

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2023

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

For the transition period From _____ to _____.

Commission file number: **000-52613**

FIRST TRINITY FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

Oklahoma

(State or other jurisdiction of incorporation or organization)

34-1991436

(I.R.S. Employer Identification Number)

7633 East 63rd Place, Suite 230

Tulsa, Oklahoma 74133-1246

(Address of principal executive offices)

(918) 249-2438

(Registrant's telephone number, including area code)

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

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

Yes No

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

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

Emerging growth company:

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

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

Yes No

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: As of November 6, 2023, the registrant had 9,384,340 shares of Class A common stock, .01 par value, outstanding and 101,102 shares of Class B common stock, .01 par value, outstanding.

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

FIRST TRINITY FINANCIAL CORPORATION
QUARTERLY REPORT ON FORM 10-Q
FOR QUARTERLY PERIOD ENDED SEPTEMBER 30, 2023

TABLE OF CONTENTS

<u>PART I. FINANCIAL INFORMATION</u>	<u>Page Number</u>
Item 1. Consolidated Financial Statements	
Consolidated Statements of Financial Position as of September 30, 2023 (Unaudited) and December 31, 2022	3
Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2023 and 2022 (Unaudited)	4
Consolidated Statements of Comprehensive Income (Loss) for the Three and Nine Months Ended September 30, 2023 and 2022 (Unaudited)	5
Consolidated Statements of Changes in Shareholders' Equity for the Three and Nine Months Ended September 30, 2023 and 2022 (Unaudited)	6
Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2023 and 2022 (Unaudited)	7
Notes to Consolidated Financial Statements (Unaudited)	9
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	36
Item 4. Controls and Procedures	64
<u>Part II. OTHER INFORMATION</u>	
Item 1. Legal Proceedings	64
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	65
Item 3. Defaults upon Senior Securities	65
Item 4. Mine Safety Disclosures	65
Item 5. Other Information	66
Item 6. Exhibits	66
Signatures	67
Exhibit No. 31.1	
Exhibit No. 31.2	
Exhibit No. 32.1	
Exhibit No. 32.2	
Exhibit No. 101.INS	
Exhibit No. 101.SCH	
Exhibit No. 101.CAL	
Exhibit No. 101.DEF	
Exhibit No. 101.LAB	
Exhibit No. 101.PRE	

PART I – FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

First Trinity Financial Corporation and Subsidiaries
Consolidated Statements of Financial Position

	(Unaudited)	
	September 30, 2023	December 31, 2022
Assets		
Investments		
Available-for-sale fixed maturity securities at fair value (amortized cost: \$162,300,333 and \$144,744,158 as of September 30, 2023 and December 31, 2022, respectively)	\$ 141,653,177	\$ 126,612,890
Equity securities at fair value (cost: \$280,014 and \$276,131 as of September 30, 2023 and December 31, 2022, respectively)	428,115	399,633
Mortgage loans on real estate	237,915,033	242,314,128
Investment real estate	540,436	540,436
Policy loans	3,246,166	2,840,887
Short-term investments	295,174	1,860,578
Other long-term investments	63,135,565	67,500,783
Total investments	447,213,666	442,069,335
Cash and cash equivalents	38,125,864	33,542,725
Accrued investment income	7,034,172	5,580,175
Recoverable from reinsurers	10,434,851	11,102,875
Assets held in trust under coinsurance agreement		
Available-for-sale fixed maturity securities at fair value (amortized cost: \$61,666,054 and \$63,649,991 as of September 30, 2023 and December 31, 2022, respectively)	53,585,417	56,209,040
Mortgage loans on real estate	27,237,561	31,028,575
Short-term investments	-	982,404
Payable for securities	(4,152)	-
Cash and cash equivalents	3,533,597	3,813,750
Total assets held in trust under coinsurance agreement	84,352,423	92,033,769
Agents' balances and due premiums	1,366,434	1,253,077
Deferred policy acquisition costs	60,103,259	56,183,785
Value of insurance business acquired	3,841,318	4,048,105
Other assets	21,871,189	20,050,191
Total assets	\$ 674,343,176	\$ 665,864,037
Liabilities and Shareholders' Equity		
Policy liabilities		
Policyholders' account balances	\$ 404,067,174	\$ 391,359,944
Future policy benefits	119,819,195	110,012,174
Policy claims	1,899,433	2,541,088
Other policy liabilities	298,424	146,217
Total policy liabilities	526,084,226	504,059,423
Funds withheld under coinsurance agreement	84,174,477	92,301,039
Deferred federal income taxes	2,414,458	2,677,411
Other liabilities	6,534,590	15,173,652
Total liabilities	619,207,751	614,211,525
Shareholders' equity		
Class A common stock, par value \$.01 per share (40,000,000 shares authorized as of September 30, 2023 and December 31, 2022, 9,631,920 issued as of September 30, 2023 and December 31, 2022, 9,384,340 outstanding as of September 30, 2023 and December 31, 2022)	96,319	96,319
Class B common stock, par value \$.01 per share (10,000,000 shares authorized, 101,102 issued and outstanding as of September 30, 2023 and December 31, 2022)	1,011	1,011
Additional paid-in capital	43,668,023	43,668,023
Treasury stock, at cost (247,580 shares as of September 30, 2023 and December 31, 2022)	(893,947)	(893,947)
Accumulated other comprehensive loss	(16,306,963)	(14,319,679)
Accumulated earnings	28,570,982	23,100,785
Total shareholders' equity	55,135,425	51,652,512
Total liabilities and shareholders' equity	\$ 674,343,176	\$ 665,864,037

See notes to consolidated financial statements.

First Trinity Financial Corporation and Subsidiaries

Consolidated Statements of Operations

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Revenues				
Premiums	\$ 9,973,566	\$ 9,210,601	\$ 28,681,414	\$ 26,353,521
Net investment income	8,185,934	6,494,679	23,260,146	19,382,791
Net realized investment gains (losses)	23,387	(28,752)	(120,134)	1,060,340
Service fees	1,437,116	1,219,038	3,530,958	1,606,433
Other income	631,074	114,799	639,507	179,071
Total revenues	20,251,077	17,010,365	55,991,891	48,582,156
Benefits, Claims and Expenses				
Benefits and claims				
Increase in future policy benefits	3,733,264	3,742,861	10,216,279	9,919,696
Death benefits	3,235,121	2,814,594	10,344,418	9,706,037
Surrenders	489,729	311,577	1,590,861	1,065,392
Interest credited to policyholders	3,876,088	3,155,921	11,298,057	9,562,478
Dividend, endowment and supplementary life contract benefits	87,733	78,767	256,515	235,616
Total benefits and claims	11,421,935	10,103,720	33,706,130	30,489,219
Policy acquisition costs deferred	(2,987,689)	(3,498,984)	(10,387,913)	(9,760,703)
Amortization of deferred policy acquisition costs	2,189,089	1,956,596	6,468,779	5,410,934
Amortization of value of insurance business acquired	65,288	65,039	206,787	204,003
Commissions	2,962,287	3,338,553	9,955,977	9,074,186
Other underwriting, insurance and acquisition expenses	2,553,166	2,347,717	8,848,007	7,563,216
Total expenses	4,782,141	4,208,921	15,091,637	12,491,636
Total benefits, claims and expenses	16,204,076	14,312,641	48,797,767	42,980,855
Income before total federal income tax expense	4,047,001	2,697,724	7,194,124	5,601,301
Current federal income tax expense	912,430	335,246	1,167,431	337,462
Deferred federal income tax expense (benefit)	(48,657)	322,268	326,460	852,879
Total federal income tax expense	863,773	657,514	1,493,891	1,190,341
Net income	\$ 3,183,228	\$ 2,040,210	\$ 5,700,233	\$ 4,410,960
Net income per common share				
Class A common stock	\$ 0.3361	\$ 0.2154	\$ 0.6019	\$ 0.4658
Class B common stock	\$ 0.2857	\$ 0.1831	\$ 0.5116	\$ 0.3959

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,	
	2023	2022	2023	2022
Net income	\$ 3,183,228	\$ 2,040,210	\$ 5,700,233	\$ 4,410,960
Other comprehensive loss				
Total net unrealized investment losses arising during the period	(4,553,047)	(8,241,879)	(2,841,164)	(36,105,002)
Less net realized investment gains (losses) having no credit losses	15,512	(105,573)	(34,091)	1,032,494
Net unrealized investment losses	(4,568,559)	(8,136,306)	(2,807,073)	(37,137,496)
Less adjustment to deferred acquisition costs	(1,068)	(2,045)	(340)	(12,508)
Other comprehensive loss before federal income tax benefit	(4,567,491)	(8,134,261)	(2,806,733)	(37,124,988)
Federal income tax benefit	(959,172)	(1,708,194)	(589,413)	(7,796,247)
Total other comprehensive loss	<u>(3,608,319)</u>	<u>(6,426,067)</u>	<u>(2,217,320)</u>	<u>(29,328,741)</u>
Total comprehensive income (loss)	<u>\$ (425,091)</u>	<u>\$ (4,385,857)</u>	<u>\$ 3,482,913</u>	<u>\$ (24,917,781)</u>

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, 2023 and 2022
(Unaudited)

	Class A Common Stock \$.01 Par Value	Class B Common Stock \$.01 Par Value	Additional Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Income (loss)	Accumulated Earnings	Total Shareholders' Equity
<u>Three months ended September 30, 2022</u>							
Balance as of July 1, 2022	\$ 96,319	\$ 1,011	\$ 43,668,023	\$ (893,947)	\$ (9,698,847)	\$ 19,286,832	\$ 52,459,391
Comprehensive income (loss):							
Net income	-	-	-	-	-	2,040,210	2,040,210
Other comprehensive loss	-	-	-	-	(6,426,067)	-	(6,426,067)
Balance as of September 30, 2022	<u>\$ 96,319</u>	<u>\$ 1,011</u>	<u>\$ 43,668,023</u>	<u>\$ (893,947)</u>	<u>\$ (16,124,914)</u>	<u>\$ 21,327,042</u>	<u>\$ 48,073,534</u>
<u>Nine months ended September 30, 2022</u>							
Balance as of January 1, 2022	\$ 89,093	\$ 1,011	\$ 39,078,485	\$ (893,947)	\$ 13,203,827	\$ 16,916,082	\$ 68,394,551
Comprehensive income (loss):							
Net income	-	-	-	-	-	4,410,960	4,410,960
Other comprehensive loss	-	-	-	-	(29,328,741)	-	(29,328,741)
Acquisition of Royalty Capital Life Insurance Company	7,226	-	4,589,538	-	-	-	4,596,764
Balance as of September 30, 2022	<u>\$ 96,319</u>	<u>\$ 1,011</u>	<u>\$ 43,668,023</u>	<u>\$ (893,947)</u>	<u>\$ (16,124,914)</u>	<u>\$ 21,327,042</u>	<u>\$ 48,073,534</u>
<u>Three months ended September 30, 2023</u>							
Balance as of July 1, 2023	\$ 96,319	\$ 1,011	\$ 43,668,023	\$ (893,947)	\$ (12,698,644)	\$ 25,387,754	\$ 55,560,516
Comprehensive income (loss):							
Net income	-	-	-	-	-	3,183,228	3,183,228
Other comprehensive loss	-	-	-	-	(3,608,319)	-	(3,608,319)
Balance as of September 30, 2023	<u>\$ 96,319</u>	<u>\$ 1,011</u>	<u>\$ 43,668,023</u>	<u>\$ (893,947)</u>	<u>\$ (16,306,963)</u>	<u>\$ 28,570,982</u>	<u>\$ 55,135,425</u>
<u>Nine months ended September 30, 2023</u>							
Balance as of January 1, 2023	\$ 96,319	\$ 1,011	\$ 43,668,023	\$ (893,947)	\$ (14,319,679)	\$ 23,100,785	\$ 51,652,512
Cumulative effect adjustment as of January 1, 2023:							
Accumulated credit loss January 1, 2023	-	-	-	-	230,036	(230,036)	-
Adjusted balance as of January 1, 2023	96,319	1,011	43,668,023	(893,947)	(14,089,643)	22,870,749	51,652,512
Comprehensive income (loss):							
Net income	-	-	-	-	-	5,700,233	5,700,233
Other comprehensive loss	-	-	-	-	(2,217,320)	-	(2,217,320)
Balance as of September 30, 2023	<u>\$ 96,319</u>	<u>\$ 1,011</u>	<u>\$ 43,668,023</u>	<u>\$ (893,947)</u>	<u>\$ (16,306,963)</u>	<u>\$ 28,570,982</u>	<u>\$ 55,135,425</u>

See notes to consolidated financial statements (unaudited).

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

	Nine Months Ended September 30,	
	2023	2022
Operating activities		
Net income	\$ 5,700,233	\$ 4,410,960
Adjustments to reconcile net income to net cash provided by operating activities:		
Accretion of discount on investments	(3,693,889)	(3,721,739)
Net realized investment (gains) losses	120,134	(1,060,340)
Amortization of policy acquisition cost	6,468,779	5,410,934
Policy acquisition cost deferred	(10,387,913)	(9,760,703)
Amortization of value of insurance business acquired	206,787	204,003
Allowance for mortgage loan losses	17,222	256,634
Provision for deferred federal income tax expense	326,460	852,879
Interest credited to policyholders	11,298,057	9,562,478
Change in assets and liabilities:		
Accrued investment income	(1,453,997)	(234,605)
Recoverable from reinsurers	668,024	453,639
Funds under coinsurance agreement	10,567,881	5,195,220
Agents' balances and due premiums	(113,357)	352,040
Other assets (excludes change in receivable for securities sold of (\$19,113) and (\$3,421) in 2023 and 2022, respectively)	(1,801,885)	1,186,769
Future policy benefits	9,807,021	9,530,878
Policy claims	(641,655)	(206,262)
Other policy liabilities	152,207	92,705
Other liabilities (excludes change in payable for securities purchased of (\$144,391) and (\$953,865) in 2023 and 2022, respectively)	(8,494,671)	448,135
Net cash provided by operating activities	<u>18,745,438</u>	<u>22,973,625</u>
Investing activities		
Purchases of fixed maturity securities	(23,059,489)	(35,249,422)
Maturities of fixed maturity securities	505,000	952,000
Sales of fixed maturity securities	4,428,942	51,053,427
Purchases of equity securities	(104,047)	(173,992)
Acquisition of Royalty Capital Life Insurance Company	-	3,525,749
Joint venture distributions	100,164	162,866
Purchases of mortgage loans	(101,131,636)	(122,735,150)
Payments on mortgage loans	105,515,062	85,140,505
Purchases of other long-term investments	(6,109,759)	(10,197,724)
Payments on other long-term investments	14,300,767	11,767,912
Sale of real estate	-	200,080
Net change in policy loans	(405,279)	(387,247)
Net change in short-term investments	1,565,404	3,038,630
Net change in receivable and payable for securities sold and purchased	(163,504)	(957,286)
Net cash used in investing activities	<u>(4,558,375)</u>	<u>(13,859,652)</u>
Financing activities		
Policyholders' account deposits	66,492,731	38,044,149
Policyholders' account withdrawals	(76,096,655)	(52,755,265)
Net cash used in financing activities	<u>(9,603,924)</u>	<u>(14,711,116)</u>
Increase (decrease) in cash and cash equivalents	4,583,139	(5,597,143)
Cash and cash equivalents, beginning of period	33,542,725	42,528,046
Cash and cash equivalents, end of period	<u>\$ 38,125,864</u>	<u>\$ 36,930,903</u>

See notes to consolidated financial statements (unaudited).

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

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

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

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

See notes to consolidated financial statements (unaudited).

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
September 30, 2023
(Unaudited)

1. Organization and Significant Accounting Policies

Nature of Operations

First Trinity Financial Corporation (the “Company” or “FTFC”) is the parent holding company of Trinity Life Insurance Company (“TLIC”), Family Benefit Life Insurance Company (“FBLIC”), Trinity Mortgage Corporation (“TMC”), formerly known as First Trinity Capital Corporation and Trinity American, Inc. (“TAI”). The Company was incorporated in Oklahoma on April 19, 2004, for the primary purpose of organizing a life insurance subsidiary.

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

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

The Company owns 100% of TAI. TAI was incorporated in Barbados, West Indies on March 24, 2016 for the primary purpose of forming a life insurance company producing United States of America (U.S.) dollar denominated life insurance policies and annuity contracts outside of the United States and Barbados. TAI is licensed as an Exempt Insurance Company under the Exempt Insurance Act of Barbados. TAI was initially involved in developing life insurance and annuity contracts through an association with distribution channels but is now issuing life insurance policies and annuity contracts. The Company’s acquisition of TAI was formally approved by Barbados regulators and the certifications were received in 2019.

Company Capitalization

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

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

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

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

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
September 30, 2023
(Unaudited)

1. Organization and Significant Accounting Policies (continued)

Acquisition of Other Companies

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

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

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

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

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

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

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

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

Basis of Presentation

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

The results of operations for the nine months ended September 30, 2023 are not necessarily indicative of the results to be expected for the year ended December 31, 2023 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, 2022.

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
September 30, 2023
(Unaudited)

1. Organization and Significant Accounting Policies (continued)

Change in Significant Accounting Policies – Investments and Allowance for Loan Losses from Mortgage Loans

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

Fixed maturity securities comprised of bonds and redeemable preferred securities are classified as available-for-sale and are carried at fair value with unrealized gains and losses, net of applicable income taxes, reported in accumulated other comprehensive income. The amortized cost of fixed maturity securities available-for-sale is adjusted for amortization of premium and accretion of discount to maturity.

Interest income on fixed maturity securities, as well as the related amortization of premium and accretion of discount, is included in net investment income under the effective yield method. Dividend income on redeemable preferred securities are recognized in net investment income when declared. The amortized cost of fixed maturity securities available-for-sale are written down to fair value when a decline in value is considered to be other-than-temporary.

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

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

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

Prior to 2023, the Company evaluated the difference between the cost or amortized cost and estimated fair value of its fixed maturity securities to determine whether any decline in value was other-than-temporary in nature. That determination involved a degree of uncertainty. If a decline in the fair value of a security was determined to be temporary, the decline was recorded as an unrealized loss in shareholders' equity. If a decline in a security's fair value is considered to be other-than-temporary, the Company then determined the proper treatment for the other-than-temporary impairment. The amount of any other-than-temporary impairment related to a credit loss was recognized in earnings and reflected as a reduction in the cost basis of the security; and the amount of any other-than-temporary impairment related to other factors is recognized in other comprehensive income (loss) with no change to the cost basis of the security. If an other-than-temporary impairment related to a credit loss occurs with respect to a bond, the Company amortized the reduced book value back to the security's expected recovery value over the remaining term of the bond. The Company continued to review the security for further impairment that would prompt another write-down in the value.

Equity securities are comprised of mutual funds and common stocks and are carried at fair value. The associated unrealized gains and losses are included in net realized investment gains (losses). Dividends from these investments are recognized in net investment income when declared.

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
September 30, 2023
(Unaudited)

1. Organization and Significant Accounting Policies (continued)

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

Interest income and the amortization of premiums or discounts are included in net investment income. Mortgage loan fees, certain direct loan origination costs, and purchase premiums and discounts on loans are recognized as an adjustment of yield by the interest method based on the contractual terms of the loan. In certain circumstances, prepayments may be anticipated.

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

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

Prior to and continuing in 2023, the Company established a valuation allowance for mortgage loans on real estate that are not supported by funds held in escrow based on historical patterns. This allowance for possible loan losses from investments in mortgage loans on real estate continues to be a reserve established through a provision for possible loan losses charged to expense which represents, in our judgment, the known and inherent credit losses existing in the residential and commercial mortgage loan portfolio. This allowance, in the Company's judgment, is necessary to reserve for estimated loan losses inherent in the residential and commercial mortgage loan portfolio and reduces the carrying value of investments in mortgage loans on real estate to the estimated net realizable value on the consolidated statement of financial position.

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

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

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

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
September 30, 2023
(Unaudited)

1. Organization and Significant Accounting Policies (continued)

Investment real estate in land held for both the production of income and for sale is carried at cost. Investment real estate obtained through foreclosure on mortgage loans on real estate is carried at the lower of acquisition cost or net realizable value.

Policy loans are carried at unpaid principal balances. Interest income on policy loans is recognized in net investment income at the contract interest rate when earned.

Other long-term investments are comprised of lottery prize receivables and are carried at amortized cost. Interest income and the accretion of discount are included in net investment income. These investments are backed by the lottery departments at the various states by U.S. Treasury Bonds and Notes or in the case of Pennsylvania, by annuities purchased from a highly rated life insurance company. Given this support to lottery prize receivables, the Company has not recorded and does not expect to incur any current estimated credit losses on its investments in lottery prize receivables.

Principles of Consolidation

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

Reclassifications

Certain reclassifications have been made in the prior year 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 and Treasury Stock

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

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

Coinsurance

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

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
September 30, 2023
(Unaudited)

1. Organization and Significant Accounting Policies (continued)

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

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

Stock Purchase Agreement

On April 24, 2023, as approved by the FTFC Board of Directors, the Company executed a definitive agreement to be acquired by Brickell L & A Holdings LLC, a portfolio company of the Brickell Insurance Group of companies, and an affiliate of 777 Partners LLC. All the Company's Class A and Class B common stock (converted to Class A common stock at closing at a rate of 85%) issued and outstanding will be purchased from FTFC's shareholders for approximately \$7.75 to \$8.00 per Class A share. Closing of this transaction is expected in the second quarter of 2024.

Subsequent Events

Management has evaluated all events subsequent to September 30, 2023 through the date that these financial statements have been issued.

Adopted Accounting Standards

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

In June 2016, the FASB issued updated guidance (Accounting Standards Update 2016-13) for the accounting for credit losses for financial instruments. The updated guidance applied a new credit loss model (current expected credit losses or CECL) for determining credit-related impairments for financial instruments measured at amortized cost (e.g. reinsurance recoverables, including structured settlements that are recorded as part of reinsurance recoverables) and required an entity to estimate the credit losses expected over the life of an exposure or pool of exposures.

The estimate of expected credit losses considers historical information, current information, as well as reasonable and supportable forecasts, including estimates of prepayments. The expected credit losses, and subsequent adjustments to such losses, are recorded through an allowance account that is deducted from the amortized cost basis of the financial asset, with the net carrying value of the financial asset presented on the consolidated balance sheet at the amount expected to be collected.

The updated guidance also amended the current other-than-temporary impairment model for available-for-sale debt securities and requires the recognition of impairments relating to credit losses through an allowance account and limits the amount of credit loss to the difference between a security's amortized cost basis and its fair value. In addition, the length of time a security has been in an unrealized loss position will no longer impact the determination of whether a credit loss exists. The Company adopted this standard in first quarter 2023 on a modified retrospective basis. The cumulative effect adjustment to January 1, 2023 accumulated earnings for the adoption of this standard was a charge of \$230,036.

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
September 30, 2023
(Unaudited)

1. Organization and Significant Accounting Policies (continued)

Troubled Debt Restructurings and Vintage Disclosures

In March 2022, the FASB issued amendments (Accounting Standards Update 2022-2) for the accounting of troubled debt restructuring and disclosures. The amendments introduced new requirements related to certain modifications of receivables made to borrowers experiencing financial difficulties. The amendments promulgated that an entity must apply specific loan refinancing and restructuring guidance to determine whether a modification results in a new loan or the continuation of an existing loan. The amendments also required that an entity disclose current-period gross write-offs by year of origination for financing receivables and net investment in leases. The Company adopted the amendments in this standard in first quarter 2023. The adoption of this guidance did not have a material effect on the Company's results of operations, financial position or liquidity.

Recent Accounting Pronouncements

Targeted Improvements to the Accounting for Long-Duration Contracts

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

The updated guidance was effective for reporting periods beginning after December 15, 2020. As a Smaller Reporting Company, the effective date has been changed twice and the delayed effective date is now for reporting periods beginning after December 15, 2024. Early adoption is permitted but not likely to be elected by the Company. With respect to the liability for future policyholder benefits for traditional and limited-payment contracts and deferred acquisition costs, an insurance entity may elect to apply the amendments retrospectively as of the beginning of the earliest period presented. With respect to the market risk benefits, an insurance entity should apply the amendments retrospectively as of the beginning of the earliest period presented. The Company expects that the impact on the Company's results of operations, financial position and liquidity at the date of adoption of the updated guidance in 2025 will be determined by the long-duration contracts then held by the Company and the economic conditions at that time.

Transition for Sold Contracts

In December 2022, the FASB issued amendments (Accounting Standards Update 2022-5) to Accounting Standards Update 2018-12 (Targeted Improvements for Long-Duration Contracts) that originally required an insurance entity to apply a retrospective transition method as of the beginning of the earliest period presented or the beginning of the prior fiscal year if early application was elected. This updated guidance reduces implementation costs and complexity associated with the adoption of targeted improvements in accounting for long-duration contracts that have been derecognized in accordance with Accounting Standards Update 2018-12 before the delayed effective date. Without the amendments in this Update, an insurance entity would be required to reclassify a portion of gains or losses previously recognized in the sale or disposal of insurance contracts or legal entities because of the adoption of a new accounting standard. Because there is no effect on an insurance entity's future cash flows, this reclassification may not be useful to users of financial information.

The amendments in this guidance are effective for fiscal years beginning after December 15, 2024. Early adoption is permitted but not likely to be elected by the Company. The Company expects that the impact on the Company's results of operations, financial position and liquidity at the date of adoption of the updated guidance in 2025 will be determined by the long-duration contracts then held by the Company and the economic conditions at that time.

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
September 30, 2023
(Unaudited)

2. Investments (continued)

All securities in an unrealized loss position as of the financial statement dates, the estimated fair value, pre-tax gross unrealized loss and number of securities by length of time that those securities have been continuously in an unrealized loss position as of September 30, 2023 and December 31, 2022 are summarized as follows:

	Fair Value	Unrealized Loss	Number of Securities
September 30, 2023 (Unaudited)			
Fixed maturity securities			
Less than 12 months in an unrealized loss position			
U.S. government and U.S. government agencies	\$ 1,896,234	\$ 9,193	2
States and political subdivisions	4,767,079	218,710	13
U.S. government agency mortgage backed securities	10,018,142	247,890	16
Corporate bonds	5,567,823	325,760	21
Asset-backed securities	4,006,106	33,979	8
Foreign bonds	1,440,986	116,029	4
Total less than 12 months in an unrealized loss position	27,696,370	951,561	64
More than 12 months in an unrealized loss position			
U.S. government and U.S. government agencies	1,853,202	45,410	3
States and political subdivisions	4,154,499	601,215	21
Commercial mortgage-backed securities	8,089,347	2,533,938	24
Corporate bonds	68,630,720	11,323,724	217
Asset-backed securities	7,245,967	1,285,676	20
Exchange traded securities	471,000	353,598	2
Redeemable preferred securities	319,400	180,600	2
Foreign bonds	22,157,480	3,397,732	62
Total more than 12 months in an unrealized loss position	112,921,615	19,721,893	351
Total fixed maturity securities in an unrealized loss position	\$ 140,617,985	\$ 20,673,454	415
Fixed maturity securities held in trust under coinsurance agreement			
Total less than 12 months in an unrealized loss position	\$ 2,980,059	\$ 70,278	17
Total more than 12 months in an unrealized loss position	50,153,336	8,013,897	214
Total fixed maturity securities held in trust under coinsurance agreement in a unrealized loss position	\$ 53,133,395	\$ 8,084,175	231
December 31, 2022			
Fixed maturity securities			
Less than 12 months in an unrealized loss position			
U.S. government and U.S. government agencies	\$ 1,760,073	\$ 37,231	2
States and political subdivisions	3,325,252	301,788	20
Commercial mortgage-backed securities	5,863,255	1,387,792	17
Corporate bonds	69,451,263	8,733,104	216
Asset-backed securities	5,042,586	890,318	12
Certificate of deposits	199,070	930	1
Foreign bonds	21,766,704	2,785,419	61
Total less than 12 months in an unrealized loss position	107,408,203	14,136,582	329
More than 12 months in an unrealized loss position			
U.S. government and U.S. government agencies	294,492	5,762	2
States and political subdivisions	766,424	106,929	3
Commercial mortgage-backed securities	2,470,383	886,783	7
Corporate bonds	6,314,364	1,584,786	20
Asset-backed securities	2,956,843	648,846	9
Exchange traded securities	467,200	215,080	2
Redeemable preferred securities	351,200	148,800	2
Foreign bonds	2,003,376	440,132	6
Total more than 12 months in an unrealized loss position	15,624,282	4,037,118	51
Total fixed maturity securities in an unrealized loss position	\$ 123,032,485	\$ 18,173,700	380
Fixed maturity securities held in trust under coinsurance agreement			
Total less than 12 months in an unrealized loss position	\$ 49,918,808	\$ 5,679,624	231
Total more than 12 months in an unrealized loss position	5,524,318	1,769,551	21
Total fixed maturity securities held in trust under coinsurance agreement in a unrealized loss position	\$ 55,443,126	\$ 7,449,175	252

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
September 30, 2023
(Unaudited)

2. Investments (continued)

As of September 30, 2023, the Company held 415 available-for-sale fixed maturity securities with an unrealized loss of \$20,673,454, fair value of \$140,617,985 and amortized cost of \$161,291,439. These unrealized losses were primarily due to the market interest rate movements in the bond market as of September 30, 2023. The ratio of the fair value to the amortized cost of these 415 securities is 87%.

As of December 31, 2022, the Company held 380 available-for-sale fixed maturity securities with an unrealized loss of \$18,173,700, fair value of \$123,032,485 and amortized cost of \$141,206,185. These unrealized losses were primarily due to market interest rate movements in the bond market as of December 31, 2022. The ratio of the fair value to the amortized cost of these 380 securities is 87%.

The change in the current estimate of credit losses on fixed maturity available-for-sale securities for the nine months ended September 30, 2023 is summarized as follows:

	(Unaudited)
	<u>September 30, 2023</u>
Beginning balance	\$ -
Cumulative adjustment to accumulated earnings	
as of January 1, 2023	(291,185)
Current estimate of credit losses	<u>(110,642)</u>
Ending balance	<u><u>\$ (401,827)</u></u>

There were no impairment losses recognized by the Company during the nine months ended September 30, 2023. Management believes that the Company will fully recover its cost basis in the securities held as of September 30, 2023, 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.

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, 2023 and December 31, 2022, are summarized as follows:

	(Unaudited)	
	<u>September 30, 2023</u>	<u>December 31, 2022</u>
Unrealized appreciation (depreciation)		
on available-for-sale securities	\$ (20,647,156)	\$ (18,131,268)
Adjustment to deferred acquisition costs	5,431	5,091
Deferred income taxes	<u>4,334,762</u>	<u>3,806,498</u>
Net unrealized appreciation (depreciation)		
on available-for-sale securities	<u><u>\$ (16,306,963)</u></u>	<u><u>\$ (14,319,679)</u></u>
Assets held in trust under coinsurance agreement		
Unrealized appreciation (depreciation) on fixed maturity securities available-for-sale	<u><u>\$ (8,080,637)</u></u>	<u><u>\$ (7,440,951)</u></u>

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
September 30, 2023
(Unaudited)

2. Investments (continued)

The Company's investment in lottery prize cash flows categorized as other long-term investments in the statement of financial position was \$63,135,565 and \$67,500,783 as of September 30, 2023 and December 31, 2022, respectively. The lottery prize cash flows are assignments of the future rights from lottery winners purchased at a discounted price. Payments on these investments are made by state run lotteries.

The amortized cost and fair value of fixed maturity available-for-sale securities and other long-term investments as of September 30, 2023, by contractual maturity, are summarized as follows:

	September 30, 2023 (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	\$ 4,177,585	\$ 4,090,549	\$ 13,432,332	\$ 13,556,078
Due after one year through five years	28,790,676	26,997,898	33,629,673	35,318,962
Due after five years through ten years	23,485,629	21,403,469	11,078,350	12,434,124
Due after ten years	93,963,137	79,987,255	4,995,210	6,250,978
Due at multiple maturity dates	11,883,306	9,174,006	-	-
	<u>\$ 162,300,333</u>	<u>\$ 141,653,177</u>	<u>\$ 63,135,565</u>	<u>\$ 67,560,142</u>

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

The amortized cost and fair value of fixed maturity available-for-sale securities held in trust under coinsurance agreement as of September 30, 2023, by contractual maturity, are summarized as follows:

	September 30, 2023 (Unaudited)	
	Fixed Maturity Available-For-Sale Securities	
	Amortized Cost	Fair Value
Due in one year or less	\$ 1,944,143	\$ 1,922,064
Due after one year through five years	31,626,793	29,820,453
Due after five years through ten years	8,135,802	7,763,967
Due after ten years	16,839,753	11,559,906
Due at multiple maturity dates	3,119,563	2,519,027
	<u>\$ 61,666,054</u>	<u>\$ 53,585,417</u>

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

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
September 30, 2023
(Unaudited)

2. Investments (continued)

Proceeds and gross realized gains (losses) from the sales, calls and maturities of fixed maturity securities available-for-sale, equity securities and investment real estate for the three and nine months ended September 30, 2023 and 2022 are summarized as follows:

	Three Months Ended September 30, (Unaudited)			
	Fixed Maturity Securities		Investment Real Estate	
	2023	2022	2023	2022
Proceeds	\$ 1,915,384	\$ 10,939,070	\$ -	\$ 150,709
Gross realized gains	32,207	-	-	55,867
Gross realized losses	(16,695)	(105,573)	-	-

	Nine Months Ended September 30, (Unaudited)					
	Fixed Maturity Securities		Equity Securities		Investment Real Estate	
	2023	2022	2023	2022	2023	2022
Proceeds	\$ 4,428,942	\$ 52,005,427	\$ -	\$ -	\$ -	\$ 200,080
Gross realized gains	50,168	1,240,085	-	-	-	55,867
Gross realized losses	(84,259)	(207,591)	-	(8,000)	-	(3,696)

The accumulated change in unrealized investment losses for fixed maturity available-for-sale for the three and nine months ended September 30, 2023 and 2022 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, 2023 and 2022 are summarized as follows:

	Three Months Ended September 30, (Unaudited)		Nine Months Ended September 30, (Unaudited)	
	2023	2022	2023	2022
Change in unrealized investment gains (losses):				
Available-for-sale securities:				
Fixed maturity securities	\$ (4,568,559)	\$ (8,136,306)	\$ (2,807,073)	\$ (37,137,496)
Fixed maturity securities held in trust under coinsurance agreement	(1,225,668)	(2,541,929)	(639,686)	(11,769,814)
Net realized investment gains (losses):				
Available-for-sale securities:				
Fixed maturity securities	15,512	(105,573)	(34,091)	1,032,494
Fixed maturity securities credit losses	(27,010)	-	(110,642)	-
Equity securities, sale of securities	-	-	-	(8,000)
Equity securities, changes in fair value	34,885	20,954	24,599	(16,325)
Investment real estate	-	55,867	-	52,171

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
September 30, 2023
(Unaudited)

2. Investments (continued)

Major categories of net investment income for the three and nine months ended September 30, 2023 and 2022 are summarized as follows:

	<u>Three Months Ended September 30, (Unaudited)</u>		<u>Nine Months Ended September 30, (Unaudited)</u>	
	2023	2022	2023	2022
Fixed maturity securities	\$ 1,594,399	\$ 1,658,282	\$ 4,627,453	\$ 5,328,969
Equity securities	62,603	129,367	168,718	242,466
Other long-term investments	1,178,250	1,224,369	3,825,719	3,747,549
Mortgage loans	5,033,381	4,455,501	14,351,796	12,336,734
Policy loans	61,720	50,274	175,680	142,351
Short-term and other investments	793,653	22,023	2,063,066	68,729
	<u>8,724,006</u>	<u>7,539,816</u>	<u>25,212,432</u>	<u>21,866,798</u>
Gross investment income				
Investment expenses	(538,072)	(1,045,137)	(1,952,286)	(2,484,007)
	<u>\$ 8,185,934</u>	<u>\$ 6,494,679</u>	<u>\$ 23,260,146</u>	<u>\$ 19,382,791</u>
Net investment income				

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, 2023 and December 31, 2022, these required deposits, included in investment assets, had amortized costs that totaled \$4,379,405 and \$4,634,898, respectively. As of September 30, 2023 and December 31, 2022, these required deposits had fair values that totaled \$4,278,533 and \$4,590,193, respectively.

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
September 30, 2023
(Unaudited)

2. Investments (continued)

The Company's mortgage loans by property type as of September 30, 2023 and December 31, 2022 are summarized as follows:

	(Unaudited)	
	<u>September 30, 2023</u>	<u>December 31, 2022</u>
Residential mortgage loans	\$ 222,170,752	\$ 223,984,194
Commercial mortgage loans by property type		
Agricultural	988,394	994,691
Apartment	3,272,599	3,625,533
Industrial	1,966,640	1,999,438
Lodging	24,933	268,741
Office building	5,693,661	5,681,946
Retail	3,798,054	5,759,585
Total commercial mortgage loans by property type	<u>15,744,281</u>	<u>18,329,934</u>
Total mortgage loans	<u>\$ 237,915,033</u>	<u>\$ 242,314,128</u>
Mortgage loans held in trust under coinsurance agreement		
Commercial mortgage loans	\$ 27,564,351	\$ 31,076,883
Less unearned interest on mortgage loans	<u>326,790</u>	<u>48,308</u>
Total mortgage loans held in trust under coinsurance agreement	<u>\$ 27,237,561</u>	<u>\$ 31,028,575</u>

There were 22 mortgage loans with a remaining principal balance of \$6,382,227 that were more than 90 days past due as of September 30, 2023. There were 17 mortgage loans with a remaining principal balance of \$4,134,266 that were more than 90 days past due as of December 31, 2022.

There were five mortgage loans in default and in the foreclosure process with a remaining principal balance of \$1,595,907 as of September 30, 2023. There were six mortgage loan in default and in the foreclosure process with a remaining principal balance of \$2,155,566 as of December 31, 2022.

The Company's investment real estate as of September 30, 2023 and December 31, 2022 is summarized as follows:

	(Unaudited)	
	<u>September 30, 2023</u>	<u>December 31, 2022</u>
Land - held for investment	\$ 540,436	\$ 540,436
Residential real estate - held for sale	-	-
Total investment in real estate	<u>\$ 540,436</u>	<u>\$ 540,436</u>

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

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

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
September 30, 2023
(Unaudited)

2. Investments (continued)

During 2022, the Company sold investment real estate property with an aggregate carrying value of \$147,909. The Company recorded a gross realized investment gain on sale of \$52,171 based on an aggregate sales price of \$200,080.

3. Fair Value Measurements

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

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

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

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

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

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

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

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
September 30, 2023
(Unaudited)

3. Fair Value Measurements (continued)

The Company's fair value hierarchy for those financial instruments measured at fair value on a recurring basis as of September 30, 2023 and December 31, 2022 is summarized as follows:

	Level 1	Level 2	Level 3	Total
	September 30, 2023 (Unaudited)			
Fixed maturity securities, available-for-sale				
U.S. government and U.S. government agencies	\$ -	\$ 3,749,436	\$ -	\$ 3,749,436
States and political subdivisions	-	8,956,585	-	8,956,585
U.S. government agency mortgage backed securities	-	10,018,142	-	10,018,142
Commercial mortgage-backed securities	-	8,089,347	-	8,089,347
Residential mortgage-backed securities	-	15,258	-	15,258
Corporate bonds	-	74,433,470	-	74,433,470
Asset-backed securities	-	11,252,073	-	11,252,073
Exchange traded securities	-	471,000	-	471,000
Foreign bonds	-	23,598,466	-	23,598,466
Redeemable preferred securities	-	1,069,400	-	1,069,400
Total fixed maturity securities	<u>\$ -</u>	<u>\$ 141,653,177</u>	<u>\$ -</u>	<u>\$ 141,653,177</u>
Fixed maturity securities, available-for-sale held in trust under coinsurance agreement	<u>\$ -</u>	<u>\$ 53,585,417</u>	<u>\$ -</u>	<u>\$ 53,585,417</u>
Equity securities				
Mutual funds	\$ -	\$ 45,515	\$ -	\$ 45,515
Corporate common stock	324,721	-	57,879	382,600
Total equity securities	<u>\$ 324,721</u>	<u>\$ 45,515</u>	<u>\$ 57,879</u>	<u>\$ 428,115</u>
	December 31, 2022			
Fixed maturity securities, available-for-sale				
U.S. government and U.S. government agencies	\$ -	\$ 2,054,565	\$ -	\$ 2,054,565
States and political subdivisions	-	4,560,321	-	4,560,321
Commercial mortgage-backed securities	-	8,333,638	-	8,333,638
Residential mortgage-backed securities	-	15,250	-	15,250
Corporate bonds	-	78,112,137	-	78,112,137
Asset-backed securities	-	7,999,429	-	7,999,429
Exchange traded securities	-	467,200	-	467,200
Foreign bonds	-	23,770,080	-	23,770,080
Redeemable preferred securities	-	1,101,200	-	1,101,200
Certificate of deposit	-	199,070	-	199,070
Total fixed maturity securities	<u>\$ -</u>	<u>\$ 126,612,890</u>	<u>\$ -</u>	<u>\$ 126,612,890</u>
Fixed maturity securities, available-for-sale held in trust under coinsurance agreement	<u>\$ -</u>	<u>\$ 56,209,040</u>	<u>\$ -</u>	<u>\$ 56,209,040</u>
Equity securities				
Mutual funds	\$ -	\$ 47,910	\$ -	\$ 47,910
Corporate common stock	297,727	-	53,996	351,723
Total equity securities	<u>\$ 297,727</u>	<u>\$ 47,910</u>	<u>\$ 53,996</u>	<u>\$ 399,633</u>

As of September 30, 2023 and December 31, 2022, Level 3 financial instruments consisted of a private placement common stock that has no active trading and a joint venture investment with a mortgage loan originator.

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
September 30, 2023
(Unaudited)

3. Fair Value Measurements (continued)

This private placement common stock represents an investment in small insurance holding company. The fair value for this security was determined through the use of unobservable assumptions about market participants. The Company has assumed a willing market participant would purchase the security for the same price as the Company paid until such time as this small insurance holding company commence significant operations. The joint venture investment with a mortgage loan originator is accounted for under the equity method of accounting.

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

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

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

The Company's fixed maturity available-for-sale securities and equity securities are highly liquid and allows for a high percentage of the portfolio to be priced through pricing services.

The change in the fair value of the Company's Level 3 equity securities available-for-sale for the nine months ended September 30, 2023 and December 31, 2022 is summarized as follows:

	(Unaudited)	
	<u>September 30, 2023</u>	<u>December 31, 2022</u>
Beginning balance	\$ 53,996	\$ 63,423
Joint venture net income	104,047	215,470
Joint venture distribution	(100,164)	(216,897)
Net realized investment losses	-	(8,000)
Ending balance	<u>\$ 57,879</u>	<u>\$ 53,996</u>

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
September 30, 2023
(Unaudited)

3. Fair Value Measurements (continued)

The carrying amount and fair value of the Company's financial assets and financial liabilities disclosed, but not carried, at fair value as of September 30, 2023 and December 31, 2022, and the level within the fair value hierarchy at which such assets and liabilities are measured on a recurring basis are summarized as follows:

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

	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
September 30, 2023 (Unaudited)					
Financial assets					
Mortgage loans on real estate					
Commercial	\$ 15,744,281	\$ 14,811,977	\$ -	\$ -	\$ 14,811,977
Residential	222,170,752	193,224,936	-	-	193,224,936
Policy loans	3,246,166	3,246,166	-	-	3,246,166
Short-term investments	295,174	295,174	295,174	-	-
Other long-term investments	63,135,565	67,560,142	-	-	67,560,142
Cash and cash equivalents	38,125,864	38,125,864	38,125,864	-	-
Accrued investment income	7,034,172	7,034,172	-	-	7,034,172
Total financial assets	\$ 349,751,974	\$ 324,298,431	\$ 38,421,038	\$ -	\$ 285,877,393
Held in trust under coinsurance agreement					
Mortgage loans on real estate					
Commercial	\$ 27,564,351	\$ 27,564,351	\$ -	\$ -	\$ 27,564,351
Less unearned interest on mortgage loans	326,790	326,790	-	-	326,790
Cash and cash equivalents	3,533,597	3,533,597	3,533,597	-	-
Total financial assets held in trust under coinsurance agreement	\$ 30,771,158	\$ 30,771,158	\$ 3,533,597	\$ -	\$ 27,237,561
Policyholders' account balances	\$ 404,067,174	\$ 347,573,144	\$ -	\$ -	\$ 347,573,144
Policy claims	1,899,433	1,899,433	-	-	1,899,433
Total financial liabilities	\$ 405,966,607	\$ 349,472,577	\$ -	\$ -	\$ 349,472,577
December 31, 2022					
Financial assets					
Mortgage loans on real estate					
Commercial	\$ 18,329,934	\$ 17,393,284	\$ -	\$ -	\$ 17,393,284
Residential	223,984,194	202,476,647	-	-	202,476,647
Policy loans	2,840,887	2,840,887	-	-	2,840,887
Short-term investments	1,860,578	1,860,578	1,860,578	-	-
Other long-term investments	67,500,783	74,155,822	-	-	74,155,822
Cash and cash equivalents	33,542,725	33,542,725	33,542,725	-	-
Accrued investment income	5,580,175	5,580,175	-	-	5,580,175
Total financial assets	\$ 353,639,276	\$ 337,850,118	\$ 35,403,303	\$ -	\$ 302,446,815
Held in trust under coinsurance agreement					
Mortgage loans on real estate					
Commercial	\$ 31,076,883	\$ 31,076,883	\$ -	\$ -	\$ 31,076,883
Less unearned interest on mortgage loan	48,308	48,308	-	-	48,308
Short-term investments	982,404	982,404	982,404	-	-
Cash and cash equivalents	3,813,750	3,813,750	3,813,750	-	-
Total financial assets held in trust under coinsurance agreement	\$ 35,824,729	\$ 35,824,729	\$ 4,796,154	\$ -	\$ 31,028,575
Financial liabilities					
Policyholders' account balances	\$ 391,359,944	\$ 359,044,740	\$ -	\$ -	\$ 359,044,740
Policy claims	2,541,088	2,541,088	-	-	2,541,088
Total financial liabilities	\$ 393,901,032	\$ 361,585,828	\$ -	\$ -	\$ 361,585,828

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
September 30, 2023
(Unaudited)

3. Fair Value Measurements (continued)

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

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

Fixed Maturity Securities and Equity Securities

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

Mortgage Loans on Real Estate

The fair values for mortgage loans are estimated using discounted cash flow analyses. For both residential and commercial mortgage loans, the discount rate used was indexed to the Secured Overnight Financing Rate as of September 30, 2023 and December 31, 2022.

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

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

Other Long-Term Investments

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

Investment Contracts – Policyholders' Account Balances

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

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

Policy Claims

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

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
September 30, 2023
(Unaudited)

4. Segment Data

The Company has a life insurance segment, consisting of the life insurance operations of TLIC, FBLIC and TAI, an annuity segment, consisting of the annuity operations of TLIC, FBLIC and TAI and a corporate segment. Results for the parent company and the operations of TMC, after elimination of intercompany amounts, are allocated to the corporate segment. These segments as of September 30, 2023 and December 31, 2022 and for the three and nine months ended September 30, 2023 and 2022 are summarized as follows:

	Three Months Ended September 30, (Unaudited)		Nine Months Ended September 30, (Unaudited)	
	2023	2022	2023	2022
Revenues:				
Life insurance operations	\$ 12,182,761	\$ 10,742,423	\$ 34,261,450	\$ 31,031,373
Annuity operations	6,746,404	5,212,867	18,536,138	16,223,377
Corporate operations	1,321,912	1,055,075	3,194,303	1,327,406
Total	<u>\$ 20,251,077</u>	<u>\$ 17,010,365</u>	<u>\$ 55,991,891</u>	<u>\$ 48,582,156</u>
Income before income taxes:				
Life insurance operations	\$ 1,688,031	\$ 1,329,644	\$ 2,380,841	\$ 2,581,520
Annuity operations	1,281,958	743,157	2,450,351	2,137,960
Corporate operations	1,077,012	624,923	2,362,932	881,821
Total	<u>\$ 4,047,001</u>	<u>\$ 2,697,724</u>	<u>\$ 7,194,124</u>	<u>\$ 5,601,301</u>
Depreciation and amortization expense:				
Life insurance operations	\$ 1,900,706	\$ 1,723,832	\$ 5,590,543	\$ 4,831,746
Annuity operations	353,671	297,803	1,085,023	783,191
Total	<u>\$ 2,254,377</u>	<u>\$ 2,021,635</u>	<u>\$ 6,675,566</u>	<u>\$ 5,614,937</u>
(Unaudited)				
Assets:				
	September 30, 2023	December 31, 2022		
Life insurance operations	\$ 156,206,228	\$ 149,949,283		
Annuity operations	506,675,254	505,990,810		
Corporate operations	11,461,694	9,923,944		
Total	<u>\$ 674,343,176</u>	<u>\$ 665,864,037</u>		

5. Federal Income Taxes

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

The Company has no known uncertain tax benefits within its provision for income taxes. In addition, the Company does not believe it would be subject to any penalties or interest relative to any open tax years and, therefore, has not accrued any such amounts. The Company files U.S. federal income tax returns and income tax returns in various state jurisdictions. With the 2022 U.S. federal income tax return filed on October 12, 2023, the 2020 through 2022 U.S. federal tax years are now subject to income tax examination by tax authorities. The Company classifies any interest and penalties (if applicable) as income tax expense in the financial statements.

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
September 30, 2023
(Unaudited)

6. Contingent Liabilities

From time to time, we are a party to various legal proceedings in the ordinary course of business. While management is unable to predict the ultimate outcome of these actions, it believes that any ultimate liability arising from them will not have a material effect on the Company's financial position, results of operations or cash flow. We are not currently a party to any bankruptcy, receivership, reorganization, adjustment or similar proceeding, and we are not aware of any material threatened litigation. As summarized below, the Company is currently involved in three pending lawsuits.

A lawsuit filed by the Company and its Chairman and Chief Executive Officer, Gregg E. Zahn ("Mr. Zahn") styled First Trinity Financial Corporation and Gregg E. Zahn vs. C. Wayne Pettigrew and Group & Pension Planners was originally filed in 2013 in the District Court of Tulsa County, Oklahoma against former Company Board of Director, C. Wayne Pettigrew ("Mr. Pettigrew"). The Company and Mr. Zahn alleged that Mr. Pettigrew defamed Mr. Zahn and the Company and that Mr. Pettigrew breached his fiduciary duties to the Company by making untrue statements about the Company and Mr. Zahn to the press, state regulators and to certain shareholders.

In February 2017, the lawsuit resulted in a jury verdict in favor of the Company and Mr. Zahn, with the jury awarding damages of \$800,000 to the Company and \$3,500,000 to Mr. Zahn. In February 2020, the Oklahoma Court of Civil Appeals, upon an appeal by Mr. Pettigrew, reversed the judgment and remanded the case for a new trial. A Petition for Certiorari review with the Oklahoma Supreme Court by the Company and Mr. Zahn was declined in December 2020. The case is now scheduled to be retried in the District Court. The Company is vigorously prosecuting this case. The Company faces no exposure in connection with this action since there were no counterclaims or cross claims made against the Company. Management believes that this lawsuit is not material in relation to the Company's financial position or results of operations.

The Company, through its life insurance subsidiary, TLIC, commenced two lawsuits as plaintiff, both in the New York Supreme Court, New York County, one on June 29, 2020 and another on March 4, 2022, for breach of contract against a company for failure to advance funding to lottery ticket winners to the detriment of TLIC and against various of that company's associated persons for unjust enrichment and fraud perpetuated on TLIC. The cases are entitled "Trinity Life Insurance Company v. Advance Funding LLC, Dan Cevallos, and Monica L. Ray, Index No. 652780/2020" (New York Supreme Court, New York County) and "Trinity Life Insurance Company v. Advance Funding LLC, Dan Cevallos, Julie Casal, and Monica L. Ray, Index No. 651023/2022" (New York Supreme Court, New York County). The Company is vigorously prosecuting this case against the defendants. The Company faces no exposure in connection with either action since no counterclaims or cross claims have been made against the Company. Management believes that this lawsuit is not material in relation to the Company's financial position or results of operations.

The third lawsuit involves an insurance holding company and one of its insurance subsidiaries, which was instituted suit in District Court of Travis County, Texas, entitled Citizens, Inc., CICA Life Ltd., and CICA Life Insurance Company of America, Plaintiffs, v. Randall H. Riley, Citizens American Life, LLC, Citizens American Life, Inc., Alexis Enrique Delgado, Carlos Nalsen Landa, Enrique Pinzon Ruiz, Johan Emilio Mikuski Silva, Esperanza Peralta De Delgado, Michael P. Buchweitz, Jonathan M. Pollio, Steven A. Rekedal, First Trinity Financial Corporation, Trinity American, Inc., and International Marketing Group S.A., LLC, Defendants, against the Company and several associated persons on November 7, 2018. The plaintiffs accused the several defendants, including the Company and its subsidiary company, Trinity American, Inc. ("Trinity American") of misappropriating trade secrets under the Texas Uniform Trade Secrets Act. The plaintiffs have also alleged claims for common law unfair competition, civil conspiracy, and unjust enrichment against all of the defendants. The plaintiffs also alleged that Trinity American's predecessor entity tortiously interfered with the plaintiffs' contracts, and alleged several other causes of action, including breaches of contract and tortious interference with contract against the remaining defendants.

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
September 30, 2023
(Unaudited)

6. Contingent Liabilities (continued)

The causes of action all are alleged to have arisen from the alleged conduct of the various individual defendants, three of whom are former employees of the plaintiffs. The plaintiffs alleged that defendant Randall H. Riley and other terminated employees, after being terminated by the plaintiffs, worked on creating a competing business selling whole life insurance in international markets. Several of the individual defendants have counterclaimed against the plaintiffs seeking damages for breach of contract based on commissions they were denied when the plaintiffs wrongfully terminated their sales agreements. Mr. Riley died in October 2022. Trial of the case has been delayed indefinitely pending action from the Travis County Probate Court with respect to the estate of Mr. Riley. The Company believes the plaintiffs' claims against the Company are entirely without merit and it is conducting a vigorous defense. Management believes that the ultimate resolution of this lawsuit will not be material in relation to the Company's financial position or results of operations.

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

	Three Months Ended September 30, 2023 and 2022 (Unaudited)		
	Unrealized Depreciation on Available-For-Sale Securities	Adjustment to Deferred Acquisition Costs	Accumulated Other Comprehensive loss
Balance as of July 1, 2023	\$ (12,702,105)	\$ 3,461	\$ (12,698,644)
Other comprehensive loss before reclassifications, net of tax	(3,596,907)	843	(3,596,064)
Less amounts reclassified from accumulated other comprehensive income (loss) having no credit losses, net of tax	12,255	-	12,255
Other comprehensive loss	(3,609,162)	843	(3,608,319)
Balance as of September 30, 2023	<u>\$ (16,311,267)</u>	<u>\$ 4,304</u>	<u>\$ (16,306,963)</u>
Balance as of July 1, 2022	\$ (9,701,621)	\$ 2,774	\$ (9,698,847)
Other comprehensive loss before reclassifications, net of tax	(6,511,085)	1,615	(6,509,470)
Less amounts reclassified from accumulated other comprehensive income (loss) having no credit losses, net of tax	(83,403)	-	(83,403)
Other comprehensive loss	(6,427,682)	1,615	(6,426,067)
Balance as of September 30, 2022	<u>\$ (16,129,303)</u>	<u>\$ 4,389</u>	<u>\$ (16,124,914)</u>

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
September 30, 2023
(Unaudited)

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

	Nine Months Ended September 30, 2023 (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	\$ (2,841,164)	\$ (596,644)	\$ (2,244,520)
Reclassification adjustment for net losses included in operations having no credit losses	(34,091)	(7,159)	(26,932)
Net unrealized losses on investments	(2,807,073)	(589,485)	(2,217,588)
Adjustment to deferred acquisition costs	340	72	268
Total other comprehensive loss	<u>\$ (2,806,733)</u>	<u>\$ (589,413)</u>	<u>\$ (2,217,320)</u>
	Nine Months Ended September 30, 2022 (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	\$ (36,105,002)	\$ (7,582,050)	\$ (28,522,952)
Reclassification adjustment for net gains included in operations having no credit losses	1,032,494	216,824	815,670
Net unrealized losses on investments	(37,137,496)	(7,798,874)	(29,338,622)
Adjustment to deferred acquisition costs	12,508	2,627	9,881
Total other comprehensive loss	<u>\$ (37,124,988)</u>	<u>\$ (7,796,247)</u>	<u>\$ (29,328,741)</u>

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

The pretax and the related income tax components of the amounts reclassified from the Company's accumulated other comprehensive income (loss) to the Company's consolidated statement of operations for the three and nine months ended September 30, 2023 and 2022 are summarized as follows:

Reclassification Adjustments	Three Months Ended September 30, (Unaudited)		Nine Months Ended September 30, (Unaudited)	
	2023	2022	2023	2022
Unrealized losses on available-for-sale securities having no credit losses:				
Realized gains (losses) on sales of securities (a)	\$ 15,512	\$ (105,573)	\$ (34,091)	\$ 1,032,494
Income tax expense (benefit) (b)	3,257	(22,170)	(7,159)	216,824
Total reclassification adjustments	<u>\$ 12,255</u>	<u>\$ (83,403)</u>	<u>\$ (26,932)</u>	<u>\$ 815,670</u>

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

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

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
September 30, 2023
(Unaudited)

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

As of September 30, 2023, \$929,810 of independent residential mortgage loans on real estate is held in escrow by a third party for the benefit of the Company. As of September 30, 2023, \$872,217 of that escrow amount is available to the Company as additional collateral on \$4,612,811 of advances to the loan originator. The remaining September 30, 2023 escrow amount of \$57,593 is available to the Company as additional collateral on its investment of \$11,518,652 in residential mortgage loans on real estate. In addition, the Company has an additional \$1,137,670 allowance for possible loan losses in the remaining \$226,396,381 of investments in mortgage loans on real estate as of September 30, 2023.

As of December 31, 2022, \$753,648 of independent residential mortgage loans on real estate are held in escrow by a third party for the benefit of the Company. As of December 31, 2022, \$656,924 of that escrow amount is available to the Company as additional collateral on \$4,743,041 of advances to the loan originator. The remaining December 31, 2022 escrow amount of \$96,724 is available to the Company as additional collateral on its investment of \$19,344,898 in mortgage loans on real estate. In addition, the Company has an additional \$1,120,448 allowance for possible loan losses in the remaining \$222,969,230 of investments in mortgage loans on real estate as of December 31, 2022.

As of September 30, 2023, the Company's Chairman, President and Chief Executive Officer has provided approximately \$2,040,000 of loans to this mortgage loan originator.

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
September 30, 2023
(Unaudited)

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

The balances of and changes in the Company's credit losses related to mortgage loans on real estate as of and for the three and nine months ended September 30, 2023 and 2022 are summarized as follows (excluding \$11,518,652 and \$23,417,756 of mortgage loans on real estate as of September 30, 2023 and 2022, respectively, with one loan originator where independent mortgage loan balances are held in escrow by a third party for the benefit of the Company):

Unaudited						
Three Months Ended September 30,						
	Residential Mortgage Loans		Commercial Mortgage Loans		Total	
	2023	2022	2023	2022	2023	2022
Allowance, beginning	\$ 1,076,628	\$ 771,848	\$ 83,246	\$ 62,379	\$ 1,159,874	\$ 834,227
Charge offs	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-
Provision	(18,002)	107,557	(4,202)	21,369	(22,204)	128,926
Allowance, ending	<u>\$ 1,058,626</u>	<u>\$ 879,405</u>	<u>\$ 79,044</u>	<u>\$ 83,748</u>	<u>\$ 1,137,670</u>	<u>\$ 963,153</u>
Allowance, ending:						
Individually evaluated for impairment	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Collectively evaluated for impairment	<u>\$ 1,058,626</u>	<u>\$ 879,405</u>	<u>\$ 79,044</u>	<u>\$ 83,748</u>	<u>\$ 1,137,670</u>	<u>\$ 963,153</u>
Carrying Values:						
Individually evaluated for reserve allowance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Collectively evaluated for reserve allowance	<u>\$ 210,666,578</u>	<u>\$ 174,584,241</u>	<u>\$ 15,729,803</u>	<u>\$ 17,083,192</u>	<u>\$ 226,396,381</u>	<u>\$ 191,667,433</u>

(Unaudited)						
Nine Months Ended September 30,						
	Residential Mortgage Loans		Commercial Mortgage Loans		Total	
	2023	2022	2023	2022	2023	2022
Allowance, beginning	\$ 1,030,424	\$ 675,162	\$ 90,024	\$ 31,357	\$ 1,120,448	\$ 706,519
Charge offs	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-
Provision	28,202	204,243	(10,980)	52,391	17,222	256,634
Allowance, ending	<u>\$ 1,058,626</u>	<u>\$ 879,405</u>	<u>\$ 79,044</u>	<u>\$ 83,748</u>	<u>\$ 1,137,670</u>	<u>\$ 963,153</u>
Allowance, ending:						
Individually evaluated for impairment	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Collectively evaluated for impairment	<u>\$ 1,058,626</u>	<u>\$ 879,405</u>	<u>\$ 79,044</u>	<u>\$ 83,748</u>	<u>\$ 1,137,670</u>	<u>\$ 963,153</u>
Carrying Values:						
Individually evaluated for reserve allowance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Collectively evaluated for reserve allowance	<u>\$ 210,666,578</u>	<u>\$ 174,584,241</u>	<u>\$ 15,729,803</u>	<u>\$ 17,083,192</u>	<u>\$ 226,396,381</u>	<u>\$ 191,667,433</u>

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
September 30, 2023
(Unaudited)

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

The Company utilizes the ratio of the carrying value of individual mortgage loans compared to the individual appraisal value to evaluate the credit quality of its mortgage loans on real estate (commonly referred to as the loan-to-value ratio). The Company's residential and commercial and industrial mortgage loans on real estate by credit quality using this ratio as of September 30, 2023 and December 31, 2022 are summarized as follows:

Loan-To-Value Ratio	Residential Mortgage Loans		Commercial Mortgage Loans		Total Mortgage Loans	
	(Unaudited)		(Unaudited)		(Unaudited)	
	September 30, 2023	December 31, 2022	September 30, 2023	December 31, 2022	September 30, 2023	December 31, 2022
Over 70% to 80%	\$ 74,685,274	\$ 72,013,555	\$ 2,102,755	\$ 3,287,048	\$ 76,788,029	\$ 75,300,603
Over 60% to 70%	63,926,084	67,780,388	2,964,935	3,033,504	66,891,019	70,813,892
Over 50% to 60%	36,810,184	36,929,025	1,365,289	1,839,272	38,175,473	38,768,297
Over 40% to 50%	23,107,580	20,100,407	2,100,391	1,272,088	25,207,971	21,372,495
Over 30% to 40%	11,117,358	13,143,773	4,540,077	5,123,894	15,657,435	18,267,667
Over 20% to 30%	7,833,403	8,898,731	464,311	733,238	8,297,714	9,631,969
Over 10% to 20%	3,731,351	3,976,357	1,731,542	3,040,890	5,462,893	7,017,247
10% or less	959,518	1,141,958	474,981	-	1,434,499	1,141,958
Total	\$ 222,170,752	\$ 223,984,194	\$ 15,744,281	\$ 18,329,934	\$ 237,915,033	\$ 242,314,128

Item 2: Management’s Discussion and Analysis of Financial Condition and Results of Operations

Overview

First Trinity Financial Corporation (“we” “us”, “our”, “FTFC” or the “Company”) conducts operations as an insurance holding company emphasizing ordinary life insurance products and annuity contracts in niche markets.

As an insurance provider, we collect premiums in the current period to pay future benefits to our policy and contract holders. Our core TLIC and FBLIC operations include issuing modified premium whole life insurance with a flexible premium deferred annuity, ordinary whole life, final expense, term and annuity products to predominately middle income households in the states of Alabama, Arizona, Arkansas, Colorado, Georgia, Illinois, Indiana, Kansas, Kentucky, Louisiana, Michigan, Mississippi, Missouri, Montana, Nebraska, New Mexico, North Carolina, North Dakota, Ohio, Oklahoma, Pennsylvania, South Dakota, Tennessee, Texas, Utah, Virginia and West Virginia through independent agents.

We also realize revenues from our investment portfolio, which is a key component of our operations. The revenues we collect as premiums from policyholders are invested to ensure future benefit payments under the policy contracts. Life insurance companies earn profits on the investment spread, which reflects the investment income earned on the premiums paid to the insurer between the time of receipt and the time benefits are paid out under policies. Changes in interest rates, changes in economic conditions and volatility in the capital markets can all impact the amount of earnings that we realize from our investment portfolio.

Acquisitions

The Company expects to facilitate growth through acquisitions of other life insurance companies and/or blocks of life insurance and annuity business. In late December 2008, the Company completed its acquisition of 100% of the outstanding stock of FLAC for \$2,500,000 and had additional acquisition related expenses of \$195,234.

In late December 2011, the Company completed its acquisition of 100% of the outstanding stock of FBLIC for \$13,855,129.

On April 28, 2015, the Company acquired a block of life insurance policies and annuity contracts according to the terms of an assumption reinsurance agreement and assumed liabilities of \$3,055,916.

In 2019, FTFC’s acquisition of TAI for \$250,000 was approved by the Barbados, West Indies regulators.

Effective January 1, 2020, the Company acquired 100% of the outstanding common stock of K-TENN Insurance Company (“K-TENN”) from its sole shareholder in exchange for 168,866 shares of FTFC’s common stock. The aggregate purchase price of K-TENN was \$1,746,240.

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

Critical Accounting Policies and Estimates

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

Investments in Fixed Maturity Securities

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

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

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

Prior to 2023, the Company evaluated the difference between the amortized cost and estimated fair value of its fixed maturity investments to determine whether any decline in fair value was other-than-temporary in nature. This determination involved a degree of uncertainty. If a decline in the fair value of a fixed maturity security was determined to be temporary, the decline was recognized in other comprehensive income (loss) within shareholders' equity. If a decline in a security's fair value was considered to be other-than-temporary, we then determined the proper treatment for the other-than-temporary impairment. For fixed maturity securities, the amount of any other-than-temporary impairment related to a credit loss was recognized in earnings and reflected as a reduction in the cost basis of the security. The amount of any other-than-temporary impairment related to other factors was recognized in other comprehensive income (loss) with no change to the cost basis of the security. The assessment of whether a decline in fair value was considered temporary or other-than-temporary included management's judgment as to the financial position and future prospects of the entity issuing the security. It is not possible to accurately predict when it may be determined that a specific security will become impaired. If an other-than-temporary impairment related to a credit loss occurred with respect to a fixed maturity security, we amortized the reduced book value back to the security's expected recovery value over the remaining term of the fixed maturity investment.

Mortgage Loans on Real Estate

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

Interest income and the amortization of premiums or discounts are included in net investment income. Mortgage loan fees, certain direct loan origination costs, and purchase premiums and discounts on loans are recognized as an adjustment of yield by the interest method based on the contractual terms of the loan. In certain circumstances, prepayments may be anticipated.

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

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

Prior to and continuing in 2023, the Company established a valuation allowance for mortgage loans on real estate that are not supported by funds held in escrow based on historical patterns. This allowance for possible loan losses from investments in mortgage loans on real estate continues to be a reserve established through a provision for possible loan losses charged to expense which represents, in our judgment, the known and inherent credit losses existing in the residential and commercial mortgage loan portfolio. This allowance, in the Company's judgment, is necessary to reserve for estimated loan losses inherent in the residential and commercial mortgage loan portfolio and reduces the carrying value of investments in mortgage loans on real estate to the estimated net realizable value on the consolidated statement of financial position.

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

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

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

Stock Purchase Agreement

On April 24, 2023, as approved by the FTFC Board of Directors, the Company executed a definitive agreement to be acquired by Brickell L & A Holdings LLC, a portfolio company of the Brickell Insurance Group of companies, and an affiliate of 777 Partners LLC. All the Company's Class A and Class B common stock (converted to Class A common stock at closing at a rate of 85%) issued and outstanding will be purchased from FTFC's shareholders for approximately \$7.75 to \$8.00 per Class A share. Closing of this transaction is expected in the second quarter of 2024.

Adopted Accounting Standards

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

In June 2016, the FASB issued updated guidance (Accounting Standards Update 2016-13) for the accounting for credit losses for financial instruments. The updated guidance applied a new credit loss model (current expected credit losses or CECL) for determining credit-related impairments for financial instruments measured at amortized cost (e.g. reinsurance recoverables, including structured settlements that are recorded as part of reinsurance recoverables) and required an entity to estimate the credit losses expected over the life of an exposure or pool of exposures.

The estimate of expected credit losses considers historical information, current information, as well as reasonable and supportable forecasts, including estimates of prepayments. The expected credit losses, and subsequent adjustments to such losses, are recorded through an allowance account that is deducted from the amortized cost basis of the financial asset, with the net carrying value of the financial asset presented on the consolidated balance sheet at the amount expected to be collected.

The updated guidance also amended the current other-than-temporary impairment model for available-for-sale debt securities and requires the recognition of impairments relating to credit losses through an allowance account and limits the amount of credit loss to the difference between a security's amortized cost basis and its fair value. In addition, the length of time a security has been in an unrealized loss position will no longer impact the determination of whether a credit loss exists. The Company adopted this standard in first quarter 2023 on a modified retrospective basis. The cumulative effect adjustment to January 1, 2023 accumulated earnings for the adoption of this standard was a charge of \$230,036.

Troubled Debt Restructurings and Vintage Disclosures

In March 2022, the FASB issued amendments (Accounting Standards Update 2022-2) for the accounting of troubled debt restructuring and disclosures. The amendments introduced new requirements related to certain modifications of receivables made to borrowers experiencing financial difficulties. The amendments promulgated that an entity must apply specific loan refinancing and restructuring guidance to determine whether a modification results in a new loan or the continuation of an existing loan. The amendments also required that an entity disclose current-period gross write-offs by year of origination for financing receivables and net investment in leases. The Company adopted the amendments in this standard in first quarter 2023. The adoption of this guidance did not have a material effect on the Company's results of operations, financial position or liquidity.

Recent Accounting Pronouncements

Targeted Improvements to the Accounting for Long-Duration Contracts

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

The updated guidance was effective for reporting periods beginning after December 15, 2020. As a Smaller Reporting Company, the effective date has been changed twice and the delayed effective date is now for reporting periods beginning after December 15, 2024. Early adoption is permitted but not likely to be elected by the Company. With respect to the liability for future policyholder benefits for traditional and limited-payment contracts and deferred acquisition costs, an insurance entity may elect to apply the amendments retrospectively as of the beginning of the earliest period presented. With respect to the market risk benefits, an insurance entity should apply the amendments retrospectively as of the beginning of the earliest period presented. The Company expects that the impact on the Company's results of operations, financial position and liquidity at the date of adoption of the updated guidance in 2025 will be determined by the long-

duration contracts then held by the Company and the economic conditions at that time.

Transition for Sold Contracts

In December 2022, the FASB issued amendments (Accounting Standards Update 2022-5) to Accounting Standards Update 2018-12 (Targeted Improvements for Long-Duration Contracts) that originally required an insurance entity to apply a retrospective transition method as of the beginning of the earliest period presented or the beginning of the prior fiscal year if early application was elected. This updated guidance reduces implementation costs and complexity associated with the adoption of targeted improvements in accounting for long-duration contracts that have been derecognized in accordance with Accounting Standards Update 2018-12 before the delayed effective date. Without the amendments in this Update, an insurance entity would be required to reclassify a portion of gains or losses previously recognized in the sale or disposal of insurance contracts or legal entities because of the adoption of a new accounting standard. Because there is no effect on an insurance entity's future cash flows, this reclassification may not be useful to users of financial information.

The amendments in this guidance are effective for fiscal years beginning after December 15, 2024. Early adoption is permitted but not likely to be elected by the Company. The Company expects that the impact on the Company's results of operations, financial position and liquidity at the date of adoption of the updated guidance in 2025 will be determined by the long-duration contracts then held by the Company and the economic conditions at that time.

Business Segments

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

Our business segments are as follows:

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

Please see below and Note 4 to the Consolidated Financial Statements for the three and nine months ended September 30, 2023 and 2022 and as of September 30, 2023 and December 31, 2022 for additional information regarding segment information.

FINANCIAL HIGHLIGHTS

Consolidated Condensed Results of Operations for the Three Months Ended September 30, 2023 and 2022

	(Unaudited)		Amount Change 2023 less 2022
	Three Months Ended September 30,		
	2023	2022	
Premiums	\$ 9,973,566	\$ 9,210,601	\$ 762,965
Net investment income	8,185,934	6,494,679	1,691,255
Net realized investment gains (losses)	23,387	(28,752)	52,139
Service fees	1,437,116	1,219,038	218,078
Other income	631,074	114,799	516,275
Total revenues	<u>20,251,077</u>	<u>17,010,365</u>	<u>3,240,712</u>
Benefits and claims	11,421,935	10,103,720	1,318,215
Expenses	4,782,141	4,208,921	573,220
Total benefits, claims and expenses	<u>16,204,076</u>	<u>14,312,641</u>	<u>1,891,435</u>
Income before federal income tax expense	4,047,001	2,697,724	1,349,277
Federal income tax expense	863,773	657,514	206,259
Net income	<u>\$ 3,183,228</u>	<u>\$ 2,040,210</u>	<u>\$ 1,143,018</u>
Net income per common share			
Class A common stock	<u>\$ 0.3361</u>	<u>\$ 0.2154</u>	<u>\$ 0.1207</u>
Class B common stock	<u>\$ 0.2857</u>	<u>\$ 0.1831</u>	<u>\$ 0.1026</u>

Consolidated Condensed Results of Operations for the Nine Months Ended September 30, 2023 and 2022

	(Unaudited)		Amount Change 2023 less 2022
	Nine Months Ended September 30,		
	2023	2022	
Premiums	\$ 28,681,414	\$ 26,353,521	\$ 2,327,893
Net investment income	23,260,146	19,382,791	3,877,355
Net realized investment gains (losses)	(120,134)	1,060,340	(1,180,474)
Service fees	3,530,958	1,606,433	1,924,525
Other income	639,507	179,071	460,436
Total revenues	<u>55,991,891</u>	<u>48,582,156</u>	<u>7,409,735</u>
Benefits and claims	33,706,130	30,489,219	3,216,911
Expenses	15,091,637	12,491,636	2,600,001
Total benefits, claims and expenses	<u>48,797,767</u>	<u>42,980,855</u>	<u>5,816,912</u>
Income before federal income tax expense	7,194,124	5,601,301	1,592,823
Federal income tax expense	1,493,891	1,190,341	303,550
Net income	<u>\$ 5,700,233</u>	<u>\$ 4,410,960</u>	<u>\$ 1,289,273</u>
Net income per common share			
Class A common stock	<u>\$ 0.6019</u>	<u>\$ 0.4658</u>	<u>\$ 0.1361</u>
Class B common stock	<u>\$ 0.5116</u>	<u>\$ 0.3959</u>	<u>\$ 0.1157</u>

Consolidated Condensed Financial Position as of September 30, 2023 and December 31, 2022

	(Unaudited)		Amount Change 2023 to 2022
	September 30, 2023	December 31, 2022	
Investment assets	\$ 447,213,666	\$ 442,069,335	\$ 5,144,331
Assets held in trust under coinsurance agreement	84,352,423	92,033,769	(7,681,346)
Other assets	142,777,087	131,760,933	11,016,154
Total assets	<u>\$ 674,343,176</u>	<u>\$ 665,864,037</u>	<u>\$ 8,479,139</u>
Policy liabilities	\$ 526,084,226	\$ 504,059,423	\$ 22,024,803
Funds withheld under coinsurance agreement	84,174,477	92,301,039	(8,126,562)
Deferred federal income taxes	2,414,458	2,677,411	(262,953)
Other liabilities	6,534,590	15,173,652	(8,639,062)
Total liabilities	619,207,751	614,211,525	4,996,226
Shareholders' equity	55,135,425	51,652,512	3,482,913
Total liabilities and shareholders' equity	<u>\$ 674,343,176</u>	<u>\$ 665,864,037</u>	<u>\$ 8,479,139</u>
Shareholders' equity per common share			
Class A common stock	\$ 5.8219	\$ 5.4542	\$ 0.3677
Class B common stock	\$ 4.9487	\$ 4.6360	\$ 0.3127

Results of Operations – Three Months Ended September 30, 2023 and 2022

Revenues

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

Our revenues for the three months ended September 30, 2023 and 2022 are summarized as follows:

	(Unaudited)		Amount Change 2023 less 2022
	Three Months Ended September 30, 2023	2022	
Premiums	\$ 9,973,566	\$ 9,210,601	\$ 762,965
Net investment income	8,185,934	6,494,679	1,691,255
Net realized investment gains (losses)	23,387	(28,752)	52,139
Service fees	1,437,116	1,219,038	218,078
Other income	631,074	114,799	516,275
Total revenues	<u>\$ 20,251,077</u>	<u>\$ 17,010,365</u>	<u>\$ 3,240,712</u>

The \$3,240,712 increase in total revenues for the three months ended September 30, 2023 is discussed below.

Premiums

Our premiums for the three months ended September 30, 2023 and 2022 are summarized as follows:

	(Unaudited)		
	Three Months Ended September 30,		Amount Change
	2023	2022	2023 less 2022
Ordinary life first year	\$ 787,295	\$ 688,950	\$ 98,345
Ordinary life renewal	1,973,795	1,394,403	579,392
Final expense first year	872,876	1,030,205	(157,329)
Final expense renewal	6,339,600	6,097,043	242,557
Total premiums	<u>\$ 9,973,566</u>	<u>\$ 9,210,601</u>	<u>\$ 762,965</u>

The \$762,965 increase in premiums for the three months ended September 30, 2023 is primarily due to a \$579,392 increase in ordinary life renewal premiums, \$242,557 increase in final expense renewal premiums and \$98,345 increase in ordinary life first year premiums that exceeded a \$157,329 decrease in final expense first year premiums.

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

Net Investment Income

The major components of our net investment income for the three months ended September 30, 2023 and 2022 are summarized as follows:

	(Unaudited)		
	Three Months Ended September 30,		Amount Change
	2023	2022	2023 less 2022
Fixed maturity securities	\$ 1,594,399	\$ 1,658,282	\$ (63,883)
Equity securities	62,603	129,367	(66,764)
Other long-term investments	1,178,250	1,224,369	(46,119)
Mortgage loans	5,033,381	4,455,501	577,880
Policy loans	61,720	50,274	11,446
Short-term and other investments	793,653	22,023	771,630
Gross investment income	8,724,006	7,539,816	1,184,190
Investment expenses	(538,072)	(1,045,137)	(507,065)
Net investment income	<u>\$ 8,185,934</u>	<u>\$ 6,494,679</u>	<u>\$ 1,691,255</u>

The \$1,184,190 increase in gross investment income for the three months ended September 30, 2023 is primarily due to \$771,630 increase in short term and other investments and \$577,880 increase in mortgage loans.

The increase in short term and other investments is due to higher gross effective yields on securities held in the portfolio and other investments. In twelve months since September 30, 2022, our investments in mortgage loans increased approximately \$22.8 million.

The \$507,065 decrease in investment expense for the three months ended September 30, 2023 is primarily due to decreased mortgage loan and fixed maturity securities acquisition expenses.

Net Realized Investment Gains (Losses)

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

Our net realized investment losses for the three months ended September 30, 2023 and 2022 are summarized as follows:

	(Unaudited)		Amount Change 2023 less 2022
	Three Months Ended September 30,		
	2023	2022	
Fixed maturity securities available-for-sale:			
Sale proceeds	\$ 1,915,384	\$ 10,939,070	\$ (9,023,686)
Amortized cost at sale date	1,899,872	11,044,643	(9,144,771)
Net realized gains (losses)	<u>\$ 15,512</u>	<u>\$ (105,573)</u>	<u>\$ 121,085</u>
Investment real estate:			
Sale proceeds	\$ -	\$ 150,709	\$ (150,709)
Carrying value at sale date	-	94,842	(94,842)
Net realized gains (losses)	<u>\$ -</u>	<u>\$ 55,867</u>	<u>\$ (55,867)</u>
Equity securities, changes in fair value	<u>\$ 34,885</u>	<u>\$ 20,954</u>	<u>\$ 13,931</u>
Changes in current estimate of credit losses	<u>\$ (27,010)</u>	<u>\$ -</u>	<u>\$ (27,010)</u>
Net realized investment gains (losses)	<u>\$ 23,387</u>	<u>\$ (28,752)</u>	<u>\$ 52,139</u>

Service Fees

The \$218,078 increase in service fees for the three months ended September 30, 2023 is primarily due to brokering mortgage loans for a fee to third parties.

Other Income

The \$516,275 increase in other income for the three months ended September 30, 2023 is primarily due to interest on collateralized loans to an investment vendor.

Total Benefits, Claims and Expenses

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

Our benefits, claims and expenses for the three months ended September 30, 2023 and 2022 are summarized as follows:

	(Unaudited)		Amount Change 2023 less 2022
	Three Months Ended September 30,		
	2023	2022	
Benefits and claims			
Increase in future policy benefits	\$ 3,733,264	\$ 3,742,861	\$ (9,597)
Death benefits	3,235,121	2,814,594	420,527
Surrenders	489,729	311,577	178,152
Interest credited to policyholders	3,876,088	3,155,921	720,167
Dividend, endowment and supplementary life contract benefits	87,733	78,767	8,966
Total benefits and claims	11,421,935	10,103,720	1,318,215
Expenses			
Policy acquisition costs deferred	(2,987,689)	(3,498,984)	511,295
Amortization of deferred policy acquisition costs	2,189,089	1,956,596	232,493
Amortization of value of insurance business acquired	65,288	65,039	249
Commissions	2,962,287	3,338,553	(376,266)
Other underwriting, insurance and acquisition expenses	2,553,166	2,347,717	205,449
Total expenses	4,782,141	4,208,921	573,220
Total benefits, claims and expenses	\$ 16,204,076	\$ 14,312,641	\$ 1,891,435

The \$1,891,435 increase in total benefits, claims and expenses for the three months ended September 30, 2023 is discussed below.

Benefits and Claims

The \$1,318,215 increase in benefits and claims for the three months ended September 30, 2023 is primarily due to the following:

- \$720,167 increase in interest credited to policyholders is primarily due to an increase of approximately \$26.9 million in the amount of policyholders' account balance in the consolidated statement of financial position since September 30, 2022.
- \$420,527 increase in death benefits is primarily due to approximately \$239,000 of increased ordinary life benefits and \$183,000 increased final expense benefits.
- \$178,152 increase in surrenders is based upon policyholder election.

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, 2023 and 2022, capitalized costs were \$2,987,689 and \$3,498,984, respectively. Amortization of deferred policy acquisition costs for the three months ended September 30, 2023 and 2022 were \$2,189,089 and \$1,956,596, respectively.

The \$511,295 decrease in the 2023 acquisition costs deferred primarily relates to decreased annuity and final expense first year production. There was a \$232,493 increase in the 2023 amortization of deferred acquisition costs due to 2023 surrenders and withdrawal activity and the impact of mortality.

Amortization of Value of Insurance Business Acquired

The cost of acquiring insurance business is amortized over the emerging profit of the related policies using the same assumptions that were used in computing liabilities for future policy benefits. Amortization of the value of insurance business acquired was \$65,288 and \$65,039 for the three months ended September 30, 2023 and 2022, respectively, representing a \$249 increase.

Commissions

Our commissions for the three months ended September 30, 2023 and 2022 are summarized as follows:

	(Unaudited)		
	Three Months Ended September 30,		Amount Change
	2023	2022	2023 less 2022
Annuity	\$ 258,704	\$ 663,507	\$ (404,803)
Ordinary life first year	843,263	723,128	120,135
Ordinary life renewal	206,895	125,493	81,402
Final expense first year	1,059,015	1,237,562	(178,547)
Final expense renewal	594,410	588,863	5,547
Total commissions	<u>\$ 2,962,287</u>	<u>\$ 3,338,553</u>	<u>\$ (376,266)</u>

The \$376,266 decrease in commissions for the three months ended September 30, 2023 is primarily due to a \$404,803 decrease annuity commissions (corresponding to \$10,694,412 of decreased annuity deposits retained) and a \$178,547 decrease in final expense first year commissions (corresponding to \$157,329 decreased final expense first year premiums) that exceed a \$120,135 increase in ordinary life first year commissions (corresponding to \$98,345 increased ordinary life first year premiums).

Other Underwriting, Insurance and Acquisition Expenses

The \$205,449 increase in underwriting, insurance and acquisition expenses for the three months ended September 30, 2023 was primarily related to an increase in third party administrative fees and legal fees.

Federal Income Taxes

FTFC filed its 2022 consolidated federal income tax return with TLIC, FBLIC and TMC on October 12, 2023. 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, 2023 and 2022, current income tax expense was \$912,430 and \$335,246, respectively. For the three months ended September 30, 2023 and 2022, deferred federal income tax expense (benefit) was (\$48,657) and \$322,268, respectively.

Net Income Per Common Share Basic

For the three months ended September 30, 2023 and 2022, the net income allocated to the Class B shareholders is the total net income multiplied by the right to receive dividends at 85% for Class B shares (85,937) as of the reporting date divided by the allocated total shares (9,470,277) of Class A shares (9,384,340) and Class B shares (85,937) as of the reporting date.

For the three months ended September 30, 2023, the net income allocated to the Class A shareholders of \$3,154,342 is the total net income \$3,183,228 less the net income allocated to the Class B shareholders \$28,886. For the three months ended September 30, 2022, the net income allocated to the Class A shareholders of \$2,021,696 is the total net income \$2,040,210 less the net income allocated to the Class B shareholders \$18,514.

The weighted average outstanding common shares basic for the three months ended September 30, 2023 and 2022 were 9,384,340 for Class A shares and 101,102 for Class B shares.

Business Segments

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

The revenues and income before federal income taxes from our business segments for the three months ended September 30, 2023 and 2022 are summarized as follows:

	(Unaudited)		Amount Change 2023 less 2022
	Three Months Ended September 30,		
	2023	2022	
Revenues:			
Life insurance operations	\$ 12,182,761	\$ 10,742,423	\$ 1,440,338
Annuity operations	6,746,404	5,212,867	1,533,537
Corporate operations	1,321,912	1,055,075	266,837
Total	<u>\$ 20,251,077</u>	<u>\$ 17,010,365</u>	<u>\$ 3,240,712</u>
Income (loss) before federal income taxes:			
Life insurance operations	\$ 1,688,031	\$ 1,329,644	\$ 358,387
Annuity operations	1,281,958	743,157	538,801
Corporate operations	1,077,012	624,923	452,089
Total	<u>\$ 4,047,001</u>	<u>\$ 2,697,724</u>	<u>\$ 1,349,277</u>

The increases and decreases of revenues and profitability from our business segments for the three months ended September 30, 2023 and 2022 are summarized as follows:

	Life Insurance Operations	Annuity Operations	Corporate Operations	Total
Revenues				
Premiums	\$ 762,965	\$ -	\$ -	\$ 762,965
Net investment income	540,661	1,107,347	43,247	1,691,255
Net realized investment gains	4,180	47,959	-	52,139
Service fees and other income	132,532	378,231	223,590	734,353
Total revenue	<u>1,440,338</u>	<u>1,533,537</u>	<u>266,837</u>	<u>3,240,712</u>
Benefits and claims				
Increase in future policy benefits	(9,597)	-	-	(9,597)
Death benefits	420,527	-	-	420,527
Surrenders	178,152	-	-	178,152
Interest credited to policyholders	-	720,167	-	720,167
Dividend, endowment and supplementary life contract benefits	8,966	-	-	8,966
Total benefits and claims	<u>598,048</u>	<u>720,167</u>	<u>-</u>	<u>1,318,215</u>
Expenses				
Policy acquisition costs deferred net of amortization	320,918	422,870	-	743,788
Amortization of value of insurance business acquired	124	125	-	249
Commissions	28,537	(404,803)	-	(376,266)
Other underwriting, insurance and acquisition expenses	134,324	256,377	(185,252)	205,449
Total expenses	<u>483,903</u>	<u>274,569</u>	<u>(185,252)</u>	<u>573,220</u>
Total benefits, claims and expenses	<u>1,081,951</u>	<u>994,736</u>	<u>(185,252)</u>	<u>1,891,435</u>
Income before federal income tax expense	<u>\$ 358,387</u>	<u>\$ 538,801</u>	<u>\$ 452,089</u>	<u>\$ 1,349,277</u>

Results of Operations – Nine Months Ended September 30, 2023 and 2022

Revenues

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

Our revenues for the nine months ended September 30, 2023 and 2022 are summarized as follows:

	(Unaudited)		Amount Change 2023 less 2022
	Nine Months Ended September 30,		
	2023	2022	
Premiums	\$ 28,681,414	\$ 26,353,521	\$ 2,327,893
Net investment income	23,260,146	19,382,791	3,877,355
Net realized investment gains (losses)	(120,134)	1,060,340	(1,180,474)
Service fees	3,530,958	1,606,433	1,924,525
Other income	639,507	179,071	460,436
Total revenues	<u>\$ 55,991,891</u>	<u>\$ 48,582,156</u>	<u>\$ 7,409,735</u>

The \$7,409,735 increase in total revenues for the nine months ended September 30, 2023 is discussed below.

Premiums

Our premiums for the nine months ended September 30, 2023 and 2022 are summarized as follows:

	(Unaudited)		Amount Change 2023 less 2022
	Nine Months Ended September 30,		
	2023	2022	
Ordinary life first year	\$ 2,214,800	\$ 1,792,973	\$ 421,827
Ordinary life renewal	4,981,173	3,543,838	1,437,335
Final expense first year	2,638,695	3,381,679	(742,984)
Final expense renewal	18,846,746	17,635,031	1,211,715
Total premiums	<u>\$ 28,681,414</u>	<u>\$ 26,353,521</u>	<u>\$ 2,327,893</u>

The \$2,327,893 increase in premiums for the nine months ended September 30, 2023 is primarily due to the \$1,437,335 increase in ordinary life renewal premiums, \$1,211,715 increase in final expense renewal premiums and \$421,827 increase in ordinary life first year premiums that exceeded a \$742,984 decrease in final expense first year premiums.

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

Net Investment Income

The major components of our net investment income for the nine months ended September 30, 2023 and 2022 are summarized as follows:

	(Unaudited)		Amount Change 2023 less 2022
	Nine Months Ended September 30,		
	2023	2022	
Fixed maturity securities	\$ 4,627,453	\$ 5,328,969	\$ (701,516)
Equity securities	168,718	242,466	(73,748)
Other long-term investments	3,825,719	3,747,549	78,170
Mortgage loans	14,351,796	12,336,734	2,015,062
Policy loans	175,680	142,351	33,329
Short-term and other investments	2,063,066	68,729	1,994,337
Gross investment income	25,212,432	21,866,798	3,345,634
Investment expenses	(1,952,286)	(2,484,007)	(531,721)
Net investment income	<u>\$ 23,260,146</u>	<u>\$ 19,382,791</u>	<u>\$ 3,877,355</u>

The \$3,345,634 increase in gross investment income for the nine months ended September 30, 2023 is primarily due \$2,015,062 increase in mortgage loans and a \$1,994,337 increase in short term and other investments that exceeded a \$701,516 decrease in fixed maturity securities.

The increase in short term and other investments is due to higher gross effective yields on securities held in the portfolio and other investments. In twelve months since September 30, 2022, our investments in mortgage loans increased approximately \$22.8 million. The decline in fixed maturity securities is due to a decrease in the average fixed maturity securities holding of \$23.4 million comparing the first nine months of 2023 to 2022.

The \$531,721 decrease in investment expense for the nine months ended September 30, 2023 is primarily due to decreased mortgage loan and fixed maturity securities acquisition expenses.

Net Realized Investment Gains (Losses)

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

Our net realized investment gains (losses) for the nine months ended September 30, 2023 and 2022 are summarized as follows:

	(Unaudited)		Amount Change 2023 less 2022
	Nine Months Ended September 30,		
	2023	2022	
Fixed maturity securities available-for-sale:			
Sale proceeds	\$ 4,428,942	\$ 52,005,427	\$ (47,576,485)
Amortized cost at sale date	4,463,033	50,972,933	(46,509,900)
Net realized gains (losses)	<u>\$ (34,091)</u>	<u>\$ 1,032,494</u>	<u>\$ (1,066,585)</u>
Equity securities sold:			
Sale proceeds	\$ -	\$ -	\$ -
Cost at sale date	-	8,000	(8,000)
Net realized gains (losses)	<u>\$ -</u>	<u>\$ (8,000)</u>	<u>\$ 8,000</u>
Investment real estate:			
Sale proceeds	\$ -	\$ 200,080	\$ (200,080)
Carrying value at sale date	-	147,909	(147,909)
Net realized gains (losses)	<u>\$ -</u>	<u>\$ 52,171</u>	<u>\$ (52,171)</u>
Equity securities, changes in fair value	<u>\$ 24,599</u>	<u>\$ (16,325)</u>	<u>\$ 40,924</u>
Changes in current estimate of credit losses	<u>\$ (110,642)</u>	<u>\$ -</u>	<u>\$ (110,642)</u>
Net realized investment gains (losses)	<u>\$ (120,134)</u>	<u>\$ 1,060,340</u>	<u>\$ (1,180,474)</u>

Service Fees

The \$1,924,525 increase in service fees for the nine months ended September 30, 2023 is primarily due to brokering mortgage loans for a fee to third parties.

Other Income

The \$460,436 increase in other income for the nine months ended September 30, 2023 is primarily due to interest on collateralized loans to an investment vendor.

Total Benefits, Claims and Expenses

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

Our benefits, claims and expenses for the nine months ended September 30, 2023 and 2022 are summarized as follows:

	(Unaudited)		Amount Change 2023 less 2022
	Nine Months Ended September 30,		
	2023	2022	
Benefits and claims			
Increase in future policy benefits	\$ 10,216,279	\$ 9,919,696	\$ 296,583
Death benefits	10,344,418	9,706,037	638,381
Surrenders	1,590,861	1,065,392	525,469
Interest credited to policyholders	11,298,057	9,562,478	1,735,579
Dividend, endowment and supplementary life contract benefits	256,515	235,616	20,899
Total benefits and claims	<u>33,706,130</u>	<u>30,489,219</u>	<u>3,216,911</u>
Expenses			
Policy acquisition costs deferred	(10,387,913)	(9,760,703)	(627,210)
Amortization of deferred policy acquisition costs	6,468,779	5,410,934	1,057,845
Amortization of value of insurance business acquired	206,787	204,003	2,784
Commissions	9,955,977	9,074,186	881,791
Other underwriting, insurance and acquisition expenses	<u>8,848,007</u>	<u>7,563,216</u>	<u>1,284,791</u>
Total expenses	<u>15,091,637</u>	<u>12,491,636</u>	<u>2,600,001</u>
Total benefits, claims and expenses	<u>\$ 48,797,767</u>	<u>\$ 42,980,855</u>	<u>\$ 5,816,912</u>

The \$5,816,912 increase in total benefits, claims and expenses for the nine months ended September 30, 2023 is discussed below.

Benefits and Claims

The \$3,216,911 increase in benefits and claims for the nine months ended September 30, 2023 is primarily due to the following:

- \$1,735,579 increase in interest credited to policyholders is primarily due to an increase of approximately \$26.9 million in the amount of policyholders' account balance in the consolidated statement of financial position since September 30, 2022.
- \$638,381 increase in death benefits is primarily due to approximately \$670,000 of increased ordinary life benefits that exceeded \$32,000 of decreased final expense benefits.
- \$525,469 increase in surrenders is based upon policyholder election.
- \$296,583 increase in future policy benefits is primarily due to the increased number of life policies in force and the aging of existing life policies.

Deferral and Amortization of Deferred Acquisition Costs

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

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

For the nine months ended September 30, 2023 and 2022, capitalized costs were \$10,387,913 and \$9,760,703, respectively. Amortization of deferred policy acquisition costs for the nine months ended September 30, 2023 and 2022 were \$6,468,779 and \$5,410,934, respectively.

The \$627,210 increase in the 2023 acquisition costs deferred primarily relates to increased ordinary life first year and annuity production and deferral of increased eligible commissions and expenses. There was an \$1,057,845 increase in the 2023 amortization of deferred acquisition costs due to 2023 surrenders and withdrawal activity and the impact of mortality.

Amortization of Value of Insurance Business Acquired

The cost of acquiring insurance business is amortized over the emerging profit of the related policies using the same assumptions that were used in computing liabilities for future policy benefits. Amortization of the value of insurance business acquired was \$206,787 and \$204,003 for the nine months ended September 30, 2023 and 2022, respectively, representing a \$2,784 increase.

Commissions

Our commissions for the nine months ended September 30, 2023 and 2022 are summarized as follows:

	(Unaudited)		Amount Change 2023 less 2022
	Nine Months Ended September 30, 2023	2022	
Annuity	\$ 2,126,231	\$ 1,127,824	\$ 998,407
Ordinary life first year	2,312,523	1,873,131	439,392
Ordinary life renewal	527,671	320,286	207,385
Final expense first year	3,206,040	4,050,491	(844,451)
Final expense renewal	1,783,512	1,702,454	81,058
Total commissions	<u>\$ 9,955,977</u>	<u>\$ 9,074,186</u>	<u>\$ 881,791</u>

The \$881,791 increase in commissions for the nine months ended September 30, 2023 is primarily due to a \$998,407 increase annuity commissions (corresponding to \$28,935,147 of increased annuity deposits retained), \$439,392 increase in ordinary life first year commissions (corresponding to \$421,827 increased ordinary life first year premiums) and a \$207,385 increase in ordinary life renewal commissions (corresponding to \$1,437,335 increased ordinary life renewal premiums) that exceed a \$844,451 decrease in final expense first year commissions (corresponding to \$742,984 decreased final expense first year premiums).

Other Underwriting, Insurance and Acquisition Expenses

The \$1,284,791 increase in other underwriting, insurance and acquisition expenses for the nine months ended September 30, 2023 was primarily related to an increase in salaries and benefits, third party administrative fees, advisor fees and legal fees.

Federal Income Taxes

FTFC filed its 2022 consolidated federal income tax return with TLIC, FBLIC and TMC on October 12, 2023. 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, 2023 and 2022, current income tax expense was \$1,167,431 and \$377,462, respectively. Deferred federal income tax expense was \$326,460 and \$852,879 for the nine months ended September 30, 2023 and 2022, respectively.

Net Income Per Common Share Basic

For the nine months ended September 30, 2023 and 2022, the net income allocated to the Class B shareholders is the total net income multiplied by the right to receive dividends at 85% for Class B shares (85,937) as of the reporting date divided by the allocated total shares (9,470,277) of Class A shares (9,384,340) and Class B shares (85,937) as of the reporting date.

For the nine months ended September 30, 2023, the net income allocated to the Class A shareholders of \$5,648,507 is the total net income \$5,700,233 less the net income allocated to the Class B shareholders \$51,726. For the nine months ended September 30, 2022, the net income allocated to the Class A shareholders of \$4,370,933 is the total net income \$4,410,960 less the net income allocated to the Class B shareholders \$40,027.

The weighted average outstanding common shares basic for the nine months ended September 30, 2023 and 2022 were 9,384,340 for Class A shares and 101,102 for Class B shares.

Business Segments

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

The revenues and income before federal income taxes from our business segments for the nine months ended September 30, 2023 and 2022 are summarized as follows:

	(Unaudited)		Amount Change 2023 less 2022
	Nine Months Ended September 30,		
	2023	2022	
Revenues:			
Life insurance operations	\$ 34,261,450	\$ 31,031,373	\$ 3,230,077
Annuity operations	18,536,138	16,223,377	2,312,761
Corporate operations	3,194,303	1,327,406	1,866,897
Total	<u>\$ 55,991,891</u>	<u>\$ 48,582,156</u>	<u>\$ 7,409,735</u>
Income (loss) before income taxes:			
Life insurance operations	\$ 2,380,841	\$ 2,581,520	\$ (200,679)
Annuity operations	2,450,351	2,137,960	312,391
Corporate operations	2,362,932	881,821	1,481,111
Total	<u>\$ 7,194,124</u>	<u>\$ 5,601,301</u>	<u>\$ 1,592,823</u>

The increases and decreases of revenues and profitability from our business segments for the nine months ended September 30, 2023 and 2022 are summarized as follows:

	Life Insurance Operations	Annuity Operations	Corporate Operations	Total
Revenues				
Premiums	\$ 2,327,893	\$ -	\$ -	\$ 2,327,893
Net investment income	1,000,659	2,731,820	144,876	3,877,355
Net realized investment gains (losses)	(269,074)	(919,400)	8,000	(1,180,474)
Service fees and other income	170,599	500,341	1,714,021	2,384,961
Total revenue	<u>3,230,077</u>	<u>2,312,761</u>	<u>1,866,897</u>	<u>7,409,735</u>
Benefits and claims				
Increase in future policy benefits	296,583	-	-	296,583
Death benefits	638,381	-	-	638,381
Surrenders	525,469	-	-	525,469
Interest credited to policyholders	-	1,735,579	-	1,735,579
Dividend, endowment and supplementary life contract benefits	20,899	-	-	20,899
Total benefits and claims	<u>1,481,332</u>	<u>1,735,579</u>	<u>-</u>	<u>3,216,911</u>
Expenses				
Policy acquisition costs deferred net of amortization	1,549,219	(1,118,584)	-	430,635
Amortization of value of insurance business acquired	1,392	1,392	-	2,784
Commissions	(116,616)	998,407	-	881,791
Other underwriting, insurance and acquisition expenses	515,429	383,576	385,786	1,284,791
Total expenses	<u>1,949,424</u>	<u>264,791</u>	<u>385,786</u>	<u>2,600,001</u>
Total benefits, claims and expenses	<u>3,430,756</u>	<u>2,000,370</u>	<u>385,786</u>	<u>5,816,912</u>
Income (loss) before federal income taxes expense (benefits)	<u>\$ (200,679)</u>	<u>\$ 312,391</u>	<u>\$ 1,481,111</u>	<u>\$ 1,592,823</u>

Consolidated Financial Condition

Our invested assets as of September 30, 2023 and December 31, 2022 are summarized as follows:

	(Unaudited)		Amount Change
	September 30, 2023	December 31, 2022	2023 less 2022
Assets			
Investments			
Available-for-sale fixed maturity securities at fair value (amortized cost: \$162,300,333 and \$144,744,158 as of September 30, 2023 and December 31, 2022, respectively)	\$ 141,653,177	\$ 126,612,890	\$ 15,040,287
Equity securities at fair value (cost: \$280,014 and \$276,131 as of September 30, 2023 and December 31, 2022, respectively)	428,115	399,633	28,482
Mortgage loans on real estate	237,915,033	242,314,128	(4,399,095)
Investment real estate	540,436	540,436	-
Policy loans	3,246,166	2,840,887	405,279
Short-term investments	295,174	1,860,578	(1,565,404)
Other long-term investments	63,135,565	67,500,783	(4,365,218)
Total investments	<u>\$ 447,213,666</u>	<u>\$ 442,069,335</u>	<u>\$ 5,144,331</u>

The increase and decrease in fixed maturity available-for-sale securities for the nine months ended September 30, 2023 and 2022, respectively, are summarized as follows:

	(Unaudited)	
	Nine Months Ended September 30,	
	2023	2022
Fixed maturity securities, available-for-sale, beginning	\$ 126,612,890	\$ 184,077,038
Purchases	23,059,489	35,249,422
Unrealized depreciation	(2,807,073)	(37,137,496)
Net realized investment gains (losses)	(144,733)	1,032,494
Sales proceeds	(4,428,942)	(51,053,427)
Maturities	(505,000)	(952,000)
Premium amortization	(133,454)	(265,399)
Increase (decrease)	<u>15,040,287</u>	<u>(53,126,406)</u>
Fixed maturity securities, available-for-sale, ending	<u>\$ 141,653,177</u>	<u>\$ 130,950,632</u>

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

The increase and decrease in equity securities for the nine months ended September 30, 2023 and 2022, respectively, are summarized as follows:

	(Unaudited)	
	Nine Months Ended September 30,	
	2023	2022
Equity securities, beginning	\$ 399,633	\$ 348,218
Purchases	104,047	173,992
Sales proceeds	-	-
Joint venture distributions	(100,164)	(162,866)
Net realized investment gains (losses), sale of securities	-	(8,000)
Net realized investment gains (losses), changes in fair value	24,599	(16,325)
Increase (decrease)	<u>28,482</u>	<u>(13,199)</u>
Equity securities, ending	<u>\$ 428,115</u>	<u>\$ 335,019</u>

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

The decrease and increase in mortgage loans on real estate for the nine months ended September 30, 2023 and 2022, respectively, are summarized as follows:

	(Unaudited)	
	Nine Months Ended September 30,	
	2023	2022
Mortgage loans on real estate, beginning	\$ 242,314,128	\$ 177,508,051
Purchases	101,131,636	122,735,150
Discount accretion	1,553	239,127
Payments	(105,515,062)	(85,140,505)
Increase in allowance for bad debts	(17,222)	(256,634)
Increase (decrease)	<u>(4,399,095)</u>	<u>37,577,138</u>
Mortgage loans on real estate, ending	<u>\$ 237,915,033</u>	<u>\$ 215,085,189</u>

The decrease in investment real estate for the nine months ended September 30, 2022 is summarized as follows:

	(Unaudited)	
	Nine Months Ended September 30,	
	2023	2022
Investment real estate, beginning	\$ 540,436	\$ 688,345
Sales proceeds	-	(200,080)
Net realized investment gains	-	52,171
Decrease	-	(147,909)
Investment real estate, ending	<u>\$ 540,436</u>	<u>\$ 540,436</u>

The increase and decrease in other long-term investments (composed of lottery receivables) for the nine months ended September 30, 2023 and 2022, respectively, are summarized as follows:

	(Unaudited)	
	Nine Months Ended September 30,	
	2023	2022
Other long-term investments, beginning	\$ 67,500,783	\$ 65,929,215
Purchases	6,109,759	10,197,724
Accretion of discount	3,825,790	3,748,011
Payments	(14,300,767)	(11,767,912)
Increase (decrease)	<u>(4,365,218)</u>	<u>2,177,823</u>
Other long-term investments, ending	<u>\$ 63,135,565</u>	<u>\$ 68,107,038</u>

Our assets other than invested assets as of September 30, 2023 and December 31, 2022 are summarized as follows:

	(Unaudited)		Amount Change
	September 30, 2023	December 31, 2022	2023 less 2022
Cash and cash equivalents	\$ 38,125,864	\$ 33,542,725	\$ 4,583,139
Accrued investment income	7,034,172	5,580,175	1,453,997
Recoverable from reinsurers	10,434,851	11,102,875	(668,024)
Assets held in trust under coinsurance agreement	84,352,423	92,033,769	(7,681,346)
Agents' balances and due premiums	1,366,434	1,253,077	113,357
Deferred policy acquisition costs	60,103,259	56,183,785	3,919,474
Value of insurance business acquired	3,841,318	4,048,105	(206,787)
Other assets	21,871,189	20,050,191	1,820,998
Assets other than investment assets	<u>\$ 227,129,510</u>	<u>\$ 223,794,702</u>	<u>\$ 3,334,808</u>

The \$4,583,139 increase in cash and cash equivalents is discussed below in the “Liquidity and Capital Resources” section where cash flows are addressed.

The \$7,681,346 decrease in assets held in trust under the coinsurance agreement is due to a reduction in assets under TLIC’s annuity coinsurance agreement with an offshore annuity and life insurance company that is administered on a funds withheld basis.

The increase in deferred policy acquisition costs for the nine months ended September 30, 2023 and 2022 are summarized as follows:

	(Unaudited)	
	Nine Months Ended September 30,	
	2023	2022
Balance, beginning of year	\$ 56,183,785	\$ 49,717,323
Capitalization of commissions, sales and issue expenses	10,387,913	9,760,703
Amortization	(6,468,779)	(5,410,934)
Deferred acquisition costs allocated to investments	340	12,508
Increase	<u>3,919,474</u>	<u>4,362,277</u>
Balance, end of period	<u>\$ 60,103,259</u>	<u>\$ 54,079,600</u>

Our other assets as of September 30, 2023 and December 31, 2022 are summarized as follows:

	(Unaudited)		Amount Change
	September 30, 2023	December 31, 2022	2023 less 2022
Federal and state income taxes recoverable	\$ 10,545,345	\$ 8,887,609	\$ 1,657,736
Advances to mortgage loan originator	4,612,811	4,743,041	(130,230)
Advances to an independently owned investment firm	5,000,000	5,000,000	-
Guaranty funds	690,418	699,865	(9,447)
Lease asset - right to use	393,714	467,536	(73,822)
Other receivables, prepaid assets and deposits	302,409	194,737	107,672
Accrued management fee	278,502	-	278,502
Notes receivable	47,990	57,403	(9,413)
Total other assets	<u>\$ 21,871,189</u>	<u>\$ 20,050,191</u>	<u>\$ 1,820,998</u>

There was a \$1,657,736 increase in federal and state income taxes recoverable primarily due to federal and state tax withholdings on lottery receivables.

There was a \$278,502 increase in accrued management fees for managing mortgage loans for a third party.

There was a \$130,230 decrease in advances to one mortgage loan originator who acquires residential mortgage loans for our life companies.

Our liabilities as of September 30, 2023 and December 31, 2022 are summarized as follows:

	(Unaudited)		Amount Change
	September 30, 2023	December 31, 2022	2023 less 2022
Policy liabilities			
Policyholders' account balances	\$ 404,067,174	\$ 391,359,944	\$ 12,707,230
Future policy benefits	119,819,195	110,012,174	9,807,021
Policy claims	1,899,433	2,541,088	(641,655)
Other policy liabilities	298,424	146,217	152,207
Total policy liabilities	<u>526,084,226</u>	<u>504,059,423</u>	22,024,803
Funds withheld under coinsurance agreement	84,174,477	92,301,039	(8,126,562)
Deferred federal income taxes	2,414,458	2,677,411	(262,953)
Other liabilities	6,534,590	15,173,652	(8,639,062)
Total liabilities	<u>\$ 619,207,751</u>	<u>\$ 614,211,525</u>	<u>\$ 4,996,226</u>

The increase in policyholders' account balances for the nine months ended September 30, 2023 and 2022 are summarized as follows:

	(Unaudited)	
	Nine Months Ended September 30,	
	2023	2022
Policyholders' account balances, beginning	\$ 391,359,944	\$ 373,647,869
Deposits	66,492,731	38,044,149
Withdrawals	(76,096,655)	(52,755,265)
Change in funds withheld under coinsurance agreement	11,013,097	5,642,670
Acquisition of Royalty Capital Life Insurance Company	-	3,019,610
Interest credited	11,298,057	9,562,478
Increase	<u>12,707,230</u>	<u>3,513,642</u>
Policyholders' account balances, ending	<u>\$ 404,067,174</u>	<u>\$ 377,161,511</u>

The \$9,807,021 increase in future policy benefits during the nine months ended September 30, 2023 is primarily related to the production of new life insurance policies and the aging of existing policies an additional year.

The \$8,126,562 decrease in funds withheld under coinsurance agreement is due to the Company owing the reinsurer less under coinsurance agreement with an offshore annuity and life insurance company.

The \$262,953 decrease in deferred federal income taxes during the nine months ended September 30, 2023 was due to \$589,413 of decreased deferred federal income taxes on the unrealized appreciation of fixed maturity securities and preferred stock available-for-sale and \$326,460 of operating deferred federal tax expense.

Our other liabilities as of September 30, 2023 and December 31, 2022 are summarized as follows:

	(Unaudited)		Amount Change
	September 30, 2023	December 31, 2022	2023 less 2022
Mortgage loans suspense	\$ 3,668,336	\$ 2,655,185	\$ 1,013,151
Accrued expenses payable	836,000	830,000	6,000
Guaranty fund assessments	681,000	681,000	-
Lease liability	393,714	467,536	(73,822)
Unclaimed funds	379,244	338,204	41,040
Suspense accounts payable	270,962	9,706,063	(9,435,101)
Payable for securities purchased	246,117	390,508	(144,391)
Unearned investment income	108,357	105,236	3,121
Deferred revenue	44,000	52,250	(8,250)
Accounts payable	26,522	80,964	(54,442)
Other payables, withholdings and escrows	(119,662)	(133,294)	13,632
Total other liabilities	<u>\$ 6,534,590</u>	<u>\$ 15,173,652</u>	<u>\$ (8,639,062)</u>

The increase in mortgage loan suspense of \$1,013,151 is primarily due to timing of principal loan payments on mortgage loans.

As of September 30, 2023, the Company had \$246,117 in security purchases where the trade date and settlement date were in different financial reporting periods compared to \$390,508 of security purchases overlapping financial reporting periods as of December 31, 2022.

The \$9,435,101 decrease in suspense accounts payable is due to decreased deposits on policy applications that had not been issued as of the financial reporting date.

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, 2023, we have received \$27,119,480 from the sale of our shares.

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

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

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

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

As of September 30, 2023, we had cash and cash equivalents totaling \$38,125,864. As of September 30, 2022, cash and cash equivalents of \$20,199,536 and \$10,754,387, respectively, totaling \$30,953,923 were held by TLIC and FBLIC and may not be available for use by FTFC due to the required pre-approval by the Oklahoma Insurance Department of any dividend or intercompany transaction to transfer funds to FTFC. The maximum dividend, which may be paid in any twelve-month period without notification or approval, is limited to the greater of 10% of statutory surplus as of December 31 of the preceding year or the net gain from operations of the preceding calendar year.

Cash dividends may only be paid out of surplus derived from realized net profits. Based on these limitations, there is no capacity for TLIC to pay a dividend due to a negative unassigned surplus of \$3,633,769 as of December 31, 2022. In addition, based on those limitations, there is the capacity for FBLIC to pay a dividend up to \$1,237,769 in 2023 without prior approval. FBLIC has paid no dividends to TLIC in 2023. In 2022, FBLIC paid a \$3,200,000 dividend to TLIC, of which \$1,495,631 was considered ordinary and \$1,704,369 was considered extraordinary. Dividends paid by FBLIC to TLIC are eliminated in consolidation. TLIC has paid no dividends to FTFC in 2023 and 2022. In 2022, TLIC returned \$2,200,000 in capital to FTFC. This return of capital by TLIC to FTFC is eliminated in consolidation.

The Company maintains cash and cash equivalents at multiple institutions. The Federal Deposit Insurance Corporation insures interest and non-interest bearing accounts up to \$250,000. Uninsured balances aggregate \$20,037,111 and \$32,933,850 as of September 30, 2023 and December 31, 2022, respectively. Other funds are invested in mutual funds that invest in U.S. government securities. We monitor the solvency of all financial institutions in which we have funds to minimize the exposure for loss. The Company has not experienced any losses in such accounts.

Our cash flows for the nine months ended September 30, 2023 and 2022 are summarized as follows:

	(Unaudited)		Amount Change 2023 less 2022
	Nine Months Ended September 30,		
	2023	2022	
Net cash provided by operating activities	\$ 18,745,438	\$ 22,973,625	\$ (4,228,187)
Net cash used in investing activities	(4,558,375)	(13,859,652)	9,301,277
Net cash used in financing activities	(9,603,924)	(14,711,116)	5,107,192
Increase (decrease) in cash and cash equivalents	4,583,139	(5,597,143)	10,180,282
Cash and cash equivalents, beginning of period	33,542,725	42,528,046	(8,985,321)
Cash and cash equivalents, end of period	<u>\$ 38,125,864</u>	<u>\$ 36,930,903</u>	<u>\$ 1,194,961</u>

The cash provided by operating activities for the nine months ended September 30, 2023 and 2022 are summarized as follows:

	(Unaudited)		Amount Change 2023 less 2022
	Nine Months Ended September 30,		
	2023	2022	
Premiums collected	\$ 28,578,567	\$ 26,457,969	\$ 2,120,598
Net investment income collected	18,115,381	15,432,168	2,683,213
Service fees and other income collected	3,891,963	1,785,504	2,106,459
Death benefits paid	(10,318,049)	(9,458,660)	(859,389)
Surrenders paid	(1,590,861)	(1,065,392)	(525,469)
Dividends and endowments paid	(258,277)	(235,927)	(22,350)
Commissions paid	(10,048,411)	(8,733,579)	(1,314,832)
Other underwriting, insurance and acquisition expenses paid	(8,902,498)	(7,141,711)	(1,760,787)
Taxes paid	(2,825,166)	(1,454,266)	(1,370,900)
Decreased advances to a private equity company	-	3,000,000	(3,000,000)
(Increased) decreased advances to mortgage loan originator	130,230	(726,765)	856,995
Increased (decreased) deposits of pending policy applications	(9,435,101)	3,219,184	(12,654,285)
Decreased funds under coinsurance agreement	10,567,882	5,195,220	5,372,662
Increased (decreased) mortgage loan suspense	1,013,151	(2,911,306)	3,924,457
Other	(173,373)	(388,814)	215,441
Net cash provided by operating activities	<u>\$ 18,745,438</u>	<u>\$ 22,973,625</u>	<u>\$ (4,228,187)</u>

Please see the statements of cash flows for the nine months ended September 30, 2023 and 2022 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, 2023 and December 31, 2022 is summarized as follows:

	(Unaudited)		Amount Change 2023 less 2022
	September 30, 2023	December 31, 2022	
Shareholders' equity			
Class A common stock, par value \$.01 per share (40,000,000 shares authorized as of September 30, 2023 and December 31, 2022, 9,631,920 issued as of September 30, 2023 and December 31, 2022, 9,384,340 outstanding as of September 30, 2023 and December 31, 2022)	\$ 96,319	\$ 96,319	\$ -
Class B common stock, par value \$.01 per share (10,000,000 shares authorized, 101,102 issued and outstanding as of September 30, 2023 and December 31, 2022)	1,011	1,011	-
Additional paid-in capital	43,668,023	43,668,023	-
Treasury stock, at cost (247,580 shares as of September 30, 2023 and December 31, 2022)	(893,947)	(893,947)	-
Accumulated other comprehensive loss	(16,306,963)	(14,319,679)	(1,987,284)
Accumulated earnings	28,570,982	23,100,785	5,470,197
Total shareholders' equity	<u>\$ 55,135,425</u>	<u>\$ 51,652,512</u>	<u>\$ 3,482,913</u>

The increase in shareholders' equity of \$3,482,913 for the nine months ended September 30, 2023 is primarily due to \$5,700,233 of net income less a \$230,036 credit loss cumulative effect adjustment and \$1,987,284 decrease in accumulated other comprehensive income (loss).

The liquidity requirements of our life insurance companies are met primarily by funds provided from operations. Premium and annuity consideration deposits, investment income and investment maturities are the primary sources of funds, while investment purchases, policy benefits, and operating expenses are the primary uses of funds. There were no liquidity issues in 2023 or 2022. Our investments include marketable debt securities that could be readily converted to cash for liquidity needs.

We are subject to various market risks. The quality of our investment portfolio and the current level of shareholders' equity continue to provide a sound financial base as we strive to expand our marketing to offer competitive products. Our investment portfolio had unrealized depreciation on available-for-sale securities of \$20,647,156 and \$18,131,268 as of September 30, 2023 and December 31, 2022, respectively, prior to the impact of income taxes and deferred acquisition cost adjustments. An increase of \$2,841,164 in unrealized losses arising for the nine months ended September 30, 2023 has been increased by 2023 net realized investment losses of \$34,091 originating from the sale and call activity for fixed maturity securities available-for-sale resulting in net unrealized losses on investments of \$2,807,073.

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, 2023, cash and cash equivalents, short-term investments, the fair value of fixed maturity available-for-sale securities with maturities of less than one year and the fair value of lottery receivables with maturities of less than one year equaled 10.7% 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 2022, 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, 2023, the Company has outstanding advances to this loan originator totaling \$4,612,811. The advances are secured by \$8,357,450 of residential mortgage loans on real estate that are assigned to the Company. The Company has committed to fund up to an additional \$1,387,189 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, 2023, \$929,810 of additional and secured residential mortgage loan balances on real estate are held in escrow by the Company. As of September 30, 2023, \$872,217 of that escrow amount is available to the Company as additional collateral on \$4,612,811 of advances to the loan originator. The remaining September 30, 2023 escrow amount of \$57,593 is available to the Company as additional collateral on its investment of \$11,518,652 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, 2023 will be sufficient to fund our anticipated operating expenses.

Off-Balance Sheet Arrangements

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

SPECIAL NOTE CONCERNING FORWARD-LOOKING STATEMENTS

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

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

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

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

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

Item 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, 2023 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

From time to time, we are a party to various legal proceedings in the ordinary course of business. While management is unable to predict the ultimate outcome of these actions, it believes that any ultimate liability arising from them will not have a material effect on the Company’s financial position, results of operations or cash flow. We are not currently a party to any bankruptcy, receivership, reorganization, adjustment or similar proceeding, and we are not aware of any material threatened litigation. As summarized below, the Company is currently involved in three pending lawsuits.

A lawsuit filed by the Company and its Chairman and Chief Executive Officer, Gregg E. Zahn (“Mr. Zahn”) styled First Trinity Financial Corporation and Gregg E. Zahn vs. C. Wayne Pettigrew and Group & Pension Planners was originally filed in 2013 in the District Court of Tulsa County, Oklahoma against former Company Board of Director, C. Wayne Pettigrew (“Mr. Pettigrew”). The Company and Mr. Zahn alleged that Mr. Pettigrew defamed Mr. Zahn and the Company and that Mr. Pettigrew breached his fiduciary duties to the Company by making untrue statements about the Company and Mr. Zahn to the press, state regulators and to certain shareholders.

In February 2017, the lawsuit resulted in a jury verdict in favor of the Company and Mr. Zahn, with the jury awarding damages of \$800,000 to the Company and \$3,500,000 to Mr. Zahn. In February 2020, the Oklahoma Court of Civil Appeals, upon an appeal by Mr. Pettigrew, reversed the judgment and remanded the case for a new trial. A Petition for Certiorari review with the Oklahoma Supreme Court by the Company and Mr. Zahn was declined in December 2020. The case is now scheduled to be retried in the District Court. The Company is vigorously prosecuting this case. The Company faces no exposure in connection with this action since there were no counterclaims or cross claims made against the Company. Management believes that this lawsuit is not material in relation to the Company's financial position or results of operations.

The Company, through its life insurance subsidiary, TLIC, commenced two lawsuits as plaintiff, both in the New York Supreme Court, New York County, one on June 29, 2020 and another on March 4, 2022, for breach of contract against a company for failure to advance funding to lottery ticket winners to the detriment of TLIC and against various of that company's associated persons for unjust enrichment and fraud perpetuated on TLIC. The cases are entitled "Trinity Life Insurance Company v. Advance Funding LLC, Dan Cevallos, and Monica L. Ray, Index No. 652780/2020" (New York Supreme Court, New York County) and "Trinity Life Insurance Company v. Advance Funding LLC, Dan Cevallos, Julie Casal, and Monica L. Ray, Index No. 651023/2022" (New York Supreme Court, New York County). The Company is vigorously prosecuting this case against the defendants. The Company faces no exposure in connection with either action since no counterclaims or cross claims have been made against the Company. Management believes that this lawsuit is not material in relation to the Company's financial position or results of operations.

The third lawsuit involves an insurance holding company and one of its insurance subsidiaries, which was instituted suit in District Court of Travis County, Texas, entitled Citizens, Inc., CICA Life Ltd., and CICA Life Insurance Company of America, Plaintiffs, v. Randall H. Riley, Citizens American Life, LLC, Citizens American Life, Inc., Alexis Enrique Delgado, Carlos Nalsen Landa, Enrique Pinzon Ruiz, Johan Emilio Mikuski Silva, Esperanza Peralta De Delgado, Michael P. Buchweitz, Jonathan M. Pollio, Steven A. Rekedal, First Trinity Financial Corporation, Trinity American, Inc., and International Marketing Group S.A., LLC, Defendants, against the Company and several associated persons on November 7, 2018. The plaintiffs accused the several defendants, including the Company and its subsidiary company, Trinity American, Inc. ("Trinity American") of misappropriating trade secrets under the Texas Uniform Trade Secrets Act. The plaintiffs have also alleged claims for common law unfair competition, civil conspiracy, and unjust enrichment against all of the defendants. The plaintiffs also alleged that Trinity American's predecessor entity tortiously interfered with the plaintiffs' contracts, and alleged several other causes of action, including breaches of contract and tortious interference with contract against the remaining defendants.

The causes of action all are alleged to have arisen from the alleged conduct of the various individual defendants, three of whom are former employees of the plaintiffs. The plaintiffs alleged that defendant Randall H. Riley and other terminated employees, after being terminated by the plaintiffs, worked on creating a competing business selling whole life insurance in international markets. Several of the individual defendants have counterclaimed against the plaintiffs seeking damages for breach of contract based on commissions they were denied when the plaintiffs wrongfully terminated their sales agreements. Mr. Riley died in October 2022. Trial of the case has been delayed indefinitely pending action from the Travis County Probate Court with respect to the estate of Mr. Riley. The Company believes the plaintiffs' claims against the Company are entirely without merit and it is conducting a vigorous defense. Management believes that the ultimate resolution of this lawsuit will not be material in relation to the Company's financial position or results of operations.

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

None

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

None

Item 5. Other Information

None

Item 6. Exhibits

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

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

32.1 Section 1350 Certification of Principal Executive Officer

32.2 Section 1350 Certification of Principal Financial Officer

101.INS** Inline XBRL Instance

101.SCH** Inline XBRL Taxonomy Extension Schema

101.CAL** Inline XBRL Taxonomy Extension Calculation

101.DEF** Inline XBRL Taxonomy Extension Definition

101.LAB** Inline XBRL Taxonomy Extension Labels

101.PRE** Inline XBRL Taxonomy Extension Presentation

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

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

SIGNATURES

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

FIRST TRINITY FINANCIAL CORPORATION
an Oklahoma corporation

November 14, 2023

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

November 14, 2023

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

CERTIFICATION

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

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

Date: November 14, 2023

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

CERTIFICATION

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

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

Date: November 14, 2023

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, 2023 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 14, 2023

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, 2023 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 14, 2023

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