealized gains on available-for-sale securities: | | | |
| Unrealized holding gains arising during the period | $ 2,709,318 | $ 568,957 | $ 2,140,361 |
| Reclassification adjustment for net gains included in operations having no credit losses | 318,139 | 66,809 | 251,330 |
| Net unrealized gains on investments | 2,391,179 | 502,148 | 1,889,031 |
| Adjustment to deferred acquisition costs | (9,818) | (2,062) | (7,756) |
| Total other comprehensive income | $ 2,381,361 | $ 500,086 | $ 1,881,275 |

| | Six Months Ended June 30, 2019 (Unaudited) | | |
|---|---|---|---|
| | Pretax | Income Tax Expense (Benefit) | Net of Tax |
| Other comprehensive income: | | | |
| Change in net unrealized gains on available-for-sale securities: | | | |
| Unrealized holding gains arising during the period | $ 11,621,574 | $ 2,440,531 | $ 9,181,043 |
| Reclassification adjustment for net gains included in operations having no credit losses | 9,162 | 1,924 | 7,238 |
| Net unrealized gains on investments | 11,612,412 | 2,438,607 | 9,173,805 |
| Adjustment to deferred acquisition costs | (23,096) | (4,850) | (18,246) |
| Total other comprehensive income | $ 11,589,316 | $ 2,433,757 | $ 9,155,559 |

**8. Other Comprehensive Income 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 to the Company's consolidated statement of operations for the three and six months ended June 30, 2020 and 2019 are summarized as follows:

| | Three Months Ended June 30, (Unaudited) | | Six Months Ended June 30, (Unaudited) | |
|---|---|---|---|---|
| Reclassification Adjustments | 2020 | 2019 | 2020 | 2019 |
| Unrealized gains (losses) on available-for-sale securities having no credit losses: | | | | |
| Realized gains (losses) on sales of securities (a) | $ 256,220 | $ (30,913) | $ 318,139 | $ 9,162 |
| Income tax expense (benefit) (b) | 53,806 | (6,492) | 66,809 | 1,924 |
| Total reclassification adjustments | $ 202,414 | $ (24,421) | $ 251,330 | $ 7,238 |

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

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

**9. 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.

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

As of June 30, 2020, $765,472 of independent residential mortgage loans on real estate is held in escrow by a third party for the benefit of the Company. As of June 30, 2020, $437,986 of that escrow amount is available to the Company as additional collateral on $5,057,229 of advances to the loan originator. The remaining June 30, 2020 escrow amount of $327,486 is available to the Company as additional collateral on its investment of $65,497,241 in residential mortgage loans on real estate. In addition, the Company has an additional $509,447 allowance for possible loan losses in the remaining $101,430,128 of investments in mortgage loans on real estate as of June 30, 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 and six months ended June 30, 2020 and 2019 are summarized as follows (excluding $65,497,241 and $53,517,364 of mortgage loans on real estate as of June 30, 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):

| | Unaudited | | | | | |
|---|---|---|---|---|---|---|
| | Three Months Ended June 30, | | | | | |
| | Residential Mortgage Loans | | Commercial Mortgage Loans | | Total | |
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| Allowance, beginning | $ 435,413 | $ 405,548 | $ 68,105 | $ 51,835 | $ 503,518 | $ 457,383 |
| Charge offs | - | - | - | - | - | - |
| Recoveries | - | - | - | - | - | - |
| Provision | 8,077 | 52,112 | (2,148) | 606 | 5,929 | 52,718 |
| Allowance, ending | $ 443,490 | $ 457,660 | $ 65,957 | $ 52,441 | $ 509,447 | $ 510,101 |
| Allowance, ending: | | | | | | |
| Individually evaluated for impairment | $ - | $ - | $ - | $ - | $ - | $ - |
| Collectively evaluated for impairment | $ 443,490 | $ 457,660 | $ 65,957 | $ 52,441 | $ 509,447 | $ 510,101 |
| Carrying Values: | | | | | | |
| Individually evaluated for impairment | $ - | $ - | $ - | $ - | $ - | $ - |
| Collectively evaluated for impairment | $ 88,304,680 | $ 91,869,967 | $ 13,125,448 | $ 10,435,811 | $ 101,430,128 | $ 102,305,778 |

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

| | (Unaudited) Six Months Ended June 30, | | | | | |
|---|---|---|---|---|---|---|
| | 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 | 433 | 83,451 | 3,636 | 2,484 | 4,069 | 85,935 |
| Allowance, ending | $ 443,490 | $ 457,660 | $ 65,957 | $ 52,441 | $ 509,447 | $ 510,101 |
| Allowance, ending: | | | | | | |
| Individually evaluated for impairment | $ - | $ - | $ - | $ - | $ - | $ - |
| Collectively evaluated for impairment | $ 443,490 | $ 457,660 | $ 65,957 | $ 52,441 | $ 509,447 | $ 510,101 |
| Carrying Values: | | | | | | |
| Individually evaluated for impairment | $ - | $ - | $ - | $ - | $ - | $ - |
| Collectively evaluated for impairment | $ 88,304,680 | $ 91,869,967 | $ 13,125,448 | $ 10,435,811 | $ 101,430,128 | $ 102,305,778 |

The Company utilizes the ratio of the carrying value of individual mortgage loans compared to the individual appraisal value to evaluate the credit quality of its mortgage loans on real estate (commonly referred to as the loan-to-value ratio). The Company's residential and commercial and industrial mortgage loans on real estate by credit quality using this ratio as of June 30, 2020 and December 31, 2019 are summarized as follows:

| | Residential Mortgage Loans | | Commercial Mortgage Loans | | Total Mortgage Loans | |
|---|---|---|---|---|---|---|
| | (Unaudited) | | (Unaudited) | | (Unaudited) | |
| Loan-To-Value Ratio | June 30, 2020 | December 31, 2019 | June 30, 2020 | December 31, 2019 | June 30, 2020 | December 31, 2019 |
| Over 70% to 80% | $ 46,066,696 | $ 42,607,615 | $ - | $ 274,954 | $ 46,066,696 | $ 42,882,569 |
| Over 60% to 70% | 50,684,896 | 50,158,843 | 1,885,481 | 2,320,734 | 52,570,377 | 52,479,577 |
| Over 50% to 60% | 27,024,214 | 28,939,576 | 2,323,235 | 1,318,536 | 29,347,449 | 30,258,112 |
| Over 40% to 50% | 13,580,548 | 13,160,306 | 1,769,145 | 2,142,354 | 15,349,693 | 15,302,660 |
| Over 30% to 40% | 8,967,763 | 8,023,690 | 1,192,441 | 1,800,952 | 10,160,204 | 9,824,642 |
| Over 20% to 30% | 3,976,033 | 3,806,361 | 2,818,921 | 1,235,799 | 6,794,954 | 5,042,160 |
| Over 10% to 20% | 2,631,614 | 2,677,037 | 3,099,834 | 3,308,446 | 5,731,448 | 5,985,483 |
| 10% or less | 870,157 | 629,437 | 36,391 | - | 906,548 | 629,437 |
| Total | $ 153,801,921 | $ 150,002,865 | $ 13,125,448 | $ 12,401,775 | $ 166,927,369 | $ 162,404,640 |

## 10. Coinsurance

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

In accordance with this annuity coinsurance agreement, TLIC holds assets and recognizes a funds withheld liability for the benefit of the assuming company in an amount at least equal to the annuity reserves in accordance with U.S. statutory accounting principles generated by this ceded business 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.

**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**

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, 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 and six months ended June 30, 2020 and 2019 and as of June 30, 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 June 30, 2020 and 2019**

| | (Unaudited) Three Months Ended June 30, 2020 | (Unaudited) Three Months Ended June 30, 2019 | Amount Change 2020 less 2019 |
|---|---|---|---|
| Premiums | $ 6,439,224 | $ 5,546,081 | $ 893,143 |
| Net investment income | 5,876,073 | 6,283,043 | (406,970) |
| Net realized investment gains (losses) | 410,380 | (67,632) | 478,012 |
| Service fees | 7,025 | 593,144 | (586,119) |
| Other income | 105,377 | 23,755 | 81,622 |
| Total revenues | 12,838,079 | 12,378,391 | 459,688 |
| Benefits and claims | 8,305,609 | 6,836,230 | 1,469,379 |
| Expenses | 3,921,087 | 4,074,570 | (153,483) |
| Total benefits, claims and expenses | 12,226,696 | 10,910,800 | 1,315,896 |
| Income before federal income tax expense | 611,383 | 1,467,591 | (856,208) |
| Federal income tax expense | 137,787 | 334,025 | (196,238) |
| Net income | $ 473,596 | $ 1,133,566 | $ (659,970) |
| Net income per common share basic and duluted | | | |
| Class A common stock | $ 0.0601 | $ 0.1453 | $ (0.0852) |
| Class B common stock | $ 0.0095 | $ - | $ 0.0095 |

## Consolidated Condensed Results of Operations for the Six Months Ended June 30, 2020 and 2019

| | (Unaudited) Six Months Ended June 30, 2020 | 2019 | Amount Change 2020 less 2019 |
|---|---|---|---|
| Premiums | $ 12,805,100 | $ 11,076,887 | $ 1,728,213 |
| Net investment income | 12,145,916 | 11,856,499 | 289,417 |
| Net realized investment gains (losses) | 433,882 | (13,912) | 447,794 |
| Service fees | 17,896 | 1,020,878 | (1,002,982) |
| Other income | 118,791 | 62,739 | 56,052 |
| Total revenues | 25,521,585 | 24,003,091 | 1,518,494 |
| Benefits and claims | 16,114,816 | 13,590,358 | 2,524,458 |
| Expenses | 7,779,002 | 7,143,050 | 635,952 |
| Total benefits, claims and expenses | 23,893,818 | 20,733,408 | 3,160,410 |
| Income before federal income tax expense | 1,627,767 | 3,269,683 | (1,641,916) |
| Federal income tax expense | 364,915 | 713,921 | (349,006) |
| Net income | $ 1,262,852 | $ 2,555,762 | $ (1,292,910) |
| Net income per common share basic and duluted | | | |
| Class A common stock | $ 0.1594 | $ 0.3276 | $ (0.1682) |
| Class B common stock | $ 0.0938 | $ - | $ 0.0938 |

## Consolidated Condensed Financial Position as of June 30, 2020 and December 31, 2019

| | (Unaudited) June 30, 2020 | December 31, 2019 | Amount Change 2020 to 2019 |
|---|---|---|---|
| Investment assets | $ 418,446,590 | $ 419,242,515 | $ (795,925) |
| Assets held in trust under coinsurance agreement | 107,548,422 | 105,089,240 | 2,459,182 |
| Other assets | 86,197,711 | 80,604,619 | 5,593,092 |
| Total assets | $ 612,192,723 | $ 604,936,374 | $ 7,256,349 |
| Policy liabilities | $ 429,784,998 | $ 429,631,596 | $ 153,402 |
| Funds withheld under coinsurance agreement | 108,073,060 | 105,638,974 | 2,434,086 |
| Deferred federal income taxes | 7,210,919 | 6,345,918 | 865,001 |
| Other liabilities | 5,199,851 | 5,901,624 | (701,773) |
| Total liabilities | 550,268,828 | 547,518,112 | 2,750,716 |
| Shareholders' equity | 61,923,895 | 57,418,262 | 4,505,633 |
| Total liabilities and shareholders' equity | $ 612,192,723 | $ 604,936,374 | $ 7,256,349 |
| Shareholders' equity per common share | | | |
| Class A common stock | $ 7.7835 | $ 7.3589 | $ 0.4246 |
| Class B common stock | $ 6.6160 | $ - | $ 6.6160 |

**Results of Operations – Three Months Ended June 30, 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 and losses on investment holdings can significantly impact revenues from period to period.

Our revenues for the three months ended June 30, 2020 and 2019 are summarized as follows:

| | (Unaudited) Three Months Ended June 30, 2020 | (Unaudited) Three Months Ended June 30, 2019 | Amount Change 2020 less 2019 |
|---|---|---|---|
| Premiums | $ 6,439,224 | $ 5,546,081 | $ 893,143 |
| Net investment income | 5,876,073 | 6,283,043 | (406,970) |
| Net realized investment gains (losses) | 410,380 | (67,632) | 478,012 |
| Service fees | 7,025 | 593,144 | (586,119) |
| Other income | 105,377 | 23,755 | 81,622 |
| Total revenues | $ 12,838,079 | $ 12,378,391 | $ 459,688 |

The $459,688 increase in total revenues for the three months ended June 30, 2020 is discussed below.

***Premiums***

Our premiums for the three months ended June 30, 2020 and 2019 are summarized as follows:

| | (Unaudited) Three Months Ended June 30, 2020 | (Unaudited) Three Months Ended June 30, 2019 | Amount Change 2020 less 2019 |
|---|---|---|---|
| Ordinary life first year | $ 258,661 | $ 358,636 | $ (99,975) |
| Ordinary life renewal | 585,148 | 488,446 | 96,702 |
| Final expense first year | 1,351,060 | 1,177,340 | 173,720 |
| Final expense renewal | 4,244,355 | 3,521,659 | 722,696 |
| Total premiums | $ 6,439,224 | $ 5,546,081 | $ 893,143 |

The $893,143 increase in premiums for the three months ended June 30, 2020 is primarily due to a $722,696 increase in final expense renewal premiums and a $173,720 increase in final expense first year premiums.

The increase in final expense renewal premiums reflects the persistency of prior years' final expense production. The increase in final expense first year premiums represents management's focus on expanding final expense production by contracting new, independent agents in expanded locations.

***Net Investment Income***

The major components of our net investment income for the three months ended June 30, 2020 and 2019 are summarized as follows:

| | (Unaudited) Three Months Ended June 30, | | Amount Change |
|---|---|---|---|
| | 2020 | 2019 | 2020 less 2019 |
| Fixed maturity securities | $ 1,674,340 | $ 2,077,206 | $ (402,866) |
| Preferred stock and equity securities | 23,746 | 33,528 | (9,782) |
| Other long-term investments | 1,304,285 | 1,166,240 | 138,045 |
| Mortgage loans | 3,796,491 | 3,410,617 | 385,874 |
| Policy loans | 38,122 | 33,495 | 4,627 |
| Real estate | 68,681 | 67,514 | 1,167 |
| Short-term and other investments | 29,280 | 250,455 | (221,175) |
| Gross investment income | 6,934,945 | 7,039,055 | (104,110) |
| Investment expenses | (1,058,872) | (756,012) | 302,860 |
| Net investment income | $ 5,876,073 | $ 6,283,043 | $ (406,970) |

The $104,110 decrease in gross investment income for the three months ended June 30, 2020 is primarily due to decreases in investments in fixed maturity securities that exceeded increases in investments in mortgage loans and other long-term investments. In the twelve months since June 30, 2019, the amortized cost of our investments in fixed maturity securities decreased by approximately $23.8 million, investment in mortgage loans increased approximately $11.1 million and other long term investments increased approximately $8.1 million. Short-term and other investments were sold to invest in mortgage loans and other long-term investments.

The $302,860 increase in investment expense for the three months ended June 30, 2020 is primarily related to increased staffing and increased system development expenses for future expansion of mortgage loan operations into originations, portfolio management and servicing.

### *Net Realized Investment Gains*

Our net realized investment gains (losses) result from sales of fixed maturity securities available-for-sale, equity securities, investment real estate and mortgage loans on real estate plus changes in fair value of equity securities.

Our net realized investment gains (losses) for the three months ended June 30, 2020 and 2019 are summarized as follows:

| | (Unaudited) Three Months Ended June 30, 2020 | (Unaudited) Three Months Ended June 30, 2019 | Amount Change 2020 less 2019 |
|---|---|---|---|
| Fixed maturity securities available-for-sale: | | | |
| Sale proceeds | $ 6,162,777 | $ 14,728,067 | $ (8,565,290) |
| Amortized cost at sale date | 5,906,557 | 14,758,980 | (8,852,423) |
| Net realized gains (losses) | $ 256,220 | $ (30,913) | $ 287,133 |
| Equity securities sold: | | | |
| Sale proceeds | $ - | $ 19,370 | $ (19,370) |
| Cost at sale date | - | 6,998 | (6,998) |
| Net realized gains | $ - | $ 12,372 | $ (12,372) |
| Investment real estate: | | | |
| Sale proceeds | $ 682,945 | $ 253,564 | $ 429,381 |
| Carrying value at sale date | 649,249 | 294,784 | 354,465 |
| Net realized gains (losses) | $ 33,696 | $ (41,220) | $ 74,916 |
| Mortgage loans on real estate: | | | |
| Sale proceeds | $ 18,649,805 | $ - | $ 18,649,805 |
| Carrying value at sale date | 18,541,706 | - | 18,541,706 |
| Net realized gains | $ 108,099 | $ - | $ 108,099 |
| Equity securities, changes in fair value | $ 12,365 | $ (7,871) | $ 20,236 |
| Net realized investment gains (losses) | $ 410,380 | $ (67,632) | $ 478,012 |

### *Service Fees*

The $586,119 decrease in service fees for the three months ended June 30, 2020 is primarily due to decreased TLIC annuity production resulting in the reduction of ceding fees associated with 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 June 30, 2020 and 2019 are summarized as follows:

| | (Unaudited) Three Months Ended June 30, 2020 | (Unaudited) Three Months Ended June 30, 2019 | Amount Change 2020 less 2019 |
|---|---|---|---|
| Benefits and claims | | | |
| Increase in future policy benefits | $ 2,467,039 | $ 2,029,177 | $ 437,862 |
| Death benefits | 2,482,528 | 1,474,125 | 1,008,403 |
| Surrenders | 228,541 | 246,074 | (17,533) |
| Interest credited to policyholders | 3,056,982 | 3,011,733 | 45,249 |
| Dividend, endowment and supplementary life contract benefits | 70,519 | 75,121 | (4,602) |
| Total benefits and claims | 8,305,609 | 6,836,230 | 1,469,379 |
| Expenses | | | |
| Policy acquisition costs deferred | (2,693,003) | (3,657,057) | 964,054 |
| Amortization of deferred policy acquisition costs | 1,307,138 | 1,077,534 | 229,604 |
| Amortization of value of insurance business acquired | 73,576 | 73,544 | 32 |
| Commissions | 2,497,928 | 3,723,265 | (1,225,337) |
| Other underwriting, insurance and acquisition expenses | 2,735,448 | 2,857,284 | (121,836) |
| Total expenses | 3,921,087 | 4,074,570 | (153,483) |
| Total benefits, claims and expenses | $ 12,226,696 | $ 10,910,800 | $ 1,315,896 |

The $1,315,896 increase in total benefits, claims and expenses for the three months ended June 30, 2020 is discussed below.

#### *Benefits and Claims*

The $1,469,379 increase in benefits and claims for the three months ended June 30, 2020 is primarily due to the following:

- $1,008,403 increase in death benefits is primarily due to approximately $707,000 of increased final expense benefits and $301,000 of increased ordinary life benefits.

- $437,862 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 June 30, 2020 and 2019, capitalized costs were $2,693,003 and $3,657,057, respectively. Amortization of deferred policy acquisition costs for the three months ended June 30, 2020 and 2019 were $1,307,138 and $1,077,534, respectively.

The $964,054 decrease in the 2020 acquisition costs deferred primarily relates to decreased annuity production and deferral of decreased eligible annuity commissions. There was a $229,604 increase in the 2020 amortization of deferred acquisition costs due to 2020 surrenders and withdrawal activity and the impact of mortality.

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

The cost of acquiring insurance business is amortized over the emerging profit of the related policies using the same assumptions that were used in computing liabilities for future policy benefits. Amortization of the value of insurance business acquired was $73,576 and $73,544 for the three months ended June 30, 2020 and 2019, respectively, representing a $32 increase.

***Commissions***

Our commissions for the three months ended June 30, 2020 and 2019 are summarized as follows:

| | (Unaudited) | | | | | |
|---|---|---|---|---|---|---|
| | Three Months Ended June 30, | | | | Amount Change | |
| | 2020 | | 2019 | | 2020 less 2019 | |
| Annuity | $ | 109,897 | $ | 1,572,151 | $ | (1,462,254) |
| Ordinary life first year | | 331,610 | | 386,659 | | (55,049) |
| Ordinary life renewal | | 40,211 | | 12,921 | | 27,290 |
| Final expense first year | | 1,605,951 | | 1,404,303 | | 201,648 |
| Final expense renewal | | 410,259 | | 347,231 | | 63,028 |
| Total commissions | $ | 2,497,928 | $ | 3,723,265 | $ | (1,225,337) |

The $1,225,337 decrease in commissions for the three months ended June 30, 2020 is primarily due to a $1,462,254 decrease in annuity commissions that exceeded a $201,648 increase in final expense first year commissions that corresponded to a $39,699,323 decrease in retained annuity deposits and a $173,720 increase in final expense first year premiums.

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

There was a slight decrease in underwriting, insurance and acquisition expenses for the three months ended June 30, 2020.

***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 June 30, 2020 and 2019, current income tax expense (benefit) was ($46,575) and $398,052, respectively. For the three months ended June 30, 2020 and 2019, deferred federal income tax expense (benefit) was $184,362 and ($64,027), respectively.

***Net Income Per Common Share Basic and Diluted***

For the three months ended June 30, 2020, the net income allocated to the Class B shareholders is the total net income less shareholders' cash dividend multiplied by the right to receive dividends at 85% for Class B shares (97,332) as of the reporting date divided by the allocated total shares (7,954,283) of Class A shares (7,856,951) and Class B shares (97,332) as of the reporting date.

For the three months ended June 30, 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 June 30, 2020 were 7,856,951 for Class A shares and 114,508 for Class B shares.

The weighted average outstanding common shares basic and diluted for the three months ended June 30, 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 June 30, 2020 and 2019 are summarized as follows:

| | (Unaudited) Three Months Ended June 30, 2020 | (Unaudited) Three Months Ended June 30, 2019 | Amount Change 2020 less 2019 |
|---|---|---|---|
| Revenues: | | | |
| Life insurance operations | $ 7,517,213 | $ 6,492,824 | $ 1,024,389 |
| Annuity operations | 5,129,076 | 5,710,825 | (581,749) |
| Corporate operations | 191,790 | 174,742 | 17,048 |
| Total | $ 12,838,079 | $ 12,378,391 | $ 459,688 |
| Income (loss) before federal income taxes: | | | |
| Life insurance operations | $ (400,643) | $ 66,906 | $ (467,549) |
| Annuity operations | 799,259 | 1,246,058 | (446,799) |
| Corporate operations | 212,767 | 154,627 | 58,140 |
| Total | $ 611,383 | $ 1,467,591 | $ (856,208) |

***Life Insurance Operations***

The $1,024,389 increase in revenues from Life Insurance Operations for the three months ended June 30, 2020 is primarily due to the following:

- $893,143 increase in premiums
- $82,978 increase in net realized investment gains
- $49,851 increase in net investment income
- $1,583 decrease in service fees and other income

The $467,549 decreased profitability from Life Insurance Operations for the three months ended June 30, 2020 is primarily due to the following:

- $1,008,403 increase in death benefits
- $437,862 increase in future policy benefits
- $236,917 increase in commissions
- $1,583 decrease in service fees and other income
- $16 increase in amortization of value of insurance business acquired
- $4,602 decrease in dividend, endowment and supplementary life contract benefits
- $17,533 decrease in surrenders
- $49,851 increase in net investment income
- $77,463 increase in policy acquisition costs deferred net of amortization
- $82,978 increase in net realized investment gains
- $91,662 decrease in other underwriting, insurance and acquisition expenses
- $893,143 increase in premiums

***Annuity Operations***

The $581,749 decrease in revenues from Annuity Operations for the three months ended June 30, 2020 is due to the following:

- $586,117 decrease in service fees and other income
- $390,666 decrease in net investment income
- $395,034 increase in net realized investment gains

The $446,799 decreased profitability from Annuity Operations for the three months ended June 30, 2020 is due to the following:

- $1,271,121 decrease in policy acquisition costs deferred net of amortization
- $586,117 decrease in service fees and other income
- $390,666 decrease in net investment income
- $45,249 increase in interest credited to policyholders
- $10,918 increase in other underwriting, insurance and acquisition expenses
- $16 increase in amortization of value of insurance business acquired
- $395,034 increase in net realized investment gains
- $1,462,254 decrease in commissions

***Corporate Operations***

The $17,048 increase in revenues from Corporate Operations for the three months ended June 30, 2020 is due to $83,203 of increased service fees and other income that exceeded $66,155 of decreased net investment income.

The $58,140 increase in Corporate Operations profitability for the three months ended June 30, 2020 is primarily due to $83,203 of increased service fees and other income and $41,092 of decreased operating expenses that exceeded $66,155 of decreased net investment income.

**Results of Operations – Six Months Ended June 30, 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 and losses on investment holdings can significantly impact revenues from period to period.

Our revenues for the six months ended June 30, 2020 and 2019 are summarized as follows:

| | (Unaudited) Six Months Ended June 30, 2020 | 2019 | Amount Change 2020 less 2019 |
|---|---|---|---|
| Premiums | $ 12,805,100 | $ 11,076,887 | $ 1,728,213 |
| Net investment income | 12,145,916 | 11,856,499 | 289,417 |
| Net realized investment gains (losses) | 433,882 | (13,912) | 447,794 |
| Service fees | 17,896 | 1,020,878 | (1,002,982) |
| Other income | 118,791 | 62,739 | 56,052 |
| Total revenues | $ 25,521,585 | $ 24,003,091 | $ 1,518,494 |

The $1,518,494 increase in total revenues for the six months ended June 30, 2019 is discussed below.

***Premiums***

Our premiums for the six months ended June 30, 2020 and 2019 are summarized as follows:

| | (Unaudited) Six Months Ended June 30, 2020 | 2019 | Amount Change 2020 less 2019 |
|---|---|---|---|
| Ordinary life first year | $ 695,907 | $ 703,521 | $ (7,614) |
| Ordinary life renewal | 1,324,708 | 1,063,943 | 260,765 |
| Final expense first year | 2,550,112 | 2,341,646 | 208,466 |
| Final expense renewal | 8,234,373 | 6,840,286 | 1,394,087 |
| Supplementary contracts with life contingencies | - | 127,491 | (127,491) |
| Total premiums | $ 12,805,100 | $ 11,076,887 | $ 1,728,213 |

The $1,728,213 increase in premiums for the six months ended June 30, 2020 is primarily due to the $1,394,087 increase in final expense renewal premiums, $260,765 increase in ordinary life renewal premiums and $208,466 increase in final expense first year premiums that exceeded $127,491 decrease in supplementary contracts with life contingencies.

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 increase in final expense first year premiums represents management's focus on expanding final expense production by contracting new, independent agents in expanded locations. The decrease in supplementary contracts with life contingencies reflects policyholder decisions to receive future payment streams during their remaining life instead of a lump sum payment.

### *Net Investment Income*

The major components of our net investment income for the six months ended June 30, 2020 and 2019 are summarized as follows:

| | (Unaudited) Six Months Ended June 30, | | Amount Change |
|---|---|---|---|
| | 2020 | 2019 | 2020 less 2019 |
| Fixed maturity securities | $ 3,512,722 | $ 3,606,682 | $ (93,960) |
| Preferred stock and equity securities | 56,069 | 67,746 | (11,677) |
| Other long-term investments | 2,651,423 | 2,316,997 | 334,426 |
| Mortgage loans | 7,366,896 | 6,593,465 | 773,431 |
| Policy loans | 75,829 | 65,768 | 10,061 |
| Real estate | 137,363 | 131,810 | 5,553 |
| Short-term and other investments | 53,817 | 495,295 | (441,478) |
| Gross investment income | 13,854,119 | 13,277,763 | 576,356 |
| Investment expenses | (1,708,203) | (1,421,264) | 286,939 |
| Net investment income | $ 12,145,916 | $ 11,856,499 | $ 289,417 |

The $576,356 increase in gross investment income for the six months ended June 30, 2020 is primarily due to increases in investments in mortgage loans and other long-term investments. In the twelve months since June 30, 2019, our investments in mortgage loans have increased approximately $11.1 million and other long term investments have increased approximately $8.1 million. Short-term and other investments were also sold to invest in mortgage loans and other long-term investments to achieve higher investment yields.

The $286,939 increase in investment expense for the six months ended June 30, 2020 is primarily related to increased staffing and increased system development expenses for future expansion of mortgage loan operations into originations, portfolio management and servicing.

### *Net Realized Investment Gains*

Our net realized investment gains (losses) result from sales of fixed maturity securities available-for-sale, equity securities, investment real estate and mortgage loans on real estate plus changes in fair value of equity securities.

Our net realized investment gains (losses) for the six months ended June 30, 2020 and 2019 are summarized as follows:

| | (Unaudited) Six Months Ended June 30, 2020 | (Unaudited) Six Months Ended June 30, 2019 | Amount Change 2020 less 2019 |
|---|---|---|---|
| Fixed maturity securities available-for-sale: | | | |
| Sale proceeds | $ 11,713,764 | $ 18,127,913 | $ (6,414,149) |
| Amortized cost at sale date | 11,395,625 | 18,118,751 | (6,723,126) |
| Net realized gains | $ 318,139 | $ 9,162 | $ 308,977 |
| Equity securities sold: | | | |
| Sale proceeds | $ - | $ 19,370 | $ (19,370) |
| Cost at sale date | - | 6,998 | (6,998) |
| Net realized gains | $ - | $ 12,372 | $ (12,372) |
| Investment real estate: | | | |
| Sale proceeds | $ 682,945 | $ 253,564 | $ 429,381 |
| Carrying value at sale date | 649,249 | 294,784 | 354,465 |
| Net realized gains (losses) | $ 33,696 | $ (41,220) | $ 74,916 |
| Mortgage loans on real estate: | | | |
| Sale proceeds | $ 32,894,590 | $ - | $ 32,894,590 |
| Carrying value at sale date | 32,786,491 | - | 32,786,491 |
| Net realized gains | $ 108,099 | $ - | $ 108,099 |
| Equity securities, changes in fair value | $ (26,052) | $ 5,774 | $ (31,826) |
| Net realized investment gains (losses) | $ 433,882 | $ (13,912) | $ 447,794 |

***Service Fees***

The $1,002,982 decrease in service fees for the six months ended June 30, 2020 is primarily due to decreased TLIC annuity production resulting in the reduction of ceding fees associated with 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 six months ended June 30, 2020 and 2019 are summarized as follows:

| | (Unaudited) Six Months Ended June 30, 2020 | (Unaudited) Six Months Ended June 30, 2019 | Amount Change 2020 less 2019 |
|---|---|---|---|
| Benefits and claims | | | |
| Increase in future policy benefits | $ 5,108,158 | $ 4,180,777 | $ 927,381 |
| Death benefits | 4,094,308 | 3,106,905 | 987,403 |
| Surrenders | 638,905 | 596,481 | 42,424 |
| Interest credited to policyholders | 6,120,227 | 5,562,405 | 557,822 |
| Dividend, endowment and supplementary life contract benefits | 153,218 | 143,790 | 9,428 |
| Total benefits and claims | 16,114,816 | 13,590,358 | 2,524,458 |
| Expenses | | | |
| Policy acquisition costs deferred | (5,077,971) | (7,272,517) | 2,194,546 |
| Amortization of deferred policy acquisition costs | 2,520,412 | 1,841,880 | 678,532 |
| Amortization of value of insurance business acquired | 153,550 | 154,991 | (1,441) |
| Commissions | 4,806,091 | 7,295,837 | (2,489,746) |
| Other underwriting, insurance and acquisition expenses | 5,376,920 | 5,122,859 | 254,061 |
| Total expenses | 7,779,002 | 7,143,050 | 635,952 |
| Total benefits, claims and expenses | $ 23,893,818 | $ 20,733,408 | $ 3,160,410 |

The $3,160,410 increase in total benefits, claims and expenses for the six months ended June 30, 2020 is discussed below.

***Benefits and Claims***

The $2,524,458 increase in benefits and claims for the six months ended June 30, 2020 is primarily due to the following:

- $987,403 increase in death benefits is primarily due to approximately $802,000 of increased final expense benefits and $185,000 of increased ordinary life benefits.

- $927,381 increase in future policy benefits is primarily due to the increased number of life policies in force and the aging of existing life policies.

- $557,822 increase in interest credited to policyholders is primarily due to annuity considerations of $83 million received throughout the first six months of 2019 that was credited for the full six months in 2020.

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

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

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

For the six months ended June 30, 2020 and 2019, capitalized costs were $5,077,971 and $7,272,517, respectively. Amortization of deferred policy acquisition costs for the six months ended June 30, 2020 and 2019 were $2,520,412 and $1,841,880, respectively.

The $2,194,546 decrease in the 2020 acquisition costs deferred primarily relates to decreased annuity production and deferral of decreased eligible annuity commissions. There was a $678,532 increase in the 2020 amortization of deferred acquisition costs due to 2020 surrenders and withdrawal activity and the impact of mortality.

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

The cost of acquiring insurance business is amortized over the emerging profit of the related policies using the same assumptions that were used in computing liabilities for future policy benefits. Amortization of the value of insurance business acquired was $153,550 and $154,991 for the six months ended June 30, 2020 and 2019, respectively, representing a $1,441 decrease.

***Commissions***

Our commissions for the six months ended June 30, 2020 and 2019 are summarized as follows:

| | (Unaudited) Six Months Ended June 30, 2020 | (Unaudited) Six Months Ended June 30, 2019 | Amount Change 2020 less 2019 |
|---|---|---|---|
| Annuity | $ 133,049 | $ 3,038,973 | $ (2,905,924) |
| Ordinary life first year | 778,513 | 765,114 | 13,399 |
| Ordinary life renewal | 60,896 | 26,289 | 34,607 |
| Final expense first year | 3,034,289 | 2,791,546 | 242,743 |
| Final expense renewal | 799,344 | 673,915 | 125,429 |
| Total commissions | $ 4,806,091 | $ 7,295,837 | $ (2,489,746) |

The $2,489,746 decrease in commissions for the six months ended June 30, 2020 is primarily due to a $2,905,924 decrease in annuity commissions that exceeded $242,743 increase in final expense first year commissions and a $125,429 increase in final expense renewal commissions that corresponded to a $80,880,077 decrease in retained annuity deposits, a $208,466 increase in final expense first year premiums and a $1,394,087 increase in final expense renewal premiums.

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

The $254,061 increase in other underwriting, insurance and acquisition expenses for the six months ended June 30, 2020 was primarily related to increased third party administration fees primarily related to the increased number of policies in force and increased service requests and increased insurance department licenses and fees from licensing TLIC in additional states.

***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 six months ended June 30, 2019, current income tax expense was $701,054. Deferred federal income tax expense was $364,915 and $12,867 for the six months ended June 30, 2020 and 2019, respectively.

***Net Income Per Common Share Basic and Diluted***

For the six months ended June 30, 2020, the net income allocated to the Class B shareholders is the total net income less shareholders' cash dividends multiplied by the right to receive dividends at 85% for Class B shares (98,199) as of the reporting date divided by the allocated total shares (7,954,130) of Class A shares (7,855,931) and Class B shares (98,199) as of the reporting date.

For the six months ended June 30, 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 six months ended June 30, 2020 were 7,855,931 for Class A shares and 115,528 for Class B shares.

The weighted average outstanding common shares basic and diluted for the six months ended June 30, 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 six months ended June 30, 2020 and 2019 are summarized as follows:

| | (Unaudited) Six Months Ended June 30, | | Amount Change |
|---|---|---|---|
| | 2020 | 2019 | 2020 less 2019 |
| Revenues: | | | |
| Life insurance operations | $ 14,842,681 | $ 12,963,871 | $ 1,878,810 |
| Annuity operations | 10,349,328 | 10,680,857 | (331,529) |
| Corporate operations | 329,576 | 358,363 | (28,787) |
| Total | $ 25,521,585 | $ 24,003,091 | $ 1,518,494 |
| Income (loss) before income taxes: | | | |
| Life insurance operations | $ (336,239) | $ 264,465 | $ (600,704) |
| Annuity operations | 1,711,177 | 2,748,670 | (1,037,493) |
| Corporate operations | 252,829 | 256,548 | (3,719) |
| Total | $ 1,627,767 | $ 3,269,683 | $ (1,641,916) |

***Life Insurance Operations***

The $1,878,810 increase in revenues from Life Insurance Operations for the six months ended June 30, 2020 is primarily due to the following:

- $1,728,213 increase in premiums
- $105,032 increase in net investment income
- $73,606 increase in net realized investment gains
- $28,041 decrease in service fees and other income

The $600,704 decreased profitability from Life Insurance Operations for the six months ended June 30, 2020 is primarily due to the following:

- $987,403 increase in death benefits
- $927,381 increase in future policy benefits
- $416,178 increase in commissions
- $111,717 decrease in policy acquisition costs deferred net of amortization
- $42,424 increase in surrenders
- $28,041 decrease in service fees and other income
- $9,428 increase in dividend, endowment and supplementary life contract benefits
- $721 decrease in amortization of value of insurance business acquired
- $14,296 decrease in other underwriting, insurance and acquisition expenses
- $73,606 increase in net realized investment gains
- $105,032 increase in net investment income
- $1,728,213 increase in premiums

***Annuity Operations***

The $331,529 decrease in revenues from Annuity Operations for the six months ended June 30, 2020 is due to the following:

- $1,002,980 decrease in service fees and other income
- $297,263 increase in net investment income
- $374,188 increase in net realized investment gains

The $1,037,493 decreased profitability from Annuity Operations for the six months ended June 30, 2020 is due to the following:

- $2,761,361 decrease in policy acquisition costs deferred net of amortization
- $1,002,980 decrease in service fees and other income
- $557,822 increase in interest credited to policyholders
- $293,425 increase in other underwriting, insurance and acquisition expenses
- $720 decrease in amortization of value of insurance business acquired
- $297,263 increase in net investment income
- $374,188 increase in net realized investment gains
- $2,905,924 decrease in commissions

*Corporate Operations*

The $28,787 decrease in revenues from Corporate Operations for the six months ended June 30, 2020 is primarily due to $112,878 of decreased net investment income that exceeded $84,091 of increased service fees and other income.

The $3,719 decreased Corporate Operations profitability for the six months ended June 30, 2020 is primarily due to $112,878 of decreased net investment income that exceeded $84,091 of increased service fees and other income and $25,068 of decreased operating expenses.

**Consolidated Financial Condition**

Our invested assets as of June 30, 2020 and December 31, 2019 are summarized as follows:

| | (Unaudited) June 30, 2020 | December 31, 2019 | Amount Change 2020 less 2019 |
|---|---|---|---|
| **Assets** | | | |
| Investments | | | |
| Available-for-sale fixed maturity securities at fair value (amortized cost: $156,866,874 and $166,760,448 as of June 30, 2020 and December 31, 2019, respectively) | $ 171,450,389 | $ 178,951,324 | $ (7,500,935) |
| Available-for-sale preferred stock at fair value (cost: $49,945 as of June 30, 2020 and December 31, 2019) | 50,440 | 51,900 | (1,460) |
| Equity securities at fair value (cost: $178,224 and $180,194 as of June 30, 2020 and December 31, 2019, respectively) | 173,002 | 201,024 | (28,022) |
| Mortgage loans on real estate | 166,927,369 | 162,404,640 | 4,522,729 |
| Investment real estate | 1,973,857 | 1,951,759 | 22,098 |
| Policy loans | 2,044,954 | 2,026,301 | 18,653 |
| Short-term investments | 2,949,229 | 1,831,087 | 1,118,142 |
| Other long-term investments | 72,877,350 | 71,824,480 | 1,052,870 |
| Total investments | $ 418,446,590 | $ 419,242,515 | $ (795,925) |

The $7,500,935 decrease and $57,889,747 increase in fixed maturity available-for-sale securities for the six months ended June 30, 2020 and 2019, respectively, are summarized as follows:

| | (Unaudited) Six Months Ended June 30, 2020 | 2019 |
|---|---|---|
| Fixed maturity securities, available-for-sale, beginning | $ 178,951,324 | $ 131,152,199 |
| Purchases | 1,005,000 | 64,687,943 |
| Acquisition of K-TENN Insurance Company | 800,000 | - |
| Unrealized appreciation | 2,392,639 | 11,602,512 |
| Net realized investment gains | 318,139 | 9,162 |
| Sales proceeds | (11,165,264) | (14,677,913) |
| Maturities | (548,500) | (3,450,000) |
| Premium amortization | (302,949) | (281,957) |
| Increase (decrease) | (7,500,935) | 57,889,747 |
| Fixed maturity securities, available-for-sale, ending | $ 171,450,389 | $ 189,041,946 |

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.” 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 $1,460 decrease and $9,900 increase in preferred stock available-for-sale for the six months ended June 30, 2020 and 2019, respectively, are summarized as follows:

| | (Unaudited) Six Months Ended June 30, | |
|---|---|---|
| | 2020 | 2019 |
| Preferred stock, available-for-sale, beginning | $ 51,900 | $ 90,580 |
| Unrealized appreciation (depreciation) | (1,460) | 9,900 |
| Increase (decrease) | (1,460) | 9,900 |
| Preferred stock, available-for-sale, ending | $ 50,440 | $ 100,480 |

Preferred stock available-for-sale is 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.”

The $28,022 decrease and $2,736 increase in equity securities for the six months ended June 30, 2020 and 2019, respectively, are summarized as follows:

| | (Unaudited) Six Months Ended June 30, | |
|---|---|---|
| | 2020 | 2019 |
| Equity securities, beginning | $ 201,024 | $ 198,668 |
| Purchases | 47,963 | 57,746 |
| Sales proceeds | - | (19,370) |
| Joint venture distributions | (49,933) | (53,786) |
| Net realized investment gains, sale of securities | - | 12,372 |
| Net realized investment gains (losses), changes in fair value | (26,052) | 5,774 |
| Increase (decrease) | (28,022) | 2,736 |
| Equity securities, ending | $ 173,002 | $ 201,404 |

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

The $4,522,729 and $25,773,532 increases in mortgage loans on real estate for the six months ended June 30, 2020 and 2019, respectively, are summarized as follows:

| | (Unaudited) Six Months Ended June 30, | |
|---|---|---|
| | 2020 | 2019 |
| Mortgage loans on real estate, beginning | $ 162,404,640 | $ 130,049,610 |
| Purchases | 37,894,403 | 44,710,559 |
| Discount accretion | 189,485 | 218,593 |
| Net realized investment gains | 108,099 | - |
| Payments | (32,894,590) | (18,955,492) |
| Foreclosed - transfer to real estate | (744,091) | (99,218) |
| Increase in allowance for bad debts | (4,069) | (85,935) |
| Amortization of loan origination fees | (26,508) | (14,975) |
| Increase | 4,522,729 | 25,773,532 |
| Mortgage loans on real estate, ending | $ 166,927,369 | $ 155,823,142 |

The $22,098 increase and $268,310 decrease in investment real estate for the six months ended June 30, 2020 and 2019, respectively, are summarized as follows:

| | (Unaudited) Six Months Ended June 30, | |
|---|---|---|
| | 2020 | 2019 |
| Investment real estate, beginning | $ 1,951,759 | $ 2,392,031 |
| Real estate acquired through mortgage loan foreclosure | 744,091 | 99,218 |
| Sales proceeds | (682,945) | (253,564) |
| Depreciation of building | (72,744) | (72,744) |
| Net realized investment gains (losses) | 33,696 | (41,220) |
| Increase (decrease) | 22,098 | (268,310) |
| Investment real estate, ending | $ 1,973,857 | $ 2,123,721 |

The $1,052,870 and $5,489,461 increases in other long-term investments (composed of lottery receivables) for the six months ended June 30, 2020 and 2019, respectively, are summarized as follows:

| | (Unaudited) Six Months Ended June 30, | |
|---|---|---|
| | 2020 | 2019 |
| Other long-term investments, beginning | $ 71,824,480 | $ 59,255,477 |
| Purchases | 3,942,291 | 8,750,363 |
| Accretion of discount | 2,652,434 | 2,318,546 |
| Payments | (5,541,855) | (5,579,448) |
| Increase | 1,052,870 | 5,489,461 |
| Other long-term investments, ending | $ 72,877,350 | $ 64,744,938 |

Our assets other than invested assets as of June 30, 2020 and December 31, 2019 are summarized as follows:

| | (Unaudited) June 30, 2020 | December 31, 2019 | Amount Change 2020 less 2019 |
|---|---|---|---|
| Cash and cash equivalents | $ 17,051,412 | $ 23,212,170 | $ (6,160,758) |
| Accrued investment income | 5,475,458 | 5,207,823 | 267,635 |
| Recoverable from reinsurers | 1,221,856 | 1,244,733 | (22,877) |
| Assets held in trust under coinsurance agreement | 107,548,422 | 105,089,240 | 2,459,182 |
| Agents' balances and due premiums | 2,034,272 | 1,618,115 | 416,157 |
| Deferred policy acquisition costs | 40,553,380 | 38,005,639 | 2,547,741 |
| Value of insurance business acquired | 4,737,898 | 4,891,448 | (153,550) |
| Other assets | 15,123,435 | 6,424,691 | 8,698,744 |
| Assets other than investment assets | $ 193,746,133 | $ 185,693,859 | $ 8,052,274 |

The $6,160,758 decrease in cash and cash equivalents is discussed below in the “Liquidity and Capital Resources” section where cash flows are addressed.

The $2,459,182 increase in assets held in trust under the coinsurance agreement is due to assets acquired under TLIC’s annuity coinsurance agreement with an offshore annuity and life insurance company that is administered on a funds withheld basis.

The increase in deferred policy acquisition costs for the six months ended June 30, 2020 and 2019, respectively, are summarized as follows:

| | (Unaudited) Six Months Ended June 30, 2020 | 2019 |
|---|---|---|
| Balance, beginning of year | $ 38,005,639 | $ 29,681,737 |
| Capitalization of commissions, sales and issue expenses | 5,077,971 | 7,272,517 |
| Amortization | (2,520,412) | (1,841,880) |
| Deferred acquisition costs allocated to investments | (9,818) | (23,096) |
| Balance, end of period | $ 40,553,380 | $ 35,089,278 |

Our other assets as of June 30, 2020 and December 31, 2019 are summarized as follows:

| | (Unaudited) June 30, 2020 | December 31, 2019 | Amount Change 2020 less 2019 |
|---|---|---|---|
| Advances to mortgage loan originator | $ 5,057,229 | $ 4,436,787 | $ 620,442 |
| Federal and state income taxes recoverable | 2,844,753 | 1,301,868 | 1,542,885 |
| Notes receivable | 483,043 | 445,778 | 37,265 |
| Long-term investment receivable | 6,558,284 | - | 6,558,284 |
| Guaranty funds | 63,180 | 71,455 | (8,275) |
| Lease asset - right to use | 25,570 | 76,711 | (51,141) |
| Other receivables, prepaid assets and deposits | 91,376 | 92,092 | (716) |
| Total other assets | $ 15,123,435 | $ 6,424,691 | $ 8,698,744 |

As of June 30, 2020, the Company had $6,558,284 in long-term investment purchases where the trade date and settlement date are in different financial reporting periods.

There was an $1,542,885 increase in federal and state income taxes recoverable primarily due to federal and state tax withholdings on lottery receivables.

There was a $620,442 increase in advances to one mortgage loan originator who acquires residential mortgage loans for our life companies.

The Company reported a lease asset of $25,570 as of June 30, 2020, in accordance with the lease guidance adopted in 2019.

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 and collected the interest due by July 15, 2020.

Our liabilities as of June 30, 2020 and December 31, 2019 are summarized as follows:

| | (Unaudited) June 30, 2020 | December 31, 2019 | Amount Change 2020 less 2019 |
|---|---|---|---|
| Policy liabilities | | | |
| Policyholders' account balances | $ 358,137,860 | $ 363,083,838 | $ (4,945,978) |
| Future policy benefits | 70,243,025 | 65,015,390 | 5,227,635 |
| Policy claims | 1,267,125 | 1,399,393 | (132,268) |
| Other policy liabilities | 136,988 | 132,975 | 4,013 |
| Total policy liabilities | 429,784,998 | 429,631,596 | 153,402 |
| Funds withheld under coinsurance agreement | 108,073,060 | 105,638,974 | 2,434,086 |
| Deferred federal income taxes | 7,210,919 | 6,345,918 | 865,001 |
| Other liabilities | 5,199,851 | 5,901,624 | (701,773) |
| Total liabilities | $ 550,268,828 | $ 547,518,112 | $ 2,750,716 |

The $4,945,978 decrease and $71,476,051 increase in policyholders' account balances for the six months ended June 30, 2020 and 2019, respectively, are summarized as follows:

| | (Unaudited) Six Months Ended June 30, 2020 | (Unaudited) Six Months Ended June 30, 2019 |
|---|---|---|
| Policyholders' account balances, beginning | $ 363,083,838 | $ 297,168,411 |
| Deposits | 6,012,739 | 153,716,133 |
| Withdrawals | (14,644,858) | (17,224,086) |
| Funds withheld under coinsurance agreement | (2,434,086) | (70,578,401) |
| Interest credited | 6,120,227 | 5,562,405 |
| Increase | (4,945,978) | 71,476,051 |
| Policyholders' account balances, ending | $ 358,137,860 | $ 368,644,462 |

The $5,227,635 increase in future policy benefits during the six months ended June 30, 2020 is primarily related to the production of new life insurance policies and the aging of existing policies.

The $865,001 increase in deferred federal income taxes during the six months ended June 30, 2020 was due to $500,086 of increased deferred federal income taxes on the unrealized appreciation of fixed maturity securities and preferred stock available-for-sale and $364,915 of operating deferred federal tax expense.

The $2,434,086 increase 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 June 30, 2020 and December 31, 2019 are summarized as follows:

| | (Unaudited) June 30, 2020 | December 31, 2019 | Amount Change 2020 less 2019 |
|---|---|---|---|
| Suspense accounts payable | $ 2,361,579 | $ 20,166 | $ 2,341,413 |
| Accounts payable | 38,198 | 21,387 | 16,811 |
| Accrued expenses payable | 670,000 | 679,000 | (9,000) |
| Payable for securities purchased | 333,721 | 564 | 333,157 |
| Guaranty fund assessments | 25,000 | 25,000 | - |
| Unearned investment income | 82,855 | 62,404 | 20,451 |
| Deferred revenue | 2,708 | 8,123 | (5,415) |
| Unclaimed funds | 59,170 | 38,273 | 20,897 |
| Lease liability | 25,570 | 76,711 | (51,141) |
| Mortgage loans suspense | 1,875,525 | 5,782,427 | (3,906,902) |
| Other payables, withholdings and escrows | (274,475) | (812,431) | 537,956 |
| Total other liabilities | $ 5,199,851 | $ 5,901,624 | $ (701,773) |

The reduction in mortgage loan suspense of $3,906,902 is primarily due to timing of principal loan payments on mortgage loans.

The $2,341,413 increase in suspense accounts payable is due to increased deposits on policy applications that had not been issued as of the financial reporting date.

The $537,956 increase in other payables, withholdings and escrows is primarily due to the reduction in escrow advances of $260,424 and an increase in other payables $287,528.

As of June 30, 2020, the Company had $333,721 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 Company reported a lease liability of $25,570 as of June 30, 2020, in accordance with the lease guidance adopted in 2019.

**Liquidity and Capital Resources**

Our operations have been financed primarily through the private placement of equity securities and intrastate public stock offerings. Through June 30, 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.

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

As of June 30, 2020, we had cash and cash equivalents totaling $17,051,412. As of June 30, 2020, cash and cash equivalents of $9,502,428 and $5,694,585, respectively, totaling $15,197,013 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 $11,654,539 and $18,089,331 as of June 30, 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 June 30, 2020 and December 31, 2019.

Our cash flows for the six months ended June 30, 2020 and 2019 are summarized as follows:

| | (Unaudited) Six Months Ended June 30, 2020 | 2019 | Amount Change 2020 less 2019 |
|---|---|---|---|
| Net cash used in operating activities | $ (6,580,790) | $ (63,036,667) | $ 56,455,877 |
| Net cash provided by (used in) investing activities | 9,436,885 | (75,574,609) | 85,011,494 |
| Net cash provided by (used in) financing activities | (9,016,853) | 136,492,047 | (145,508,900) |
| Decrease in cash and cash equivalents | (6,160,758) | (2,119,229) | (4,041,529) |
| Cash and cash equivalents, beginning of period | 23,212,170 | 29,665,605 | (6,453,435) |
| Cash and cash equivalents, end of period | $ 17,051,412 | $ 27,546,376 | $ (10,494,964) |

The $6,580,790 and $63,036,667 cash used in operating activities for the six months ended June 30, 2020 and 2019, respectively, are summarized as follows:

| | (Unaudited) Six Months Ended June 30, 2020 | (Unaudited) Six Months Ended June 30, 2019 | Amount Change 2020 less 2019 |
|---|---|---|---|
| Premiums collected | $ 12,785,842 | $ 11,040,521 | $ 1,745,321 |
| Net investment income collected | 9,360,252 | 7,205,292 | 2,154,960 |
| Service fees and other income collected | 136,687 | 1,083,618 | (946,931) |
| Death benefits paid | (4,203,699) | (1,904,940) | (2,298,759) |
| Surrenders paid | (638,905) | (596,481) | (42,424) |
| Dividends and endowments paid | (154,064) | (144,464) | (9,600) |
| Commissions paid | (5,203,356) | (7,525,540) | 2,322,184 |
| Other underwriting, insurance and acquisition expenses paid | (4,750,409) | (5,269,470) | 519,061 |
| Taxes paid | (1,542,885) | (1,069,999) | (472,886) |
| (Increased) decreased advances to mortgage loan originator | (620,442) | 707,203 | (1,327,645) |
| Increased (decreased) deposits of pending policy applications | 2,341,413 | (2,929,874) | 5,271,287 |
| Increased assets held in trust under coinsurance agreement | (2,459,182) | (67,483,048) | 65,023,866 |
| Increased short-term investments | (1,118,142) | (918,406) | (199,736) |
| Increased policy loans | (17,608) | (81,011) | 63,403 |
| Increased (decreased) mortgage loan suspense | (3,906,902) | 4,892,502 | (8,799,404) |
| Advances to investment vendor | (6,558,284) | - | (6,558,284) |
| Other | (31,106) | (42,570) | 11,464 |
| Cash used in operating activities | $ (6,580,790) | $ (63,036,667) | $ 56,455,877 |

Please see the statements of cash flows for the six months ended June 30, 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 June 30, 2020 and December 31, 2019 is summarized as follows:

| | (Unaudited) June 30, 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 June 30, 2020 and December 31, 2019, respectively, 8,114,725 and 8,050,173 issued as of June 30, 2020 and December 31, 2019, respectively, 7,867,145 and 7,802,593 outstanding as of June 30, 2020 and December 31, 2019, respectively) | $ 81,147 | $ 80,502 | $ 645 |
| Class B common stock, par value $.01 per share (10,000,000 shares authorized, 104,314 issued and outstanding as of June 30, 2020) | 1,043 | - | 1,043 |
| Additional paid-in capital | 30,429,150 | 28,684,598 | 1,744,552 |
| Treasury stock, at cost (247,580 shares as of June 30, 2020 and December 31, 2019) | (893,947) | (893,947) | - |
| Accumulated other comprehensive income (loss) | 11,497,935 | 9,616,660 | 1,881,275 |
| Accumulated earnings | 20,808,567 | 19,930,449 | 878,118 |
| Total shareholders' equity | $ 61,923,895 | $ 57,418,262 | $ 4,505,633 |

The increase in shareholders' equity of $4,505,633 for the six months ended June 30, 2020 is primarily due to $1,881,275 in other comprehensive income, $1,744,552 in additional paid-in capital (acquisition of K-TENN Insurance Company of $1,744,552) and $878,118 in accumulated earnings (net income of $1,262,852 that exceeded shareholders' cash dividend of $384,734).

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. 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 on available-for-sale securities of $14,584,010 and $12,192,831 as of June 30, 2020 and December 31, 2019, respectively, prior to the impact of income taxes and deferred acquisition cost adjustments. An increase of $2,709,318 in unrealized gains arising for the six months ended June 30, 2020 has been offset by 2020 net realized investment gains of $318,139 originating from the sale and call activity for fixed maturity securities available-for-sale resulting in net unrealized gains on investments of $2,391,179.

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 June 30, 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 7.9% of total policy liabilities. If interest rates rise significantly in a short time frame, there can be no assurance that the life insurance industry, including the Company, would not experience increased levels of surrenders and reduced sales, and thereby be materially adversely affected.

In addition to the measures described above, TLIC and FBLIC must comply with the National Association of Insurance Commissioners promulgated Standard Valuation Law ("SVL") which specifies minimum reserve levels and prescribes methods for determining them, with the intent of enhancing solvency. Upon meeting certain tests, which TLIC and FBLIC met during 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.

Effective January 1, 2019, the Company entered into a revised advance agreement with one loan originator. As of June 30, 2020, the Company has outstanding advances to this loan originator totaling $5,057,229. The advances are secured by $8,617,161 of residential mortgage loans on real estate that are assigned to the Company. The Company has committed to fund up to an additional $1,442,771 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 June 30, 2020, $765,472 of additional and secured residential mortgage loan balances on real estate are held in escrow by the Company. As of June 30, 2020, $437,986 of that escrow amount is available to the Company as additional collateral on $5,057,229 of advances to the loan originator. The remaining June 30, 2020 escrow amount of $327,486 is available to the Company as additional collateral on its investment of $65,497,241 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 continue to limit economic output. Due to the decline in economic activity, the Company is faced with 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 June 30, 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 June 30, 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. 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 has filed a Petition for Certiorari with the Oklahoma Supreme Court to request that it reverse and vacate the decision of the Court of Appeals.

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

| | |
|---|---|
| August 13, 2020 | By: /s/ Gregg E. Zahn<br>Gregg E. Zahn, President and Chief Executive Officer |
| August 13, 2020 | By: /s/ Jeffrey J. Wood<br>Jeffrey J. Wood, Financial Officer |

EXHIBIT NO. 31.1

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: August 13, 2020

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

EXHIBIT NO. 31.2

CERTIFICATION

I, Jeffrey J. Wood, Chief Financial Officer 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: August 13, 2020

By: /s/ Jeffrey J. Wood
Jeffrey J. Wood, 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 June 30, 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: August 13, 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 June 30, 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: August 13, 2020

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