

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2022

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

For the transition period From _____ to _____.

Commission file number: **000-52613**

FIRST TRINITY FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

Oklahoma

(State or other jurisdiction of incorporation or organization)

34-1991436

(I.R.S. Employer Identification Number)

7633 East 63rd Place, Suite 230

Tulsa, Oklahoma 74133-1246

(Address of principal executive offices)

(918) 249-2438

(Registrant's telephone number, including area code)

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

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

Yes No

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

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

Emerging growth company:

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

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act).

Yes No

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: As of August 8, 2022, the registrant had 9,384,340 shares of Class A common stock, .01 par value, outstanding and 101,102 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, 2022**

TABLE OF CONTENTS

<u>PART I. FINANCIAL INFORMATION</u>	<u>Page Number</u>
Item 1. Consolidated Financial Statements	
Consolidated Statements of Financial Position as of June 30, 2022 (Unaudited) and December 31, 2021	3
Consolidated Statements of Operations for the Three and Six Months Ended June 30, 2022 and 2021 (Unaudited)	4
Consolidated Statements of Comprehensive Income (Loss) for the Three and Six Months Ended June 30, 2022 and 2021 (Unaudited)	5
Consolidated Statements of Changes in Shareholders' Equity for the Three and Six Months Ended June 30, 2022 and 2021 (Unaudited)	6
Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2022 and 2021 (Unaudited)	7
Notes to Consolidated Financial Statements (Unaudited)	9
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	33
Item 4. Controls and Procedures	59
<u>Part II. OTHER INFORMATION</u>	
Item 1. Legal Proceedings	59
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	60
Item 3. Defaults upon Senior Securities	60
Item 4. Mine Safety Disclosures	60
Item 5. Other Information	60
Item 6. Exhibits	60
Signatures	61
Exhibit No. 31.1	
Exhibit No. 31.2	
Exhibit No. 32.1	
Exhibit No. 32.2	
Exhibit No. 101.INS	
Exhibit No. 101.SCH	
Exhibit No. 101.CAL	
Exhibit No. 101.DEF	
Exhibit No. 101.LAB	
Exhibit No. 101.PRE	

PART I – FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

First Trinity Financial Corporation and Subsidiaries
Consolidated Statements of Financial Position

	(Unaudited)	
	June 30, 2022	December 31, 2021
Assets		
Investments		
Available-for-sale fixed maturity securities at fair value (amortized cost: \$160,839,145 and \$167,356,364 as of June 30, 2022 and December 31, 2021, respectively)	\$ 148,558,629	\$ 184,077,038
Equity securities at fair value (cost: \$292,271 and \$285,558 as of June 30, 2022 and December 31, 2021, respectively)	317,652	348,218
Mortgage loans on real estate	195,610,149	177,508,051
Investment real estate	635,278	688,345
Policy loans	2,502,435	2,272,629
Short-term investments	3,372,157	3,296,838
Other long-term investments	64,033,072	65,929,215
Total investments	415,029,372	434,120,334
Cash and cash equivalents	18,259,194	42,528,046
Accrued investment income	5,009,611	4,879,290
Recoverable from reinsurers	11,370,084	1,046,381
Assets held in trust under coinsurance agreement		
Available-for-sale fixed maturity securities at fair value (amortized cost: \$64,081,106 and \$65,269,544 as of June 30, 2022 and December 31, 2021, respectively)	58,331,210	68,747,533
Mortgage loans on real estate	34,017,015	33,049,329
Cash and cash equivalents	3,415,979	4,413,384
Total assets held in trust under coinsurance agreement	95,764,204	106,210,246
Agents' balances and due premiums	1,458,283	1,713,050
Deferred policy acquisition costs	52,535,167	49,717,323
Value of insurance business acquired	4,179,535	4,318,499
Other assets	30,246,639	15,225,765
Total assets	\$ 633,852,089	\$ 659,758,934
Liabilities and Shareholders' Equity		
Policy liabilities		
Policyholders' account balances	\$ 371,331,371	\$ 373,647,869
Future policy benefits	102,949,380	88,735,716
Policy claims	2,435,827	2,381,183
Other policy liabilities	185,993	88,847
Total policy liabilities	476,902,571	464,853,615
Funds withheld under coinsurance agreement	96,409,968	106,586,633
Deferred federal income taxes	3,408,861	8,966,303
Other liabilities	4,671,298	10,957,832
Total liabilities	581,392,698	591,364,383
Shareholders' equity		
Class A common stock, par value \$.01 per share (40,000,000 shares authorized as of June 30, 2022 and December 31, 2021, 9,631,920 and 8,909,276 issued as of June 30, 2022 and December 31, 2021, respectively, 9,384,340 and 8,661,696 outstanding as of June 30, 2022 and December 31, 2021, respectively)	96,319	89,093
Class B common stock, par value \$.01 per share (10,000,000 shares authorized, 101,102 issued and outstanding as of June 30, 2022 and December 31, 2021)	1,011	1,011
Additional paid-in capital	43,668,023	39,078,485
Treasury stock, at cost (247,580 shares as of June 30, 2022 and December 31, 2021)	(893,947)	(893,947)
Accumulated other comprehensive income (loss)	(9,698,847)	13,203,827
Accumulated earnings	19,286,832	16,916,082
Total shareholders' equity	52,459,391	68,394,551
Total liabilities and shareholders' equity	\$ 633,852,089	\$ 659,758,934

See notes to consolidated financial statements.

First Trinity Financial Corporation and Subsidiaries

Consolidated Statements of Operations

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Revenues				
Premiums	\$ 8,914,138	\$ 7,879,433	\$ 17,142,920	\$ 14,859,309
Net investment income	6,439,117	6,072,502	12,888,112	12,221,344
Net realized investment gains (losses)	(148,714)	118,268	1,089,092	170,363
Service fees	329,855	81,601	387,395	179,588
Other income	5,775	45,567	64,272	59,341
Total revenues	15,540,171	14,197,371	31,571,791	27,489,945
Benefits, Claims and Expenses				
Benefits and claims				
Increase in future policy benefits	2,961,862	3,045,748	6,176,835	5,201,933
Death benefits	2,885,203	2,269,494	6,891,443	5,793,212
Surrenders	438,425	372,659	753,815	721,565
Interest credited to policyholders	3,230,421	3,088,957	6,406,557	6,207,492
Dividend, endowment and supplementary life contract benefits	80,052	71,156	156,849	143,066
Total benefits and claims	9,595,963	8,848,014	20,385,499	18,067,268
Policy acquisition costs deferred	(3,408,839)	(3,353,999)	(6,261,719)	(6,183,472)
Amortization of deferred policy acquisition costs	2,085,355	1,733,139	3,454,338	3,522,962
Amortization of value of insurance business acquired	66,755	68,151	138,964	143,320
Commissions	3,074,504	3,138,640	5,735,633	6,011,223
Other underwriting, insurance and acquisition expenses	2,352,415	2,176,280	5,215,499	4,860,942
Total expenses	4,170,190	3,762,211	8,282,715	8,354,975
Total benefits, claims and expenses	13,766,153	12,610,225	28,668,214	26,422,243
Income before total federal income tax expense	1,774,018	1,587,146	2,903,577	1,067,702
Current federal income tax expense (benefit)	(6,054)	1,510	2,216	1,510
Deferred federal income tax expense	321,857	364,593	530,611	305,801
Total federal income tax expense	315,803	366,103	532,827	307,311
Net income	\$ 1,458,215	\$ 1,221,043	\$ 2,370,750	\$ 760,391
Net income per common share basic and diluted				
Class A common stock	\$ 0.1540	\$ 0.1396	\$ 0.2503	\$ 0.0869
Class B common stock	\$ 0.1309	\$ 0.1186	\$ 0.2128	\$ 0.0739

See notes to consolidated financial statements (unaudited).

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

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Net income	\$ 1,458,215	\$ 1,221,043	\$ 2,370,750	\$ 760,391
Other comprehensive income (loss)				
Total net unrealized investment gains (losses) arising during the period	(12,507,412)	4,754,493	(27,863,123)	(1,968,938)
Less net realized investment gains (losses) having no credit losses	(86,008)	66,014	1,138,067	103,665
Net unrealized investment gains (losses)	(12,421,404)	4,688,479	(29,001,190)	(2,072,603)
Less adjustment to deferred acquisition costs	(3,550)	(7,328)	(10,463)	(23,057)
Other comprehensive income (loss) before federal income tax expense (benefit)	(12,417,854)	4,695,807	(28,990,727)	(2,049,546)
Federal income tax expense (benefit)	(2,607,750)	986,119	(6,088,053)	(430,404)
Total other comprehensive income (loss)	(9,810,104)	3,709,688	(22,902,674)	(1,619,142)
Total comprehensive income (loss)	<u>\$ (8,351,889)</u>	<u>\$ 4,930,731</u>	<u>\$ (20,531,924)</u>	<u>\$ (858,751)</u>

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, 2022 and 2021
(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
<u>Three months ended June 30, 2021</u>							
Balance as of April 1, 2021	\$ 89,093	\$ 1,011	\$ 39,078,485	\$ (893,947)	\$ 12,190,028	\$ 13,598,060	\$ 64,062,730
Comprehensive income (loss):							
Net income	-	-	-	-	-	1,221,043	1,221,043
Other comprehensive income	-	-	-	-	3,709,688	-	3,709,688
Balance as of June 30, 2021	<u>\$ 89,093</u>	<u>\$ 1,011</u>	<u>\$ 39,078,485</u>	<u>\$ (893,947)</u>	<u>\$ 15,899,716</u>	<u>\$ 14,819,103</u>	<u>\$ 68,993,461</u>
<u>Six months ended June 30, 2021</u>							
Balance as of January 1, 2021	\$ 89,093	\$ 1,011	\$ 39,078,485	\$ (893,947)	\$ 17,518,858	\$ 14,058,712	\$ 69,852,212
Comprehensive income (loss):							
Net income	-	-	-	-	-	760,391	760,391
Other comprehensive loss	-	-	-	-	(1,619,142)	-	(1,619,142)
Balance as of June 30, 2021	<u>\$ 89,093</u>	<u>\$ 1,011</u>	<u>\$ 39,078,485</u>	<u>\$ (893,947)</u>	<u>\$ 15,899,716</u>	<u>\$ 14,819,103</u>	<u>\$ 68,993,461</u>
<u>Three months ended June 30, 2022</u>							
Balance as of April 1, 2022	\$ 96,319	\$ 1,011	\$ 43,668,023	\$ (893,947)	\$ 111,257	\$ 17,828,617	\$ 60,811,280
Comprehensive income (loss):							
Net income	-	-	-	-	-	1,458,215	1,458,215
Other comprehensive loss	-	-	-	-	(9,810,104)	-	(9,810,104)
Balance as of June 30, 2022	<u>\$ 96,319</u>	<u>\$ 1,011</u>	<u>\$ 43,668,023</u>	<u>\$ (893,947)</u>	<u>\$ (9,698,847)</u>	<u>\$ 19,286,832</u>	<u>\$ 52,459,391</u>
<u>Six months ended June 30, 2022</u>							
Balance as of January 1, 2022	\$ 89,093	\$ 1,011	\$ 39,078,485	\$ (893,947)	\$ 13,203,827	\$ 16,916,082	\$ 68,394,551
Comprehensive income (loss):							
Net income	-	-	-	-	-	2,370,750	2,370,750
Other comprehensive loss	-	-	-	-	(22,902,674)	-	(22,902,674)
Acquisition of Royalty Capital Life Insurance Company	7,226	-	4,589,538	-	-	-	4,596,764
Balance as of June 30, 2022	<u>\$ 96,319</u>	<u>\$ 1,011</u>	<u>\$ 43,668,023</u>	<u>\$ (893,947)</u>	<u>\$ (9,698,847)</u>	<u>\$ 19,286,832</u>	<u>\$ 52,459,391</u>

See notes to consolidated financial statements (unaudited).

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

	Six Months Ended June 30,	
	2022	2021
Operating activities		
Net income	\$ 2,370,750	\$ 760,391
Adjustments to reconcile net income to net cash provided by operating activities:		
Accretion of discount on investments	(2,400,489)	(2,448,867)
Net realized investment gains	(1,089,092)	(170,363)
Amortization of policy acquisition cost	3,454,338	3,522,962
Policy acquisition cost deferred	(6,261,719)	(6,183,472)
Amortization of loan origination fees	-	43,585
Amortization of value of insurance business acquired	138,964	143,320
Allowance for mortgage loan losses	127,708	(97,966)
Provision for deferred federal income tax expense	530,611	305,801
Interest credited to policyholders	6,406,557	6,207,492
Change in assets and liabilities:		
Accrued investment income	(130,313)	265,180
Recoverable from reinsurers	311,050	145,297
Assets held in trust under coinsurance agreement	3,455,715	2,043,041
Agents' balances and due premiums	279,954	204,187
Other assets (excludes change in receivable of securities sold of (\$12,358,726) in 2022)	(2,656,148)	328,852
Future policy benefits	6,111,571	5,132,743
Policy claims	3,252	(339,359)
Other policy liabilities	97,146	(31,446)
Other liabilities (excludes change in payable for securities purchased of (\$1,318,340) and \$1,171,985 in 2022 and 2021, respectively)	(4,976,699)	(3,430,572)
Net cash provided by operating activities	<u>5,773,156</u>	<u>6,400,806</u>
Investing activities		
Purchases of fixed maturity securities	(33,600,214)	(9,908,222)
Maturities of fixed maturity securities	952,000	700,000
Sales of fixed maturity securities	40,114,357	3,268,218
Purchases of equity securities	(112,517)	(145,168)
Sales of equity securities	-	89
Acquisition of Royalty Capital Life Insurance Company	3,525,749	-
Joint venture distributions	97,804	50,054
Purchases of mortgage loans	(71,372,265)	(48,117,912)
Payments on mortgage loans	53,208,585	53,161,263
Purchases of other long-term investments	(4,306,740)	(882,027)
Payments on other long-term investments	8,726,389	6,224,896
Sale of real estate	49,371	75,940
Net change in policy loans	(229,806)	(26,241)
Net change in short-term investments	1,511,348	457,947
Net change in receivable and payable for securities sold and purchased	(13,677,066)	1,171,985
Net cash provided by (used in) investing activities	<u>(15,113,005)</u>	<u>6,030,822</u>
Financing activities		
Policyholders' account deposits	18,546,018	19,382,246
Policyholders' account withdrawals	(33,475,021)	(16,844,732)
Net cash provided by (used in) financing activities	<u>(14,929,003)</u>	<u>2,537,514</u>
Increase (decrease) in cash and cash equivalents	(24,268,852)	14,969,142
Cash and cash equivalents, beginning of period	42,528,046	40,230,095
Cash and cash equivalents, end of period	<u>\$ 18,259,194</u>	<u>\$ 55,199,237</u>

See notes to consolidated financial statements (unaudited).

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

During the six months ended June 30, 2021, the Company foreclosed on residential mortgage loans of real estate totaling \$458,587 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:

	Unaudited
	Six Months Ended June 30, 2021
Reductions in mortgage loans due to foreclosure	\$ 458,587
Investment real estate held-for-sale acquired through foreclosure	(458,587)
Net cash used in investing activities	\$ -

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

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

	June 30, 2022
Cash used in acquisition of Royalty Capital Life Insurance Company	\$ -
Cash provided in acquisition of Royalty Capital Life Insurance Company	3,525,749
Increase in cash from acquisition of Royalty Capital Life Insurance Company	3,525,749
Fair value of assets acquired in acquisition of Royalty Capital Life Insurance Company (excluding cash)	
Short-term investments	1,586,667
Recoverable from reinsurers	10,634,753
Accrued investment income	8
Due premiums	25,187
Other assets	6,000
Total fair value of assets acquired (excluding cash)	12,252,615
Fair value of liabilities assumed in acquisition of Royalty Capital Life Insurance Company	
Future policy benefits	8,102,093
Policyholders' account balance	3,019,610
Policy claims	51,392
Other liabilities	8,505
Total fair value of liabilities assumed	11,181,600
Fair value of net assets acquired in acquisition of Royalty Capital Life Insurance Company (excluding cash)	1,071,015
Fair value of net assets acquired in acquisition of Royalty Capital Life Insurance Company (including cash)	\$ 4,596,764

See notes to consolidated financial statements (unaudited).

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2022
(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”), Trinity Mortgage Corporation (“TMC”) and Trinity American, Inc. (“TAI”). The Company was incorporated in Oklahoma on April 19, 2004, for the primary purpose of organizing a life insurance subsidiary.

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

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

The Company owns 100% of TAI. TAI was incorporated in Barbados, West Indies on March 24, 2016 for the primary purpose of forming a life insurance company producing United States of America (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 that resulted in accumulated earnings being charged \$5,270,138 with an offsetting credit of \$5,270,138 to common stock and additional paid-in capital.

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

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

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2022
(Unaudited)

1. Organization and Significant Accounting Policies (continued)

Acquisition of Other Companies

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

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

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

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

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

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

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

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

Basis of Presentation

The accompanying 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, 2022 are not necessarily indicative of the results to be expected for the year ended December 31, 2022 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, 2021.

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2022
(Unaudited)

1. Organization and Significant Accounting Policies (continued)

Principles of Consolidation

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

Reclassifications

Certain reclassifications have been made in the prior year 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

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

Treasury Stock

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

Coinsurance

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

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

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2022
(Unaudited)

1. Organization and Significant Accounting Policies (continued)

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

Subsequent Events

Management has evaluated all events subsequent to June 30, 2022 through the date that these financial statements have been issued.

Recent Accounting Pronouncements

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

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

The expected credit losses, and subsequent adjustments to such losses, will be recorded through an allowance account that is deducted from the amortized cost basis of the financial asset, with the net carrying value of the financial asset presented on the consolidated balance sheet at the amount expected to be collected.

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

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

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

Targeted Improvements to the Accounting for Long-Duration Contracts

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

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2022
(Unaudited)

1. Organization and Significant Accounting Policies (continued)

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

With respect to the market risk benefits, an insurance entity should apply the amendments retrospectively as of the beginning of the earliest period presented. The Company expects that the impact on the Company's results of operations, financial position and liquidity at the date of adoption of the updated guidance in 2024 will be determined by the long-duration contracts then held by the Company and the economic conditions at that time.

Income Taxes - Simplifying the Accounting for Income Taxes

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

Troubled Debt Restructurings and Vintage Disclosures

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

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2022
(Unaudited)

2. Investments

Investments in fixed maturity available-for-sale securities as of June 30, 2022 and December 31, 2021 are summarized as follows:

	Amortized Cost or Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	June 30, 2022 (Unaudited)			
Fixed maturity securities				
U.S. government and U.S. government agencies	\$ 449,041	\$ 72	\$ 7,474	\$ 441,639
States and political subdivisions	8,773,533	50,269	220,388	8,603,414
Commercial mortgage-backed securities	10,593,369	-	1,499,361	9,094,008
Residential mortgage-backed securities	10,205	9,251	-	19,456
Corporate bonds	101,056,029	174,422	7,190,822	94,039,629
Asset-backed securities	9,145,218	-	955,521	8,189,697
Exchange traded securities	608,903	-	128,903	480,000
Foreign bonds	28,752,847	17,465	2,428,434	26,341,878
Redeemable preferred securities	1,250,000	-	102,000	1,148,000
Certificate of deposits	200,000	908	-	200,908
Total fixed maturity securities	\$ 160,839,145	\$ 252,387	\$ 12,532,903	\$ 148,558,629
Fixed maturity securities held in trust under coinsurance agreement	\$ 64,081,106	\$ 30,835	\$ 5,780,731	\$ 58,331,210
	December 31, 2021			
Fixed maturity securities				
U.S. government and U.S. government agencies	\$ 428,153	\$ 812	\$ 1,952	\$ 427,013
States and political subdivisions	8,463,941	689,564	24,553	9,128,952
Commercial mortgage-backed securities	3,458,408	252	34,265	3,424,395
Residential mortgage-backed securities	11,081	13,195	-	24,276
Corporate bonds	116,230,579	12,731,684	100,882	128,861,381
Asset-backed securities	5,278,819	57,290	17,806	5,318,303
Exchange traded securities	549,334	-	32,734	516,600
Foreign bonds	31,286,049	3,493,469	46,192	34,733,326
Redeemable preferred securities	1,250,000	-	17,600	1,232,400
Certificate of deposits	400,000	10,392	-	410,392
Total fixed maturity securities	\$ 167,356,364	\$ 16,996,658	\$ 275,984	\$ 184,077,038
Fixed maturity securities held in trust under coinsurance agreement	\$ 65,269,544	\$ 3,593,466	\$ 115,477	\$ 68,747,533

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2022
(Unaudited)

2. Investments (continued)

All securities in an unrealized loss position as of the financial statement dates, the estimated fair value, pre-tax gross unrealized loss and number of securities by length of time that those securities have been continuously in an unrealized loss position as of June 30, 2022 and December 31, 2021 are summarized as follows:

	Fair Value	Unrealized Loss	Number of Securities
	June 30, 2022 (Unaudited)		
Fixed maturity securities			
Less than 12 months in an unrealized loss position			
U.S. government and U.S. government agencies	\$ 198,754	\$ 2,743	1
States and political subdivisions	3,411,491	168,744	18
Commercial mortgage-backed securities	9,094,007	1,499,361	24
Corporate bonds	81,118,080	7,188,588	243
Asset-backed securities	7,884,207	918,752	19
Exchange traded securities	480,000	128,903	2
Foreign bonds	22,486,537	2,288,065	61
Redeemable preferred securities	398,000	102,000	2
Total less than 12 months in an unrealized loss position	<u>125,071,076</u>	<u>12,297,156</u>	<u>370</u>
More than 12 months in an unrealized loss position			
U.S. government and U.S. government agencies	95,476	4,731	1
States and political subdivisions	486,475	51,644	1
Corporate bonds	198,000	2,234	1
Asset-backed securities	305,489	36,769	1
Foreign bonds	419,000	140,369	1
Total more than 12 months in an unrealized loss position	<u>1,504,440</u>	<u>235,747</u>	<u>5</u>
Total fixed maturity securities in an unrealized loss position	<u>\$ 126,575,516</u>	<u>\$ 12,532,903</u>	<u>375</u>
Fixed maturity securities held in trust under coinsurance agreement			
Total less than 12 months in an unrealized loss position	<u>\$ 53,445,433</u>	<u>\$ 5,780,731</u>	<u>221</u>
Total fixed maturity securities held in trust under coinsurance agreement in a unrealized loss position	<u>\$ 53,445,433</u>	<u>\$ 5,780,731</u>	<u>221</u>
	December 31, 2021		
Fixed maturity securities			
Less than 12 months in an unrealized loss position			
U.S. government and U.S. government agencies	\$ 301,195	\$ 1,952	2
States and political subdivisions	337,421	1,724	2
Commercial mortgage-backed securities	3,323,141	34,265	7
Corporate bonds	10,991,840	100,882	30
Asset-backed securities	3,475,854	9,544	8
Exchange traded securities	516,600	32,734	2
Redeemable preferred securities	482,400	17,600	2
Foreign bonds	2,408,472	46,192	6
Total less than 12 months in an unrealized loss position	<u>21,836,923</u>	<u>244,893</u>	<u>59</u>
More than 12 months in an unrealized loss position			
States and political subdivisions	626,754	22,829	1
Asset-backed securities	345,299	8,262	1
Total more than 12 months in an unrealized loss position	<u>972,053</u>	<u>31,091</u>	<u>2</u>
Total fixed maturity securities in an unrealized loss position	<u>\$ 22,808,976</u>	<u>\$ 275,984</u>	<u>61</u>
Fixed maturity securities held in trust under coinsurance agreement			
Total less than 12 months in an unrealized loss position	<u>\$ 8,000,895</u>	<u>\$ 115,477</u>	<u>21</u>
Total fixed maturity securities held in trust under coinsurance agreement in a unrealized loss position	<u>\$ 8,000,895</u>	<u>\$ 115,477</u>	<u>21</u>

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2022
(Unaudited)

2. Investments (continued)

As of June 30, 2022, the Company held 375 available-for-sale fixed maturity securities with an unrealized loss of \$12,532,903, fair value of \$126,575,516 and amortized cost of \$139,108,419. These unrealized losses were primarily due to the market interest rate movements in the bond market as of June 30, 2022. The ratio of the fair value to the amortized cost of these 375 securities is 91%.

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

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

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

There were no other-than-temporary impairments during the six months ended June 30, 2022 and 2021.

Management believes that the Company will fully recover its cost basis in the securities held as of June 30, 2022, and management does not have the intent to sell nor is it more likely than not that the Company will be required to sell such securities until they recover or mature. The remaining temporary impairments shown herein are primarily the result of the current interest rate environment rather than credit factors that would imply other-than-temporary impairment.

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2022
(Unaudited)

2. Investments (continued)

Net unrealized gains (losses) included in other comprehensive income (loss) for investments classified as available-for-sale, net of the effect of deferred income taxes and deferred acquisition costs assuming that the appreciation (depreciation) had been realized as of June 30, 2022 and December 31, 2021, are summarized as follows:

	(Unaudited)	
	June 30, 2022	December 31, 2021
Unrealized appreciation (depreciation)		
on available-for-sale securities	\$ (12,280,516)	\$ 16,720,674
Adjustment to deferred acquisition costs	3,494	(6,969)
Deferred income taxes	2,578,175	(3,509,878)
Net unrealized appreciation (depreciation) on available-for-sale securities	\$ (9,698,847)	\$ 13,203,827
Assets held in trust under coinsurance agreement		
Unrealized appreciation (depreciation) on fixed maturity securities available-for-sale	\$ (5,749,896)	\$ 3,477,989

The Company's investment in lottery prize cash flows categorized as other long-term investments in the statement of financial position was \$64,033,072 and \$65,929,215 as of June 30, 2022 and December 31, 2021, respectively. The lottery prize cash flows are assignments of the future rights from lottery winners purchased at a discounted price. Payments on these investments are made by state run lotteries.

The amortized cost and fair value of fixed maturity available-for-sale securities and other long-term investments as of June 30, 2022, by contractual maturity, are summarized as follows:

	June 30, 2022 (Unaudited)			
	Fixed Maturity Available-For-Sale Securities		Other Long-Term Investments	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	\$ 2,118,459	\$ 2,118,731	\$ 12,421,111	\$ 12,615,589
Due after one year through five years	25,926,987	25,292,908	33,443,202	36,254,679
Due after five years through ten years	32,061,087	30,388,130	12,842,074	15,400,937
Due after ten years	88,879,038	80,497,396	5,326,685	7,930,980
Due at multiple maturity dates	11,853,574	10,261,464	-	-
	\$ 160,839,145	\$ 148,558,629	\$ 64,033,072	\$ 72,202,185

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2022
(Unaudited)

2. Investments (continued)

The amortized cost and fair value of fixed maturity available-for-sale securities held in trust under coinsurance agreement as of June 30, 2022, by contractual maturity, are summarized as follows:

	June 30, 2022 (Unaudited)	
	Fixed Maturity Available-For-Sale Securities	
	Amortized Cost	Fair Value
Due after one year through five years	\$ 29,813,746	\$ 29,066,482
Due after five years through ten years	9,799,070	9,079,740
Due after ten years	21,617,973	17,657,027
Due at multiple maturity dates	2,850,317	2,527,961
	<u>\$ 64,081,106</u>	<u>\$ 58,331,210</u>

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

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, 2022 and 2021 are summarized as follows:

	Three Months Ended June 30, (Unaudited)							
	Fixed Maturity Securities		Equity Securities		Investment Real Estate		Mortgage Loans on Real Estate	
	2022	2021	2022	2021	2022	2021	2022	2021
Proceeds	\$ 10,116,397	\$ 1,549,139	\$ -	\$ 1	\$ -	\$ 75,940	\$ -	\$ 53,161,263
Gross realized gains	16,111	66,349	-	-	-	6,349	-	38,670
Gross realized losses	(102,119)	(335)	-	-	-	-	-	-

	Six Months Ended June 30, (Unaudited)							
	Fixed Maturity Securities		Equity Securities		Investment Real Estate		Mortgage Loans on Real Estate	
	2022	2021	2022	2021	2022	2021	2022	2021
Proceeds	\$ 41,066,357	\$ 3,968,218	\$ -	\$ 89	\$ 49,371	\$ 75,940	\$ -	\$ 53,161,263
Gross realized gains	1,241,025	130,499	-	89	-	6,349	-	38,670
Gross realized losses	(102,958)	(26,834)	(8,000)	-	(3,696)	-	-	-

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2022
(Unaudited)

2. Investments (continued)

The accumulated change in unrealized investment gains (losses) for fixed maturity available-for-sale securities for the three and six months ended June 30, 2022 and 2021 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, 2022 and 2021 are summarized as follows:

	Three Months Ended June 30, (Unaudited)		Six Months Ended June 30, (Unaudited)	
	2022	2021	2022	2021
Change in unrealized investment gains (losses):				
Available-for-sale securities:				
Fixed maturity securities	\$ (12,421,404)	\$ 4,688,479	\$ (29,001,190)	\$ (2,072,603)
Fixed maturity securities held in trust under coinsurance agreement	(4,551,514)	675,015	(9,227,885)	(3,356,283)
Net realized investment gains (losses):				
Available-for-sale securities:				
Fixed maturity securities	(86,008)	66,014	1,138,067	103,665
Equity securities, sale of securities	-	-	(8,000)	89
Equity securities, changes in fair value	(62,706)	7,235	(37,279)	21,590
Investment real estate	-	6,349	(3,696)	6,349
Mortgage loans on real estate	-	38,670	-	38,670

Major categories of net investment income for the three and six months ended June 30, 2022 and 2021 are summarized as follows:

	Three Months Ended June 30, (Unaudited)		Six Months Ended June 30, (Unaudited)	
	2022	2021	2022	2021
Fixed maturity securities	\$ 1,734,933	\$ 1,727,496	\$ 3,670,687	\$ 3,423,390
Equity securities	48,026	26,405	113,099	43,404
Other long-term investments	1,211,486	1,222,180	2,523,180	2,505,074
Mortgage loans	4,103,208	3,478,075	7,881,233	7,226,307
Policy loans	48,755	38,957	92,077	77,575
Short-term and other investments	25,434	35,078	46,706	44,373
Gross investment income	7,171,842	6,528,191	14,326,982	13,320,123
Investment expenses	(732,725)	(455,689)	(1,438,870)	(1,098,779)
Net investment income	\$ 6,439,117	\$ 6,072,502	\$ 12,888,112	\$ 12,221,344

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, 2022 and December 31, 2021, these required deposits, included in investment assets, had amortized costs that totaled \$4,701,483 and \$4,673,271, respectively. As of June 30, 2022 and December 31, 2021, these required deposits had fair values that totaled \$4,693,076 and \$4,715,350, respectively.

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2022
(Unaudited)

2. Investments (continued)

The Company's mortgage loans by property type as of June 30, 2022 and December 31, 2021 are summarized as follows:

	(Unaudited)	
	<u>June 30, 2022</u>	<u>December 31, 2021</u>
Residential mortgage loans	\$ 182,176,805	\$ 169,368,048
Commercial mortgage loans by property type		
Agricultural	998,681	-
Apartment	1,909,097	175,121
Industrial	1,149,821	1,170,544
Lodging	274,498	280,836
Office building	5,276,640	2,285,403
Retail	<u>3,824,607</u>	<u>4,228,099</u>
Total commercial mortgage loans by property type	<u>13,433,344</u>	<u>8,140,003</u>
Total mortgage loans	<u>\$ 195,610,149</u>	<u>\$ 177,508,051</u>
Mortgage loans held in trust under coinsurance agreement		
Residential mortgage loans	\$ 3,583,208	\$ 3,803,847
Commercial mortgage loans	30,914,596	30,013,132
Less unearned interest on mortgage loans	<u>480,789</u>	<u>767,650</u>
Total mortgage loans held in trust under coinsurance agreement	<u>\$ 34,017,015</u>	<u>\$ 33,049,329</u>

There were 8 mortgage loans with a remaining principal balance of \$2,222,863 that were more than 90 days past due as of June 30, 2022. There were 10 mortgage loans with a remaining principal balance of \$1,717,496 that were more than 90 days past due as of December 31, 2021.

There were four mortgage loans in default and in the foreclosure process with a remaining principal balance of \$1,841,176 as of June 30, 2022. There was one mortgage loan in default and in the foreclosure process with a remaining principal balance of \$484,400 as of December 31, 2021.

The Company's investment real estate as of June 30, 2022 and December 31, 2021 is summarized as follows:

	(Unaudited)	
	<u>June 30, 2022</u>	<u>December 31, 2021</u>
Land - held for investment	\$ 540,436	\$ 540,436
Residential real estate - held for sale	94,842	147,909
Total investment in real estate	<u>\$ 635,278</u>	<u>\$ 688,345</u>

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

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

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2022
(Unaudited)

2. Investments (continued)

During 2022, the Company sold investment real estate property with an aggregate carrying value of \$53,067. The Company recorded a gross realized investment loss on sale of \$3,696 based on an aggregate sales price of \$49,371.

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

3. Fair Value Measurements

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

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

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

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

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

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

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

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2022
(Unaudited)

3. Fair Value Measurements (continued)

The Company's fair value hierarchy for those financial instruments measured at fair value on a recurring basis as of June 30, 2022 and December 31, 2021 is summarized as follows:

	Level 1	Level 2	Level 3	Total
	June 30, 2022 (Unaudited)			
Fixed maturity securities, available-for-sale				
U.S. government and U.S. government agencies	\$ -	\$ 441,639	\$ -	\$ 441,639
States and political subdivisions	-	8,603,414	-	8,603,414
Commercial mortgage-backed securities	-	9,094,008	-	9,094,008
Residential mortgage-backed securities	-	19,456	-	19,456
Corporate bonds	-	94,039,629	-	94,039,629
Asset-backed securities	-	8,189,697	-	8,189,697
Exchange traded securities	-	480,000	-	480,000
Foreign bonds	-	26,341,878	-	26,341,878
Redeemable preferred securities	-	1,148,000	-	1,148,000
Certificate of deposit	-	200,908	-	200,908
Total fixed maturity securities	<u>\$ -</u>	<u>\$ 148,558,629</u>	<u>\$ -</u>	<u>\$ 148,558,629</u>
Fixed maturity securities, available-for-sale held in trust under coinsurance agreement	<u>\$ -</u>	<u>\$ 58,331,210</u>	<u>\$ -</u>	<u>\$ 58,331,210</u>
Equity securities				
Mutual funds	\$ -	\$ 48,309	\$ -	\$ 48,309
Corporate common stock	199,207	-	70,136	269,343
Total equity securities	<u>\$ 199,207</u>	<u>\$ 48,309</u>	<u>\$ 70,136</u>	<u>\$ 317,652</u>
December 31, 2021				
Fixed maturity securities, available-for-sale				
U.S. government and U.S. government agencies	\$ -	\$ 427,013	\$ -	\$ 427,013
States and political subdivisions	-	9,128,952	-	9,128,952
Commercial mortgage-backed securities	-	3,424,395	-	3,424,395
Residential mortgage-backed securities	-	24,276	-	24,276
Corporate bonds	-	128,861,381	-	128,861,381
Asset-backed securities	-	5,318,303	-	5,318,303
Exchange traded securities	-	516,600	-	516,600
Foreign bonds	-	34,733,326	-	34,733,326
Redeemable preferred securities	-	1,232,400	-	1,232,400
Certificate of deposit	-	410,392	-	410,392
Total fixed maturity securities	<u>\$ -</u>	<u>\$ 184,077,038</u>	<u>\$ -</u>	<u>\$ 184,077,038</u>
Fixed maturity securities, available-for-sale held in trust under coinsurance agreement	<u>\$ -</u>	<u>\$ 68,747,533</u>	<u>\$ -</u>	<u>\$ 68,747,533</u>
Equity securities				
Mutual funds	\$ -	\$ 76,816	\$ -	\$ 76,816
Corporate common stock	207,979	-	63,423	271,402
Total equity securities	<u>\$ 207,979</u>	<u>\$ 76,816</u>	<u>\$ 63,423</u>	<u>\$ 348,218</u>

As of June 30, 2022 and December 31, 2021, Level 3 financial instruments consisted of a private placement common stocks that have no active trading and a joint venture investment with a mortgage loan originator.

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2022
(Unaudited)

3. Fair Value Measurements (continued)

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.

Fair values for Level 1 and Level 2 assets for the Company's fixed maturity 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, redeemable preferred stocks and certificate of deposits.

The Company's equity securities are included in Level 1 and Level 2 and the private placement common stocks and joint venture investment are included in Level 3. Level 1 for 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, 2022 and December 31, 2021 is summarized as follows:

	(Unaudited)	
	<u>June 30, 2022</u>	<u>December 31, 2021</u>
Beginning balance	\$ 63,423	\$ 67,132
Joint venture net income	112,517	75,195
Joint venture distribution	(97,804)	(78,904)
Net realized investment losses	(8,000)	-
Ending balance	<u>\$ 70,136</u>	<u>\$ 63,423</u>

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2022
(Unaudited)

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, 2022 and December 31, 2021, and the level within the fair value hierarchy at which such assets and liabilities are measured on a recurring basis are summarized as follows:

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

	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
June 30, 2022 (Unaudited)					
Financial assets					
Mortgage loans on real estate					
Commercial	\$ 13,433,344	\$ 13,809,167	\$ -	\$ -	\$ 13,809,167
Residential	182,176,805	188,445,986	-	-	188,445,986
Policy loans	2,502,435	2,502,435	-	-	2,502,435
Short-term investments	3,372,157	3,372,157	3,372,157	-	-
Other long-term investments	64,033,072	72,202,185	-	-	72,202,185
Cash and cash equivalents	18,259,194	18,259,194	18,259,194	-	-
Accrued investment income	5,009,611	5,009,611	-	-	5,009,611
Total financial assets	<u>\$ 288,786,618</u>	<u>\$ 303,600,735</u>	<u>\$ 21,631,351</u>	<u>\$ -</u>	<u>\$ 281,969,384</u>
Held in trust under coinsurance agreement					
Mortgage loans on real estate					
Commercial	\$ 30,914,596	\$ 30,914,596	\$ -	\$ -	\$ 30,914,596
Residential	3,583,208	3,583,208	-	-	3,583,208
Less unearned interest on mortgage loans	480,789	480,789	-	-	480,789
Cash and cash equivalents	3,415,979	3,415,979	3,415,979	-	-
Total financial assets held in trust under coinsurance agreement	<u>\$ 37,432,994</u>	<u>\$ 37,432,994</u>	<u>\$ 3,415,979</u>	<u>\$ -</u>	<u>\$ 34,017,015</u>
Financial liabilities					
Policyholders' account balances	\$ 371,331,371	\$ 335,370,155	\$ -	\$ -	\$ 335,370,155
Policy claims	2,435,827	2,435,827	-	-	2,435,827
Total financial liabilities	<u>\$ 373,767,198</u>	<u>\$ 337,805,982</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 337,805,982</u>
December 31, 2021					
Financial assets					
Mortgage loans on real estate					
Commercial	\$ 8,140,003	\$ 8,917,023	\$ -	\$ -	\$ 8,917,023
Residential	169,368,048	187,336,689	-	-	187,336,689
Policy loans	2,272,629	2,272,629	-	-	2,272,629
Short-term investments	3,296,838	3,296,838	3,296,838	-	-
Other long-term investments	65,929,215	80,667,966	-	-	80,667,966
Cash and cash equivalents	42,528,046	42,528,046	42,528,046	-	-
Accrued investment income	4,879,290	4,879,290	-	-	4,879,290
Total financial assets	<u>\$ 296,414,069</u>	<u>\$ 329,898,481</u>	<u>\$ 45,824,884</u>	<u>\$ -</u>	<u>\$ 284,073,597</u>
Held in trust under coinsurance agreement					
Mortgage loans on real estate					
Commercial	\$ 30,013,132	\$ 30,013,132	\$ -	\$ -	\$ 30,013,132
Residential	3,803,847	3,803,847	-	-	3,803,847
Less unearned interest on mortgage loans	767,650	767,650	-	-	767,650
Cash and cash equivalents	4,413,384	4,413,384	4,413,384	-	-
Total financial assets held in trust under coinsurance agreement	<u>\$ 37,462,713</u>	<u>\$ 37,462,713</u>	<u>\$ 4,413,384</u>	<u>\$ -</u>	<u>\$ 33,049,329</u>
Financial liabilities					
Policyholders' account balances	\$ 373,647,869	\$ 373,412,607	\$ -	\$ -	\$ 373,412,607
Policy claims	2,381,183	2,381,183	-	-	2,381,183
Total financial liabilities	<u>\$ 376,029,052</u>	<u>\$ 375,793,790</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 375,793,790</u>

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2022
(Unaudited)

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 and Equity Securities

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

Mortgage Loans on Real Estate

The fair values for mortgage loans are estimated using discounted cash flow analyses. For both residential and commercial mortgage loans, the discount rate used was indexed to the Secured Overnight Financing Rate and LIBOR yield curve as of June 30, 2022 and December 31, 2021, respectively.

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

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

Other Long-Term Investments

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

Investment Contracts – Policyholders’ Account Balances

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

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

Policy Claims

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

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2022
(Unaudited)

4. Segment Data

The Company has a life insurance segment, consisting of the life insurance operations of TLIC, FBLIC and TAI, an annuity segment, consisting of the annuity operations of TLIC, FBLIC and TAI and a corporate segment. Results for the parent company and the operations of TMC, after elimination of intercompany amounts, are allocated to the corporate segment. These segments as of June 30, 2022 and December 31, 2021 and for the three and six months ended June 30, 2022 and 2021 are summarized as follows:

	Three Months Ended June 30, (Unaudited)		Six Months Ended June 30, (Unaudited)	
	2022	2021	2022	2021
Revenues:				
Life insurance operations	\$ 10,320,605	\$ 9,026,587	\$ 20,268,926	\$ 17,063,471
Annuity operations	4,747,836	4,982,940	10,653,099	10,024,471
Corporate operations	471,730	187,844	649,766	402,003
Total	\$ 15,540,171	\$ 14,197,371	\$ 31,571,791	\$ 27,489,945
Income (loss) before income taxes:				
Life insurance operations	\$ 1,312,518	\$ 1,180,070	\$ 1,231,853	\$ 556,600
Annuity operations	(38,242)	382,594	1,037,394	588,584
Corporate operations	499,742	24,482	634,330	(77,482)
Total	\$ 1,774,018	\$ 1,587,146	\$ 2,903,577	\$ 1,067,702
Depreciation and amortization expense:				
Life insurance operations	\$ 1,859,752	\$ 1,541,698	\$ 3,107,914	\$ 3,082,892
Annuity operations	292,358	298,615	485,388	626,975
Total	\$ 2,152,110	\$ 1,840,313	\$ 3,593,302	\$ 3,709,867
	(Unaudited)			
Assets:	June 30, 2022	December 31, 2021		
Life insurance operations	\$ 142,581,888	\$ 133,378,698		
Annuity operations	484,741,891	521,742,643		
Corporate operations	6,528,310	4,637,593		
Total	\$ 633,852,089	\$ 659,758,934		

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 2018 through 2020 U.S. federal tax years are subject to income tax examination by tax authorities. The Company classifies any interest and penalties (if applicable) as income tax expense in the financial statements.

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2022
(Unaudited)

6. Contingent Liabilities

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 September 15, 2021, 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, 2022. 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 5.75%. The non-utilized portion of the \$1.5 million line of credit will be assessed a 1% non usage fee calculated in arrears and paid at the maturity date. No amounts were outstanding on this line of credit as of June 30, 2022 and December 31, 2021.

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

The changes in the components of the Company's accumulated other comprehensive income (loss) for the three and six months ended June 30, 2022 and 2021 are summarized as follows:

	Three Months Ended June 30, 2022 and 2021 (Unaudited)		
	Unrealized Appreciation (Depreciation) on Available-For-Sale Securities	Adjustment to Deferred Acquisition Costs	Accumulated Other Comprehensive Income (Loss)
Balance as of April 1, 2022	\$ 111,288	\$ (31)	\$ 111,257
Other comprehensive loss before reclassifications, net of tax	(9,880,855)	2,805	(9,878,050)
Less amounts reclassified from accumulated other comprehensive income (loss) having no credit losses, net of tax	(67,946)	-	(67,946)
Other comprehensive loss	(9,812,909)	2,805	(9,810,104)
Balance as of June 30, 2022	<u>\$ (9,701,621)</u>	<u>\$ 2,774</u>	<u>\$ (9,698,847)</u>
Balance as of April 1, 2021	\$ 12,210,023	\$ (19,995)	\$ 12,190,028
Other comprehensive income before reclassifications, net of tax	3,756,050	5,789	3,761,839
Less amounts reclassified from accumulated other comprehensive income having no credit losses, net of tax	52,151	-	52,151
Other comprehensive income	3,703,899	5,789	3,709,688
Balance as of June 30, 2021	<u>\$ 15,913,922</u>	<u>\$ (14,206)</u>	<u>\$ 15,899,716</u>

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2022
(Unaudited)

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

	Six Months Ended June 30, 2022 and 2021 (Unaudited)		
	Unrealized		Accumulated
	Appreciation (Depreciation) on Available-For-Sale Securities	Adjustment to Deferred Acquisition Costs	Other Comprehensive Income (Loss)
	_____	_____	_____
Balance as of January 1, 2022	\$ 13,209,319	\$ (5,492)	\$ 13,203,827
Other comprehensive loss before reclassifications, net of tax	(22,011,867)	8,266	(22,003,601)
Less amounts reclassified from accumulated other comprehensive income (loss) having no credit losses, net of tax	899,073	-	899,073
Other comprehensive loss	(22,910,940)	8,266	(22,902,674)
Balance as of June 30, 2022	<u>\$ (9,701,621)</u>	<u>\$ 2,774</u>	<u>\$ (9,698,847)</u>
Balance as of January 1, 2021	\$ 17,551,279	\$ (32,421)	\$ 17,518,858
Other comprehensive loss before reclassifications, net of tax	(1,555,462)	18,215	(1,537,247)
Less amounts reclassified from accumulated other comprehensive income (loss) having no credit losses, net of tax	81,895	-	81,895
Other comprehensive loss	(1,637,357)	18,215	(1,619,142)
Balance as of June 30, 2021	<u>\$ 15,913,922</u>	<u>\$ (14,206)</u>	<u>\$ 15,899,716</u>

The pretax components of the Company's other comprehensive income (loss) and the related income tax expense (benefit) for each component for the three and six months ended June 30, 2022 and 2021 are summarized as follows:

	Three Months Ended June 30, 2022 (Unaudited)		
		Income Tax	
	Pretax	Expense (Benefit)	Net of Tax
Other comprehensive loss:			
Change in net unrealized losses on available-for-sale securities:			
Unrealized holding losses arising during the period	\$ (12,507,412)	\$ (2,626,557)	\$ (9,880,855)
Reclassification adjustment for net losses included in operations having no credit losses	(86,008)	(18,062)	(67,946)
Net unrealized losses on investments	(12,421,404)	(2,608,495)	(9,812,909)
Adjustment to deferred acquisition costs	3,550	745	2,805
Total other comprehensive loss	<u>\$ (12,417,854)</u>	<u>\$ (2,607,750)</u>	<u>\$ (9,810,104)</u>
	Three Months Ended June 30, 2021 (Unaudited)		
		Income Tax	
	Pretax	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	\$ 4,754,493	\$ 998,443	\$ 3,756,050
Reclassification adjustment for net gains included in operations having no credit losses	66,014	13,863	52,151
Net unrealized gains on investments	4,688,479	984,580	3,703,899
Adjustment to deferred acquisition costs	7,328	1,539	5,789
Total other comprehensive income	<u>\$ 4,695,807</u>	<u>\$ 986,119</u>	<u>\$ 3,709,688</u>

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2022
(Unaudited)

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

	Six Months Ended June 30, 2022 (Unaudited)		
	Income Tax		
	Pretax	Expense (Benefit)	Net of Tax
Other comprehensive loss:			
Change in net unrealized losses on available-for-sale securities:			
Unrealized holding losses arising during the period	\$ (27,863,123)	\$ (5,851,256)	\$ (22,011,867)
Reclassification adjustment for net gains included in operations having no credit losses	1,138,067	238,994	899,073
Net unrealized losses on investments	(29,001,190)	(6,090,250)	(22,910,940)
Adjustment to deferred acquisition costs	10,463	2,197	8,266
Total other comprehensive loss	<u>\$ (28,990,727)</u>	<u>\$ (6,088,053)</u>	<u>\$ (22,902,674)</u>
	Six Months Ended June 30, 2021 (Unaudited)		
	Income Tax		
	Pretax	Expense (Benefit)	Net of Tax
Other comprehensive loss:			
Change in net unrealized losses on available-for-sale securities:			
Unrealized holding losses arising during the period	\$ (1,968,938)	\$ (413,476)	\$ (1,555,462)
Reclassification adjustment for net gains included in operations having no credit losses	103,665	21,770	81,895
Net unrealized losses on investments	(2,072,603)	(435,246)	(1,637,357)
Adjustment to deferred acquisition costs	23,057	4,842	18,215
Total other comprehensive loss	<u>\$ (2,049,546)</u>	<u>\$ (430,404)</u>	<u>\$ (1,619,142)</u>

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

The pretax and the related income tax components of the amounts reclassified from the Company's accumulated other comprehensive income (loss) to the Company's consolidated statement of operations for the three and six months ended June 30, 2022 and 2021 are summarized as follows:

Reclassification Adjustments	Three Months Ended June 30, (Unaudited)		Six Months Ended June 30, (Unaudited)	
	2022	2021	2022	2021
Unrealized gains (losses) on available-for-sale securities having no credit losses:				
Realized gains (losses) on sales of securities (a)	\$ (86,008)	\$ 66,014	\$ 1,138,067	\$ 103,665
Income tax expense (benefit) (b)	(18,062)	13,863	238,994	21,770
Total reclassification adjustments	<u>\$ (67,946)</u>	<u>\$ 52,151</u>	<u>\$ 899,073</u>	<u>\$ 81,895</u>

(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.

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2022
(Unaudited)

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

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.

As of June 30, 2022, \$842,223 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, 2022, \$694,228 of that escrow amount is available to the Company as additional collateral on \$6,104,104 of advances to the loan originator. The remaining June 30, 2022 escrow amount of \$147,995 is available to the Company as additional collateral on its investment of \$29,599,012 in residential mortgage loans on real estate. In addition, the Company has an additional \$834,227 allowance for possible loan losses in the remaining \$166,011,137 of investments in mortgage loans on real estate as of June 30, 2022.

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

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2022
(Unaudited)

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

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, 2022 and 2021 are summarized as follows (excluding \$29,599,012 and \$81,368,440 of mortgage loans on real estate as of June 30, 2022 and 2021, respectively, with one loan originator where independent mortgage loan balances are held in escrow by a third party for the benefit of the Company):

	Unaudited					
	Three Months Ended June 30,					
	Residential Mortgage Loans		Commercial Mortgage Loans		Total	
	2022	2021	2022	2021	2022	2021
Allowance, beginning	\$ 728,229	\$ 462,774	\$ 61,990	\$ 48,406	\$ 790,219	\$ 511,180
Charge offs	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-
Provision	43,619	(68,056)	389	804	44,008	(67,252)
Allowance, ending	<u>\$ 771,848</u>	<u>\$ 394,718</u>	<u>\$ 62,379</u>	<u>\$ 49,210</u>	<u>\$ 834,227</u>	<u>\$ 443,928</u>
Allowance, ending:						
Individually evaluated for impairment	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Collectively evaluated for impairment	<u>\$ 771,848</u>	<u>\$ 394,718</u>	<u>\$ 62,379</u>	<u>\$ 49,210</u>	<u>\$ 834,227</u>	<u>\$ 443,928</u>
Carrying Values:						
Individually evaluated for reserve allowance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Collectively evaluated for reserve allowance	<u>\$ 152,577,793</u>	<u>\$ 78,548,772</u>	<u>\$ 13,433,344</u>	<u>\$ 9,792,909</u>	<u>\$ 166,011,137</u>	<u>\$ 88,341,681</u>

	(Unaudited)					
	Six Months Ended June 30,					
	Residential Mortgage Loans		Commercial Mortgage Loans		Total	
	2022	2021	2022	2021	2022	2021
Allowance, beginning	\$ 675,162	\$ 486,604	\$ 31,357	\$ 55,290	\$ 706,519	\$ 541,894
Charge offs	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-
Provision	96,686	(91,886)	31,022	(6,080)	127,708	(97,966)
Allowance, ending	<u>\$ 771,848</u>	<u>\$ 394,718</u>	<u>\$ 62,379</u>	<u>\$ 49,210</u>	<u>\$ 834,227</u>	<u>\$ 443,928</u>
Allowance, ending:						
Individually evaluated for impairment	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Collectively evaluated for impairment	<u>\$ 771,848</u>	<u>\$ 394,718</u>	<u>\$ 62,379</u>	<u>\$ 49,210</u>	<u>\$ 834,227</u>	<u>\$ 443,928</u>
Carrying Values:						
Individually evaluated for reserve allowance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Collectively evaluated for reserve allowance	<u>\$ 152,577,793</u>	<u>\$ 78,548,772</u>	<u>\$ 13,433,344</u>	<u>\$ 9,792,909</u>	<u>\$ 166,011,137</u>	<u>\$ 88,341,681</u>

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2022
(Unaudited)

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

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, 2022 and December 31, 2021 are summarized as follows:

Loan-To-Value Ratio	Residential Mortgage Loans		Commercial Mortgage Loans		Total Mortgage Loans	
	(Unaudited)		(Unaudited)		(Unaudited)	
	June 30, 2022	December 31, 2021	June 30, 2022	December 31, 2021	June 30, 2022	December 31, 2021
Over 70% to 80%	\$ 61,436,738	\$ 52,292,906	\$ 1,535,157	\$ 1,069,973	\$ 62,971,895	\$ 53,362,879
Over 60% to 70%	46,493,784	50,445,981	2,193,306	1,359,831	48,687,090	51,805,812
Over 50% to 60%	32,628,828	26,492,616	1,327,563	1,496,664	33,956,391	27,989,280
Over 40% to 50%	18,964,478	19,235,027	312,177	312,648	19,276,655	19,547,675
Over 30% to 40%	10,743,115	7,843,501	3,863,965	1,471,023	14,607,080	9,314,524
Over 20% to 30%	7,653,030	9,482,943	941,232	1,916,446	8,594,262	11,399,389
Over 10% to 20%	3,345,556	2,737,111	3,259,944	513,418	6,605,500	3,250,529
10% or less	911,276	837,963	-	-	911,276	837,963
Total	<u>\$ 182,176,805</u>	<u>\$ 169,368,048</u>	<u>\$ 13,433,344</u>	<u>\$ 8,140,003</u>	<u>\$ 195,610,149</u>	<u>\$ 177,508,051</u>

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

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, 2021. The Company considers its most critical accounting estimates to be those applied to investments in fixed maturities securities, mortgage loans on real estate, deferred policy acquisition costs, value of insurance business acquired and future policy benefits. There have been no material changes to the Company's critical accounting policies and estimates since December 31, 2021.

Recent Accounting Pronouncements

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

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

The expected credit losses, and subsequent adjustments to such losses, will be recorded through an allowance account that is deducted from the amortized cost basis of the financial asset, with the net carrying value of the financial asset presented on the consolidated balance sheet at the amount expected to be collected.

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

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

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

Targeted Improvements to the Accounting for Long-Duration Contracts

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

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

With respect to the market risk benefits, an insurance entity should apply the amendments retrospectively as of the beginning of the earliest period presented. The Company expects that the impact on the Company's results of operations, financial position and liquidity at the date of adoption of the updated guidance in 2024 will be determined by the long-duration contracts then held by the Company and the economic conditions at that time.

Income Taxes - Simplifying the Accounting for Income Taxes

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

Troubled Debt Restructurings and Vintage Disclosures

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

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

Please see below and Note 4 to the Consolidated Financial Statements for the three and six months ended June 30, 2022 and 2021 and as of June 30, 2022 and December 31, 2021 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, 2022 and 2021

	(Unaudited)		Amount Change 2022 less 2021
	Three Months Ended June 30,		
	2022	2021	
Premiums	\$ 8,914,138	\$ 7,879,433	\$ 1,034,705
Net investment income	6,439,117	6,072,502	366,615
Net realized investment gains (losses)	(148,714)	118,268	(266,982)
Service fees	329,855	81,601	248,254
Other income	5,775	45,567	(39,792)
Total revenues	<u>15,540,171</u>	<u>14,197,371</u>	<u>1,342,800</u>
Benefits and claims	9,595,963	8,848,014	747,949
Expenses	<u>4,170,190</u>	<u>3,762,211</u>	<u>407,979</u>
Total benefits, claims and expenses	<u>13,766,153</u>	<u>12,610,225</u>	<u>1,155,928</u>
Income before federal income tax expense	1,774,018	1,587,146	186,872
Federal income tax expense	<u>315,803</u>	<u>366,103</u>	<u>(50,300)</u>
Net income	<u>\$ 1,458,215</u>	<u>\$ 1,221,043</u>	<u>\$ 237,172</u>
Net income per common share basic and diluted			
Class A common stock	<u>\$ 0.1540</u>	<u>\$ 0.1396</u>	<u>\$ 0.0144</u>
Class B common stock	<u>\$ 0.1309</u>	<u>\$ 0.1186</u>	<u>\$ 0.0123</u>

Consolidated Condensed Results of Operations for the Six Months Ended June 30, 2022 and 2021

	(Unaudited)		Amount Change 2022 less 2021
	Six Months Ended June 30,		
	2022	2021	
Premiums	\$ 17,142,920	\$ 14,859,309	\$ 2,283,611
Net investment income	12,888,112	12,221,344	666,768
Net realized investment gains	1,089,092	170,363	918,729
Service fees	387,395	179,588	207,807
Other income	64,272	59,341	4,931
Total revenues	<u>31,571,791</u>	<u>27,489,945</u>	<u>4,081,846</u>
Benefits and claims	20,385,499	18,067,268	2,318,231
Expenses	<u>8,282,715</u>	<u>8,354,975</u>	<u>(72,260)</u>
Total benefits, claims and expenses	<u>28,668,214</u>	<u>26,422,243</u>	<u>2,245,971</u>
Income before federal income tax expense	2,903,577	1,067,702	1,835,875
Federal income tax expense	<u>532,827</u>	<u>307,311</u>	<u>225,516</u>
Net income	<u>\$ 2,370,750</u>	<u>\$ 760,391</u>	<u>\$ 1,610,359</u>
Net income per common share basic and diluted			
Class A common stock	<u>\$ 0.2503</u>	<u>\$ 0.0869</u>	<u>\$ 0.1634</u>
Class B common stock	<u>\$ 0.2128</u>	<u>\$ 0.0739</u>	<u>\$ 0.1389</u>

Consolidated Condensed Financial Position as of June 30, 2022 and December 31, 2021

	(Unaudited)		Amount Change
	June 30, 2022	December 31, 2021	2022 to 2021
Investment assets	\$ 415,029,372	\$ 434,120,334	\$ (19,090,962)
Assets held in trust under coinsurance agreement	95,764,204	106,210,246	(10,446,042)
Other assets	123,058,513	119,428,354	3,630,159
Total assets	<u>\$ 633,852,089</u>	<u>\$ 659,758,934</u>	<u>\$ (25,906,845)</u>
Policy liabilities	\$ 476,902,571	\$ 464,853,615	\$ 12,048,956
Funds withheld under coinsurance agreement	96,409,968	106,586,633	(10,176,665)
Deferred federal income taxes	3,408,861	8,966,303	(5,557,442)
Other liabilities	4,671,298	10,957,832	(6,286,534)
Total liabilities	581,392,698	591,364,383	(9,971,685)
Shareholders' equity	52,459,391	68,394,551	(15,935,160)
Total liabilities and shareholders' equity	<u>\$ 633,852,089</u>	<u>\$ 659,758,934</u>	<u>\$ (25,906,845)</u>
Shareholders' equity per common share			
Class A common stock	\$ 5.5394	\$ 7.8186	\$ (2.2792)
Class B common stock	\$ 4.7085	\$ 6.6458	\$ (1.9373)

Results of Operations – Three Months Ended June 30, 2022 and 2021

Revenues

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

Our revenues for the three months ended June 30, 2022 and 2021 are summarized as follows:

	(Unaudited)		Amount Change
	Three Months Ended June 30,		2022 less 2021
	2022	2021	
Premiums	\$ 8,914,138	\$ 7,879,433	\$ 1,034,705
Net investment income	6,439,117	6,072,502	366,615
Net realized investment gains (losses)	(148,714)	118,268	(266,982)
Service fees	329,855	81,601	248,254
Other income	5,775	45,567	(39,792)
Total revenues	<u>\$ 15,540,171</u>	<u>\$ 14,197,371</u>	<u>\$ 1,342,800</u>

The \$1,342,800 increase in total revenues for the three months ended June 30, 2022 is discussed below.

Premiums

Our premiums for the three months ended June 30, 2022 and 2021 are summarized as follows:

	(Unaudited)		
	Three Months Ended June 30,		Amount Change
	2022	2021	2022 less 2021
Ordinary life first year	\$ 645,884	\$ 473,073	\$ 172,811
Ordinary life renewal	1,249,460	838,080	411,380
Final expense first year	1,115,099	1,571,695	(456,596)
Final expense renewal	5,903,695	4,996,585	907,110
Total premiums	<u>\$ 8,914,138</u>	<u>\$ 7,879,433</u>	<u>\$ 1,034,705</u>

The \$1,034,705 increase in premiums for the three months ended June 30, 2022 is primarily due to a \$907,110 increase in final expense renewal premiums, \$411,380 increase in ordinary life renewal premiums, \$172,811 increase in ordinary life first year premiums that exceeded a \$456,596 decrease in final expense first year premiums.

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

Net Investment Income

The major components of our net investment income for the three months ended June 30, 2022 and 2021 are summarized as follows:

	(Unaudited)		
	Three Months Ended June 30,		Amount Change
	2022	2021	2022 less 2021
Fixed maturity securities	\$ 1,734,933	\$ 1,727,496	\$ 7,437
Equity securities	48,026	26,405	21,621
Other long-term investments	1,211,486	1,222,180	(10,694)
Mortgage loans	4,103,208	3,478,075	625,133
Policy loans	48,755	38,957	9,798
Short-term and other investments	25,434	35,078	(9,644)
Gross investment income	7,171,842	6,528,191	643,651
Investment expenses	(732,725)	(455,689)	277,036
Net investment income	<u>\$ 6,439,117</u>	<u>\$ 6,072,502</u>	<u>\$ 366,615</u>

The \$643,651 increase in gross investment income for the three months ended June 30, 2022 is primarily due to a \$625,133 increase in mortgage loans. In twelve months since June 30, 2021, our investments in mortgage loans increased approximately \$25.9 million.

The \$277,036 increase in investment expense for the three months ended June 30, 2022 primarily due to increased mortgage loan acquisition expenses.

Net Realized Investment Gains (Losses)

Our net realized investment gains 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 for the three months ended June 30, 2022 and 2021 are summarized as follows:

	(Unaudited)		
	Three Months Ended June 30,		Amount Change
	2022	2021	2022 less 2021
Fixed maturity securities available-for-sale:			
Sale proceeds	\$ 10,116,397	\$ 1,549,139	\$ 8,567,258
Amortized cost at sale date	10,202,405	1,483,125	8,719,280
Net realized gains (losses)	<u>\$ (86,008)</u>	<u>\$ 66,014</u>	<u>\$ (152,022)</u>
Equity securities sold:			
Sale proceeds	\$ -	\$ 1	\$ (1)
Cost at sale date	-	1	(1)
Net realized gains	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Investment real estate:			
Sale proceeds	\$ -	\$ 75,940	\$ (75,940)
Carrying value at sale date	-	69,591	(69,591)
Net realized gains	<u>\$ -</u>	<u>\$ 6,349</u>	<u>\$ (6,349)</u>
Mortgage loans on real estate:			
Sale proceeds	\$ -	\$ 53,161,263	\$ (53,161,263)
Carrying value at sale date	-	53,122,593	(53,122,593)
Net realized gains	<u>\$ -</u>	<u>\$ 38,670</u>	<u>\$ (38,670)</u>
Equity securities, changes in fair value	<u>\$ (62,706)</u>	<u>\$ 7,235</u>	<u>\$ (69,941)</u>
Net realized investment gains (losses)	<u>\$ (148,714)</u>	<u>\$ 118,268</u>	<u>\$ (266,982)</u>

Service Fees

The \$248,254 increase in service fees for the three months ended June 30, 2022 is primarily due to an increase in fees from Trinity Mortgage Corporation brokering mortgage loans for a fee to third parties.

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, 2022 and 2021 are summarized as follows:

	(Unaudited)		Amount Change 2022 less 2021
	Three Months Ended June 30,		
	2022	2021	
Benefits and claims			
Increase in future policy benefits	\$ 2,961,862	\$ 3,045,748	\$ (83,886)
Death benefits	2,885,203	2,269,494	615,709
Surrenders	438,425	372,659	65,766
Interest credited to policyholders	3,230,421	3,088,957	141,464
Dividend, endowment and supplementary life contract benefits	80,052	71,156	8,896
Total benefits and claims	9,595,963	8,848,014	747,949
Expenses			
Policy acquisition costs deferred	(3,408,839)	(3,353,999)	(54,840)
Amortization of deferred policy acquisition costs	2,085,355	1,733,139	352,216
Amortization of value of insurance business acquired	66,755	68,151	(1,396)
Commissions	3,074,504	3,138,640	(64,136)
Other underwriting, insurance and acquisition expenses	2,352,415	2,176,280	176,135
Total expenses	4,170,190	3,762,211	407,979
Total benefits, claims and expenses	\$ 13,766,153	\$ 12,610,225	\$ 1,155,928

The \$1,155,928 increase in total benefits, claims and expenses for the three months ended June 30, 2022 is discussed below.

Benefits and Claims

The \$747,949 increase in benefits and claims for the three months ended June 30, 2022 is primarily due to the following:

- \$615,709 increase in death benefits is primarily due to approximately \$618,000 of increased final expense benefits.

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, 2022 and 2021, capitalized costs were \$3,408,839 and \$3,353,999, respectively. Amortization of deferred policy acquisition costs for the three months ended June 30, 2022 and 2021 were \$2,085,355 and \$1,733,139, respectively.

There was a \$54,840 increase in 2022 acquisition costs deferred. There was a \$352,216 increase in the 2022 amortization of deferred acquisition costs due to 2022 surrenders and withdrawal activity and the impact of mortality.

Amortization of Value of Insurance Business Acquired

The cost of acquiring insurance business is amortized over the emerging profit of the related policies using the same assumptions that were used in computing liabilities for future policy benefits. Amortization of the value of insurance business acquired was \$66,755 and \$68,151 for the three months ended June 30, 2022 and 2021, respectively, representing a \$1,396 decrease.

Commissions

Our commissions for the three months ended June 30, 2022 and 2021 are summarized as follows:

	(Unaudited)		
	Three Months Ended June 30,		Amount Change
	2022	2021	2022 less 2021
Annuity	\$ 404,848	\$ 202,132	\$ 202,716
Ordinary life first year	657,203	521,275	135,928
Ordinary life renewal	104,864	58,786	46,078
Final expense first year	1,338,264	1,874,235	(535,971)
Final expense renewal	569,325	482,212	87,113
Total commissions	<u>\$ 3,074,504</u>	<u>\$ 3,138,640</u>	<u>\$ (64,136)</u>

The \$64,136 decrease in commissions for the three months ended June 30, 2022 is primarily due to a \$535,971 decrease in final expense first year commissions (corresponding to \$456,596 decreased final expense first year premiums) that exceed a \$202,716 increase in annuity commissions (corresponding to \$4,861,642 of increase annuity deposits retained) and a \$135,928 increase in ordinary life first year commissions (corresponding to \$172,811 increased ordinary life first year premiums).

Other Underwriting, Insurance and Acquisition Expenses

The \$176,135 increase in other underwriting, insurance and acquisition expenses for the three months ended June 30, 2022 was primarily related to an increase in salaries and benefits, third party administrative fees and expenses related to a new block of coinsurance.

Federal Income Taxes

FTFC filed its 2020 consolidated federal income tax return with TLIC, FBLIC and TMC. Certain items included in income reported for financial statement purposes are not included in taxable income for the current period, resulting in deferred income taxes.

For the three months ended June 30, 2022 and 2021, current income tax expense (benefit) was (\$6,054) and \$1,510, respectively. For the three months ended June 30, 2022 and 2021, deferred federal income tax expense was \$321,857 and \$364,593, respectively.

Net Income Per Common Share Basic

For the three months ended June 30, 2022, the net income allocated to the Class B shareholders is the total net income multiplied by the right to receive dividends at 85% for Class B shares (85,937) as of the reporting date divided by the allocated total shares (9,470,277) of Class A shares (9,384,340) and Class B shares (85,937) as of the reporting date. For the three months ended June 30, 2021, the net income allocated to the Class B shareholders is the total net income multiplied by the right to receive dividends at 85% for Class B shares (85,937) as of the reporting date divided by the allocated total shares (8,747,633) of Class A shares (8,661,696) and Class B shares (85,937) as of the reporting date.

For the three months ended June 30, 2022, the net income allocated to the Class A shareholders of \$1,444,983 is the total net income \$1,458,215 less the net income allocated to the Class B shareholders \$13,232. For the three months ended June 30, 2021, the net income allocated to the Class A shareholders \$1,209,047 is the total net income \$1,221,043 less the net income allocated to the Class B shareholders \$11,996.

The weighted average outstanding common shares basic for the three months ended June 30, 2022 and 2021 were 9,384,340 and 8,661,696 for Class A shares, respectively and 101,102 for Class B shares.

Business Segments

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

The revenues and income before federal income taxes from our business segments for the three months ended June 30, 2022 and 2021 are summarized as follows:

	(Unaudited)		
	Three Months Ended June 30,		Amount Change
	2022	2021	2022 less 2021
Revenues:			
Life insurance operations	\$ 10,320,605	\$ 9,026,587	\$ 1,294,018
Annuity operations	4,747,836	4,982,940	(235,104)
Corporate operations	471,730	187,844	283,886
Total	<u>\$ 15,540,171</u>	<u>\$ 14,197,371</u>	<u>\$ 1,342,800</u>
Income (loss) before federal income taxes:			
Life insurance operations	\$ 1,312,518	\$ 1,180,070	\$ 132,448
Annuity operations	(38,242)	382,594	(420,836)
Corporate operations	499,742	24,482	475,260
Total	<u>\$ 1,774,018</u>	<u>\$ 1,587,146</u>	<u>\$ 186,872</u>

The increases and decreases of revenues and profitability from our business segments for the three months ended June 30, 2022 and 2021 are summarized as follows:

	Life Insurance Operations	Annuity Operations	Corporate Operations	Total
Revenues				
Premiums	\$ 1,034,705	\$ -	\$ -	\$ 1,034,705
Net investment income	327,610	(7,450)	46,455	366,615
Net realized investment losses	(47,583)	(219,399)	-	(266,982)
Service fees and other income	(20,714)	(8,255)	237,431	208,462
Total revenue	<u>1,294,018</u>	<u>(235,104)</u>	<u>283,886</u>	<u>1,342,800</u>
Benefits and claims				
Increase in future policy benefits	(83,886)	-	-	(83,886)
Death benefits	615,709	-	-	615,709
Surrenders	65,766	-	-	65,766
Interest credited to policyholders	-	141,464	-	141,464
Dividend, endowment and supplementary life contract benefits	8,896	-	-	8,896
Total benefits and claims	<u>606,485</u>	<u>141,464</u>	<u>-</u>	<u>747,949</u>
Expenses				
Policy acquisition costs deferred net of amortization	635,026	(337,650)	-	297,376
Amortization of value of insurance business acquired	(697)	(699)	-	(1,396)
Commissions	(266,852)	202,716	-	(64,136)
Other underwriting, insurance and acquisition expenses	187,608	179,901	(191,374)	176,135
Total expenses	<u>555,085</u>	<u>44,268</u>	<u>(191,374)</u>	<u>407,979</u>
Total benefits, claims and expenses	<u>1,161,570</u>	<u>185,732</u>	<u>(191,374)</u>	<u>1,155,928</u>
Income (loss) before federal income taxes (benefits)	<u>\$ 132,448</u>	<u>\$ (420,836)</u>	<u>\$ 475,260</u>	<u>\$ 186,872</u>

Results of Operations – Six Months Ended June 30, 2022 and 2021

Revenues

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

Our revenues for the six months ended June 30, 2022 and 2021 are summarized as follows:

	(Unaudited)		
	Six Months Ended June 30,		Amount Change
	2022	2021	2022 less 2021
Premiums	\$ 17,142,920	\$ 14,859,309	\$ 2,283,611
Net investment income	12,888,112	12,221,344	666,768
Net realized investment gains	1,089,092	170,363	918,729
Service fees	387,395	179,588	207,807
Other income	64,272	59,341	4,931
Total revenues	<u>\$ 31,571,791</u>	<u>\$ 27,489,945</u>	<u>\$ 4,081,846</u>

The \$4,081,846 increase in total revenues for the six months ended June 30, 2022 is discussed below.

Premiums

Our premiums for the six months ended June 30, 2022 and 2021 are summarized as follows:

	(Unaudited)		Amount Change 2022 less 2021
	Six Months Ended June 30,		
	2022	2021	
Ordinary life first year	\$ 1,104,023	\$ 778,662	\$ 325,361
Ordinary life renewal	2,149,435	1,636,316	513,119
Final expense first year	2,351,474	2,997,009	(645,535)
Final expense renewal	11,537,988	9,447,322	2,090,666
Total premiums	<u>\$ 17,142,920</u>	<u>\$ 14,859,309</u>	<u>\$ 2,283,611</u>

The \$2,283,611 increase in premiums for the six months ended June 30, 2022 is primarily due to a \$2,090,666 increase in final expense renewal premiums, \$513,119 increase in ordinary life renewal premiums, \$325,361 increase in ordinary life first year premiums that exceeded a \$645,535 decrease in final expense first year premiums.

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

Net Investment Income

The major components of our net investment income for the six months ended June 30, 2022 and 2021 are summarized as follows:

	(Unaudited)		Amount Change 2022 less 2021
	Six Months Ended June 30,		
	2022	2021	
Fixed maturity securities	\$ 3,670,687	\$ 3,423,390	\$ 247,297
Equity securities	113,099	43,404	69,695
Other long-term investments	2,523,180	2,505,074	18,106
Mortgage loans	7,881,233	7,226,307	654,926
Policy loans	92,077	77,575	14,502
Short-term and other investments	46,706	44,373	2,333
Gross investment income	14,326,982	13,320,123	1,006,859
Investment expenses	(1,438,870)	(1,098,779)	340,091
Net investment income	<u>\$ 12,888,112</u>	<u>\$ 12,221,344</u>	<u>\$ 666,768</u>

The \$1,006,859 increase in gross investment income for the six months ended June 30, 2022 is primarily due \$654,926 increase in mortgage loans and a \$247,297 increase in fixed maturity securities. In twelve months since June 30, 2021, our investments in mortgage loans increased approximately \$25.9 million. The increase in fixed maturity securities is due to higher gross effective yields on securities held in the portfolio.

The \$340,091 increase in investment expense for the six months ended June 30, 2022 primarily due to increased mortgage loan acquisition expenses.

Net Realized Investment Gains (Losses)

Our net realized investment gains 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 for the six months ended June 30, 2022 and 2021 are summarized as follows:

	(Unaudited)		Amount Change 2022 less 2021
	Six Months Ended June 30,		
	2022	2021	
Fixed maturity securities available-for-sale:			
Sale proceeds	\$ 41,066,357	\$ 3,968,218	\$ 37,098,139
Amortized cost at sale date	39,928,290	3,864,553	36,063,737
Net realized gains	<u>\$ 1,138,067</u>	<u>\$ 103,665</u>	<u>\$ 1,034,402</u>
Equity securities sold:			
Sale proceeds	\$ -	\$ 89	\$ (89)
Cost at sale date	8,000	-	8,000
Net realized gains (losses)	<u>\$ (8,000)</u>	<u>\$ 89</u>	<u>\$ (8,089)</u>
Investment real estate:			
Sale proceeds	\$ 49,371	\$ 75,940	\$ (26,569)
Carrying value at sale date	53,067	69,591	(16,524)
Net realized gains (losses)	<u>\$ (3,696)</u>	<u>\$ 6,349</u>	<u>\$ (10,045)</u>
Mortgage loans on real estate:			
Sale proceeds	\$ 53,208,585	\$ 53,161,263	\$ 47,322
Carrying value at sale date	53,208,585	53,122,593	85,992
Net realized gains	<u>\$ -</u>	<u>\$ 38,670</u>	<u>\$ (38,670)</u>
Equity securities, changes in fair value	<u>\$ (37,279)</u>	<u>\$ 21,590</u>	<u>\$ (58,869)</u>
Net realized investment gains	<u>\$ 1,089,092</u>	<u>\$ 170,363</u>	<u>\$ 918,729</u>

Service Fees

The \$207,807 increase in service fees for the six months ended June 30, 2022 is primarily due to an increase in fees from Trinity Mortgage Corporation brokering mortgage loans for a fee to third parties.

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, 2022 and 2021 are summarized as follows:

	(Unaudited)		Amount Change 2022 less 2021
	Six Months Ended June 30,		
	2022	2021	
Benefits and claims			
Increase in future policy benefits	\$ 6,176,835	\$ 5,201,933	\$ 974,902
Death benefits	6,891,443	5,793,212	1,098,231
Surrenders	753,815	721,565	32,250
Interest credited to policyholders	6,406,557	6,207,492	199,065
Dividend, endowment and supplementary life contract benefits	156,849	143,066	13,783
Total benefits and claims	20,385,499	18,067,268	2,318,231
Expenses			
Policy acquisition costs deferred	(6,261,719)	(6,183,472)	(78,247)
Amortization of deferred policy acquisition costs	3,454,338	3,522,962	(68,624)
Amortization of value of insurance business acquired	138,964	143,320	(4,356)
Commissions	5,735,633	6,011,223	(275,590)
Other underwriting, insurance and acquisition expenses	5,215,499	4,860,942	354,557
Total expenses	8,282,715	8,354,975	(72,260)
Total benefits, claims and expenses	\$ 28,668,214	\$ 26,422,243	\$ 2,245,971

The \$2,245,971 increase in total benefits, claims and expenses for the six months ended June 30, 2022 is discussed below.

Benefits and Claims

The \$2,318,231 increase in benefits and claims for the six months ended June 30, 2022 is primarily due to the following:

- \$1,098,231 increase in death benefits is primarily due to approximately \$1,007,000 of increased final expense benefits and \$91,000 of increased ordinary life benefits.
- \$974,902 increase in future policy benefits is primarily due to the increased number of life policies in force and the aging of existing life policies.

Deferral and Amortization of Deferred Acquisition Costs

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

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

For the six months ended June 30, 2022 and 2021, capitalized costs were \$6,261,719 and \$6,183,472, respectively. Amortization of deferred policy acquisition costs for the six months ended June 30, 2022 and 2021 were \$3,454,338 and \$3,522,962, respectively.

There was a \$78,247 increase in 2022 acquisition costs deferred. There was a \$68,624 decrease in 2022 amortization of deferred acquisition costs.

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 \$138,964 and \$143,320 for the six months ended June 30, 2022 and 2021, respectively, representing a \$4,356 decrease.

Commissions

Our commissions for the six months ended June 30, 2022 and 2021 are summarized as follows:

	(Unaudited)		Amount Change 2022 less 2021
	Six Months Ended June 30,		
	2022	2021	
Annuity	\$ 464,317	\$ 546,837	\$ (82,520)
Ordinary life first year	1,150,003	851,996	298,007
Ordinary life renewal	194,793	128,602	66,191
Final expense first year	2,812,929	3,575,675	(762,746)
Final expense renewal	1,113,591	908,113	205,478
Total commissions	<u>\$ 5,735,633</u>	<u>\$ 6,011,223</u>	<u>\$ (275,590)</u>

The \$275,590 decrease in commissions for the six months ended June 30, 2022 is primarily due to a \$762,746 decrease in final expense first year commissions (corresponding to \$645,535 decreased final expense first year premiums) that exceed a \$298,007 increase in ordinary life first year commissions (corresponding to \$325,361 of increased ordinary life first year premiums) and a \$205,478 increase in final expense renewal commissions (corresponding to \$2,090,666 increased final expense renewal premiums).

Underwriting, Insurance and Acquisition Expenses

The \$354,557 increase in other underwriting, insurance and acquisition expenses for the six months ended June 30, 2022 was primarily related to an increase in salaries and benefits, third party administrative fees and expenses related to a new block of coinsurance.

Federal Income Taxes

FTFC filed its 2020 consolidated federal income tax return with TLIC, FBLIC and TMC. Certain items included in income reported for financial statement purposes are not included in taxable income for the current period, resulting in deferred income taxes.

For the six months ended June 30, 2022 and June 30, 2021, current income tax expense was \$2,216 and \$1,510. Deferred federal income tax expense was \$530,611 and \$305,801 for the six months ended June 30, 2022 and 2021, respectively.

Net Income Per Common Share Basic

For the six months ended June 30, 2022, the net income allocated to the Class B shareholders is the total net income multiplied by the right to receive dividends at 85% for Class B shares (85,937) as of the reporting date divided by the allocated total shares (9,470,277) of Class A shares (9,384,340) and Class B shares (85,937) as of the reporting date. For the six months ended June 30, 2021, the net income allocated to the Class B shareholders is the total net income multiplied by the right to receive dividends at 85% for Class B shares (85,937) as of the reporting date divided by the allocated total shares (8,747,633) of Class A shares (8,661,696) and Class B shares (85,937) as of the reporting date.

For the six months ended June 30, 2022, the net income allocated to the Class A shareholders of \$2,349,237 is the total net income \$2,370,750 less the net income allocated to the Class B shareholders \$21,513. For the six months ended June 30, 2021, the net income allocated to the Class A shareholders \$752,921 is the total net income \$760,391 less the net income allocated to the Class B shareholders \$7,470.

The weighted average outstanding common shares basic for the six months ended June 30, 2022 and 2021 were 9,384,340 and 8,661,696 for Class A shares, respectively and 101,102 for Class B shares.

Business Segments

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

The revenues and income before federal income taxes from our business segments for the six months ended June 30, 2022 and 2021 are summarized as follows:

	(Unaudited)		Amount Change 2022 less 2021
	Six Months Ended June 30, 2022	2021	
Revenues:			
Life insurance operations	\$ 20,268,926	\$ 17,063,471	\$ 3,205,455
Annuity operations	10,653,099	10,024,471	628,628
Corporate operations	649,766	402,003	247,763
Total	<u>\$ 31,571,791</u>	<u>\$ 27,489,945</u>	<u>\$ 4,081,846</u>
Income (loss) before income taxes:			
Life insurance operations	\$ 1,231,853	\$ 556,600	\$ 675,253
Annuity operations	1,037,394	588,584	448,810
Corporate operations	634,330	(77,482)	711,812
Total	<u>\$ 2,903,577</u>	<u>\$ 1,067,702</u>	<u>\$ 1,835,875</u>

The increases and decreases of revenues and profitability from our business segments for the six months ended June 30, 2022 and 2021 are summarized as follows:

	Life Insurance Operations	Annuity Operations	Corporate Operations	Total
Revenues				
Premiums	\$ 2,283,611	\$ -	\$ -	\$ 2,283,611
Net investment income	669,545	(73,377)	70,600	666,768
Net realized investment gains (losses)	208,195	718,534	(8,000)	918,729
Service fees and other income	44,104	(16,529)	185,163	212,738
Total revenue	<u>3,205,455</u>	<u>628,628</u>	<u>247,763</u>	<u>4,081,846</u>
Benefits and claims				
Increase in future policy benefits	974,902	-	-	974,902
Death benefits	1,098,231	-	-	1,098,231
Surrenders	32,250	-	-	32,250
Interest credited to policyholders	-	199,065	-	199,065
Dividend, endowment and supplementary life contract benefits	13,783	-	-	13,783
Total benefits and claims	<u>2,119,166</u>	<u>199,065</u>	<u>-</u>	<u>2,318,231</u>
Expenses				
Policy acquisition costs deferred net of amortization	150,304	(297,175)	-	(146,871)
Amortization of value of insurance business acquired	(2,177)	(2,179)	-	(4,356)
Commissions	(193,070)	(82,520)	-	(275,590)
Other underwriting, insurance and acquisition expenses	455,979	362,627	(464,049)	354,557
Total expenses	<u>411,036</u>	<u>(19,247)</u>	<u>(464,049)</u>	<u>(72,260)</u>
Total benefits, claims and expenses	<u>2,530,202</u>	<u>179,818</u>	<u>(464,049)</u>	<u>2,245,971</u>
Income before federal income taxes (benefits)	<u>\$ 675,253</u>	<u>\$ 448,810</u>	<u>\$ 711,812</u>	<u>\$ 1,835,875</u>

Consolidated Financial Condition

Our invested assets as of June 30, 2022 and December 31, 2021 are summarized as follows:

	(Unaudited) June 30, 2022	December 31, 2021	Amount Change 2022 less 2021
Assets			
Investments			
Available-for-sale fixed maturity securities at fair value (amortized cost: \$160,839,145 and \$167,356,364 as of June 30, 2022 and December 31, 2021, respectively)	\$ 148,558,629	\$ 184,077,038	\$ (35,518,409)
Equity securities at fair value (cost: \$292,271 and \$285,558 as of June 30, 2022 and December 31, 2021, respectively)	317,652	348,218	(30,566)
Mortgage loans on real estate	195,610,149	177,508,051	18,102,098
Investment real estate	635,278	688,345	(53,067)
Policy loans	2,502,435	2,272,629	229,806
Short-term investments	3,372,157	3,296,838	75,319
Other long-term investments	64,033,072	65,929,215	(1,896,143)
Total investments	<u>\$ 415,029,372</u>	<u>\$ 434,120,334</u>	<u>\$ (19,090,962)</u>

The \$35,518,409 decrease and \$3,704,898 increase in fixed maturity available-for-sale securities for the six months ended June 30, 2022 and 2021, respectively, are summarized as follows:

	(Unaudited)	
	Six Months Ended June 30,	
	2022	2021
Fixed maturity securities, available-for-sale, beginning	\$ 184,077,038	\$ 170,647,836
Purchases	33,600,214	9,908,222
Unrealized depreciation	(29,001,190)	(2,072,603)
Net realized investment gains	1,138,067	103,665
Sales proceeds	(40,114,357)	(3,268,218)
Maturities	(952,000)	(700,000)
Premium amortization	(189,143)	(266,168)
Increase (decrease)	<u>(35,518,409)</u>	<u>3,704,898</u>
Fixed maturity securities, available-for-sale, ending	<u>\$ 148,558,629</u>	<u>\$ 174,352,734</u>

Fixed maturity securities available-for-sale are reported at fair value with unrealized gains and losses, net of applicable income taxes, reflected as a separate component in shareholders' equity within "Accumulated Other Comprehensive Income (Loss)." The available-for-sale fixed maturity securities portfolio is invested primarily in a variety of U.S. government, U.S. government agencies, state and political subdivisions, mortgage-backed securities, corporate bonds, asset-backed securities, exchange traded securities, foreign bonds, redeemable preferred stocks and certificate of deposits.

The \$30,566 decrease and \$116,704 increase in equity securities for the six months ended June 30, 2022 and 2021, respectively, are summarized as follows:

	(Unaudited)	
	Six Months Ended June 30,	
	2022	2021
Equity securities, beginning	\$ 348,218	\$ 203,003
Purchases	112,517	145,168
Sales proceeds	-	(89)
Joint venture distributions	(97,804)	(50,054)
Net realized investment gains (losses), sale of securities	(8,000)	89
Net realized investment gains (losses), changes in fair value	(37,279)	21,590
Increase (decrease)	<u>(30,566)</u>	<u>116,704</u>
Equity securities, ending	<u>\$ 317,652</u>	<u>\$ 319,707</u>

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

The \$18,102,098 increase and \$5,198,941 decrease in mortgage loans on real estate for the six months ended June 30, 2022 and 2021, respectively, are summarized as follows:

	(Unaudited)	
	Six Months Ended June 30,	
	2022	2021
Mortgage loans on real estate, beginning	\$ 177,508,051	\$ 174,909,062
Purchases	71,372,265	48,117,912
Discount accretion	66,126	209,946
Net realized investment gains	-	38,670
Payments	(53,208,585)	(53,161,263)
Foreclosed - transfer to real estate	-	(458,587)
(Increase) decrease in allowance for bad debts	(127,708)	97,966
Amortization of loan origination fees	-	(43,585)
Increase (decrease)	<u>18,102,098</u>	<u>(5,198,941)</u>
Mortgage loans on real estate, ending	<u>\$ 195,610,149</u>	<u>\$ 169,710,121</u>

The \$53,067 decrease and \$388,996 increase in investment real estate for the six months ended June 30, 2022 and 2021, respectively, are summarized as follows:

	(Unaudited)	
	Six Months Ended June 30,	
	2022	2021
Investment real estate, beginning	\$ 688,345	\$ 757,936
Real estate acquired through mortgage loan foreclosure	-	458,587
Sales proceeds	(49,371)	(75,940)
Net realized investment gains (losses)	(3,696)	6,349
Increase (decrease)	<u>(53,067)</u>	<u>388,996</u>
Investment real estate, ending	<u>\$ 635,278</u>	<u>\$ 1,146,932</u>

The \$1,896,143 and \$2,837,780 decreases in other long-term investments (composed of lottery receivables) for the six months ended June 30, 2022 and 2021, respectively, are summarized as follows:

	(Unaudited)	
	Six Months Ended June 30,	
	2022	2021
Other long-term investments, beginning	\$ 65,929,215	\$ 71,025,133
Purchases	4,306,740	882,027
Accretion of discount	2,523,506	2,505,089
Payments	(8,726,389)	(6,224,896)
Decrease	<u>(1,896,143)</u>	<u>(2,837,780)</u>
Other long-term investments, ending	<u>\$ 64,033,072</u>	<u>\$ 68,187,353</u>

Our assets other than invested assets as of June 30, 2022 and December 31, 2021 are summarized as follows:

	(Unaudited)		Amount Change
	June 30, 2022	December 31, 2021	2022 less 2021
Cash and cash equivalents	\$ 18,259,194	\$ 42,528,046	\$ (24,268,852)
Accrued investment income	5,009,611	4,879,290	130,321
Recoverable from reinsurers	11,370,084	1,046,381	10,323,703
Assets held in trust under coinsurance agreement	95,764,204	106,210,246	(10,446,042)
Agents' balances and due premiums	1,458,283	1,713,050	(254,767)
Deferred policy acquisition costs	52,535,167	49,717,323	2,817,844
Value of insurance business acquired	4,179,535	4,318,499	(138,964)
Other assets	30,246,639	15,225,765	15,020,874
Assets other than investment assets	<u>\$ 218,822,717</u>	<u>\$ 225,638,600</u>	<u>\$ (6,815,883)</u>

The \$24,268,852 decrease in cash and cash equivalents is discussed below in the “Liquidity and Capital Resources” section where cash flows are addressed.

The \$10,446,042 decrease in assets held in trust under the coinsurance agreement is due to a reduction in assets under TLIC’s annuity coinsurance agreement with an offshore annuity and life insurance company that is administered on a funds withheld basis.

The \$2,817,844 and \$2,683,567 increases in deferred policy acquisition costs for the six months ended June 30, 2022 and 2021, respectively, are summarized as follows:

	(Unaudited)	
	Six Months Ended June 30,	
	2022	2021
Balance, beginning of year	\$ 49,717,323	\$ 44,513,669
Capitalization of commissions, sales and issue expenses	6,261,719	6,183,472
Amortization	(3,454,338)	(3,522,962)
Deferred acquisition costs allocated to investments	10,463	23,057
Increase	<u>2,817,844</u>	<u>2,683,567</u>
Balance, end of period	<u>\$ 52,535,167</u>	<u>\$ 47,197,236</u>

Our other assets as of June 30, 2022 and December 31, 2021 are summarized as follows:

	(Unaudited)		Amount Change
	June 30, 2022	December 31, 2021	2022 less 2021
Long-term investment receivable	\$ 12,358,727	\$ -	\$ 12,358,727
Federal and state income taxes recoverable	8,117,968	7,104,791	1,013,177
Advances to mortgage loan originator	6,104,104	4,382,896	1,721,208
Advances to private equity company	3,000,000	3,000,000	-
Lease asset - right to use	516,750	565,964	(49,214)
Other receivables, prepaid assets and deposits	109,267	81,571	27,696
Guaranty funds	39,823	49,256	(9,433)
Notes receivable	-	41,287	(41,287)
Total other assets	<u>\$ 30,246,639</u>	<u>\$ 15,225,765</u>	<u>\$ 15,020,874</u>

As of June 30, 2022, the Company had \$12,358,727 in long-term investment purchases where the trade date and settlement date are in different financial reporting periods.

There was a \$1,721,208 increase in advances to one mortgage loan originator who acquires residential mortgage loans for our life companies.

There was a \$1,013,177 increase in federal and state income taxes recoverable primarily due to federal and state tax withholdings on lottery receivables.

Our liabilities as of June 30, 2022 and December 31, 2021 are summarized as follows:

	(Unaudited) June 30, 2022	December 31, 2021	Amount Change 2022 less 2021
Policy liabilities			
Policyholders' account balances	\$ 371,331,371	\$ 373,647,869	\$ (2,316,498)
Future policy benefits	102,949,380	88,735,716	14,213,664
Policy claims	2,435,827	2,381,183	54,644
Other policy liabilities	185,993	88,847	97,146
Total policy liabilities	<u>476,902,571</u>	<u>464,853,615</u>	12,048,956
Funds withheld under coinsurance agreement	96,409,968	106,586,633	(10,176,665)
Deferred federal income taxes	3,408,861	8,966,303	(5,557,442)
Other liabilities	4,671,298	10,957,832	(6,286,534)
Total liabilities	<u>\$ 581,392,698</u>	<u>\$ 591,364,383</u>	<u>\$ (9,971,685)</u>

The \$2,316,498 decrease and \$11,657,627 increase in policyholders' account balances for the six months ended June 30, 2022 and 2021, respectively, are summarized as follows:

	(Unaudited)	
	Six Months Ended June 30,	
	2022	2021
Policyholders' account balances, beginning	\$ 373,647,869	\$ 362,519,753
Deposits	18,546,018	19,382,246
Withdrawals	(33,475,021)	(16,844,732)
Change in funds withheld under coinsurance agreement	3,186,338	2,912,621
Acquisition of Royalty Capital Life Insurance Company	3,019,610	-
Interest credited	6,406,557	6,207,492
Increase (decrease)	<u>(2,316,498)</u>	<u>11,657,627</u>
Policyholders' account balances, ending	<u>\$ 371,331,371</u>	<u>\$ 374,177,380</u>

The \$14,213,664 increase in future policy benefits during the six months ended June 30, 2022 is primarily related to the acquisition of Royalty Capital Life Insurance Company of \$8,102,093, the production of new life insurance policies and the aging of existing policies an additional year.

The \$5,557,442 decrease in deferred federal income taxes during the six months ended June 30, 2022 was due to \$6,088,053 of decreased deferred federal income taxes on the unrealized appreciation of fixed maturity securities and preferred stock securities available-for-sale and \$530,611 of operating deferred federal tax expense.

The \$10,176,665 decrease in funds withheld under coinsurance agreement is due to the Company owing the reinsurer less under coinsurance agreement with an offshore annuity and life insurance company.

Our other liabilities as of June 30, 2022 and December 31, 2021 are summarized as follows:

	(Unaudited)		Amount Change
	June 30, 2022	December 31, 2021	2022 less 2021
Mortgage loans suspense	\$ 2,016,353	\$ 7,533,274	\$ (5,516,921)
Suspense accounts payable	977,358	435,471	541,887
Accrued expenses payable	687,851	728,000	(40,149)
Lease liability	516,750	565,964	(49,214)
Unclaimed funds	269,558	159,627	109,931
Payable for securities purchased	146,833	1,465,173	(1,318,340)
Unearned investment income	98,652	91,206	7,446
Accounts payable	45,093	61,307	(16,214)
Deferred revenue	57,750	63,250	(5,500)
Guaranty fund assessments	21,000	21,000	-
Other payables, withholdings and escrows	(165,900)	(166,440)	540
Total other liabilities	<u>\$ 4,671,298</u>	<u>\$ 10,957,832</u>	<u>\$ (6,286,534)</u>

The reduction in mortgage loan suspense of \$5,516,921 is primarily due to timing of principal loan payments on mortgage loans.

The \$541,887 increase in suspense accounts payable is due to increased deposits on policy applications that had not been issued as of the financial reporting date.

As of June 30, 2022, the Company had \$146,833 in security purchases where the trade date and settlement date were in different financial reporting periods compared to \$1,465,173 of security purchases overlapping financial reporting periods as of December 31, 2021.

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, 2022, we have received \$27,119,480 from the sale of our shares.

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

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

In 2020, the Company paid a \$0.05 per share cash dividend for a total of \$393,178 and issued 791,339 shares of class A common stock in connection with a 10% stock dividend to its Class A shareholders. The 10% stock dividend resulted in accumulated earnings being charged \$8,657,249 with an offsetting credit of \$8,657,249 to 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, 2022, we had cash and cash equivalents totaling \$18,259,194. As of June 30, 2021, cash and cash equivalents of \$11,067,142 and \$3,503,440, respectively, totaling \$14,570,582 were held by TLIC and FBLIC and may not be available for use by FTFC due to the required pre-approval by the Oklahoma Insurance Department 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 no capacity for TLIC to pay a dividend due to a negative unassigned surplus of \$4,068,590 as of December 31, 2021. In addition, based on those limitations, there is the capacity for FBLIC to pay a dividend up to \$1,495,631 in 2022 without prior approval. FBLIC has paid a \$3,200,000 dividend to TLIC, of which \$1,495,631 is considered ordinary and \$1,704,369 is considered extraordinary. FBLIC has paid no dividends TLIC in 2021. Dividends paid by FBLIC were eliminated in consolidation. TLIC has paid no dividends to FTFC.

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 \$13,000,144 and \$40,431,952 as of June 30, 2022 and December 31, 2021, respectively. Other funds are invested in mutual funds that invest in U.S. government securities. We monitor the solvency of all financial institutions in which we have funds to minimize the exposure for loss. The Company has not experienced any losses in such accounts.

On September 15, 2021, 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, 2022. 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 5.75%. The non-utilized portion of the \$1.5 million line of credit will be assessed a 1% non usage fee calculated in arrears and paid at the maturity date. No amounts were outstanding on this line of credit as of June 30, 2022 and December 31, 2021.

Our cash flows for the six months ended June 30, 2022 and 2021 are summarized as follows:

	(Unaudited)		Amount Change 2022 less 2021
	Six Months Ended June 30,		
	2022	2021	
Net cash provided by operating activities	\$ 5,773,156	\$ 6,400,806	\$ (627,650)
Net cash provided by (used in) investing activities	(15,113,005)	6,030,822	(21,143,827)
Net cash provided by (used in) financing activities	(14,929,003)	2,537,514	(17,466,517)
Increase (decrease) in cash and cash equivalents	(24,268,852)	14,969,142	(39,237,994)
Cash and cash equivalents, beginning of period	42,528,046	40,230,095	2,297,951
Cash and cash equivalents, end of period	<u>\$ 18,259,194</u>	<u>\$ 55,199,237</u>	<u>\$ (36,940,043)</u>

The \$5,773,156 cash provided by operating activities and \$6,400,806 cash provided by operating activities for the six months ended June 30, 2022 and 2021, respectively, are summarized as follows:

	(Unaudited)		Amount Change 2022 less 2021
	Six Months Ended June 30,		
	2022	2021	
Premiums collected	\$ 17,273,537	\$ 14,996,541	\$ 2,276,996
Net investment income collected	10,364,756	10,050,566	314,190
Service fees and other income collected	451,667	238,929	212,738
Death benefits paid	(6,577,141)	(5,987,274)	(589,867)
Surrenders paid	(753,815)	(721,565)	(32,250)
Dividends and endowments paid	(156,762)	(144,578)	(12,184)
Commissions paid	(5,489,238)	(5,974,202)	484,964
Other underwriting, insurance and acquisition expenses paid	(4,997,789)	(4,531,610)	(466,179)
Taxes paid	(1,015,393)	(1,606,407)	591,014
(Increased) decreased advances to mortgage loan originator	(1,721,208)	1,426,001	(3,147,209)
Increased (decreased) deposits of pending policy applications	541,887	(1,065,064)	1,606,951
Decreased assets held in trust under coinsurance agreement	3,455,715	2,043,041	1,412,674
Decreased mortgage loan suspense	(5,537,794)	(2,254,384)	(3,283,410)
Other	(65,266)	(69,188)	3,922
Cash provided by operating activities	\$ 5,773,156	\$ 6,400,806	\$ (627,650)

Please see the statements of cash flows for the six months ended June 30, 2022 and 2021 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, 2022 and December 31, 2021 is summarized as follows:

	(Unaudited)		Amount Change 2022 less 2021
	June 30, 2022	December 31, 2021	
Shareholders' equity			
Class A common stock, par value \$.01 per share (40,000,000 shares authorized as of June 30, 2022 and December 31, 2021, 9,631,920 and 8,909,276 issued as of June 30, 2022 and December 31, 2021, respectively, 9,384,340 and 8,661,696 outstanding as of June 30, 2022 and December 31, 2021, respectively)	\$ 96,319	\$ 89,093	\$ 7,226
Class B common stock, par value \$.01 per share (10,000,000 shares authorized, 101,102 issued and outstanding as of June 30, 2022 and December 31, 2021)	1,011	1,011	-
Additional paid-in capital	43,668,023	39,078,485	4,589,538
Treasury stock, at cost (247,580 shares as of June 30, 2022 and December 31, 2021)	(893,947)	(893,947)	-
Accumulated other comprehensive income (loss)	(9,698,847)	13,203,827	(22,902,674)
Accumulated earnings	19,286,832	16,916,082	2,370,750
Total shareholders' equity	\$ 52,459,391	\$ 68,394,551	\$ (15,935,160)

The decrease in shareholders' equity of \$15,935,160 for the six months ended June 30, 2022 is primarily due to \$22,902,674 decrease in accumulated other comprehensive income (loss) that exceeded an increase in additional paid-in capital of \$4,589,538 (acquisition of Royalty Capital Life Insurance Company) and \$2,370,750 in net income.

The liquidity requirements of our life insurance companies are met primarily by funds provided from operations. Premium and annuity consideration deposits, investment income and investment maturities are the primary sources of funds, while investment purchases, policy benefits, and operating expenses are the primary uses of funds. There were no liquidity issues in 2022 or 2021. Our investments include marketable debt securities that could be readily converted to cash for liquidity needs.

We are subject to various market risks. The quality of our investment portfolio and the current level of shareholders' equity continue to provide a sound financial base as we strive to expand our marketing to offer competitive products. Our investment portfolio had unrealized appreciation (depreciation) on available-for-sale securities of (\$12,280,516) and \$16,720,674 as of June 30, 2022 and December 31, 2021, respectively, prior to the impact of income taxes and deferred acquisition cost adjustments. An increase of \$27,863,123 in unrealized losses arising for the six months ended June 30, 2022 has been offset by 2022 net realized investment gains of \$1,138,067 originating from the sale and call activity for fixed maturity securities available-for-sale resulting in net unrealized losses on investments of \$29,001,190.

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, 2022, cash and cash equivalents, short-term investments, the fair value of fixed maturity available-for-sale securities with maturities of less than one year and the fair value of lottery receivables with maturities of less than one year equaled 7.6% of total policy liabilities. If interest rates rise significantly in a short time frame, there can be no assurance that the life insurance industry, including the Company, would not experience increased levels of surrenders and reduced sales, and thereby be materially adversely affected.

In addition to the measures described above, TLIC and FBLIC must comply with the National Association of Insurance Commissioners promulgated Standard Valuation Law ("SVL") which specifies minimum reserve levels and prescribes methods for determining them, with the intent of enhancing solvency. Upon meeting certain tests, which TLIC and FBLIC met during 2021, 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, 2022, the Company has outstanding advances to this loan originator totaling \$6,104,104. The advances are secured by \$9,987,196 of residential mortgage loans on real estate that are assigned to the Company. The Company has committed to fund up to an additional \$395,896 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, 2022, \$842,223 of additional and secured residential mortgage loan balances on real estate are held in escrow by the Company. As of June 30, 2022, \$694,228 of that escrow amount is available to the Company as additional collateral on \$6,104,104 of advances to the loan originator. The remaining June 30, 2022 escrow amount of \$147,995 is available to the Company as additional collateral on its investment of \$29,599,012 in residential mortgage loans on real estate.

We are not aware of any commitments or unusual events that could materially affect our capital resources. We are not aware of any current recommendations by any regulatory authority which, if implemented, would have a material adverse effect on our liquidity, capital resources or operations. We believe that our existing cash and cash equivalents as of June 30, 2022 will be sufficient to fund our anticipated operating expenses.

Off-Balance Sheet Arrangements

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

SPECIAL NOTE CONCERNING FORWARD-LOOKING STATEMENTS

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

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

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

- the ability and willingness of counterparties to our reinsurance arrangements and derivative instruments to pay balances due to us;
- impact of medical epidemics and viruses;
- domestic or international military actions;
- the effects of extensive government regulation of the insurance industry;
- changes in tax and securities law;
- changes in statutory or U.S. generally accepted accounting principles (“GAAP”), practices or policies;
- regulatory or legislative changes or developments;
- the effects of unanticipated events on our disaster recovery and business continuity planning;
- failures or limitations of our computer, data security and administration systems;
- risks of employee error or misconduct;
- the assimilation of life insurance businesses we acquire and the sound management of these businesses;
- the availability of capital to expand our business; and
- Coronavirus disease impact on economic environment.

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

Item 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, 2022 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"), originally concluded on February 17, 2017. The lawsuit was filed in the District Court of Tulsa County, Oklahoma. 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 originally 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 original damages awarded by the jury, the Company and Mr. Zahn began to aggressively communicate the correction of the untrue statements to outside parties.

Mr. Pettigrew appealed this decision. In February 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, was not final. The Company 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 December 2020, the Oklahoma Supreme Court declined to grant certiorari and remanded that the case be retried in the District Court of Tulsa County, Oklahoma.

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** Inline XBRL Instance

101.SCH** Inline XBRL Taxonomy Extension Schema

101.CAL** Inline XBRL Taxonomy Extension Calculation

101.DEF** Inline XBRL Taxonomy Extension Definition

101.LAB** Inline XBRL Taxonomy Extension Labels

101.PRE** Inline XBRL Taxonomy Extension Presentation

104 Cover Page Interactive Data (formatted as Inline XBRL and continued in Exhibit 101)

**XBRL Information is furnished and not filed as part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

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 11, 2022

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

August 11, 2022

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

CERTIFICATION

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

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

Date: August 11, 2022

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 11, 2022

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

EXHIBIT NO. 32.1

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

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

To my knowledge, the Quarterly Report on Form 10-Q of the Company for the quarter ended June 30, 2022 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 11, 2022

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, 2022 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 11, 2022

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