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

FORM 10-Q

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

For the quarterly period ended September 30, 2019

[ ] **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the transition period From _______________ to ________________ .

Commission file number: **000-52613**

FIRST TRINITY FINANCIAL CORPORATION
(Exact name of registrant as specified in its charter)

Oklahoma	**34-1991436**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

7633 East 63rd Place, Suite 230
Tulsa, Oklahoma 74133-1246
(Address of principal executive offices)

(918) 249-2438
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).
Yes ☑ No ☐

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

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

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

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

State the number of shares outstanding of each of the issuer’s classes of common equity, as of the latest practicable date:
Common stock .01 par value as of November 5, 2019: 7,802,593 shares

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 SEPTEMBER 30, 2019

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PART I – FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

First Trinity Financial Corporation and Subsidiaries
Consolidated Statements of Financial Position

	(Unaudited) September 30, 2019	December 31, 2018
Assets		
Investments		
Available-for-sale fixed maturity securities at fair value (amortized cost: $178,477,818 and $134,414,517 as of September 30, 2019 and December 31, 2018, respectively)	$ 192,946,789	$ 131,152,199
Available-for-sale preferred stock at fair value (cost: $49,945 and $99,945 as of September 30, 2019 and December 31, 2018, respectively)	51,320	90,580
Equity securities at fair value (cost: $182,186 and $187,122 as of September 30, 2019 and December 31, 2018, respectively)	199,710	198,668
Mortgage loans on real estate	156,504,177	130,049,610
Investment real estate	1,988,131	2,392,031
Policy loans	1,950,680	1,809,339
Short-term investments	209,045	896,371
Other long-term investments	72,711,634	59,255,477
Total investments	426,561,486	325,844,275
Cash and cash equivalents	14,083,748	29,665,605
Accrued investment income	5,170,977	2,672,978
Recoverable from reinsurers	1,161,862	2,323,157
Assets held in trust under coinsurance agreement	104,509,053	25,494,700
Agents' balances and due premiums	1,751,485	1,418,916
Deferred policy acquisition costs	36,492,172	29,681,737
Value of insurance business acquired	4,961,162	5,185,870
Other assets	9,298,364	11,219,612
Total assets	$ 603,990,309	$ 433,506,850
Liabilities and Shareholders' Equity		
Policy liabilities		
Policyholders' account balances	$ 366,988,490	$ 297,168,411
Future policy benefits	62,651,571	56,261,507
Policy claims	1,453,417	1,102,257
Other policy liabilities	71,365	72,559
Total policy liabilities	431,164,843	354,604,734
Funds withheld under coinsurance agreement	105,200,731	29,285,119
Deferred federal income taxes	6,446,615	2,373,478
Other liabilities	3,735,466	8,118,268
Total liabilities	546,547,655	394,381,599
Shareholders' equity		
Common stock, par value $.01 per share (20,000,000 shares authorized, 8,050,173 issued as of September 30, 2019 and December 31, 2018 and 7,802,593 outstanding as of September 30, 2019 and December 31, 2018)	80,502	80,502
Additional paid-in capital	28,684,598	28,684,598
Treasury stock, at cost (247,580 shares as of September 30, 2019 and December 31, 2018)	(893,947)	(893,947)
Accumulated other comprehensive income (loss)	11,414,146	(2,576,631)
Accumulated earnings	18,157,355	13,830,729
Total shareholders' equity	57,442,654	39,125,251
Total liabilities and shareholders' equity	$ 603,990,309	$ 433,506,850

See notes to consolidated financial statements (unaudited).

First Trinity Financial Corporation and Subsidiaries

Consolidated Statements of Operations

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Revenues				
Premiums	$ 5,754,771	$ 4,701,250	$ 16,831,658	$ 13,760,857
Net investment income	6,316,342	4,979,031	18,172,841	14,701,414
Net realized investment gains	339,108	245,059	325,196	269,531
Service fees	58,902	66,474	1,079,780	300,035
Other income	91,354	11,977	154,093	58,149
Total revenues	12,560,477	10,003,791	36,563,568	29,089,986
Benefits, Claims and Expenses				
Benefits and claims				
Increase in future policy benefits	2,231,442	1,719,073	6,412,219	4,684,724
Death benefits	1,762,961	876,629	4,869,866	3,963,815
Surrenders	204,932	203,287	801,413	666,128
Interest credited to policyholders	3,123,621	2,329,858	8,686,026	6,941,291
Dividend, endowment and supplementary life contract benefits	63,101	64,339	206,891	197,034
Total benefits and claims	7,386,057	5,193,186	20,976,415	16,452,992
Policy acquisition costs deferred	(2,409,231)	(1,673,638)	(9,681,748)	(6,162,096)
Amortization of deferred policy acquisition costs	997,249	682,295	2,839,129	2,677,918
Amortization of value of insurance business acquired	69,717	83,935	224,708	255,424
Commissions	2,348,478	1,934,194	9,644,315	5,963,852
Other underwriting, insurance and acquisition expenses	1,931,334	1,849,373	7,054,193	4,981,401
Total expenses	2,937,547	2,876,159	10,080,597	7,716,499
Total benefits, claims and expenses	10,323,604	8,069,345	31,057,012	24,169,491
Income before total federal income tax expense	2,236,873	1,934,446	5,506,556	4,920,495
Current federal income tax expense	124,807	-	825,861	-
Deferred federal income tax expense	341,202	409,687	354,069	1,055,978
Total federal income tax expense	466,009	409,687	1,179,930	1,055,978
Net income	$ 1,770,864	$ 1,524,759	$ 4,326,626	$ 3,864,517
Net income per common share basic and diluted	$ 0.23	$ 0.20	$ 0.55	$ 0.50

See notes to consolidated financial statements (unaudited).

First Trinity Financial Corporation and Subsidiaries

Consolidated Statements of Comprehensive Income (Loss)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Net income	$ 1,770,864	$ 1,524,759	$ 4,326,626	$ 3,864,517
Other comprehensive income (loss)				
Total net unrealized investment gains (losses) arising during the period	6,470,486	(717,379)	18,092,060	(7,531,191)
Cumulative effect, adoption of accounting guidance for equity securities	-	-	-	(68,508)
Less net realized investment gains having no credit losses	340,869	205,453	350,031	244,930
Net unrealized investment gains (losses)	6,129,617	(922,832)	17,742,029	(7,844,629)
Less adjustment to deferred acquisition costs	9,088	(14,204)	32,184	(132,210)
Other comprehensive income (loss) before federal income tax expense (benefit)	6,120,529	(908,628)	17,709,845	(7,712,419)
Federal income tax expense (benefit)	1,285,311	(190,813)	3,719,068	(1,619,608)
Total other comprehensive income (loss)	4,835,218	(717,815)	13,990,777	(6,092,811)
Total comprehensive income (loss)	$ 6,606,082	$ 806,944	$ 18,317,403	$ (2,228,294)

See notes to consolidated financial statements (unaudited).

First Trinity Financial Corporation and Subsidiaries

Consolidated Statements of Changes in Shareholders' Equity

Three and Nine Months Ended September 30, 2019 and 2018

(Unaudited)

	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 September 30, 2018</u>						
Balance as of July 1, 2018	$ 80,502	$ 28,684,598	$ (893,947)	$ (614,045)	$ 11,028,341	$ 38,285,449
Comprehensive income:						
Net income	-	-	-	-	1,524,759	1,524,759
Other comprehensive loss	-	-	-	(717,815)	-	(717,815)
Balance as of September 30, 2018	$ 80,502	$ 28,684,598	$ (893,947)	$ (1,331,860)	$ 12,553,100	$ 39,092,393
<u>Nine months ended September 30, 2018</u>						
Balance as of January 1, 2018	$ 80,502	$ 28,684,598	$ (893,947)	$ 4,760,951	$ 8,620,075	$ 41,252,179
Comprehensive loss:						
Net income	-	-	-	-	3,864,517	3,864,517
Cumulative effect, adoption of accounting guidance for equity securities	-	-	-	-	68,508	68,508
Other comprehensive loss	-	-	-	(6,092,811)	-	(6,092,811)
Balance as of September 30, 2018	$ 80,502	$ 28,684,598	$ (893,947)	$ (1,331,860)	$ 12,553,100	$ 39,092,393
<u>Three months ended September 30, 2019</u>						
Balance as of July 1, 2019	$ 80,502	$ 28,684,598	$ (893,947)	$ 6,578,928	$ 16,386,491	$ 50,836,572
Comprehensive income:						
Net income	-	-	-	-	1,770,864	1,770,864
Other comprehensive income	-	-	-	4,835,218	-	4,835,218
Balance as of September 30, 2019	$ 80,502	$ 28,684,598	$ (893,947)	$ 11,414,146	$ 18,157,355	$ 57,442,654
<u>Nine months ended September 30, 2019</u>						
Balance as of January 1, 2019	$ 80,502	$ 28,684,598	$ (893,947)	$ (2,576,631)	$ 13,830,729	$ 39,125,251
Comprehensive income:						
Net income	-	-	-	-	4,326,626	4,326,626
Other comprehensive income	-	-	-	13,990,777	-	13,990,777
Balance as of September 30, 2019	$ 80,502	$ 28,684,598	$ (893,947)	$ 11,414,146	$ 18,157,355	$ 57,442,654

See notes to consolidated financial statements (unaudited).

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

	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018
Operating activities		
Net income	$ 4,326,626	$ 3,864,517
Adjustments to reconcile net income to net cash used in operating activities:		
Provision for depreciation	109,116	109,116
Accretion of discount on investments	(3,440,762)	(2,951,473)
Net realized investment gains	(325,196)	(269,531)
Amortization of policy acquisition cost	2,839,129	2,677,918
Policy acquisition cost deferred	(9,681,748)	(6,162,096)
Amortization of loan origination fees	20,185	32,376
Amortization of value of insurance business acquired	224,708	255,424
Allowance for mortgage loan losses	73,783	61,083
Provision for deferred federal income tax expense	354,069	1,055,978
Interest credited to policyholders	8,686,026	6,941,291
Change in assets and liabilities:		
Policy loans	(141,341)	(95,095)
Short-term investments	687,326	412,006
Accrued investment income	(2,497,999)	(182,814)
Recoverable from reinsurers	1,161,295	(434,381)
Assets held in trust under coinsurance agreement	(79,014,353)	(15,831,355)
Agents' balances and due premiums	(332,569)	(32,242)
Other assets (excludes change in receivable for securities sold of ($201,401) and ($185,389) in 2019 and 2018, respectively)	2,122,649	(850,863)
Future policy benefits	6,390,064	4,653,803
Policy claims	351,160	(118,473)
Other policy liabilities	(1,194)	(159)
Other liabilities (excludes change in payable for securities purchased of ($393,762) and $142,361 in 2019 and 2018, respectively)	(3,989,040)	768,279
Net cash used in operating activities	(72,078,066)	(6,096,691)
Investing activities		
Purchases of fixed maturity securities	(65,392,840)	(11,958,357)
Maturities of fixed maturity securities	3,650,000	4,876,000
Sales of fixed maturity securities	17,585,794	15,933,074
Sales of preferred stock securities	50,000	-
Purchases of equity securities	(92,956)	(53,828)
Sales of equity securities	19,371	361,947
Joint venture distribution	90,893	34,877
Purchases of mortgage loans	(57,015,493)	(47,077,889)
Payments on mortgage loans	30,648,943	28,034,586
Purchases of other long-term investments	(17,590,689)	(6,068,995)
Payments on other long-term investments	7,737,867	6,606,259
Sale of real estate	350,817	261,470
Net change in receivable and payable for securities sold and purchased	(595,163)	(43,028)
Net cash used in investing activities	(80,553,456)	(9,093,884)
Financing activities		
Policyholders' account deposits	162,175,450	35,533,959
Policyholders' account withdrawals	(30,178,584)	(21,925,881)
Funds withheld amounts due to reinsurer	5,052,799	-
Net cash provided by financing activities	137,049,665	13,608,078
Decrease in cash	(15,581,857)	(1,582,497)
Cash and cash equivalents, beginning of period	29,665,605	31,496,159
Cash and cash equivalents, end of period	$ 14,083,748	$ 29,913,662

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 2019 and 2018, the Company foreclosed on residential mortgage loans of real estate totaling $99,218 and $378,411 respectively, and transferred those properties to investment real estate that are now held for sale.

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

	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018
Reduction in mortgage loans due to foreclosure	$ 99,218	$ 378,411
Investment real estate held-for-sale acquired through foreclosure	(99,218)	(378,411)
Net cash used in investing activities	$ -	$ -

See notes to consolidated financial statements (unaudited).

1. Organization and Significant Accounting Policies

Nature of Operations

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

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

The Company owns 100% of FTCC that was incorporated in 2006, and began operations in January 2007. FTCC provided financing for casualty insurance premiums for individuals and companies and was licensed to conduct premium financing business in the states of Alabama, Arkansas, Louisiana, Mississippi and Oklahoma. FTCC has made no premium financing loans since June 30, 2012.

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.

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

Acquisitions

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

On December 31, 2008, FTFC made FLAC a 15 year loan in the form of a surplus note in the amount of $250,000 with an interest rate of 6% payable monthly, that was approved by 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.

1. Organization and Significant Accounting Policies (continued)

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 and assumed liabilities of $3,055,916.

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 nine months ended September 30, 2019 are not necessarily indicative of the results to be expected for the year ended December 31, 2019 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, 2018.

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

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

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.

1. Organization and Significant Accounting Policies (continued)

Subsequent Events

Management has evaluated all events subsequent to September 30, 2019 through the date that these financial statements have been issued and reports the following subsequent events.

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

- an amendment and restatement of the Certificate of Incorporation to authorize 50,000,000 shares of Common Stock $0.01 par value divided into 40,000,000 shares of Class A Common Stock and 10,000,000 shares of Class B Common Stock and to establish the relative rights, preferences and privileges of, and the restrictions and limitations on, the Class A Common Stock and the Class B Common Stock;

- an amendment and restatement of the Certificate of Incorporation to automatically reclassify each issued and outstanding share of the Company's existing Common Stock as one (1) share of new Class A Common Stock or, at the shareholder's election, into one (1) share of new Class B Common Stock and

- First Trinity Financial Corporation's 2019 Long-Term Incentive Plan.

These amendments, restatements and plans will be implemented during late 2019 or early 2020.

On November 8, 2019, the Company renewed its $1.5 million line of credit with a bank to continue providing working capital and funds for expansion. The terms of the line of credit will allow for advances, repayments and re-borrowings through a maturity date of September 15, 2020. Any outstanding advances will incur interest at a variable interest rate of the prime rate set forth in the Wall Street Journal plus 1% per annum adjusting monthly based on a 360 day year with a minimum interest rate floor of 5%.

Recent Accounting Pronouncements

Leases

In February 2016, the Financial Accounting Standards Board ("FASB") issued updated guidance (Accounting Standards Update 2018-11) to require lessees to recognize a right-of-use asset and a lease liability for leases with terms of more than 12 months. The updated guidance retains the two classifications of a lease as either an operating or finance lease (previously referred to as a capital lease). Both lease classifications require the lessee to record the right-of-use asset and the lease liability based upon the present value of cash flows. Finance leases will reflect the financial arrangement by recognizing interest expense on the lease liability separately from the amortization expense of the right-of-use asset. Operating leases will recognize lease expense (with no separate recognition of interest expense) on a straight-line basis over the term of the lease. The accounting by lessors is not significantly changed by the updated guidance. The updated guidance requires expanded qualitative and quantitative disclosures, including additional information about the amounts recorded in the financial statements.

In July 2018, the FASB amended the updated guidance on leases that was issued in February 2016 (Accounting Standards Update 2018-11) and provided an additional transition method with which to adopt the updated guidance. Under the additional transition method, entities may elect to recognize a cumulative-effect adjustment to the opening balance of retained earnings in the year of adoption. Consequently, if this transition method is elected, an entity's reporting for the comparative periods prior to adoption presented in the financial statements would continue to be in accordance with current lease guidance. The amendments also provide lessors with a practical expedient to combine non-lease components (e.g., a fee for common area maintenance when leasing office space) with the associated lease component rather than accounting for those components separately if certain criteria are met. The updated guidance requires entities to recognize a right-of-use asset and lease liability equal to the present value of lease payments for all leases other than those that are less than one year. The updated guidance, as amended, is effective for reporting periods beginning after December 15, 2018.

1. Organization and Significant Accounting Policies (continued)

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

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

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

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

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

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

Intangibles - Goodwill and Other

In January 2017, the FASB issued updated guidance (Accounting Standards Update 2017-04) that eliminates the requirement to calculate the implied fair value of goodwill (i.e., Step 2 of the current goodwill impairment test) to measure a goodwill impairment charge. Instead, entities will record an impairment charge by comparing a reporting unit's fair value with its carrying amount and recognizing an impairment charge for the excess of the carrying amount over estimated fair value (i.e., Step 1 of current guidance). The implied fair value of goodwill is currently determined in Step 2 by deducting the fair value of all assets and liabilities of the reporting unit (determined in the same manner as a business combination) from the reporting unit's fair value as determined in Step 1 (including any corporate-level assets or liabilities that were included in the determination of the carrying amount and fair value of the reporting unit in Step 1). The updated guidance requires an entity to perform its annual, or interim, impairment test by either: (1) an initial qualitative assessment of factors (such as changes in management, key personnel, strategy, key technology or customers) that may impact a reporting unit's fair value and lead to the determination that it is more likely than not that the reporting unit's fair value is less than its carrying value, including goodwill (consistent with current guidance), or (2) applying Step 1.

1. Organization and Significant Accounting Policies (continued)

The updated guidance is effective for reporting periods beginning after December 15, 2019 and is to be applied prospectively. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The adoption of this guidance is not expected to have a material effect on the Company's results of operations, financial position or liquidity.

Targeted Improvements to the Accounting for Long-Duration Contracts

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

The updated guidance was effective for reporting periods beginning after December 15, 2020. As a Smaller Reporting Company, the effective date was recently changed and the delayed effective date is now for reporting periods beginning after December 15, 2023. Early adoption is permitted. With respect to the liability for future policyholder benefits for traditional and limited-payment contracts and deferred acquisition costs, an insurance entity may elect to apply the amendments retrospectively as of the beginning of the earliest period presented.

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

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

In August 2018, the FASB issued amendments (Accounting Standards Update 2018-13) to modify the disclosure requirements related to fair value measurements including the consideration of costs and benefits of producing the modified disclosures. The updated guidance is effective for reporting periods beginning after December 15, 2019. Early adoption is permitted and an entity is permitted to early adopt any removed or modified disclosures upon issuance and delay adoption of the additional disclosures until their effective date. The adoption of this guidance in 2020 is not expected to have a material effect on the Company's results of operations, financial position or liquidity.

2. Investments

Investments in fixed maturity and preferred stock available-for-sale and equity securities as of September 30, 2019 and December 31, 2018 are summarized as follows:

	Amortized Cost or Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	September 30, 2019 (Unaudited)			
Fixed maturity securities				
U.S. government and U.S. government agencies	$ 1,804,605	$ 1,072	$ 6,731	$ 1,798,946
States and political subdivisions	9,905,883	618,447	2,739	10,521,591
Residential mortgage-backed securities	20,331	26,343	-	46,674
Corporate bonds	130,012,492	11,427,243	230,709	141,209,026
Asset-backed	2,201,471	117,231	-	2,318,702
Exchange traded securities	500,000	31,600	-	531,600
Foreign bonds	34,033,036	2,861,361	374,147	36,520,250
Total fixed maturity securities	178,477,818	15,083,297	614,326	192,946,789
Preferred stock	49,945	1,375	-	51,320
Equity securities				
Mutual funds	91,981	-	6,941	85,040
Corporate common stock	90,205	24,465	-	114,670
Total equity securities	182,186	24,465	6,941	199,710
Total fixed maturity, preferred stock and equity securities	$ 178,709,949	$ 15,109,137	$ 621,267	$ 193,197,819
	December 31, 2018			
Fixed maturity securities				
U.S. government and U.S. government agencies	$ 2,793,681	$ 2,769	$ 91,739	$ 2,704,711
States and political subdivisions	9,295,973	215,000	32,941	9,478,032
Residential mortgage-backed securities	23,694	27,461	-	51,155
Corporate bonds	100,360,468	823,991	3,220,268	97,964,191
Asset-backed	253,598	7,820	-	261,418
Foreign bonds	21,687,103	75,525	1,069,936	20,692,692
Total fixed maturity securities	134,414,517	1,152,566	4,414,884	131,152,199
Preferred stock	99,945	-	9,365	90,580
Equity securities				
Mutual funds	91,981	-	17,082	74,899
Corporate common stock	95,141	28,628	-	123,769
Total equity securities	187,122	28,628	17,082	198,668
Total fixed maturity, preferred stock and equity securities	$ 134,701,584	$ 1,181,194	$ 4,441,331	$ 131,441,447

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 September 30, 2019 and December 31, 2018 are summarized as follows:

	Fair Value	Unrealized Loss	Number of Securities
	September 30, 2019 (Unaudited)		
Fixed maturity securities			
Less than 12 months in an unrealized loss position			
U.S. government and U.S. government agencies	$ 650,236	$ 4,217	2
States and political subdivisions	102,655	2,739	1
Corporate bonds	1,532,983	87,107	5
Foreign bonds	349,990	11	1
Total less than 12 months in an unrealized loss position	2,635,864	94,074	9
More than 12 months in an unrealized loss position			
U.S. government and U.S. government agencies	447,760	2,514	2
Corporate bonds	1,643,185	143,602	8
Foreign bonds	1,470,020	374,136	6
Total more than 12 months in an unrealized loss position	3,560,965	520,252	16
Total fixed maturity securities in an unrealized loss position	6,196,829	614,326	25
Equity securities (mutual funds), less than 12 months in an unrealized loss position	85,040	6,941	1
Total fixed maturity, preferred stock and equity securities in an unrealized loss position	$ 6,281,869	$ 621,267	$ 26
	December 31, 2018		
Fixed maturity securities			
Less than 12 months in an unrealized loss position			
U.S. government and U.S. government agencies	$ 991,660	$ 2,419	1
States and political subdivisions	1,066,743	7,948	6
Corporate bonds	58,506,980	2,154,898	215
Foreign bonds	14,554,291	852,120	50
Total less than 12 months in an unrealized loss position	75,119,674	3,017,385	272
More than 12 months in an unrealized loss position			
U.S. government and U.S. government agencies	1,590,655	89,320	6
States and political subdivisions	518,969	24,993	4
Corporate bonds	7,107,831	1,065,370	30
Foreign bonds	1,376,680	217,816	5
Total more than 12 months in an unrealized loss position	10,594,135	1,397,499	45
Total fixed maturity securities in an unrealized loss position	85,713,809	4,414,884	317
Preferred stock, less than 12 months in an unrealized loss position	90,580	9,365	2
Equity securities (mutual funds), less than 12 months in an unrealized loss position	74,899	17,082	1
Total fixed maturity, preferred stock and equity securities in an unrealized loss position	$ 85,879,288	$ 4,441,331	$ 320

2. Investments (continued)

As of September 30, 2019, the Company held 25 available-for-sale fixed maturity securities with an unrealized loss of $614,326, fair value of $6,196,829 and amortized cost of $6,811,155. These unrealized losses were primarily due to market interest rate movements in the bond market as of September 30, 2019. The ratio of the fair value to the amortized cost of these 25 securities is 91%.

As of December 31, 2018, the Company held 317 available-for-sale fixed maturity securities with an unrealized loss of $4,414,884, fair value of $85,713,809 and amortized cost of $90,128,693. These unrealized losses were primarily due to market interest rate movements in the bond market as of December 31, 2018. The ratio of the fair value to the amortized cost of these 317 securities is 95%.

As of December 31, 2018, the Company held two preferred stocks with an unrealized loss of $9,365, fair value of $90,580 and cost of $99,945. The ratio of fair value to cost of these two preferred stocks is 91%.

As of September 30, 2019, the Company held one equity security with an unrealized loss of $6,941, fair value of $85,040 and cost of $91,981. The ratio of fair value to cost of this security is 92%.

As of December 31, 2018, the Company held one equity security with an unrealized loss of $17,082, fair value of $74,899 and cost of $91,981. The ratio of fair value to cost of this security is 81%.

Fixed maturity securities were 97% and 96% investment grade as rated by Standard & Poor's as of September 30, 2019 and December 31, 2018, respectively.

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

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

There were no impairments during the nine months ended September 30, 2019 and 2018.

Management believes that the Company will fully recover its cost basis in the securities held as of September 30, 2019, and management does not have the intent to sell nor is it more likely than not that the Company will be required to sell such securities until they recover or mature. The remaining temporary impairments shown herein are primarily the result of the current interest rate environment rather than credit factors that would imply other-than-temporary impairment.

2. Investments (continued)

Net unrealized gains (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 September 30, 2019 and December 31, 2018, are summarized as follows:

	(Unaudited) September 30, 2019	December 31, 2018
Unrealized appreciation (depreciation) on available-for-sale securities	$ 14,470,346	$ (3,271,683)
Adjustment to deferred acquisition costs	(22,060)	10,124
Deferred income taxes	(3,034,140)	684,928
Net unrealized appreciation (depreciation) on available-for-sale securities	$ 11,414,146	$ (2,576,631)

The Company's investment in lottery prize cash flows categorized as other long-term investments in the statement of financial position was $72,711,634 and $59,255,477 as of September 30, 2019 and December 31, 2018, 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 September 30, 2019, by contractual maturity, are summarized as follows:

	September 30, 2019 (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	$ 2,603,868	$ 2,631,429	$ 10,658,928	$ 10,856,012
Due after one year through five years	27,096,934	27,907,661	33,468,523	37,526,966
Due after five years through ten years	63,097,980	67,347,617	20,570,733	27,076,173
Due after ten years	85,658,705	95,013,408	8,013,450	14,507,449
Due at multiple maturity dates	20,331	46,674	-	-
	$ 178,477,818	$ 192,946,789	$ 72,711,634	$ 89,966,600

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

2. Investments (continued)

Proceeds and gross realized gains (losses) from the sales, calls and maturities of fixed maturity securities available-for-sale, equity securities, investment real estate and preferred stock securities available-for-sale for the three and nine months ended September 30, 2019 and 2018 are summarized as follows:

	Three Months Ended September 30, (Unaudited)					
	Fixed Maturity Securities		Equity Securities		Investment Real Estate	
	2019	2018	2019	2018	2019	2018
Proceeds	$ 3,107,881	$ 12,320,142	$ -	$ 346,535	$ 97,253	$ 206,617
Gross realized gains	349,297	305,883	-	25,683	-	52,971
Gross realized losses	(8,428)	(100,430)	-	(58)	(1,965)	-

	Three Months Ended September 30, (Unaudited)	
	Preferred Stock Securities	
	2019	2018
Proceeds	$ 50,000	$ -
Gross realized gains	-	-
Gross realized losses	-	-

	Nine Months Ended September 30, (Unaudited)					
	Fixed Maturity Securities		Equity Securities		Investment Real Estate	
	2019	2018	2019	2018	2019	2018
Proceeds	$ 21,235,794	$ 20,809,074	$ 19,371	$ 361,947	$ 350,817	$ 261,470
Gross realized gains	620,876	386,403	12,372	25,790	5,158	52,971
Gross realized losses	(270,845)	(141,473)	-	(58)	(48,343)	(1,322)

	Nine Months Ended September 30, (Unaudited)	
	Preferred Stock Securities	
	2019	2018
Proceeds	$ 50,000	$ -
Gross realized gains	-	-
Gross realized losses	-	-

2. Investments (continued)

The accumulated change in unrealized investment gains (losses) for fixed maturity and preferred stock available-for-sale for the three and nine months ended September 30, 2019 and 2018 and the amount of net realized investment gains (losses) on fixed maturity securities available-for-sale, equity securities and investment real estate for the three and nine months ended September 30, 2019 and 2018 are summarized as follows:

	Three Months Ended September 30, (Unaudited)		Nine Months Ended September 30, (Unaudited)	
	2019	2018	2019	2018
Change in unrealized investment gains (losses):				
Available-for-sale securities:				
Fixed maturity securities	$ 6,128,777	$ (921,992)	$ 17,731,289	$ (7,773,581)
Preferred stock	840	(840)	10,740	(2,540)
Net realized investment gains (losses):				
Available-for-sale securities:				
Fixed maturity securities	340,869	205,453	350,031	244,930
Equity securities, sale of securities	-	25,625	12,372	25,732
Equity securities, changes in fair value	204	(38,990)	5,978	(52,780)
Investment real estate	(1,965)	52,971	(43,185)	51,649

Major categories of net investment income for the three and nine months ended September 30, 2019 and 2018 are summarized as follows:

	Three Months Ended September 30, (Unaudited)		Nine Months Ended September 30, (Unaudited)	
	2019	2018	2019	2018
Fixed maturity securities	$ 1,985,449	$ 1,492,224	$ 5,592,131	$ 4,792,648
Preferred stock and equity securities	38,646	24,280	106,392	57,397
Other long-term investments	1,284,234	995,100	3,601,231	2,974,163
Mortgage loans	3,406,458	2,877,910	9,999,923	8,253,828
Policy loans	35,270	31,055	101,038	90,480
Real estate	68,631	94,102	200,441	282,108
Short-term and other investments	110,503	92,711	605,798	160,392
Gross investment income	6,929,191	5,607,382	20,206,954	16,611,016
Investment expenses	(612,849)	(628,351)	(2,034,113)	(1,909,602)
Net investment income	$ 6,316,342	$ 4,979,031	$ 18,172,841	$ 14,701,414

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 September 30, 2019 and December 31, 2018, these required deposits, included in investment assets, had amortized costs that totaled $4,354,580 and $4,376,463, respectively. As of September 30, 2019 and December 31, 2018, these required deposits had fair values that totaled $4,383,925 and $4,292,657, respectively.

2. Investments (continued)

The Company's mortgage loans by property type as of September 30, 2019 and December 31, 2018 are summarized as follows:

	(Unaudited) September 30, 2019	December 31, 2018
Residential mortgage loans	$ 144,710,078	$ 120,108,297
Commercial mortgage loans by property type		
Apartment	1,606,409	1,816,870
Industrial	1,630,369	1,156,157
Lodging	111,098	112,494
Office building	3,589,625	2,348,639
Retail	4,856,598	4,507,153
Total commercial mortgage loans by property type	11,794,099	9,941,313
Total mortgage loans	$ 156,504,177	$ 130,049,610

There were 16 loans with a remaining principal balance of $3,920,813 that were more than 90 days past due as of September 30, 2019. There were 11 loans with a remaining principal balance of $2,233,575 that were more than 90 days past due as of December 31, 2018.

There were no mortgage loans in default and in the foreclosure process as of September 30, 2019 and December 31, 2018.

The Company's investment real estate as of September 30, 2019 and December 31, 2018 is summarized as follows:

	(Unaudited) September 30, 2019	December 31, 2018
Land - held for the production of income	$ 213,160	$ 213,160
Land - held for investment	745,155	745,155
Total land	958,315	958,315
Building - held for the production of income	2,267,557	2,267,557
Less - accumulated depreciation	(1,449,787)	(1,340,671)
Buildings net of accumulated depreciation	817,770	926,886
Residential real estate - held for sale	212,046	506,830
Total residential real estate	212,046	506,830
Investment real estate, net of accumulated depreciation	$ 1,988,131	$ 2,392,031

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

2. Investments (continued)

During 2019, the Company foreclosed on one residential mortgage loans of real estate totaling $99,218 and transferred that property to investment real estate that is now held for sale. During 2019, the Company sold investment real estate property with an aggregate carrying value of $394,002. The Company recorded a gross realized investment loss on sale of $43,185 based on an aggregate sales price of $350,817.

During 2018, the Company foreclosed on residential mortgage loans of real estate totaling $378,411 and transferred those properties to investment real estate held for sale. During 2018, the Company sold investment real estate property with an aggregate carrying value of $209,821. The Company recorded a gross realized investment gain on sale of $51,649 based on an aggregate sales price of $261,470.

3. Fair Value Measurements

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

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

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

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

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

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

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

3. Fair Value Measurements (continued)

The Company's fair value hierarchy for those financial instruments measured at fair value on a recurring basis as of September 30, 2019 and December 31, 2018 is summarized as follows:

	Level 1	Level 2	Level 3	Total
	September 30, 2019 (Unaudited)			
Fixed maturity securities, available-for-sale				
U.S. government and U.S. government agencies	$ -	$ 1,798,946	$ -	$ 1,798,946
States and political subdivisions	-	10,521,591	-	10,521,591
Residential mortgage-backed securities	-	46,674	-	46,674
Corporate bonds	-	141,209,026	-	141,209,026
Asset-backed	-	2,318,702	-	2,318,702
Exchange traded securities	-	531,600	-	531,600
Foreign bonds	-	36,520,250	-	36,520,250
Total fixed maturity securities	$ -	$ 192,946,789	$ -	$ 192,946,789
Preferred stock, available-for-sale	$ 51,320	$ -	$ -	$ 51,320
Equity securities				
Mutual funds	$ -	$ 85,040	$ -	$ 85,040
Corporate common stock	48,571	-	66,099	114,670
Total equity securities	$ 48,571	$ 85,040	$ 66,099	$ 199,710
	December 31, 2018			
Fixed maturity securities, available-for-sale				
U.S. government and U.S. government agencies	$ -	$ 2,704,711	$ -	$ 2,704,711
States and political subdivisions	-	9,478,032	-	9,478,032
Residential mortgage-backed securities	-	51,155	-	51,155
Corporate bonds	-	97,964,191	-	97,964,191
Asset-backed	-	261,418	-	261,418
Foreign bonds	-	20,692,692	-	20,692,692
Total fixed maturity securities	$ -	$ 131,152,199	$ -	$ 131,152,199
Preferred stock, available-for-sale	$ 90,580	$ -	$ -	$ 90,580
Equity securities				
Mutual funds	$ -	$ 74,899	$ -	$ 74,899
Corporate common stock	59,733	-	64,036	123,769
Total equity securities	$ 59,733	$ 74,899	$ 64,036	$ 198,668

As of September 30, 2019 and December 31, 2018, Level 3 financial instruments consisted of two private placement common stocks that have no active trading and a joint venture investment with a mortgage loan originator.

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

3. Fair Value Measurements (continued)

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

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

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

The Company's fixed maturity and preferred stock available-for-sale and equity securities portfolio is 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 for the nine months ended September 30, 2019 and 2018 is summarized as follows:

	Unaudited	
	Nine Months Ended September 30,	
	2019	2018
Beginning balance	$ 64,036	$ 61,500
Joint venture investment	-	10,200
Joint venture net income	92,956	40,746
Equity security sales	-	(15,000)
Joint venture distribution	(90,893)	(34,877)
Ending balance	$ 66,099	$ 62,569

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 September 30, 2019 and December 31, 2018, 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
	September 30, 2019 (Unaudited)				
Financial assets					
Mortgage loans on real estate					
Commercial	$ 11,794,099	$ 11,968,844	$ -	$ -	$ 11,968,844
Residential	144,710,078	146,437,856	-	-	146,437,856
Policy loans	1,950,680	1,950,680	-	-	1,950,680
Short-term investments	209,045	209,045	209,045	-	-
Other long-term investments	72,711,634	89,966,600	-	-	89,966,600
Cash and cash equivalents	14,083,748	14,083,748	14,083,748	-	-
Accrued investment income	5,170,977	5,170,977	-	-	5,170,977
Total financial assets	$ 250,630,261	$ 269,787,750	$ 14,292,793	$ -	$ 255,494,957
Financial liabilities					
Policyholders' account balances	$ 366,988,490	$ 362,154,709	$ -	$ -	$ 362,154,709
Policy claims	1,453,417	1,453,417	-	-	1,453,417
Total financial liabilities	$ 368,441,907	$ 363,608,126	$ -	$ -	$ 363,608,126
	December 31, 2018				
Financial assets					
Mortgage loans on real estate					
Commercial	$ 9,941,313	$ 9,698,226	$ -	$ -	$ 9,698,226
Residential	120,108,297	115,788,967	-	-	115,788,967
Policy loans	1,809,339	1,809,339	-	-	1,809,339
Short-term investments	896,371	896,371	896,371	-	-
Other long-term investments	59,255,477	69,641,358	-	-	69,641,358
Cash and cash equivalents	29,665,605	29,665,605	29,665,605	-	-
Accrued investment income	2,672,978	2,672,978	-	-	2,672,978
Total financial assets	$ 224,349,380	$ 230,172,844	$ 30,561,976	$ -	$ 199,610,868
Financial liabilities					
Policyholders' account balances	$ 297,168,411	$ 259,247,412	$ -	$ -	$ 259,247,412
Policy claims	1,102,257	1,102,257	-	-	1,102,257
Total financial liabilities	$ 298,270,668	$ 260,349,669	$ -	$ -	$ 260,349,669

3. Fair Value Measurements (continued)

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

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

Fixed Maturity Securities, Preferred Stock and Equity Securities

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

Mortgage Loans on Real Estate

The fair values for mortgage loans are estimated using discounted cash flow analyses. For residential mortgage loans, the discount rate used was indexed to the LIBOR yield curve adjusted for an appropriate credit spread. For commercial (includes apartment, industrial, lodging, office building and retail) mortgage loans, the discount rate used was assumed to be the interest rate on the last commercial mortgage acquired by the Company.

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

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

Other Long-Term Investments

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

Investment Contracts – Policyholders' Account Balances

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

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

Policy Claims

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

4. Segment Data

The Company has a life insurance segment, consisting of the life insurance operations of TLIC and FBLIC, an annuity segment, consisting of the annuity operations of TLIC and FBLIC and a corporate segment. Results for the parent company and the operations of FTCC, after elimination of intercompany amounts, are allocated to the corporate segment. These segments as of September 30, 2019 and December 31, 2018 and for the three and nine months ended September 30, 2019 and 2018 are summarized as follows:

	Three Months Ended September 30, (Unaudited)		Nine Months Ended September 30, (Unaudited)	
	2019	2018	2019	2018
Revenues:				
Life insurance operations	$ 6,756,186	$ 5,556,358	$ 19,720,057	$ 16,095,222
Annuity operations	5,658,205	4,346,120	16,339,063	12,647,899
Corporate operations	146,086	101,313	504,448	346,865
Total	$ 12,560,477	$ 10,003,791	$ 36,563,568	$ 29,089,986
Income before income taxes:				
Life insurance operations	$ (28,606)	$ 305,976	$ 235,858	$ 605,498
Annuity operations	2,144,230	1,522,702	4,892,901	4,013,123
Corporate operations	121,249	105,768	377,797	301,874
Total	$ 2,236,873	$ 1,934,446	$ 5,506,556	$ 4,920,495
Depreciation and amortization expense:				
Life insurance operations	$ 968,174	$ 829,610	$ 2,500,608	$ 3,044,057
Annuity operations	140,374	(15,587)	692,530	30,777
Total	$ 1,108,548	$ 814,023	$ 3,193,138	$ 3,074,834

	(Unaudited) September 30, 2019	December 31, 2018
Assets:		
Life insurance operations	$ 94,967,352	$ 69,756,013
Annuity operations	398,085,552	332,303,028
Assets held in trust under coinsurance agreement	104,509,053	25,494,700
Corporate operations	6,428,352	5,953,109
Total	$ 603,990,309	$ 433,506,850

5. Federal Income Taxes

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

The Company has no known uncertain tax benefits within its provision for income taxes. In addition, the Company does not believe it would be subject to any penalties or interest relative to any open tax years and, therefore, has not accrued any such amounts. The Company files U.S. federal income tax returns and income tax returns in various state jurisdictions. The 2016 through 2018 U.S. federal tax years are subject to income tax examination by tax authorities. The Company classifies any interest and penalties (if applicable) as income tax expense in the financial statements.

6. Legal Matters and Contingent Liabilities

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

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

Mr. Pettigrew has appealed this decision but has failed to post an appeal bond. As a consequence, the Company and Mr. Zahn are in the process of executing on the judgments against Mr. Pettigrew's assets. The Company and Mr. Zahn have so far collected some property and money in the execution process and will continue to execute on the judgments. Any money or property collected to date during the execution of the judgments are held in an escrow by a third party, have not been reflected in the September 30, 2019 consolidated financial statements and would have to be returned to Mr. Pettigrew in the event the judgments are reversed by the appellate courts.

Prior to being acquired by TLIC, FBLIC developed, marketed, and sold life insurance products known as "Decreasing Term to 95" policies. On January 17, 2013, FBLIC's Board of Directors voted that, effective March 1, 2013, it was not approving, and therefore was not providing, a non-guaranteed dividend for the Decreasing Term to 95 policies since that group of policies was not producing a positive divisible surplus to allow the payment of a non-guaranteed dividend.

On November 22, 2013, a lawsuit was filed in the Circuit Court of Greene County, Missouri asserting claims by two individuals and a class of Missouri residents against FBLIC relating to this decision to not pay a non-guaranteed dividend. A trial was held November 27, 2017 through December 1, 2017 regarding those class and individual claims. During 2018, a settlement was reached by the parties and the Court approved the settlement agreement on June 11, 2018. FBLIC paid $1.85 million to resolve all class and individual claims and all active Decreasing Term to 95 policies for individuals in the class were cancelled.

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

7. Line of Credit

On November 8, 2018, the company executed a $1.5 million line of credit with a bank to provide working capital and funds for expansion. The terms of the line of credit allowed for advances, repayments and re-borrowings through a maturity date of November 8, 2019. Any outstanding advances will incur interest at a variable interest rate of the prime rate set forth in the Wall Street Journal plus 1% per annum adjusting monthly based on a 360 day year with a minimum interest rate floor of 5%. No amounts were outstanding on this line of credit as of September 30, 2019 and December 31, 2018.

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
September 30, 2019
(Unaudited)

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 nine months ended September 30, 2019 and 2018 are summarized as follows:

	Unrealized Appreciation (Depreciation) on Available-For-Sale Securities	Adjustment to Deferred Acquisition Costs	Accumulated Other Comprehensive Income (Loss)
	Three Months Ended September 30, 2019 and 2018 (Unaudited)		
Balance as of July 1, 2019	$ 6,589,162	$ (10,234)	$ 6,578,928
Other comprehensive income before reclassifications, net of tax	5,111,684	(7,180)	5,104,504
Less amounts reclassified from accumulated other comprehensive income having no credit losses, net of tax	269,286	-	269,286
Other comprehensive income	4,842,398	(7,180)	4,835,218
Balance as of September 30, 2019	$ 11,431,560	$ (17,414)	$ 11,414,146
Balance as of July 1, 2018	$ (625,159)	$ 11,114	$ (614,045)
Other comprehensive loss before reclassifications, net of tax	(566,729)	11,221	(555,508)
Less amounts reclassified from accumulated other comprehensive loss having no credit losses, net of tax	162,307	-	162,307
Other comprehensive loss	(729,036)	11,221	(717,815)
Balance as of September 30, 2018	$ (1,354,195)	$ 22,335	$ (1,331,860)
	Nine Months Ended September 30, 2019 and 2018 (Unaudited)		
Balance as of January 1, 2019	$ (2,584,643)	$ 8,012	$ (2,576,631)
Other comprehensive income before reclassifications, net of tax	14,292,727	(25,426)	14,267,301
Less amounts reclassified from accumulated other comprehensive income having no credit losses, net of tax	276,524	-	276,524
Other comprehensive income	14,016,203	(25,426)	13,990,777
Balance as of September 30, 2019	$ 11,431,560	$ (17,414)	$ 11,414,146
Balance as of January 1, 2018	$ 4,843,061	$ (82,110)	$ 4,760,951
Other comprehensive loss before reclassifications, net of tax	(6,003,761)	104,445	(5,899,316)
Less amounts reclassified from accumulated other comprehensive loss having no credit losses, net of tax	193,495	-	193,495
Other comprehensive loss	(6,197,256)	104,445	(6,092,811)
Balance as of September 30, 2018	$ (1,354,195)	$ 22,335	$ (1,331,860)

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

The pretax components of the Company's other comprehensive income (loss) and the related income tax expense (benefit) for each component for the three and nine months ended September 30, 2019 and 2018 are summarized as follows:

	Three Months Ended September 30, 2019 (Unaudited)		
	Pretax	Income Tax Expense (Benefit)	Net of Tax
Other comprehensive income:			
Change in net unrealized gains on available-for-sale securities:			
Unrealized holding gains arising during the period	$ 6,470,486	$ 1,358,802	$ 5,111,684
Reclassification adjustment for net gains included in operations having no credit losses	340,869	71,583	269,286
Net unrealized gains on investments	6,129,617	1,287,219	4,842,398
Adjustment to deferred acquisition costs	(9,088)	(1,908)	(7,180)
Total other comprehensive income	$ 6,120,529	$ 1,285,311	$ 4,835,218

	Three Months Ended September 30, 2018 (Unaudited)		
	Pretax	Income Tax 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	$ (717,379)	$ (150,650)	$ (566,729)
Reclassification adjustment for net gains included in operations having no credit losses	205,453	43,146	162,307
Net unrealized losses on investments	(922,832)	(193,796)	(729,036)
Adjustment to deferred acquisition costs	14,204	2,983	11,221
Total other comprehensive loss	$ (908,628)	$ (190,813)	$ (717,815)

	Nine Months Ended September 30, 2019 (Unaudited)		
	Pretax	Income Tax Expense (Benefit)	Net of Tax
Other comprehensive income:			
Change in net unrealized gains on available-for-sale securities:			
Unrealized holding gains arising during the period	$ 18,092,060	$ 3,799,333	$ 14,292,727
Reclassification adjustment for net gains included in operations having no credit losses	350,031	73,507	276,524
Net unrealized gains on investments	17,742,029	3,725,826	14,016,203
Adjustment to deferred acquisition costs	(32,184)	(6,758)	(25,426)
Total other comprehensive income	$ 17,709,845	$ 3,719,068	$ 13,990,777

	Nine Months Ended September 30, 2018 (Unaudited)		
	Pretax	Income Tax 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	$ (7,599,699)	$ (1,595,938)	$ (6,003,761)
Reclassification adjustment for net gains included in operations having no credit losses	244,930	51,435	193,495
Net unrealized losses on investments	(7,844,629)	(1,647,373)	(6,197,256)
Adjustment to deferred acquisition costs	132,210	27,765	104,445
Total other comprehensive loss	$ (7,712,419)	$ (1,619,608)	$ (6,092,811)

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

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

The pretax and the related income tax components of the amounts reclassified from the Company's accumulated other comprehensive income (loss) to the Company's consolidated statement of operations for the three and nine months ended September 30, 2019 and 2018 are summarized as follows:

	Three Months Ended September 30, (Unaudited)		Nine Months Ended September 30, (Unaudited)	
Reclassification Adjustments	2019	2018	2019	2018
Realized gains on sales of securities (a)	$ 340,869	$ 205,453	$ 350,031	$ 244,930
Income tax expense (b)	71,583	43,146	73,507	51,435
Total reclassification adjustments	$ 269,286	$ 162,307	$ 276,524	$ 193,495

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

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

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

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

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

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

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

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

As of September 30, 2019, $1,136,128 of independent residential mortgage loans on real estate are held in escrow by a third party for the benefit of the Company. As of September 30, 2019, $851,208 of that escrow amount is available to the Company as additional collateral on $4,636,498 of advances to the loan originator. The remaining September 30, 2019 escrow amount of $284,920 is available to the Company as additional collateral on its investment of $56,983,924 in residential mortgage loans on real estate. In addition, the Company has an additional $497,949 allowance for possible loan losses in the remaining $99,520,253 of investments in mortgage loans on real estate as of September 30, 2019.

As of December 31, 2018, $823,645 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, 2018, $598,803 of that escrow amount is available to the Company as additional collateral on $4,942,870 of advances to the loan originator. The remaining December 31, 2018 escrow amount of $224,842 is available to the Company as additional collateral on its investment of $44,968,471 in residential mortgage loans on real estate. In addition, the Company has an additional $424,166 allowance for possible loan losses in the remaining $85,081,139 of investments in mortgage loans on real estate as of December 31, 2018.

The balances of and changes in the Company's credit losses related to residential and commercial (includes apartment, industrial, lodging, office building and retail) mortgage loans on real estate as of and for the three and nine months ended September 30, 2019 and 2018 are summarized as follows (excluding $56,983,924 and $40,786,373 of mortgage loans on real estate as of September 30, 2019 and 2018, 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 September 30,					
	Residential Mortgage Loans		Commercial Mortgage Loans		Total	
	2019	2018	2019	2018	2019	2018
Allowance, beginning	$ 457,660	$ 372,352	$ 52,441	$ 37,944	$ 510,101	$ 410,296
Charge offs	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-
Provision	(18,978)	(9,539)	6,826	3,141	(12,152)	(6,398)
Allowance, ending	$ 438,682	$ 362,813	$ 59,267	$ 41,085	$ 497,949	$ 403,898
Allowance, ending:						
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -
Collectively evaluated for impairment	$ 438,682	$ 362,813	$ 59,267	$ 41,085	$ 497,949	$ 403,898
Carrying Values:						
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -
Collectively evaluated for impairment	$ 87,726,154	$ 72,543,552	$ 11,794,099	$ 8,175,791	$ 99,520,253	$ 80,719,343

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

	(Unaudited) Nine Months Ended September 30,					
	Residential Mortgage Loans		Commercial Mortgage Loans		Total	
	2019	2018	2019	2018	2019	2018
Allowance, beginning	$ 374,209	$ 333,789	$ 49,957	$ 9,026	$ 424,166	$ 342,815
Charge offs	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-
Provision	64,473	29,024	9,310	32,059	73,783	61,083
Allowance, ending	$ 438,682	$ 362,813	$ 59,267	$ 41,085	$ 497,949	$ 403,898
Allowance, ending:						
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -
Collectively evaluated for impairment	$ 438,682	$ 362,813	$ 59,267	$ 41,085	$ 497,949	$ 403,898
Carrying Values:						
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -
Collectively evaluated for impairment	$ 87,726,154	$ 72,543,552	$ 11,794,099	$ 8,175,791	$ 99,520,253	$ 80,719,343

The Company utilizes the ratio of the carrying value of individual mortgage loans compared to the individual appraisal value to evaluate the credit quality of its mortgage loans on real estate (commonly referred to as the loan-to-value ratio). The Company's residential and commercial (includes apartment, industrial, lodging, office building and retail) mortgage loans on real estate by credit quality using this ratio as of September 30, 2019 and December 31, 2018 are summarized as follows:

	Residential Mortgage Loans		Commercial Mortgage Loans		Total Mortgage Loans	
	(Unaudited)		(Unaudited)		(Unaudited)	
Loan-To-Value Ratio	September 30, 2019	December 31, 2018	September 30, 2019	December 31, 2018	September 30, 2019	December 31, 2018
Over 70% to 80%	$ 39,037,227	$ 23,205,637	$ 276,308	$ 280,020	$ 39,313,535	$ 23,485,657
Over 60% to 70%	49,395,386	43,631,465	2,537,102	2,216,436	51,932,488	45,847,901
Over 50% to 60%	29,317,566	24,890,831	1,504,918	752,181	30,822,484	25,643,012
Over 40% to 50%	12,598,526	16,055,231	1,435,918	1,670,263	14,034,444	17,725,494
Over 30% to 40%	7,367,692	5,984,097	2,199,893	3,341,616	9,567,585	9,325,713
Over 20% to 30%	3,351,000	3,249,410	1,135,979	1,429,085	4,486,979	4,678,495
Over 10% to 20%	2,656,648	2,233,102	2,703,981	251,712	5,360,629	2,484,814
10% or less	986,033	858,524	-	-	986,033	858,524
Total	$ 144,710,078	$ 120,108,297	$ 11,794,099	$ 9,941,313	$ 156,504,177	$ 130,049,610

10. Coinsurance

Effective January 1, 2018, TLIC entered into an annuity coinsurance agreement with an offshore annuity and life insurance company whereby 90% of TLIC's annuity considerations originated after December 31, 2017 were ceded to the assuming company. The assuming company contractually reimburses TLIC for the related commissions, withdrawals, settlements, interest credited, submission costs, maintenance costs, marketing costs, excise taxes and other costs plus a placement fee.

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

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.

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

Coinsurance

Effective January 1, 2018, TLIC entered into an annuity coinsurance agreement with an offshore annuity and life insurance company whereby 90% of TLIC's annuity considerations originated after December 31, 2017 were ceded to the assuming company. The assuming company contractually reimburses TLIC for the related commissions, withdrawals, settlements, interest credited, submission costs, maintenance costs, marketing costs and other costs plus a placement fee.

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

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, 2018. The Company considers its most critical accounting estimates to be those applied to investments in fixed maturities, mortgage loans on real estate, deferred policy acquisition costs, value of insurance business acquired and future policy benefits. There have been no material changes to the Company's critical accounting policies and estimates since December 31, 2018.

Recent Accounting Pronouncements

Leases

In February 2016, the Financial Accounting Standards Board ("FASB") issued updated guidance (Accounting Standards Update 2018-11) to require lessees to recognize a right-of-use asset and a lease liability for leases with terms of more than 12 months. The updated guidance retains the two classifications of a lease as either an operating or finance lease (previously referred to as a capital lease). Both lease classifications require the lessee to record the right-of-use asset and the lease liability based upon the present value of cash flows. Finance leases will reflect the financial arrangement by recognizing interest expense on the lease liability separately from the amortization expense of the right-of-use asset. Operating leases will recognize lease expense (with no separate recognition of interest expense) on a straight-line basis over the term of the lease. The accounting by lessors is not significantly changed by the updated guidance. The updated guidance requires expanded qualitative and quantitative disclosures, including additional information about the amounts recorded in the financial statements.

In July 2018, the FASB amended the updated guidance on leases that was issued in February 2016 (Accounting Standards Update 2018-11) and provided an additional transition method with which to adopt the updated guidance. Under the additional transition method, entities may elect to recognize a cumulative-effect adjustment to the opening balance of retained earnings in the year of adoption. Consequently, if this transition method is elected, an entity's reporting for the comparative periods prior to adoption presented in the financial statements would continue to be in accordance with current lease guidance. The amendments also provide lessors with a practical expedient to combine non-lease components (e.g., a fee for common area maintenance when leasing office space) with the associated lease component rather than accounting for those components separately if certain criteria are met. The updated guidance requires entities to recognize a right-of-use asset and lease liability equal to the present value of lease payments for all leases other than those that are less than one year. The updated guidance, as amended, is effective for reporting periods beginning after December 15, 2018.

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

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

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

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

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

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

Intangibles - Goodwill and Other

In January 2017, the FASB issued updated guidance (Accounting Standards Update 2017-04) that eliminates the requirement to calculate the implied fair value of goodwill (i.e., Step 2 of the current goodwill impairment test) to measure a goodwill impairment charge. Instead, entities will record an impairment charge by comparing a reporting unit's fair value with its carrying amount and recognizing an impairment charge for the excess of the carrying amount over estimated fair value (i.e., Step 1 of current guidance). The implied fair value of goodwill is currently determined in Step 2 by deducting the fair value of all assets and liabilities of the reporting unit (determined in the same manner as a business combination) from the reporting unit's fair value as determined in Step 1 (including any corporate-level assets or liabilities that were included in the determination of the carrying amount and fair value of the reporting unit in Step 1). The updated guidance requires an entity to perform its annual, or interim, impairment test by either: (1) an initial qualitative assessment of factors (such as changes in management, key personnel, strategy, key technology or customers) that may impact a reporting unit's fair value and lead to the determination that it is more likely than not that the reporting unit's fair value is less than its carrying value, including goodwill (consistent with current guidance), or (2) applying Step 1.

The updated guidance is effective for reporting periods beginning after December 15, 2019 and is to be applied prospectively. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The adoption of this guidance is not expected to have a material effect on the Company's results of operations, financial position or liquidity.

Targeted Improvements to the Accounting for Long-Duration Contracts

In August 2018, the FASB issued updated guidance (Accounting Standards Update 2018-12) to the existing recognition, measurement, presentation and disclosure requirements for long-duration contracts issued by an insurance entity. This update improves the timeliness of recognizing changes in the liability for future policy benefits, modifies the rate used to discount future cash flows, simplifies and improves accounting for certain market-based options or guarantees associated with deposit (i.e., account balance) contracts, simplifies the amortization of deferred acquisitions costs and expands required disclosures.

The expanded disclosure requires an insurance entity to provide disaggregated roll forwards of beginning to ending balances of the following: liability for future policy benefits, policyholder account balances, market risk benefits, separate account liabilities and deferred acquisition costs including disclosure about, changes to and effect of changes for significant inputs, judgments, assumptions and methods used in measurements.

The updated guidance was effective for reporting periods beginning after December 15, 2020. As a Smaller Reporting Company, the effective date was recently changed and the delayed effective date is now for reporting periods beginning after December 15, 2023. Early adoption is permitted. With respect to the liability for future policyholder benefits for traditional and limited-payment contracts and deferred acquisition costs, an insurance entity may elect to apply the amendments retrospectively as of the beginning of the earliest period presented. With respect to the market risk benefits, an insurance entity should apply the amendments retrospectively as of the beginning of the earliest period presented. The Company expects that the impact on the Company's results of operations, financial position and liquidity at the date of adoption of the updated guidance in 2024 will be determined by the long-duration contracts then held by the Company and the economic conditions at that time.

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

In August 2018, the FASB issued amendments (Accounting Standards Update 2018-13) to modify the disclosure requirements related to fair value measurements including the consideration of costs and benefits of producing the modified disclosures. The updated guidance is effective for reporting periods beginning after December 15, 2019. Early adoption is permitted and an entity is permitted to early adopt any removed or modified disclosures upon issuance and delay adoption of the additional disclosures until their effective date. The adoption of this guidance in 2020 is not expected to have a material effect on the Company's results of operations, financial position or liquidity.

Business Segments

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

Our business segments are as follows:

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

Please see below and Note 4 to the Consolidated Financial Statements for the three and nine months ended September 30, 2019 and 2018 and as of September 30, 2019 and December 31, 2018 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 September 30, 2019 and 2018

	(Unaudited) Three Months Ended September 30,		Amount Change
	2019	2018	2019 less 2018
Premiums	$ 5,754,771	$ 4,701,250	$ 1,053,521
Net investment income	6,316,342	4,979,031	1,337,311
Net realized investment gains	339,108	245,059	94,049
Service fees	58,902	66,474	(7,572)
Other income	91,354	11,977	79,377
Total revenues	12,560,477	10,003,791	2,556,686
Benefits and claims	7,386,057	5,193,186	2,192,871
Expenses	2,937,547	2,876,159	61,388
Total benefits, claims and expenses	10,323,604	8,069,345	2,254,259
Income before federal income tax expense	2,236,873	1,934,446	302,427
Federal income tax expense	466,009	409,687	56,322
Net income	$ 1,770,864	$ 1,524,759	$ 246,105
Net income per common share basic and diluted	$ 0.23	$ 0.20	$ 0.03

Consolidated Condensed Results of Operations for the Nine Months Ended September 30, 2019 and 2018

	(Unaudited) Nine Months Ended September 30,		Amount Change
	2019	2018	2019 less 2018
Premiums	$ 16,831,658	$ 13,760,857	$ 3,070,801
Net investment income	18,172,841	14,701,414	3,471,427
Net realized investment gains	325,196	269,531	55,665
Service fees	1,079,780	300,035	779,745
Other income	154,093	58,149	95,944
Total revenues	36,563,568	29,089,986	7,473,582
Benefits and claims	20,976,415	16,452,992	4,523,423
Expenses	10,080,597	7,716,499	2,364,098
Total benefits, claims and expenses	31,057,012	24,169,491	6,887,521
Income before federal income tax expense	5,506,556	4,920,495	586,061
Federal income tax expense	1,179,930	1,055,978	123,952
Net income	$ 4,326,626	$ 3,864,517	$ 462,109
Net income per common share basic and diluted	$ 0.55	$ 0.50	$ 0.05

Consolidated Condensed Financial Position as of September 30, 2019 and December 31, 2018

	(Unaudited) September 30, 2019	December 31, 2018	Amount Change 2019 to 2018
Investment assets	$ 426,561,486	$ 325,844,275	$ 100,717,211
Assets held in trust under coinsurance agreement	104,509,053	25,494,700	79,014,353
Other assets	72,919,770	82,167,875	(9,248,105)
Total assets	$ 603,990,309	$ 433,506,850	$ 170,483,459
Policy liabilities	$ 431,164,843	$ 354,604,734	$ 76,560,109
Funds withheld under coinsurance agreement	105,200,731	29,285,119	75,915,612
Deferred federal income taxes	6,446,615	2,373,478	4,073,137
Other liabilities	3,735,466	8,118,268	(4,382,802)
Total liabilities	546,547,655	394,381,599	152,166,056
Shareholders' equity	57,442,654	39,125,251	18,317,403
Total liabilities and shareholders' equity	$ 603,990,309	$ 433,506,850	$ 170,483,459
Shareholders' equity per common share	$ 7.36	$ 5.01	$ 2.35

Results of Operations – Three Months Ended September 30, 2019 and 2018

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 September 30, 2019 and 2018 are summarized as follows:

	(Unaudited) Three Months Ended September 30, 2019	2018	Amount Change 2019 less 2018
Premiums	$ 5,754,771	$ 4,701,250	$ 1,053,521
Net investment income	6,316,342	4,979,031	1,337,311
Net realized investment gains	339,108	245,059	94,049
Service fees	58,902	66,474	(7,572)
Other income	91,354	11,977	79,377
Total revenues	$ 12,560,477	$ 10,003,791	$ 2,556,686

The $2,556,686 increase in total revenues for the three months ended September 30, 2019 is discussed below.

Premiums
Our premiums for the three months ended September 30, 2019 and 2018 are summarized as follows:

	(Unaudited) Three Months Ended September 30, 2019	2018	Amount Change 2019 less 2018
Ordinary life first year	$ 320,262	$ 66,365	$ 253,897
Ordinary life renewal	511,746	479,931	31,815
Final expense first year	1,223,136	1,081,968	141,168
Final expense renewal	3,699,627	3,013,248	686,379
Supplementary contracts with life contingencies	-	59,738	(59,738)
Total premiums	$ 5,754,771	$ 4,701,250	$ 1,053,521

The $1,053,521 increase in premiums for the three months ended September 30, 2019 is primarily due to a $686,379 increase in final expense renewal premiums, $253,897 increase in ordinary life first year premiums and $141,168 increase in final expense first year premium.

The increase in final expense renewal premiums reflects the persistency of prior years' final expense production. The increase in ordinary life first year premiums primarily reflects ordinary life insurance policies sold in the international market that the Company started assuming in fourth quarter 2018. The increase in final expense first year premiums represents management's focus on expanding final expense production by contracting new, independent agents in expanded locations.

Net Investment Income

The major components of our net investment income for the three months ended September 30, 2019 and 2018 are summarized as follows:

	(Unaudited) Three Months Ended September 30, 2019	2018	Amount Change 2019 less 2018
Fixed maturity securities	$ 1,985,449	$ 1,492,224	$ 493,225
Preferred stock and equity securities	38,646	24,280	14,366
Other long-term investments	1,284,234	995,100	289,134
Mortgage loans	3,406,458	2,877,910	528,548
Policy loans	35,270	31,055	4,215
Real estate	68,631	94,102	(25,471)
Short-term and other investments	110,503	92,711	17,792
Gross investment income	6,929,191	5,607,382	1,321,809
Investment expenses	(612,849)	(628,351)	(15,502)
Net investment income	$ 6,316,342	$ 4,979,031	$ 1,337,311

The $1,321,809 increase in gross investment income for the three months ended September 30, 2019 is primarily due to increased investments in mortgage loans, fixed maturity securities and other long-term investments. In the twelve months since September 30, 2018, our investments in mortgage loans increased by approximately $35.0 million, fixed maturity securities increased by approximately $60.1 million and other long-term investments increased by approximately $14.5 million.

Net Realized Investment Gains

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

Our net realized investment gains (losses) for the three months ended September 30, 2019 and 2018 are summarized as follows:

	(Unaudited) Three Months Ended September 30, 2019	(Unaudited) Three Months Ended September 30, 2018	Amount Change 2019 less 2018
Fixed maturity securities available-for-sale:			
Sale proceeds	$ 3,107,881	$ 12,320,142	$ (9,212,261)
Amortized cost at sale date	2,767,012	12,114,689	(9,347,677)
Net realized gains	$ 340,869	$ 205,453	$ 135,416
Equity securities sold:			
Sale proceeds	$ -	$ 346,535	$ (346,535)
Cost at sale date	-	320,910	(320,910)
Net realized gains	$ -	$ 25,625	$ (25,625)
Investment real estate:			
Sale proceeds	$ 97,253	$ 206,617	$ (109,364)
Carrying value at sale date	99,218	153,646	(54,428)
Net realized gains (losses)	$ (1,965)	$ 52,971	$ (54,936)
Preferred stock securities available-for-sale:			
Sale proceeds	$ 50,000	$ -	$ 50,000
Amortized cost at sale date	50,000	-	50,000
Net realized gains (losses)	$ -	$ -	$ -
Equity securities, changes in fair value	$ 204	$ (38,990)	$ 39,194
Net realized investment gains	$ 339,108	$ 245,059	$ 94,049

Other Income

The $79,377 increase in other income for the three months ended September 30, 2019 is primarily due to interest income on federal income tax refunds.

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 September 30, 2019 and 2018 are summarized as follows:

	(Unaudited) Three Months Ended September 30,		Amount Change
	2019	2018	2019 less 2018
Benefits and claims			
Increase in future policy benefits	$ 2,231,442	$ 1,719,073	$ 512,369
Death benefits	1,762,961	876,629	886,332
Surrenders	204,932	203,287	1,645
Interest credited to policyholders	3,123,621	2,329,858	793,763
Dividend, endowment and supplementary life contract benefits	63,101	64,339	(1,238)
Total benefits and claims	7,386,057	5,193,186	2,192,871
Expenses			
Policy acquisition costs deferred	(2,409,231)	(1,673,638)	(735,593)
Amortization of deferred policy acquisition costs	997,249	682,295	314,954
Amortization of value of insurance business acquired	69,717	83,935	(14,218)
Commissions	2,348,478	1,934,194	414,284
Other underwriting, insurance and acquisition expenses	1,931,334	1,849,373	81,961
Total expenses	2,937,547	2,876,159	61,388
Total benefits, claims and expenses	$ 10,323,604	$ 8,069,345	$ 2,254,259

The $2,254,259 increase in total benefits, claims and expenses for the three months ended September 30, 2019 is discussed below.

Benefits and Claims

The $2,192,871 increase in benefits and claims for the three months ended September 30, 2019 is primarily due to the following:

- $886,332 increase in death benefits is primarily due to approximately $824,000 of increased final expense settlements, $64,000 of increased ordinary life settlements and $26,000 of decreased ceded claims that exceeded $27,500 of increased ceded claims in the course of settlement.

- $793,763 increase in interest credited to policyholders is primarily due to an increase in the crediting rate on new annuity production and an increase of approximately $72.2 million in the amount of policyholders' account balances in the consolidated statement of financial position (increased deposits and interest credited in excess of withdrawals) since September 30, 2018.

- $512,369 increase in future policy benefits is primarily due to the increased number of life policies in force and the aging of existing life policies.

Deferral and Amortization of Deferred Acquisition Costs

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

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

For the three months ended September 30, 2019 and 2018, capitalized costs were $2,409,231 and $1,673,638, respectively. Amortization of deferred policy acquisition costs for the three months ended September 30, 2019 and 2018 were $997,249 and $682,295, respectively.

The $735,593 increase in the 2019 acquisition costs deferred primarily relates to increased first year final expense and ordinary life production and deferral of increased eligible first year final expense and ordinary life commissions. The $314,954 increase in 2019 amortization of deferred acquisition costs is primarily due to increased death benefits.

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 $69,717 and $83,935 for the three months ended September 30, 2019 and 2018, respectively.

Commissions

Our commissions for the three months ended September 30, 2019 and 2018 are summarized as follows:

	(Unaudited) Three Months Ended September 30, 2019	(Unaudited) Three Months Ended September 30, 2018	Amount Change 2019 less 2018
Annuity	$ 163,533	$ 266,812	$ (103,279)
Ordinary life first year	348,134	60,317	287,817
Ordinary life renewal	13,332	13,513	(181)
Final expense first year	1,459,235	1,297,176	162,059
Final expense renewal	364,244	296,376	67,868
Total commissions	$ 2,348,478	$ 1,934,194	$ 414,284

The $414,284 increase in commissions for the three months ended September 30, 2019 is primarily due to a $287,817 increase in ordinary life first year commissions (corresponding to a $253,897 increase in ordinary life first year premiums) and a $162,059 increase in final expense first year commissions (corresponding to a $141,168 increase in final expense first year premiums) that exceeded a $103,279 decrease in annuity commissions (corresponding to a $1,626,333 decrease in annuity considerations net of coinsurance).

Federal Income Taxes

FTFC filed its 2017 and 2018 consolidated federal income tax return with TLIC, FBLIC and FTCC since by 2017 all companies had been members of a consolidated group for five years. Prior to 2017, FTFC filed consolidated federal income tax returns with FTCC and from 2012 to 2016 TLIC and FBLIC filed separate consolidated federal income tax returns as a life insurance company.

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 September 30, 2019, current income tax expense was $124,807. For the three months ended September 30, 2019 and 2018, deferred federal income tax expense was $341,202 and $409,687, respectively.

Net Income Per Common Share Basic and Diluted

Net income was $1,770,864 ($0.23 per common share basic and diluted) and $1,524,759 ($0.20 per common share basic and diluted) for the three months ended September 30, 2019 and 2018, respectively. Net income per common share basic and diluted is calculated using the weighted average number of common shares outstanding during the period. The weighted average outstanding common shares basic and diluted for the three months ended September 30, 2019 and 2018 were 7,802,593.

Business Segments

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

The revenues and income before federal income taxes from our business segments for the three months ended September 30, 2019 and 2018 are summarized as follows:

	(Unaudited) Three Months Ended September 30, 2019	(Unaudited) Three Months Ended September 30, 2018	Amount Change 2019 less 2018
Revenues:			
Life insurance operations	$ 6,756,186	$ 5,556,358	$ 1,199,828
Annuity operations	5,658,205	4,346,120	1,312,085
Corporate operations	146,086	101,313	44,773
Total	$ 12,560,477	$ 10,003,791	$ 2,556,686
Income before federal income taxes:			
Life insurance operations	$ (28,606)	$ 305,976	$ (334,582)
Annuity operations	2,144,230	1,522,702	621,528
Corporate operations	121,249	105,768	15,481
Total	$ 2,236,873	$ 1,934,446	$ 302,427

Life Insurance Operations

The $1,199,828 increase in revenues from Life Insurance Operations for the three months ended September 30, 2019 is primarily due to the following:

- $1,053,521 increase in premiums

- $76,974 increase in net investment income

- $72,344 increase in service fees and other income
- $3,011 decrease in net realized investment gains

The $334,582 decreased profitability from Life Insurance Operations for the three months ended September 30, 2019 is primarily due to the following:

- $886,332 increase in death benefits
- $517,563 increase in commissions
- $512,369 increase in future policy benefits
- $195,350 increase in other underwriting, insurance and acquisition expenses
- $3,011 decrease in net realized investment gains
- $1,645 increase in surrenders
- $1,238 decrease in dividend, endowment and supplementary life contract benefits
- $7,110 decrease in amortization of value of insurance business acquired
- $72,344 increase in service fees and other income
- $76,974 increase in net investment income
- $570,501 increase in policy acquisition costs deferred net of amortization
- $1,053,521 increase in premiums

Annuity Operations

The $1,312,085 increase in revenues from Annuity Operations for the three months ended September 30, 2019 is due to the following:

- $1,219,350 increase in net investment income
- $97,060 increase in net realized investment gains
- $4,325 decrease in service fees and other income

The $621,528 increased profitability from Annuity Operations for the three months ended September 30, 2019 is due to the following:

- $1,219,350 increase in net investment income
- $142,681 decrease in other underwriting, insurance and acquisition expenses
- $103,279 decrease in commissions
- $97,060 increase in net realized investment gains
- $7,108 decrease in amortization of value of insurance business acquired
- $4,325 decrease in service fees and other income

- $149,862 decrease in policy acquisition costs deferred net of amortization
- $793,763 increase in interest credited to policyholders

Corporate Operations

The $44,773 increase in revenues from Corporate Operations for the three months ended September 30, 2019 is due to $40,987 of increased net investment income and $3,786 of increased service fees and other income.

The $15,481 increase in Corporate Operations profitability for the three months ended September 30, 2019 is primarily due to $40,987 of increased net investment income and $3,786 of increased service fees and other income that exceeded $29,292 of increased operating expenses.

Results of Operations – Nine Months Ended September 30, 2019 and 2018

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 nine months ended September 30, 2019 and 2018 are summarized as follows:

	(Unaudited) Nine Months Ended September 30,		Amount Change
	2019	2018	2019 less 2018
Premiums	$ 16,831,658	$ 13,760,857	$ 3,070,801
Net investment income	18,172,841	14,701,414	3,471,427
Net realized investment gains	325,196	269,531	55,665
Service fees	1,079,780	300,035	779,745
Other income	154,093	58,149	95,944
Total revenues	$ 36,563,568	$ 29,089,986	$ 7,473,582

The $7,473,582 increase in total revenues for the nine months ended September 30, 2019 is discussed below.

Premiums

Our premiums for the nine months ended September 30, 2019 and 2018 are summarized as follows:

	(Unaudited) Nine Months Ended September 30, 2019	2018	Amount Change 2019 less 2018
Ordinary life first year	$ 1,023,783	$ 175,105	$ 848,678
Ordinary life renewal	1,575,689	1,574,714	975
Final expense first year	3,564,782	3,349,181	215,601
Final expense renewal	10,539,913	8,515,909	2,024,004
Supplementary contracts with life contingencies	127,491	145,948	(18,457)
Total premiums	$ 16,831,658	$ 13,760,857	$ 3,070,801

The $3,070,801 increase in premiums for the nine months ended September 30, 2019 is primarily due to the $2,024,004 increase in final expense renewal premiums, $848,678 increase in ordinary life first year premiums and $215,601 increase in final expense first year premiums.

The increase in final expense renewal premiums reflects the persistency of prior years' final expense production. The increase in ordinary life first year premiums primarily reflects ordinary life insurance policies sold in the international market that the Company started assuming in fourth quarter 2018. The increase in final expense first year premiums represents management's focus on expanding final expense production by contracting new, independent agents in expanded locations.

Net Investment Income

The major components of our net investment income for the nine months ended September 30, 2019 and 2018 are summarized as follows:

	(Unaudited) Nine Months Ended September 30, 2019	2018	Amount Change 2019 less 2018
Fixed maturity securities	$ 5,592,131	$ 4,792,648	$ 799,483
Preferred stock and equity securities	106,392	57,397	48,995
Other long-term investments	3,601,231	2,974,163	627,068
Mortgage loans	9,999,923	8,253,828	1,746,095
Policy loans	101,038	90,480	10,558
Real estate	200,441	282,108	(81,667)
Short-term and other investments	605,798	160,392	445,406
Gross investment income	20,206,954	16,611,016	3,595,938
Investment expenses	(2,034,113)	(1,909,602)	124,511
Net investment income	$ 18,172,841	$ 14,701,414	$ 3,471,427

The $3,595,938 increase in gross investment income for the nine months ended September 30, 2019 is primarily due to increases in investments in mortgage loans, fixed maturity securities, other long-term investments and short-term and other investments. In the twelve months since September 30, 2018, our investments in mortgage loans have increased approximately $35.0 million, fixed maturity securities have increased approximately $60.1 million and other long term investments have increased approximately $14.5 million. The increase in short-term and other investments is due to the increase in cash and cash equivalents and higher interest rates offered by the banking institutions.

The $124,511 increase in investment expenses for the nine months ended September 30, 2019 is primarily related to increased production of investments in mortgage loans on real estate.

Net Realized Investment Gains

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

Our net realized investment gains (losses) for the nine months ended September 30, 2019 and 2018 are summarized as follows:

	(Unaudited) Nine Months Ended September 30,		Amount Change
	2019	2018	2019 less 2018
Fixed maturity securities available-for-sale:			
Sale proceeds	$ 21,235,794	$ 20,809,074	$ 426,720
Amortized cost at sale date	20,885,763	20,564,144	321,619
Net realized gains	$ 350,031	$ 244,930	$ 105,101
Equity securities sold:			
Sale proceeds	$ 19,371	$ 361,947	$ (342,576)
Cost at sale date	6,999	336,215	(329,216)
Net realized gains	$ 12,372	$ 25,732	$ (13,360)
Investment real estate:			
Sale proceeds	$ 350,817	$ 261,470	$ 89,347
Carrying value at sale date	394,002	209,821	184,181
Net realized gains (losses)	$ (43,185)	$ 51,649	$ (94,834)
Preferred stock securities available-for-sale:			
Sale proceeds	$ 50,000	$ -	$ 50,000
Carrying value at sale date	50,000	-	50,000
Net realized gains (losses)	$ -	$ -	$ -
Equity securities, changes in fair value	$ 5,978	$ (52,780)	$ 58,758
Net realized investment gains	$ 325,196	$ 269,531	$ 55,665

Service Fees

The $779,745 increase in service fees for the nine months ended September 30, 2019 is primarily due to ceding fees related to TLIC's annuity coinsurance agreement with an offshore annuity and life insurance company.

Total Benefits, Claims and Expenses

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

Our benefits, claims and expenses for the nine months ended September 30, 2019 and 2018 are summarized as follows:

	(Unaudited) Nine Months Ended September 30,		Amount Change
	2019	2018	2019 less 2018
Benefits and claims			
Increase in future policy benefits	$ 6,412,219	$ 4,684,724	$ 1,727,495
Death benefits	4,869,866	3,963,815	906,051
Surrenders	801,413	666,128	135,285
Interest credited to policyholders	8,686,026	6,941,291	1,744,735
Dividend, endowment and supplementary life contract benefits	206,891	197,034	9,857
Total benefits and claims	20,976,415	16,452,992	4,523,423
Expenses			
Policy acquisition costs deferred	(9,681,748)	(6,162,096)	(3,519,652)
Amortization of deferred policy acquisition costs	2,839,129	2,677,918	161,211
Amortization of value of insurance business acquired	224,708	255,424	(30,716)
Commissions	9,644,315	5,963,852	3,680,463
Other underwriting, insurance and acquisition expenses	7,054,193	4,981,401	2,072,792
Total expenses	10,080,597	7,716,499	2,364,098
Total benefits, claims and expenses	$ 31,057,012	$ 24,169,491	$ 6,887,521

The $6,887,521 increase in total benefits, claims and expenses for the nine months ended September 30, 2019 is discussed below.

Benefits and Claims

The $4,523,423 increase in benefits and claims for the nine months ended September 30, 2019 is primarily due to the following:

- $1,744,735 increase in interest credited to policyholders is primarily due to an increase in the crediting rate on new annuity production and an increase of approximately $72.2 million in the amount of policyholders' account balances in the consolidated statement of financial position (increased deposits and interest credited in excess of withdrawals) since September 30, 2018.

- $1,727,495 increase in future policy benefits is primarily due to the increased number of life policies in force and the aging of existing life policies.

- $906,051 increase in death benefits is primarily due to approximately $971,000 of increased final expense settlements that exceeded $15,000 of increased ceded claims, $24,000 of decreased ordinary life settlements and $29,500 of increased ceded claims in the course of settlement.

- $135,285 increase in surrenders corresponded to lapsation decisions of ordinary life policyholders.

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 nine months ended September 30, 2019 and 2018, capitalized costs were $9,681,748 and $6,162,096, respectively. Amortization of deferred policy acquisition costs for the nine months ended September 30, 2019 and 2018 were $2,839,129 and $2,677,918, respectively.

The $3,519,652 increase in the 2019 acquisition costs deferred primarily relates to increased annuity, first year final expense and first year ordinary life production resulting in increased annuity, first year final expense and first year ordinary life commissions available for deferral. The $161,211 increase in the 2019 amortization of deferred acquisition costs is primarily due to increased death benefits.

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 $224,708 and $255,424 for the nine months ended September 30, 2019 and 2018, respectively.

Commissions

Our commissions for the nine months ended September 30, 2019 and 2018 are summarized as follows:

	(Unaudited) Nine Months Ended September 30,		Amount Change
	2019	2018	2019 less 2018
Annuity	$ 3,202,506	$ 909,591	$ 2,292,915
Ordinary life first year	1,113,248	160,536	952,712
Ordinary life renewal	39,621	46,150	(6,529)
Final expense first year	4,250,781	4,011,656	239,125
Final expense renewal	1,038,159	835,919	202,240
Total commissions	$ 9,644,315	$ 5,963,852	$ 3,680,463

The $3,680,463 increase in commissions for the nine months ended September 30, 2019 is primarily due to a $2,292,915 increase in annuity commissions (corresponding to a $74,598,082 increase in retained annuity deposits), a $952,712 increase in ordinary life first year commissions (corresponding to an $848,678 increase in ordinary life first year premiums), a $239,125 increase in final expense first year commissions (corresponding to a $215,601 increase in final expense first year premiums) and a $202,240 increase in final expense renewal commissions (corresponding to a $2,024,004 increase in final expense renewal premiums).

Other Underwriting, Insurance and Acquisition Expenses

The $2,072,792 increase in other underwriting, insurance and acquisition expenses for the nine months ended September 30, 2019 was primarily related to increased bonuses to the Company's Chief Executive Officer, increased consulting and legal fees related to the Company's recapitalization initiative and increased third party administration fees primarily related to the increased number of policies in force and increased service requests.

Federal Income Taxes

FTFC filed its 2017 and 2018 consolidated federal income tax return with TLIC, FBLIC and FTCC since by 2017 all companies had been members of a consolidated group for five years. Prior to 2017, FTFC filed consolidated federal income tax returns with FTCC and from 2012 to 2016 TLIC and FBLIC filed separate consolidated federal income tax returns as a life insurance company.

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 nine months ended September 30, 2019, current income tax expense was $825,861. Deferred federal income tax expense was $354,069 and $1,055,978 for the nine months ended September 30, 2019 and 2018, respectively.

Net Income Per Common Share Basic and Diluted

Net income was $4,326,626 ($0.55 per common share basic and diluted) and $3,864,517 ($0.50 per common share basic and diluted) for the nine months ended September 30, 2019 and 2018, respectively.

Net income per common share basic and diluted is calculated using the weighted average number of common shares outstanding and subscribed during the period. The weighted average outstanding common shares basic and diluted for both the nine months ended September 30, 2019 and 2018 were 7,802,593.

Business Segments

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

The revenues and income before federal income taxes from our business segments for the nine months ended September 30, 2019 and 2018 are summarized as follows:

	(Unaudited) Nine Months Ended September 30, 2019	(Unaudited) Nine Months Ended September 30, 2018	Amount Change 2019 less 2018
Revenues:			
Life insurance operations	$ 19,720,057	$ 16,095,222	$ 3,624,835
Annuity operations	16,339,063	12,647,899	3,691,164
Corporate operations	504,448	346,865	157,583
Total	$ 36,563,568	$ 29,089,986	$ 7,473,582
Income before income taxes:			
Life insurance operations	$ 235,858	$ 605,498	$ (369,640)
Annuity operations	4,892,901	4,013,123	879,778
Corporate operations	377,797	301,874	75,923
Total	$ 5,506,556	$ 4,920,495	$ 586,061

Life Insurance Operations

The $3,624,835 increase in revenues from Life Insurance Operations for the nine months ended September 30, 2019 is primarily due to the following:

- $3,070,801 increase in premiums
- $469,589 increase in net investment income
- $86,590 increase in service fees and other income
- $2,145 decrease in net realized investment gains

The $369,640 decreased profitability from Life Insurance Operations for the nine months ended September 30, 2019 is primarily due to the following:

- $1,727,495 increase in future policy benefits
- $1,387,548 increase in commissions
- $1,037,857 increase in other underwriting, insurance and acquisition expenses
- $906,051 increase in death benefits
- $135,285 increase in surrenders
- $9,857 increase in dividend, endowment and supplementary life contract benefits
- $2,145 decrease in net realized investment gains
- $15,358 decrease in amortization of value of insurance business acquired
- $86,590 increase in service fees and other income
- $469,589 increase in net investment income
- $1,194,260 increase in policy acquisition costs deferred net of amortization
- $3,070,801 increase in premiums

Annuity Operations

The $3,691,164 increase in revenues from Annuity Operations for the nine months ended September 30, 2019 is due to the following:

- $2,843,625 increase in net investment income
- $789,729 increase in service fees and other income
- $57,810 increase in net realized investment gains

The $879,778 increased profitability from Annuity Operations for the nine months ended September 30, 2019 is due to the following:

- $2,843,625 increase in net investment income

- $2,164,181 increase in policy acquisition costs deferred net of amortization
- $789,729 increase in service fees and other income
- $57,810 increase in net realized investment gains
- $15,358 decrease in amortization of value of insurance business acquired
- $953,275 increase in other underwriting, insurance and acquisition expenses
- $1,744,735 increase in interest credited to policyholders
- $2,292,915 increase in commission

Corporate Operations

The $157,583 increase in revenues from Corporate Operations for the nine months ended September 30, 2019 is primarily due to $158,213 of increased net investment income that exceeded $630 of decreased service fees and other income.

The $75,923 increased Corporate Operations profitability for the nine months ended September 30, 2019 is primarily due to $158,213 of increased net investment income that exceeded $630 of decreased service fees and other income and $81,660 of increased operating expenses.

Consolidated Financial Condition

Our invested assets as of September 30, 2019 and December 31, 2018 are summarized as follows:

	(Unaudited) September 30, 2019	December 31, 2018	Amount Change 2019 less 2018
Assets			
Investments			
Available-for-sale fixed maturity securities at fair value (amortized cost: $178,477,818 and $134,414,517 as of September 30, 2019 and December 31, 2018, respectively)	$ 192,946,789	$ 131,152,199	$ 61,794,590
Available-for-sale preferred stock at fair value (cost: $49,945 and $99,945 as of September 30, 2019 and December 31, 2018, respectively)	51,320	90,580	(39,260)
Equity securities at fair value (cost: $182,186 and $187,122 as of September 30, 2019 and December 31, 2018, respectively)	199,710	198,668	1,042
Mortgage loans on real estate	156,504,177	130,049,610	26,454,567
Investment real estate	1,988,131	2,392,031	(403,900)
Policy loans	1,950,680	1,809,339	141,341
Short-term investments	209,045	896,371	(687,326)
Other long-term investments	72,711,634	59,255,477	13,456,157
Total investments	$ 426,561,486	$ 325,844,275	$ 100,717,211

The $61,794,590 increase and $16,844,121 decrease in fixed maturity available-for-sale securities for the nine months ended September 30, 2019 and 2018, respectively, are summarized as follows:

	(Unaudited) Nine Months Ended September 30, 2019	2018
Fixed maturity securities, available-for-sale, beginning	$ 131,152,199	$ 149,683,139
Purchases	65,392,840	11,958,357
Unrealized appreciation (depreciation)	17,731,289	(7,773,581)
Net realized investment gains	350,031	244,930
Sales proceeds	(17,585,794)	(15,933,074)
Maturities	(3,650,000)	(4,876,000)
Premium amortization	(443,776)	(464,753)
Increase (decrease)	61,794,590	(16,844,121)
Fixed maturity securities, available-for-sale, ending	$ 192,946,789	$ 132,839,018

Fixed maturity securities available-for-sale are reported at fair value with unrealized gains and losses, net of applicable income taxes, reflected as a separate component in shareholders' equity within “Accumulated Other Comprehensive Income (Loss).” The available-for-sale fixed maturity securities portfolio is invested primarily in a variety of companies, U. S. government and government agencies, states and political subdivisions, asset-backed securities and foreign securities.

The $39,260 and $2,540 decreases in preferred stock available-for-sale for the nine months ended September 30, 2019 and 2018, respectively, are summarized as follows:

	(Unaudited) Nine Months Ended September 30, 2019	2018
Preferred stock, available-for-sale, beginning	$ 90,580	$ 100,720
Unrealized appreciation (depreciation)	10,740	(2,540)
Sales proceeds	(50,000)	-
Decrease	(39,260)	(2,540)
Preferred stock, available-for-sale, ending	$ 51,320	$ 98,180

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

The $1,042 increase and $370,044 decrease in equity securities for the nine months ended September 30, 2019 and 2018, respectively, are summarized as follows:

	(Unaudited)	
	Nine Months Ended September 30,	
	2019	2018
Equity securities, beginning	$ 198,668	$ 571,427
Purchases	92,956	53,828
Sales proceeds	(19,371)	(361,947)
Joint venture distribution	(90,893)	(34,877)
Net realized investment gains, sale of securities	12,372	25,732
Net realized investment gains (losses), changes in fair value	5,978	(52,780)
Increase (decrease)	1,042	(370,044)
Equity securities, ending	$ 199,710	$ 201,383

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 $26,454,567 and $19,009,265 increases in mortgage loans on real estate for the nine months ended September 30, 2019 and 2018, respectively, are summarized as follows:

	(Unaudited)	
	Nine Months Ended September 30,	
	2019	2018
Mortgage loans on real estate, beginning	$ 130,049,610	$ 102,496,451
Purchases	57,015,493	47,077,889
Discount accretion	281,203	437,832
Payments	(30,648,943)	(28,034,586)
Foreclosed - transfer to real estate	(99,218)	(378,411)
Increase in allowance for bad debts	(73,783)	(61,083)
Amortization of loan origination fees	(20,185)	(32,376)
Increase	26,454,567	19,009,265
Mortgage loans on real estate, ending	$ 156,504,177	$ 121,505,716

The $403,900 decrease and $59,474 increase in investment real estate for the nine months ended September 30, 2019 and 2018, respectively, are summarized as follows:

	(Unaudited)	
	Nine Months Ended September 30,	
	2019	2018
Investment real estate, beginning	$ 2,392,031	$ 2,382,966
Real estate acquired through mortgage loan foreclosure	99,218	378,411
Sales proceeds	(350,817)	(261,470)
Depreciation of building	(109,116)	(109,116)
Net realized investment gains (losses)	(43,185)	51,649
Increase (decrease)	(403,900)	59,474
Investment real estate, ending	$ 1,988,131	$ 2,442,440

The $13,456,157 and $2,441,130 increases in other long-term investments (composed of lottery receivables) for the nine months ended September 30, 2019 and 2018, respectively, are summarized as follows:

	(Unaudited) Nine Months Ended September 30, 2019	2018
Other long-term investments, beginning	$ 59,255,477	$ 55,814,583
Purchases	17,590,689	6,068,995
Accretion of discount	3,603,335	2,978,394
Payments	(7,737,867)	(6,606,259)
Increase	13,456,157	2,441,130
Other long-term investments, ending	$ 72,711,634	$ 58,255,713

Our assets other than invested assets as of September 30, 2019 and December 31, 2018 are summarized as follows:

	(Unaudited) September 30, 2019	December 31, 2018	Amount Change 2019 less 2018
Cash and cash equivalents	$ 14,083,748	$ 29,665,605	$ (15,581,857)
Accrued investment income	5,170,977	2,672,978	2,497,999
Recoverable from reinsurers	1,161,862	2,323,157	(1,161,295)
Assets held in trust under coinsurance agreement	104,509,053	25,494,700	79,014,353
Agents' balances and due premiums	1,751,485	1,418,916	332,569
Deferred policy acquisition costs	36,492,172	29,681,737	6,810,435
Value of insurance business acquired	4,961,162	5,185,870	(224,708)
Other assets	9,298,364	11,219,612	(1,921,248)
Assets other than investment assets	$ 177,428,823	$ 107,662,575	$ 69,766,248

The $15,581,857 decrease in cash and cash equivalents is discussed below in the "Liquidity and Capital Resources" section where cash flows are addressed.

The $79,014,353 increase in assets held in trust under the coinsurance agreement is due to assets acquired under TLIC's annuity coinsurance agreement with an offshore annuity and life insurance company that is administered on a funds withheld basis.

The increases in deferred policy acquisition costs for the nine months ended September 30, 2019 and 2018, respectively, are summarized as follows:

	(Unaudited) Nine Months Ended September 30, 2019	2018
Balance, beginning of year	$ 29,681,737	$ 24,555,902
Capitalization of commissions, sales and issue expenses	9,681,748	6,162,096
Amortization	(2,839,129)	(2,677,918)
Deferred acquisition costs allocated to investments	(32,184)	132,210
Balance, end of year	$ 36,492,172	$ 28,172,290

Our other assets as of September 30, 2019 and December 31, 2018 are summarized as follows:

	(Unaudited) September 30, 2019	December 31, 2018	Amount Change 2019 less 2018
Advances to mortgage loan originator	$ 4,636,498	$ 4,942,870	$ (306,372)
Federal and state income taxes recoverable	3,480,223	4,492,793	(1,012,570)
Notes receivable	446,049	446,978	(929)
Accrual of mortgage loan and long-term investment payments due	2,079	1,045,634	(1,043,555)
Receivable for securities sold	235,000	33,600	201,400
Guaranty funds	78,130	69,740	8,390
Lease asset - right to use	102,281	-	102,281
Other receivables, prepaid assets and deposits	318,104	187,997	130,107
Total other assets	$ 9,298,364	$ 11,219,612	$ (1,921,248)

During second quarter 2019 the Company changed its accounting practice and no longer accrued the principal collections on mortgage loans causing the change in this accrual of $1,043,555.

There was a $1,012,570 decrease in federal and state income taxes recoverable primarily due to the settlement of the 2017 federal tax refund that exceeded the federal tax and state tax withholdings on lottery receivables.

There was a $306,372 decrease in advances to one mortgage loan originator who acquires residential mortgage loans for our life insurance companies.

The Company reported a lease asset of $102,281 as of September 30, 2019, in accordance with the lease guidance adopted in 2019.

The increase in other receivables, prepaid assets and deposits of $130,107 was primarily due to an additional $125,000 deposit to further fund and complete the acquisition of a Barbados, West Indies domiciled life insurance company that will soon be approved by local country regulators.

As of September 30, 2019, the Company had $235,000 of security sales where the trade date and settlement date were in different financial reporting periods compared to $33,600 of security sales overlapping financial reporting periods as of December 31, 2018.

On April 15, 2019, the Company renewed its previous one-year loan of $400,000 to its former Chairman. The renewed loan has a term of one year and a contractual interest rate of 5.00%. The loan is collateralized by 100,000 shares of the Company’s Class A Common stock owned by the former Chairman.

Our liabilities as of September 30, 2019 and December 31, 2018 are summarized as follows:

	(Unaudited) September 30, 2019	December 31, 2018	Amount Change 2019 less 2018
Policy liabilities			
Policyholders' account balances	$ 366,988,490	$ 297,168,411	$ 69,820,079
Future policy benefits	62,651,571	56,261,507	6,390,064
Policy claims	1,453,417	1,102,257	351,160
Other policy liabilities	71,365	72,559	(1,194)
Total policy liabilities	431,164,843	354,604,734	76,560,109
Funds withheld under coinsurance agreement	105,200,731	29,285,119	75,915,612
Deferred federal income taxes	6,446,615	2,373,478	4,073,137
Other liabilities	3,735,466	8,118,268	(4,382,802)
Total liabilities	$ 546,547,655	$ 394,381,599	$ 152,166,056

The $69,820,079 and $1,829,112 increases in policyholders' account balances for the nine months ended September 30, 2019 and 2018, respectively, are summarized as follows:

	(Unaudited) Nine Months Ended September 30, 2019	2018
Policyholders' account balances, beginning	$ 297,168,411	$ 292,909,762
Deposits	162,175,450	35,533,959
Withdrawals	(30,178,584)	(21,925,881)
Funds withheld under coinsurance agreement	(75,915,612)	(18,720,257)
Funds withheld amounts due to reinsurer	5,052,799	-
Interest credited	8,686,026	6,941,291
Increase	69,820,079	1,829,112
Policyholders' account balances, ending	$ 366,988,490	$ 294,738,874

The $6,390,064 increase in future policy benefits during the nine months ended September 30, 2019 is primarily related to the production of new life insurance policies and the aging of existing policies.

The $4,073,137 increase in deferred federal income taxes during the nine months ended September 30, 2019 was due to $3,719,068 of increased deferred federal income taxes on the unrealized appreciation of fixed maturity and preferred stock available-for-sale and $354,069 of operating deferred federal tax expense.

The $75,915,612 increase in funds withheld under coinsurance agreement is due to the liability related to TLIC's annuity coinsurance agreement with an offshore annuity and life insurance company.

Our other liabilities as of September 30, 2019 and December 31, 2018 are summarized as follows:

	(Unaudited) September 30, 2019	December 31, 2018	Amount Change 2019 less 2018
Suspense accounts payable	$ 84,541	$ 7,379,975	$ (7,295,434)
Accounts payable	94,481	47,309	47,172
Accrued expenses payable	580,000	668,000	(88,000)
Payable for securities purchased	-	393,762	(393,762)
Guaranty fund assessments	38,000	35,000	3,000
Unearned investment income	67,098	71,234	(4,136)
Deferred revenue	10,830	18,953	(8,123)
Unclaimed funds	39,095	39,325	(230)
Lease liability	102,281	-	102,281
Mortgage loans suspense	3,417,175	-	3,417,175
Other payables, withholdings and escrows	(698,035)	(535,290)	(162,745)
Total other liabilities	$ 3,735,466	$ 8,118,268	$ (4,382,802)

The $7,295,434 decrease in suspense accounts payable is due to decreased deposits on policy applications that had not been issued as of the financial reporting date.

As of September 30, 2019, the Company had no security purchases where the trade date and settlement date were in different financial reporting periods compared to $393,762 of security purchases overlapping financial reporting periods as of December 31, 2018.

The $162,745 decline in other payables, withholdings and escrows is primarily due to an increase in escrow amounts on purchased mortgage loans due from previous servicers.

The Company reported a lease liability of $102,281 as of September 30, 2019, in accordance with the lease guidance adopted in 2019.

The Company changed its accounting practice and no longer reclassified its mortgage loan suspense account causing this change of $3,417,175.

Liquidity and Capital Resources

Our operations have been financed primarily through the private placement of equity securities and intrastate public stock offerings. Through September 30, 2019, we have received $27,119,480 from the sale of our shares.

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

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

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

As of September 30, 2019, we had cash and cash equivalents totaling $14,083,748. As of September 30, 2019, cash and cash equivalents of $3,987,530 and $6,918,302, respectively, totaling $10,905,832 were held by TLIC and FBLIC and may not be available for use by FTFC due to the required pre-approval by the OID and Missouri Department of Insurance of any dividend or intercompany transaction to transfer funds to FTFC. The maximum dividend, which may be paid in any twelve-month period without notification or approval, is limited to the greater of 10% of statutory surplus as of December 31 of the preceding year or the net gain from operations of the preceding calendar year.

Cash dividends may only be paid out of surplus derived from realized net profits. Based on these limitations, there is capacity for TLIC to pay a dividend up to $2,073,443 in 2019 without prior approval. In addition, based on those limitations, there is the capacity for FBLIC to pay a dividend up to $988,218 in 2019 without prior approval. FBLIC paid dividends of $760,347 to TLIC in 2018 but none in 2019. TLIC has paid no dividends to FTFC in 2019 and 2018.

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 $7,954,113 and $14,663,402 as of September 30, 2019 and December 31, 2018, respectively. Other funds are invested in mutual funds that invest in U.S. government securities. We monitor the solvency of all financial institutions in which we have funds to minimize the exposure for loss. The Company has not experienced any losses in such accounts.

On November 8, 2019, the Company renewed its $1.5 million line of credit with a bank to continue providing working capital and funds for expansion. The terms of the line of credit will allow for advances, repayments and re-borrowings through a maturity date of September 15, 2020. Any outstanding advances will incur interest at a variable interest rate of the prime rate set forth in the Wall Street Journal plus 1% per annum adjusting monthly based on a 360 day year with a minimum interest rate floor of 5%. No amounts were outstanding on this line of credit as of September 30, 2019 and December 31, 2018.

Our cash flows for the nine months ended September 30, 2019 and 2018 are summarized as follows:

	(Unaudited) Nine Months Ended September 30, 2019	(Unaudited) Nine Months Ended September 30, 2018	Amount Change 2019 less 2018
Net cash used in operating activities	$ (72,078,066)	$ (6,096,691)	$ (65,981,375)
Net cash used in investing activities	(80,553,456)	(9,093,884)	(71,459,572)
Net cash provided by financing activities	137,049,665	13,608,078	123,441,587
Decrease in cash and cash equivalents	(15,581,857)	(1,582,497)	(13,999,360)
Cash and cash equivalents, beginning of period	29,665,605	31,496,159	(1,830,554)
Cash and cash equivalents, end of period	$ 14,083,748	$ 29,913,662	$ (15,829,914)

The $72,078,066 and $6,096,691 used in operating activities for the nine months ended September 30, 2019 and 2018, respectively, are summarized as follows:

	(Unaudited) Nine Months Ended September 30, 2019	(Unaudited) Nine Months Ended September 30, 2018	Amount Change 2019 less 2018
Premiums collected	$ 16,791,618	$ 13,755,081	$ 3,036,537
Net investment income collected	13,273,500	12,116,494	1,157,006
Service fees and other income collected	1,233,874	358,184	875,690
Death benefits paid	(3,357,411)	(4,516,669)	1,159,258
Surrenders paid	(801,413)	(666,128)	(135,285)
Dividends and endowments paid	(208,491)	(199,435)	(9,056)
Commissions paid	(9,937,486)	(5,988,077)	(3,949,409)
Other underwriting, insurance and acquisition expenses paid	(3,654,380)	(6,888,595)	3,234,215
Taxes received (paid)	186,709	(1,538,560)	1,725,269
Decreased advances to mortgage loan originator	306,372	262,468	43,904
Increased (decreased) deposits of pending policy applications	(7,295,434)	2,878,911	(10,174,345)
Increased assets held in trust under coinsurance agreement	(79,014,353)	(15,831,355)	(63,182,998)
Decreased short-term investments	687,326	412,006	275,320
Increased policy loans	(141,341)	(95,095)	(46,246)
Increased deposits	(125,000)	(125,000)	-
Other	(22,156)	(30,921)	8,765
Cash used in operating activities	$ (72,078,066)	$ (6,096,691)	$ (65,981,375)

Please see the statements of cash flows for the nine months ended September 30, 2019 and 2018 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 September 30, 2019 and December 31, 2018 is summarized as follows:

	(Unaudited) September 30, 2019	December 31, 2018	Amount Change 2019 less 2018
Common stock, par value $.01 per share (20,000,000 shares authorized, 8,050,173 issued as of September 30, 2019 and December 31, 2018 and 7,802,593 outstanding as of September 30, 2019 and December 31, 2018)	$ 80,502	$ 80,502	$ -
Additional paid-in capital	28,684,598	28,684,598	-
Treasury stock, at cost (247,580 shares as of September 30, 2019 and December 31, 2018)	(893,947)	(893,947)	-
Accumulated other comprehensive income (loss)	11,414,146	(2,576,631)	13,990,777
Accumulated earnings	18,157,355	13,830,729	4,326,626
Total shareholders' equity	$ 57,442,654	$ 39,125,251	$ 18,317,403

The increase in shareholders’ equity of $18,317,403 for the nine months ended September 30, 2019 is due to $13,990,777 in other comprehensive income and $4,326,626 in net income.

Equity per common share outstanding increased 46.9% from $5.01 per share as of December 31, 2018 to $7.36 per share as of September 30, 2019, based upon 7,802,593 common shares outstanding as of both September 30, 2019 and December 31, 2018.

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 2019 or 2018. 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 $14,470,346 and ($3,271,683) as of September 30, 2019 and December 31, 2018, respectively, prior to the impact of income taxes and deferred acquisition cost adjustments. An increase of $18,092,060 in unrealized gains arising for the nine months ended September 30, 2019 and 2019 net realized investment gains of $350,031 originating from the sale and call activity for fixed maturity securities available-for-sale resulting in net unrealized gains on investments of $17,742,029.

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 September 30, 2019, 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 6.4% 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 2018, 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 September 30, 2019, the Company has outstanding advances to this loan originator totaling $4,636,498. The advances are secured by $6,454,400 of residential mortgage loans on real estate that are assigned to the Company. The Company has committed to fund up to an additional $1,863,502 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 September 30, 2019, $1,136,128 of additional and secured residential mortgage loan balances on real estate are held in escrow by the Company. As of September 30, 2019, $851,208 of that escrow amount is available to the Company as additional collateral on $4,636,498 of advances to the loan originator. The remaining September 30, 2019 escrow amount of $284,920 is available to the Company as additional collateral on its investment of $56,983,924 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 September 30, 2019 will be sufficient to fund our anticipated operating expenses.

Off-Balance Sheet Arrangements

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

SPECIAL NOTE CONCERNING FORWARD-LOOKING STATEMENTS

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

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

- general economic conditions and financial factors, including the performance and fluctuations of fixed income, equity, real estate, credit capital and other financial markets;
- differences between actual experience regarding mortality, morbidity, persistency, surrenders, investment returns, and our pricing assumptions establishing liabilities and reserves or for other purposes;
- the effect of increased claims activity from natural or man-made catastrophes, pandemic disease, or other events resulting in catastrophic loss of life;
- adverse determinations in litigation or regulatory matters and our exposure to contingent liabilities, including and in connection with our divestiture or winding down of businesses such as FTCC;
- inherent uncertainties in the determination of investment allowances and impairments and in the determination of the valuation allowance on the deferred income tax asset;
- investment losses and defaults;

- competition in our product lines;
- attraction and retention of qualified employees and agents;
- ineffectiveness of risk management policies and procedures in identifying, monitoring and managing risks;
- the availability, affordability and adequacy of reinsurance protection;
- the effects of emerging claim and coverage issues;
- the cyclical nature of the insurance business;
- interest rate fluctuations;
- changes in our experiences related to deferred policy acquisition costs;
- the ability and willingness of counterparties to our reinsurance arrangements and derivative instruments to pay balances due to us;
- impact of medical epidemics and viruses;
- domestic or international military actions;
- the effects of extensive government regulation of the insurance industry;
- changes in tax and securities law;
- changes in statutory or U.S. generally accepted accounting principles ("GAAP"), practices or policies;
- regulatory or legislative changes or developments;
- the effects of unanticipated events on our disaster recovery and business continuity planning;
- failures or limitations of our computer, data security and administration systems;
- risks of employee error or misconduct;
- the assimilation of life insurance businesses we acquire and the sound management of these businesses; and
- the availability of capital to expand our business.

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 September 30, 2019 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, against former Company Board of Directors member Wayne Pettigrew and Mr. Pettigrew's company, Group & Pension Planners, Inc. (the "Defendants"), concluded on February 17, 2017. The lawsuit was filed in the District Court of Tulsa County, Oklahoma (Case No. CJ-2013-03385). In the lawsuit, the Company alleged that Mr. Pettigrew had defamed the

Company by making untrue statements to certain shareholders of the Company, to the press and to regulators of the state of Oklahoma and had breached his fiduciary duties.

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

Mr. Pettigrew has appealed this decision but has failed to post an appeal bond. As a consequence, the Company and Mr. Zahn are in the process of executing on the judgments against Mr. Pettigrew's assets. The Company and Mr. Zahn have so far collected some property and money in the execution process and will continue to execute on the judgments. Any money or property collected to date during the execution of the judgments are held in an escrow by a third party, have not been reflected in the September 30, 2019 consolidated financial statements and would have to be returned to Mr. Pettigrew in the event the judgments are reversed by the appellate courts.

Prior to being acquired by TLIC, FBLIC developed, marketed, and sold life insurance products known as "Decreasing Term to 95" policies. On January 17, 2013, FBLIC's Board of Directors voted that, effective March 1, 2013, it was not approving, and therefore was not providing, a non-guaranteed dividend for the Decreasing Term to 95 policies since that group of policies was not producing a positive divisible surplus to allow the payment of a non-guaranteed dividend.

On November 22, 2013, a lawsuit was filed in the Circuit Court of Greene County, Missouri asserting claims by two individuals and a class of Missouri residents against FBLIC relating to this decision to not pay a non-guaranteed dividend. A trial was held November 27, 2017 through December 1, 2017 regarding those class and individual claims. During 2018, a settlement was reached by the parties and the Court approved the settlement agreement on June 11, 2018. FBLIC paid $1.85 million to resolve all class and individual claims and all active Decreasing Term to 95 policies for individuals in the class were cancelled.

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

None

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

None

Item 5. Other Information

None

Item 6. Exhibits

31.1	Rule 13a-14(a)/15d-14(a) Certification of Principal Executive Officer
31.2	Rule 13a-14(a)/15d-14(a) Certification of Principal Financial Officer
32.1	Section 1350 Certification of Principal Executive Officer
32.2	Section 1350 Certification of Principal Financial Officer
101.INS**	XBRL Instance

101.SCH**	XBRL Taxonomy Extension Schema
101.CAL**	XBRL Taxonomy Extension Calculation
101.DEF**	XBRL Taxonomy Extension Definition
101.LAB**	XBRL Taxonomy Extension Labels
101.PRE**	XBRL Taxonomy Extension Presentation
**XBRL	Information is furnished and not filed as part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

SIGNATURES

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

FIRST TRINITY FINANCIAL CORPORATION
an Oklahoma corporation

November 14, 2019

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

November 14, 2019

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

EXHIBIT NO. 31.1

CERTIFICATION

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

1. I have reviewed this Quarterly report on Form 10-Q of First Trinity Financial Corporation;

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

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

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

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

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

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

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

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

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

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

Date: November 14, 2019

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: November 14, 2019

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 September 30, 2019 (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: November 14, 2019

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 September 30, 2019 (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: November 14, 2019

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