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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2018

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

Commission file number: **000-52613**

FIRST TRINITY FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files).
Yes ☑ No ☐

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

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

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

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

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date:
Common stock .01 par value as of May 7, 2018: 7,802,593 shares

FIRST TRINITY FINANCIAL CORPORATION
QUARTERLY REPORT ON FORM 10-Q
FOR QUARTERLY PERIOD ENDED MARCH 31, 2018

TABLE OF CONTENTS

PART I – FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

First Trinity Financial Corporation and Subsidiaries
Consolidated Statements of Financial Position

	(Unaudited) March 31, 2018	December 31, 2017
Assets		
Investments		
Available-for-sale fixed maturity securities at fair value (amortized cost: $147,759,019 and $143,621,947 as of March 31, 2018 and December 31, 2017, respectively)	$ 149,444,371	$ 149,683,139
Available-for-sale preferred stock at fair value (cost: $99,945 as of March 31, 2018 and December 31, 2017)	96,940	100,720
Equity securities (available-for-sale in 2017) at fair value (cost: $503,581 and $502,919 as of March 31, 2018 and December 31, 2017, respectively)	548,369	571,427
Mortgage loans on real estate	111,912,198	102,496,451
Investment real estate	2,346,594	2,382,966
Policy loans	1,647,320	1,660,175
Short-term investments	2,543,912	547,969
Other long-term investments	58,812,011	55,814,583
Total investments	327,351,715	313,257,430
Cash and cash equivalents	17,805,871	31,496,159
Accrued investment income	2,624,443	2,544,963
Recoverable from reinsurers	1,173,251	1,340,700
Agents' balances and due premiums	1,415,157	1,485,305
Deferred policy acquisition costs	26,116,077	24,555,902
Value of insurance business acquired	5,437,034	5,526,645
Other assets	11,451,942	10,920,570
Total assets	$ 393,375,490	$ 391,127,674
Liabilities and Shareholders' Equity		
Policy liabilities		
Policyholders' account balances	$ 295,489,982	$ 292,909,762
Future policy benefits	51,096,235	49,663,099
Policy claims	1,213,535	1,148,513
Other policy liabilities	70,629	68,490
Total policy liabilities	347,870,381	343,789,864
Deferred federal income taxes	2,314,783	2,961,929
Other liabilities	4,383,484	3,123,702
Total liabilities	354,568,648	349,875,495
Shareholders' equity		
Common stock, par value $.01 per share (20,000,000 shares authorized, 8,050,173 issued as of March 31, 2018 and December 31, 2017 and 7,802,593 outstanding as of March 31, 2018 and December 31, 2017)	80,502	80,502
Additional paid-in capital	28,684,598	28,684,598
Treasury stock, at cost (247,580 shares as of March 31, 2018 and December 31, 2017)	(893,947)	(893,947)
Accumulated other comprehensive income	1,306,725	4,760,951
Accumulated earnings	9,628,964	8,620,075
Total shareholders' equity	38,806,842	41,252,179
Total liabilities and shareholders' equity	$ 393,375,490	$ 391,127,674

See notes to consolidated financial statements (unaudited).

First Trinity Financial Corporation and Subsidiaries

Consolidated Statements of Operations

(Unaudited)

	Three Months Ended March 31,	
	2018	2017
Revenues		
Premiums	$ 4,486,735	$ 3,621,690
Net investment income	4,684,242	3,669,871
Net realized investment gains (losses)	(24,784)	166,506
Other income	21,227	49,892
Total revenues	9,167,420	7,507,959
Benefits, Claims and Expenses		
Benefits and claims		
Increase in future policy benefits	1,439,591	959,805
Death benefits	1,562,056	1,545,836
Surrenders	227,669	283,376
Interest credited to policyholders	2,307,331	2,035,054
Dividend, endowment and supplementary life contract benefits	67,685	66,973
Total benefits and claims	5,604,332	4,891,044
Policy acquisition costs deferred	(2,308,033)	(2,414,719)
Amortization of deferred policy acquisition costs	823,548	680,836
Amortization of value of insurance business acquired	89,611	102,168
Commissions	2,103,122	2,244,910
Other underwriting, insurance and acquisition expenses	1,643,393	1,654,203
Total expenses	2,351,641	2,267,398
Total benefits, claims and expenses	7,955,973	7,158,442
Income before total federal income tax expense	1,211,447	349,517
Current federal income tax expense	-	-
Deferred federal income tax expense	271,066	88,039
Total federal income tax expense	271,066	88,039
Net income	$ 940,381	$ 261,478
Net income per common share basic and diluted	$ 0.12	$ 0.03

See notes to consolidated financial statements (unaudited).

First Trinity Financial Corporation and Subsidiaries

Consolidated Statements of Comprehensive Income (Loss)

(Unaudited)

	Three Months Ended March 31,	
	2018	2017
Net income	$ 940,381	$ 261,478
Other comprehensive income (loss)		
Total net unrealized gains (losses) arising during the period	(4,380,790)	1,243,084
Cumulative effect, adoption of accounting guidance for equity securities	(68,508)	-
Less net realized investment gains (losses) having no credit losses	(1,170)	164,019
Net unrealized gains (losses)	(4,448,128)	1,079,065
Less adjustment to deferred acquisition costs	(75,690)	19,500
Other comprehensive income (loss) before income tax expense (benefit)	(4,372,438)	1,059,565
Income tax expense (benefit)	(918,212)	211,913
Total other comprehensive income (loss)	(3,454,226)	847,652
Total comprehensive income (loss)	$ (2,513,845)	$ 1,109,130

See notes to consolidated financial statements (unaudited).

First Trinity Financial Corporation and Subsidiaries
Consolidated Statements of Changes in Shareholders' Equity
Three Months Ended March 31, 2018 and 2017
(Unaudited)

	Common Stock $.01 Par Value	Additional Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Income	Accumulated Earnings	Total Shareholders' Equity
Balance as of January 1, 2017	$ 80,502	$ 28,684,598	$ (893,947)	$ 818,676	$ 7,590,446	$ 36,280,275
Comprehensive income:						
Net income	-	-	-	-	261,478	261,478
Other comprehensive income	-	-	-	847,652	-	847,652
Balance as of March 31, 2017	$ 80,502	$ 28,684,598	$ (893,947)	$ 1,666,328	$ 7,851,924	$ 37,389,405
Balance as of January 1, 2018	$ 80,502	$ 28,684,598	$ (893,947)	$ 4,760,951	$ 8,620,075	$ 41,252,179
Comprehensive loss:						
Net income	-	-	-	-	940,381	940,381
Cumulative effect, adoption of accounting guidance for equity securities	-	-	-	-	68,508	68,508
Other comprehensive loss	-	-	-	(3,454,226)	-	(3,454,226)
Balance as of March 31, 2018	$ 80,502	$ 28,684,598	$ (893,947)	$ 1,306,725	$ 9,628,964	$ 38,806,842

See notes to consolidated financial statements (unaudited).

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

	Three Months Ended March 31, 2018	Three Months Ended March 31, 2017
Operating activities		
Net income	$ 940,381	$ 261,478
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for depreciation	36,372	36,531
Accretion of discount on investments	(837,220)	(685,817)
Net realized investment losses (gains)	24,784	(166,506)
Amortization of policy acquisition cost	823,548	680,836
Policy acquisition cost deferred	(2,308,033)	(2,414,719)
Amortization of loan origination fees	13,365	14,797
Amortization of value of insurance business acquired	89,611	102,168
Allowance for mortgage loan losses	41,203	42,054
Provision for deferred federal income tax expense	271,066	88,039
Interest credited to policyholders	2,307,331	2,035,054
Change in assets and liabilities:		
Policy loans	12,855	21,809
Short-term investments	(1,995,943)	-
Accrued investment income	(79,480)	(365,984)
Recoverable from reinsurers	167,449	47,057
Agents' balances and due premiums	70,148	(86,393)
Other assets (excludes depreciation of $159 in 2017 and change in receivable for securities sold of ($303,014) and $6,288,274 in 2018 and 2017, respectively)	(228,358)	592,603
Future policy benefits	1,433,136	956,446
Policy claims	65,022	(59,035)
Other policy liabilities	2,139	10,384
Other liabilities (exclude change in payable for securities purchased of ($132,961) and ($17,569) in 2018 and 2017, respectively)	1,392,743	(284,941)
Net cash provided by operating activities	2,242,119	825,861
Investing activities		
Purchases of fixed maturity securities available-for-sale	(6,885,843)	(26,056,647)
Maturities of fixed maturity securities available-for-sale	1,950,000	2,770,000
Sales of fixed maturity securities available-for-sale	629,791	1,679,231
Purchases of equity securities available-for-sale	(968)	(1,129)
Sales of equity securities available-for-sale	412	-
Purchases of mortgage loans	(16,247,647)	(17,643,638)
Payments on mortgage loans	6,810,769	5,125,389
Purchases of other long-term investments	(4,737,503)	(3,648,817)
Payments on other long-term investments	2,711,668	1,780,143
Sale of real estate	-	107,167
Net change in receivable and payable for securities sold and purchased	(435,975)	6,270,705
Net cash used in investing activities	(16,205,296)	(29,617,596)
Financing activities		
Policyholders' account deposits	7,433,520	25,052,131
Policyholders' account withdrawals	(7,160,631)	(4,521,805)
Net cash provided by financing activities	272,889	20,530,326
Decrease in cash	(13,690,288)	(8,261,409)
Cash and cash equivalents, beginning of period	31,496,159	34,223,945
Cash and cash equivalents, end of period	$ 17,805,871	$ 25,962,536

See notes to consolidated financial statements (unaudited).

1. Organization and Significant Accounting Policies

Nature of Operations

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

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

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

Company Capitalization

The Company raised $1,450,000 from two private placement stock offerings during 2004 and $25,669,480 from two public stock offerings and one private placement stock offering from June 22, 2005 through February 23, 2007; June 29, 2010 through April 30, 2012 and August 15, 2012 through March 8, 2013. The Company issued 7,347,488 shares of its common stock and incurred $3,624,518 of offering costs during these private placements and public stock offerings. The Company also issued 702,685 shares of its common stock in connection with two stock dividends paid to shareholders in 2011 and 2012 that resulted in accumulated earnings being charged $5,270,138 with an offsetting credit of $5,270,138 to common stock and additional paid-in capital.

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

Acquisitions

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

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

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

1. Organization and Significant Accounting Policies (continued)

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

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

Basis of Presentation

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

The results of operations for the three months ended March 31, 2018 are not necessarily indicative of the results to be expected for the year ended December 31, 2018 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, 2017.

Principles of Consolidation

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

Reclassifications

Certain reclassifications have been made in the prior year and prior quarter financial statements to conform to current year and current quarter classifications. These reclassifications had no effect on previously reported net income or shareholders' equity.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Although these estimates are based on management's knowledge of current events and actions it may undertake in the future, they may ultimately differ from actual results.

Common Stock

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

Treasury Stock

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

1. Organization and Significant Accounting Policies (continued)

Subsequent Events

Management has evaluated all events subsequent to March 31, 2018 through the date that these financial statements have been issued.

Recent Accounting Pronouncements

Revenue from Contracts with Customers

In May 2014, the FASB issued updated guidance to clarify the principles for recognizing revenue. While insurance contracts are not within the scope of this updated guidance, the Company's fee income related to providing services will be subject to this updated guidance. The updated guidance requires an entity to recognize revenue as performance obligations are met, in order to reflect the transfer of promised goods or services to customers in an amount that reflects the consideration the entity is entitled to receive for those goods or services. The following steps are applied in the updated guidance: (1) identify the contract(s) with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract and (5) recognize revenue when, or as, the entity satisfies a performance obligation. In July 2015, the FASB deferred the effective date of the updated guidance on revenue recognition by one year to the quarter ending March 31, 2018. The adoption of this guidance did not have a material effect on the Company's result of operations, financial position or liquidity.

Recognition and Measurement of Financial Assets and Financial Liabilities

In January 2016, the FASB issued updated guidance regarding financial instruments. This guidance intends to enhance reporting for financial instruments and addresses certain aspects of recognition, measurement, presentation and disclosure of financial instruments. The significant amendments in this update generally require equity investments to be measured at fair value with changes in fair value recognized in net income, require the use of an exit price notion when measuring the fair value of financial instruments for disclosure purposes and clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities. This guidance also intends to enhance the presentation of certain fair value changes for financial liabilities measured at fair value. It also amends certain disclosure requirements associated with the fair value of financial instruments.

This guidance is effective for fiscal years beginning after December 15, 2017. The recognition and measurement provisions of this guidance was applied by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption and early adoption is not permitted. The adoption of this guidance did not have a material effect on the Company's result of operations, financial position or liquidity.

Leases

In February 2016, the FASB issued updated guidance regarding leases that generally requires the lessee and lessor to recognize lease assets and lease liabilities on the statement of financial position. A lessee should recognize on the statement of financial position a liability to make lease payments and an asset representing its right-to-use the underlying assets for the lease term. Optional payments to extend the lease or purchase the underlying leased asset should be included in the measurement of lease assets and lease liabilities only if the lessee is reasonably certain to exercise the option(s).

If the lease has a term of 12 months or less, a lessee can make an election to recognize lease expenses for such leases on a straight-line basis over the lease term. There is a differentiation between finance leases and operating leases for the lessee in the statements of operations and cash flows. Finance leases recognize interest on the lease liability separately from the right-to-use the asset whereas an operating lease recognizes a single lease cost allocated over the lease term on a generally straight-line basis. All cash payments are within operating activities in the statement of cash flows except finance leases classify repayments of the principal portion of the lease liability within financing activities.

1. Organization and Significant Accounting Policies (continued)

The accounting applied by the lessor is largely unchanged from that applied under previous U.S. GAAP. Key aspects of the lessor accounting model, however, were aligned with the revenue recognition guidance of Codification Topic 606. The previous accounting model for leverage leases continues to apply only to those leveraged leases that commenced before the effective date of Codification Update 2016-02 Leases (Topic 842).

Entities will generally continue to account for leases that commenced before the effective date of this update in accordance with previous U.S. GAAP unless the lease is modified. Lessees are required to recognize a right-of-use asset and a lease liability for all operating leases at each reporting date based on the present value of the remaining minimal rental payments that were tracked and disclosed under previous U.S. GAAP. The updated guidance is to be applied using a modified retrospective approach effective for annual and interim periods beginning after December 15, 2018. Early adoption is permitted. The adoption of this guidance is not expected to have a material effect on the Company's results of operations, financial position or liquidity.

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

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

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

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

Statement of Cash Flows – Classification of Certain Cash Receipts and Cash Payments

In August 2016, the FASB issued specific guidance to reduce the existing diversity in practice in how eight specific cash flow issues of certain cash receipts and cash payments are presented and classified in the statement of cash flows. The updated guidance is effective for annual and interim periods beginning after December 15, 2017, and is to be applied retrospectively. Early adoption is permitted. The adoption of this guidance did not have a material effect on the Company's cash flows statement.

Statement of Cash Flows – Classification of Certain Cash Receipts and Cash Payments

In November 2016, the FASB issued specific guidance on the cash flow classification and presentation of changes in restricted cash or restricted cash equivalents when there are transfers between cash, cash equivalents and restricted cash or restricted cash equivalents and when there are direct cash receipts into restricted cash or restricted cash equivalents or direct cash payments made from restricted cash or restricted cash equivalents.

1. Organization and Significant Accounting Policies (continued)

The updated guidance is effective for annual and interim periods beginning after December 15, 2017, and is to be applied retrospectively. Early adoption is permitted. The adoption of this guidance did not have a material effect on the Company's results of operations, financial position or liquidity.

Business Combinations – Clarifying the Definition of a Business

In January 2017, the FASB issued guidance to clarify the definition of a business to assist reporting entities in evaluating whether transactions should be accounted for as an acquisition or disposal of assets or businesses. This update provides a screen to determine when an integrated set of assets or activities is not a business and the requirements to be met to be considered a business.

The updated guidance is effective for annual and interim periods beginning after December 15, 2017, and is to be applied retrospectively. Early adoption is permitted in certain situations. The adoption of this guidance did not have a material effect on the Company's results of operations, financial position or liquidity.

Intangibles – Goodwill and Other - Simplifying the Test for Goodwill Impairment

In January 2017, the FASB issued guidance to modify the concept of impairment from the condition that exists when the carrying amount of goodwill exceeds its implied value to the condition that exists when the carrying amount of a reporting unit exceeds its fair value. Reporting entities will no longer determine goodwill impairment by calculating the implied fair value of goodwill by assigning the fair value of a reporting unit to all of its assets and liabilities as if that reporting unit had been acquired in a business combination. The updated guidance is effective for annual and interim periods beginning after December 15, 2019, and is to be applied prospectively. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The adoption of this guidance is not expected to have a material effect on the Company's results of operations, financial position or liquidity.

Compensation — Retirement Benefits: Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost

In March 2017, the FASB issued updated guidance to improve the presentation of net periodic pension cost and net periodic post retirement cost (net benefit costs). Net benefit costs comprise several components that reflect different aspects of an employer's financial arrangements as well as the cost of benefits provided to employees. The update requires that the employer service cost component be reported in the same lines as other employee compensation cost and that the other components (non-service costs) be presented separately from the service cost and outside of a subtotal of income from operations if one is presented. The update also allows only the service cost component to be eligible for capitalization in assets when applicable.

The updated guidance is effective for reporting periods beginning after December 15, 2017. The update is to be applied retrospectively with respect to the presentation of service cost and non-service cost and prospectively with respect to applying the service cost only eligible for capitalization in assets guidance. Early adoption is permitted as of the first interim period of an annual period if an entity issues interim financial statements. This pronouncement did not impact the Company since it does not have any pension or postretirement benefit plans and has no intention to adopt such plans.

Compensation — Stock Compensation: Scope of Modification Accounting

In May 2017, the FASB issued updated guidance related to a change to the terms or conditions (modification) of a share-based payment award. The updated guidance provides that an entity should account for the effects of a modification unless the fair value and vesting conditions of the modified award and the classification of the modified award (equity or liability instrument) are the same as the original award immediately before the modification.

1. Organization and Significant Accounting Policies (continued)

The updated guidance is effective for the quarter ending March 31, 2018. The update is to be applied prospectively to an award modified on or after the adoption date. Early adoption is permitted in any interim periods for which financial statements have not yet been made available for issuance. The adoption of this guidance did not have a material effect on the Company's results of operations, financial position or liquidity.

Target Improvement to Accounting for Hedging Activities

In August 2017, the FASB issued updated authoritative guidance for the application of hedge accounting. The updated guidance updates certain recognition and measurement requirements for hedge accounting. The objective of the guidance is to more closely align the economics of a company's risk management activities in its financial results and reduce the complexity of applying hedge accounting. The updates include the expansion of hedging strategies that are eligible for hedge accounting, elimination of the separate measurement and reporting of hedge ineffectiveness, presentation of the changes in the fair value of the hedging instrument in the same consolidated statement of operations line as the earnings effect of the hedged item and simplification of hedge effectiveness assessments. This guidance also includes new disclosures and will be applied using a modified retrospective approach by recording a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year of adoption.

The updated guidance is effective for reporting periods beginning after December 15, 2018. Early adoption is permitted for reporting periods beginning before December 15, 2018. The Company does not currently and does not intend to participate in hedging activities and there is therefore no impact on the Company's results of operations, financial position or liquidity. This pronouncement would be adopted if the Company begins to participate in hedging activities in the future.

Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income

On February 14, 2018, the FASB issued updated guidance that allows a reclassification of the stranded tax effects in accumulated other comprehensive income resulting from the Tax Cuts and Jobs Act of 2017. Current guidance requires the effect of a change in tax laws or rates on deferred tax balances to be reported in income from continuing operations in the accounting period that includes the period of enactment, even if the related income tax effects were originally charged or credited directly to accumulated other comprehensive income. The amount of the reclassification would include the effect of the change in the U.S. federal corporate income tax rate on the gross deferred tax amounts and related valuation allowances, if any, at the date of the enactment of the Tax Cuts and Jobs Act of 2017 related to items in accumulated other comprehensive income. The updated guidance is effective for reporting periods beginning after December 15, 2018 and is to be applied retrospectively to each period in which the effect of the Tax Cuts and Jobs Act of 2017 related to items remaining in accumulated other comprehensive income are recognized or at the beginning of the period of adoption. Early adoption is permitted.

The Company adopted the updated guidance effective December 31, 2017. The adoption of this guidance did not have a material effect on the Company's result of operations, financial position or liquidity.

2. Investments

Investments in fixed maturity and preferred stock available-for-sale and equity securities as of March 31, 2018 and December 31, 2017 are summarized as follows:

	Amortized Cost or Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	March 31, 2018 (Unaudited)			
Fixed maturity securities				
U.S. government and U.S. government agencies	$ 2,952,786	$ 35,108	$ 92,153	$ 2,895,741
States and political subdivisions	9,350,717	231,655	26,697	9,555,675
Residential mortgage-backed securities	26,600	38,423	-	65,023
Corporate bonds	113,497,658	2,470,316	1,103,071	114,864,903
Foreign bonds	21,931,258	459,679	327,908	22,063,029
Total fixed maturity securities	147,759,019	3,235,181	1,549,829	149,444,371
Preferred stock	99,945	415	3,420	96,940
Equity securities				
Mutual funds	348,909	-	1,032	347,877
Corporate common stock	154,672	53,118	7,298	200,492
Total equity securities	503,581	53,118	8,330	548,369
Total fixed maturity, preferred stock and equity securities	$ 148,362,545	$ 3,288,714	$ 1,561,579	$ 150,089,680
	December 31, 2017			
Fixed maturity securities				
U.S. government and U.S. government agencies	$ 2,989,688	$ 48,720	$ 65,341	$ 2,973,067
States and political subdivisions	9,368,393	337,442	20,148	9,685,687
Residential mortgage-backed securities	29,573	41,736	-	71,309
Corporate bonds	109,340,273	5,248,291	491,556	114,097,008
Foreign bonds	21,894,020	1,134,999	172,951	22,856,068
Total fixed maturity securities	143,621,947	6,811,188	749,996	149,683,139
Preferred stock	99,945	775	-	100,720
Equity securities				
Mutual funds	347,942	1,124	-	349,066
Corporate common stock	154,977	67,384	-	222,361
Total equity securities	502,919	68,508	-	571,427
Total fixed maturity, preferred stock and equity securities	$ 144,224,811	$ 6,880,471	$ 749,996	$ 150,355,286

2. Investments (continued)

All securities in an unrealized loss position as of the financial statement dates, the estimated fair value, pre-tax gross unrealized loss and number of securities by length of time that those securities have been continuously in an unrealized loss position as of March 31, 2018 and December 31, 2017 are summarized as follows:

	Fair Value	Unrealized Loss	Number of Securities
	March 31, 2018 (Unaudited)		
Fixed maturity securities			
Less than 12 months			
U.S. government and U.S. government agencies	$ 121,201	$ 3,855	1
States and political subdivisions	1,541,543	12,318	9
Corporate bonds	25,967,725	620,075	94
Foreign bonds	9,290,016	250,401	30
Total less than 12 months	36,920,485	886,649	134
More than 12 months			
U.S. government and U.S. government agencies	1,466,728	88,298	5
States and political subdivisions	300,253	14,379	3
Corporate bonds	5,055,807	482,996	26
Foreign bonds	497,625	77,507	3
Total more than 12 months	7,320,413	663,180	37
Total fixed maturity securities in an unrealized loss position	44,240,898	1,549,829	171
Preferred stock, less than 12 months in an unrealized loss position	46,580	3,420	1
Equity securities			
Less than 12 months			
Mutual funds	90,949	1,032	1
Corporate common stock	48,061	7,298	1
Total less than 12 months	139,010	8,330	2
Total equity securities in an unrealized loss position	139,010	8,330	2
Total fixed maturity, preferred stock and equity securities in an unrealized loss posi	$ 44,426,488	$ 1,561,579	$ 174
	December 31, 2017		
Fixed maturity securities			
Less than 12 months			
U.S. government and U.S. government agencies	$ 326,163	$ 3,897	2
States and political subdivisions	608,342	6,889	3
Corporate bonds	5,995,898	130,337	23
Foreign bonds	2,061,178	98,520	7
Total less than 12 months	8,991,581	239,643	35
More than 12 months			
U.S. government and U.S. government agencies	1,338,617	61,444	5
States and political subdivisions	579,008	13,259	4
Corporate bonds	5,139,898	361,219	20
Foreign bonds	501,875	74,431	3
Total more than 12 months	7,559,398	510,353	32
Total fixed maturity securities in an unrealized loss position	$ 16,550,979	$ 749,996	67

2. Investments (continued)

As of March 31, 2018, the Company held 171 available-for-sale fixed maturity securities with an unrealized loss of $1,549,829, fair value of $44,240,898 and amortized cost of $45,790,727. These unrealized losses were primarily due to market interest rate movements in the bond market as of March 31, 2018. The ratio of the fair value to the amortized cost of these 171 securities is 97%.

As of December 31, 2017, the Company held 67 available-for-sale fixed maturity securities with an unrealized loss of $749,996, fair value of $16,550,979 and amortized cost of $17,300,975. These unrealized losses were primarily due to market interest rate movements in the bond market as of December 31, 2017. The ratio of the fair value to the amortized cost of these 67 securities is 96%.

As of March 31, 2018, the Company held two equity securities with an unrealized loss of $8,330, fair value of $139,010 and cost of $147,340. The ratio of fair value to cost of these securities is 94%.

As of March 31, 2018, the Company held one preferred stock with an unrealized loss of $3,420, fair value of $46,580 and cost of $50,000. The ratio of fair value to cost of this preferred stock is 93%.

As of December 31, 2017, the Company had no equity securities and preferred stock with unrealized losses.

Fixed maturity securities were 94% and 93% investment grade as rated by Standard & Poor's as of March 31, 2018 and December 31, 2017, respectively.

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

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

There were no impairments during the three months ended March 31, 2018 and 2017.

Management believes that the Company will fully recover its cost basis in the securities held as of March 31, 2018, and management does not have the intent to sell nor is it more likely than not that the Company will be required to sell such securities until they recover or mature. The remaining temporary impairments shown herein are primarily the result of the current interest rate environment rather than credit factors that would imply other-than-temporary impairment.

2. Investments (continued)

Net unrealized gains included in other comprehensive income for investments classified as available-for-sale, net of the effect of deferred income taxes and deferred acquisition costs assuming that the appreciation had been realized as of March 31, 2018 and December 31, 2017, are summarized as follows:

	(Unaudited) March 31, 2018	December 31, 2017
Unrealized appreciation on available-for-sale securities	$ 1,682,347	$ 6,130,475
Adjustment to deferred acquisition costs	(28,265)	(103,955)
Deferred income taxes	(347,357)	(1,265,569)
Net unrealized appreciation on available-for-sale securities	$ 1,306,725	$ 4,760,951

The Company's investment in lottery prize cash flows categorized as other long-term investments in the statement of financial position was $58,812,011 and $55,814,583 as of March 31, 2018 and December 31, 2017, respectively. The lottery prize cash flows are assignments of the future rights from lottery winners purchased at a discounted price. Payments on these investments are made by state run lotteries.

The amortized cost and fair value of fixed maturity available-for-sale securities and other long-term investments as of March 31, 2018, by contractual maturity, are summarized as follows:

	March 31, 2018 (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	$ 7,068,678	$ 7,118,325	$ 8,288,729	$ 8,421,481
Due after one year through five years	32,664,766	32,900,771	24,284,554	26,437,976
Due after five years through ten years	42,383,631	42,416,310	17,031,585	20,834,725
Due after ten years	65,615,344	66,943,942	9,207,143	14,552,677
Due at multiple maturity dates	26,600	65,023	-	-
	$ 147,759,019	$ 149,444,371	$ 58,812,011	$ 70,246,859

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

2. Investments (continued)

Proceeds and gross realized gains (losses) from the sales, calls and maturities of fixed maturity securities available-for-sale, equity securities, mortgage loans on real estate and investment real estate for the three months ended March 31, 2018 and 2017 are summarized as follows:

	Three Months Ended March 31, (Unaudited)							
	Fixed Maturity Securities		Equity Securities		Mortgage Loans on Real Estate		Investment Real Estate	
	2018	2017	2018	2017	2018	2017	2018	2017
Proceeds	$ 2,579,791	$ 4,449,231	$ 412	$ -	$ 6,810,769	$ 5,125,389	$ -	$ 107,167
Gross realized gains	6,101	171,105	106	-	-	-	-	2,487
Gross realized losses	(7,271)	(7,086)	-	-	-	-	-	-

The accumulated change in unrealized investment gains (losses) for fixed maturity and preferred stock available-for-sale and equity securities for the three months ended March 31, 2018 and 2017 and the amount of net realized investment gains (losses) on fixed maturity securities available-for-sale, equity securities, mortgage loans on real estate and investment real estate for the three months ended March 31, 2018 and 2017 are summarized as follows:

	Three Months Ended March 31, (Unaudited)	
	2018	2017
Change in unrealized investment gains (losses):		
Available-for-sale securities:		
Fixed maturity securities	$ (4,375,840)	$ 1,061,041
Preferred stock	(3,780)	5,600
Equity securities	-	12,424
Net realized investment gains (losses):		
Available-for-sale securities:		
Fixed maturity securities	(1,170)	164,019
Equity securities, sale of securities	106	-
Equity securities, changes in fair value	(23,720)	-
Investment real estate	-	2,487

2. Investments (continued)

Major categories of net investment income for the three months ended March 31, 2018 and 2017 are summarized as follows:

	Three Months Ended March 31, (Unaudited)	
	2018	2017
Fixed maturity securities	$ 1,630,474	$ 1,490,370
Preferred stock and equity securities	5,083	5,072
Other long-term investments	970,056	857,470
Mortgage loans	2,488,413	1,667,394
Policy loans	29,083	27,564
Real estate	94,003	93,711
Short-term and other investments	41,742	110,286
Gross investment income	5,258,854	4,251,867
Investment expenses	(574,612)	(581,996)
Net investment income	$ 4,684,242	$ 3,669,871

TLIC and FBLIC are required to hold assets on deposit with various state insurance departments for the benefit of policyholders and other special deposits in accordance with statutory rules and regulations. As of March 31, 2018 and December 31, 2017, these required deposits, included in investment assets, had amortized costs that totaled $4,324,612 and $4,308,853, respectively. As of March 31, 2018 and December 31, 2017, these required deposits had fair values that totaled $4,269,713 and $4,307,439, respectively.

The Company's mortgage loans by property type as of March 31, 2018 and December 31, 2017 are summarized as follows:

	(Unaudited) March 31, 2018	December 31, 2017
Commercial and industrial mortgage loans		
Retail stores	$ 1,205,371	$ 1,227,894
Office buildings	1,002,569	137,703
Industrial	428,233	430,613
Total commercial and industrial mortgage loans	2,636,173	1,796,210
Residential mortgage loans	109,276,025	100,700,241
Total mortgage loans	$ 111,912,198	$ 102,496,451

2. Investments (continued)

The Company's investment real estate as of March 31, 2018 and December 31, 2017 is summarized as follows:

	(Unaudited) March 31, 2018	December 31, 2017
Land - held for the production of income	$ 213,160	$ 213,160
Land - held for investment	745,155	745,155
Total land	958,315	958,315
Building - held for the production of income	2,267,557	2,267,557
Less - accumulated depreciation	(1,231,555)	(1,195,183)
Buildings net of accumulated depreciation	1,036,002	1,072,374
Residential real estate - held for sale	352,277	352,277
Total residential real estate	352,277	352,277
Investment real estate, net of accumulated depreciation	$ 2,346,594	$ 2,382,966

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

During first quarter 2017, the Company sold investment real estate property with an aggregate carrying value of $104,680. The Company recorded a gross realized investment gain on sale of $2,487 based on an aggregate sales price of $107,167.

3. Fair Value Measurements

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

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

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

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

3. Fair Value Measurements (continued)

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

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

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

3. Fair Value Measurements (continued)

The Company's fair value hierarchy for those financial instruments measured at fair value on a recurring basis as of March 31, 2018 and December 31, 2017 is summarized as follows:

	Level 1	Level 2	Level 3	Total
	March 31, 2018 (Unaudited)			
Fixed maturity securities, available-for-sale				
U.S. government and U.S. government agencies	$ -	$ 2,895,741	$ -	$ 2,895,741
States and political subdivisions	-	9,555,675	-	9,555,675
Residential mortgage-backed securities	-	65,023	-	65,023
Corporate bonds	-	114,864,903	-	114,864,903
Foreign bonds	-	22,063,029	-	22,063,029
Total fixed maturity securities	$ -	$ 149,444,371	$ -	$ 149,444,371
Preferred stock, available-for-sale	$ 96,940	$ -	$ -	$ 96,940
Equity securities				
Mutual funds	$ -	$ 347,877	$ -	$ 347,877
Corporate common stock	138,992	-	61,500	200,492
Total equity securities	$ 138,992	$ 347,877	$ 61,500	$ 548,369
	December 31, 2017			
Fixed maturity securities, available-for-sale				
U.S. government and U.S. government agencies	$ -	$ 2,973,067	$ -	$ 2,973,067
States and political subdivisions	-	9,685,687	-	9,685,687
Residential mortgage-backed securities	-	71,309	-	71,309
Corporate bonds	-	114,097,008	-	114,097,008
Foreign bonds	-	22,856,068	-	22,856,068
Total fixed maturity securities	$ -	$ 149,683,139	$ -	$ 149,683,139
Preferred stock, available-for-sale	$ 100,720	$ -	$ -	$ 100,720
Equity securities				
Mutual funds	$ -	$ 349,066	$ -	$ 349,066
Corporate common stock	160,861	-	61,500	222,361
Total equity securities	$ 160,861	$ 349,066	$ 61,500	$ 571,427

As of March 31, 2018 and December 31, 2017, Level 3 financial instruments consisted of two private placement common stocks that have no active trading.

These private placement stocks represent investments in small insurance holding companies. The fair value for these securities was determined through the use of unobservable assumptions about market participants. The Company has assumed a willing market participant would purchase the securities for the same price as the Company paid until such time as these small insurance holding companies commence significant operations.

3. Fair Value Measurements (continued)

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

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

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

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

3. Fair Value Measurements (continued)

The carrying amount and fair value of the Company's financial assets and financial liabilities disclosed, but not carried, at fair value as of March 31, 2018 and December 31, 2017, and the level within the fair value hierarchy at which such assets and liabilities are measured on a recurring basis are summarized as follows:

Financial Instruments Disclosed, But Not Carried, at Fair Value:

	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
	March 31, 2018 (Unaudited)				
Financial assets					
Mortgage loans on real estate					
Commercial and Industrial	$ 2,636,173	$ 2,602,467	$ -	$ -	$ 2,602,467
Residential	109,276,025	108,061,937	-	-	108,061,937
Policy loans	1,647,320	1,647,320	-	-	1,647,320
Short-term investments	2,543,912	2,543,912	2,543,912	-	-
Other long-term investments	58,812,011	70,246,859	-	-	70,246,859
Cash and cash equivalents	17,805,871	17,805,871	17,805,871	-	-
Accrued investment income	2,624,443	2,624,443	-	-	2,624,443
Total financial assets	$ 195,345,755	$ 205,532,809	$ 20,349,783	$ -	$ 185,183,026
Financial liabilities					
Policyholders' account balances	$ 295,489,982	$ 239,774,228	$ -	$ -	$ 239,774,228
Policy claims	1,213,535	1,213,535	-	-	1,213,535
Total financial liabilities	$ 296,703,517	$ 240,987,763	$ -	$ -	$ 240,987,763
	December 31, 2017				
Financial assets					
Mortgage loans on real estate					
Commercial and Industrial	$ 1,796,210	$ 1,783,385	$ -	$ -	$ 1,783,385
Residential	100,700,241	102,192,001	-	-	102,192,001
Policy loans	1,660,175	1,660,175	-	-	1,660,175
Short-term investments	547,969	547,969	547,969	-	-
Other long-term investments	55,814,583	68,298,585	-	-	68,298,585
Cash and cash equivalents	31,496,159	31,496,159	31,496,159	-	-
Accrued investment income	2,544,963	2,544,963	-	-	2,544,963
Total financial assets	$ 194,560,300	$ 208,523,237	$ 32,044,128	$ -	$ 176,479,109
Financial liabilities					
Policyholders' account balances	$ 292,909,762	$ 243,234,637	$ -	$ -	$ 243,234,637
Policy claims	1,148,513	1,148,513	-	-	1,148,513
Total financial liabilities	$ 294,058,275	$ 244,383,150	$ -	$ -	$ 244,383,150

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:

Mortgage Loans on Real Estate

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

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

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

Other Long-Term Investments

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

Investment Contracts – Policyholders' Account Balances

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

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

Policy Claims

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

4. Segment Data

The Company has a life insurance segment, consisting of the life insurance operations of TLIC and FBLIC, an annuity segment, consisting of the annuity operations of TLIC and FBLIC and a corporate segment. Results for the parent company and the operations of FTCC, after elimination of intercompany amounts, are allocated to the corporate segment. These segments as of March 31, 2018 and December 31, 2017 and for the three months ended March 31, 2018 and 2017 are summarized as follows:

	Three Months Ended March 31, (Unaudited)	
	2018	2017
Revenues:		
Life insurance operations	$ 5,176,172	$ 4,184,653
Annuity operations	3,878,137	3,188,969
Corporate operations	113,111	134,337
Total	$ 9,167,420	$ 7,507,959
Income before income taxes:		
Life insurance operations	$ 171,519	$ 117,848
Annuity operations	957,389	160,414
Corporate operations	82,539	71,255
Total	$ 1,211,447	$ 349,517
Depreciation and amortization expense:		
Life insurance operations	$ 692,390	$ 414,284
Annuity operations	270,506	420,048
Total	$ 962,896	$ 834,332

	(Unaudited) March 31, 2018	December 31, 2017
Assets:		
Life insurance operations	$ 58,189,403	$ 56,780,793
Annuity operations	329,791,790	328,727,443
Corporate operations	5,394,297	5,619,438
Total	$ 393,375,490	$ 391,127,674

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. A valuation allowance has been established due to the uncertainty of certain loss carry forwards.

The Company has no known uncertain tax benefits within its provision for income taxes. In addition, the Company does not believe it would be subject to any penalties or interest relative to any open tax years and, therefore, has not accrued any such amounts. The Company files U.S. federal income tax returns and income tax returns in various state jurisdictions. The 2014 through 2017 U.S. federal tax years are subject to income tax examination by tax authorities. The Company classifies any interest and penalties (if applicable) as income tax expense in the financial statements.

6. Legal Matters and Contingent Liabilities

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

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

Mr. Pettigrew has appealed this decision but has failed to post an appeal bond. As a consequence, the Company and Mr. Zahn are in the process of executing on the judgments against Mr. Pettigrew's assets. The Company and Mr. Zahn have so far collected some property and money in the execution process and will continue to execute on the judgments. Any money or property collected to date during the execution of the judgments are held in an escrow by a third party, have not been reflected in the March 31, 2018 consolidated financial statements and would have to be returned to Mr. Pettigrew in the event the judgments are reversed by the appellate courts.

Prior to being acquired by TLIC, FBLIC developed, marketed, and sold life insurance products known as "Decreasing Term to 95" policies. On January 17, 2013, FBLIC's Board of Directors voted that, effective March 1, 2013, it was not approving, and therefore was not providing, a dividend for the Decreasing Term to 95 policies. On November 22, 2013, a lawsuit was filed in the Circuit Court of Greene County, Missouri asserting claims against FBLIC relating to this decision. A trial was held November 27, 2017 through December 1, 2017 on the individual claims of two policyholders asserting fraud and negligent misrepresentation and on claims of a class of Missouri residents asking the Court to (1) find that the dividend provisions in the Decreasing Term to 95 policies violate Missouri law, specifically, § 376.360 RSMo.; (2) order that the policies are void ab initio; and (3) order that FBLIC return all premiums collected under these policies, plus interest and attorneys' fees.

Following the conclusion of the trial, subject to the approval of the Court, the parties reached a settlement resolving both the individual and class claims. If approved by the Court, FBLIC will pay $1.85 million as accrued in the December 31, 2017 consolidated financial statements to resolve all class and individual claims and all active Decreasing Term to 95 policies for individuals in the class will be cancelled. After the Courts preliminary approval in March 2018, FBLIC transferred half of the settlement totaling $925,000 into a third party escrow account. A hearing date for final approval of the settlement has not yet been scheduled.

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 Income (Loss) and Accumulated Other Comprehensive Income

The changes in the components of the Company's accumulated other comprehensive income for the three months ended March 31, 2018 and 2017 are summarized as follows:

	Three Months Ended March 31, 2018 and 2017 (Unaudited)		
	Unrealized Appreciation (Depreciation) on Available-For-Sale Securities	Adjustment to Deferred Acquisition Costs	Accumulated Other Comprehensive Income
Balance as of January 1, 2018	$ 4,843,061	$ (82,110)	$ 4,760,951
Other comprehensive loss before reclassifications, net of tax	(3,514,945)	59,795	(3,455,150)
Less amounts reclassified from accumulated other comprehensive income having no credit losses, net of tax	(924)	-	(924)
Other comprehensive loss	(3,514,021)	59,795	(3,454,226)
Balance as of March 31, 2018	$ 1,329,040	$ (22,315)	$ 1,306,725
Balance as of January 1, 2017	$ 831,917	$ (13,241)	$ 818,676
Other comprehensive income before reclassifications, net of tax	994,467	(15,600)	978,867
Less amounts reclassified from accumulated other comprehensive income having no credit losses, net of tax	131,215	-	131,215
Other comprehensive income	863,252	(15,600)	847,652
Balance as of March 31, 2017	$ 1,695,169	$ (28,841)	$ 1,666,328

The pretax components of the Company's other comprehensive income and the related income tax expense for each component for the three months ended March 31, 2018 and 2017 are summarized as follows:

	Pretax	Income Tax Expense	Net of Tax
	Three Months Ended March 31, 2018 (Unaudited)		
Other comprehensive loss:			
Change in net unrealized losses on available-for-sale securities:			
Unrealized holding losses arising during the period	$ (4,449,298)	$ (934,353)	$ (3,514,945)
Reclassification adjustment for net losses included in operations having no credit losses	(1,170)	(246)	(924)
Net unrealized losses on investments	(4,448,128)	(934,107)	(3,514,021)
Adjustment to deferred acquisition costs	75,690	15,895	59,795
Total other comprehensive loss	$ (4,372,438)	$ (918,212)	$ (3,454,226)
	Three Months Ended March 31, 2017 (Unaudited)		
Other comprehensive income:			
Change in net unrealized gains on available-for-sale securities:			
Unrealized holding gains arising during the period	$ 1,243,084	$ 248,617	$ 994,467
Reclassification adjustment for net gains included in operations having no credit losses	164,019	32,804	131,215
Net unrealized gains on investments	1,079,065	215,813	863,252
Adjustment to deferred acquisition costs	(19,500)	(3,900)	(15,600)
Total other comprehensive income	$ 1,059,565	$ 211,913	$ 847,652

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

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

The pretax and the related income tax components of the amounts reclassified from the Company's accumulated other comprehensive income to the Company's consolidated statement of operations for the three months ended March 31, 2018 and 2017 are summarized as follows:

	Three Months Ended March 31, (Unaudited)	
Reclassification Adjustments	2018	2017
Unrealized gains on available-for-sale securities		
having no credit losses:		
Realized gains (losses) on sales of securities (a)	$ (1,170)	$ 164,019
Income tax expense (benefit) (b)	(246)	32,804
Total reclassification adjustments	$ (924)	$ 131,215

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

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

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

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

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

Mortgage loans and premium finance loans are considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the mortgage loan or premium finance loan agreement. Factors considered by the Company in determining impairment include payment status, collateral value of the real estate subject to the mortgage loan, and the probability of collecting scheduled principal and interest payments when due. Mortgage loans and premium finance 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 or premium finance loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis.

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

As of March 31, 2018, $615,804 of independent residential mortgage loans on real estate are held in escrow by a third party for the benefit of the Company. As of March 31, 2018, $440,154 of that escrow amount is available to the Company as additional collateral on $5,239,896 of advances to the loan originator. The remaining March 31, 2018 escrow amount of $175,650 is available to the Company as additional collateral on its investment of $35,129,998 in residential mortgage loans on real estate. In addition, the Company has an additional $384,018 allowance for possible loan losses in the remaining $76,782,200 of investments in mortgage loans on real estate as of March 31, 2018.

As of December 31, 2017, $564,479 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, 2017, $394,978 of that escrow amount is available to the Company as additional collateral on $4,925,259 of advances to the loan originator. The remaining December 31, 2017 escrow amount of $169,501 is available to the Company as additional collateral on its investment of $33,900,260 in residential mortgage loans on real estate. In addition, the Company has an additional $342,815 allowance for possible loan losses in the remaining $68,596,191 of investments in mortgage loans on real estate as of December 31, 2017.

Through June 30, 2012, FTCC financed amounts up to 80% of the premium on property and casualty insurance policies after a 20% or greater down payment was made by the policy owner. The premiums financed were collateralized by the amount of the unearned premium of the insurance policy. Policies that became delinquent were submitted for cancellation and recovery of the unearned premium, up to the amount of the loan balance, 25 days after a payment became delinquent. As of December 31, 2016 the Company established a full allowance for uncollectible receivables against the premium financing asset. In late December of 2016, the Company wrote off the asset by netting the allowance for uncollectible receivables against the premium financing asset. The Company has made no premium financing loans since June 30, 2012.

The balances of and changes in the Company's credit losses related to mortgage loans on real estate as of and for the three months ended March 31, 2018 and 2017 are summarized as follows (excluding $35,129,998 and $29,677,438 of mortgage loans on real estate as of March 31, 2018 and 2017, respectively, with one loan originator where independent mortgage loan balances are held in escrow by a third party for the benefit of the Company):

	As of and for the Three Months Ended March 31, (Unaudited)					
	Residential Mortgage Loans		Commercial and Industrial Mortgage Loans		Total	
	2018	2017	2018	2017	2018	2017
Allowance, beginning	$ 333,789	$ 238,121	$ 9,026	$ 6,306	$ 342,815	$ 244,427
Charge offs	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-
Provision	36,982	42,163	4,221	(109)	41,203	42,054
Allowance, ending	$ 370,771	$ 280,284	$ 13,247	$ 6,197	$ 384,018	$ 286,481
Allowance, ending:						
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -
Collectively evaluated for impairment	$ 370,771	$ 280,284	$ 13,247	$ 6,197	$ 384,018	$ 286,481
Carrying Values:						
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -
Collectively evaluated for impairment	$ 74,146,027	$ 55,968,265	$ 2,636,173	$ 1,233,145	$ 76,782,200	$ 57,201,410

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

The Company utilizes the ratio of the carrying value of individual residential and commercial and industrial 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 March 31, 2018 and December 31, 2017 are summarized as follows:

	Residential Mortgage Loans		Commercial and Industrial Mortgage Loans		Total Mortgage Loans	
	(Unaudited)		(Unaudited)		(Unaudited)	
Loan-To-Value Ratio	March 31, 2018	December 31, 2017	March 31, 2018	December 31, 2017	March 31, 2018	December 31, 2017
Over 70% to 80%	$ 22,825,014	$ 19,515,632	$ -	$ -	$ 22,825,014	$ 19,515,632
Over 60% to 70%	38,701,438	36,192,035	-	-	38,701,438	36,192,035
Over 50% to 60%	24,827,848	25,121,248	825,609	835,093	25,653,457	25,956,341
Over 40% to 50%	13,223,048	12,923,381	746,250	-	13,969,298	12,923,381
Over 30% to 40%	4,391,656	4,303,273	773,944	658,296	5,165,600	4,961,569
Over 20% to 30%	2,309,905	1,867,670	148,222	159,671	2,458,127	2,027,341
Over 10% to 20%	2,127,712	727,245	142,148	143,150	2,269,860	870,395
10% or less	869,404	49,757	-	-	869,404	49,757
Total	$ 109,276,025	$ 100,700,241	$ 2,636,173	$ 1,796,210	$ 111,912,198	$ 102,496,451

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, Nebraska, New Mexico, North Carolina, North Dakota, Ohio, Oklahoma, Pennsylvania, South Dakota, Tennessee, Texas, Utah, Virginia and West Virginia through independent agents.

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

Acquisitions

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

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

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

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

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, 2017. The Company considers its most critical accounting estimates to be those applied to investments in fixed maturity, mortgage loans on real estate, deferred policy acquisition costs, value of insurance business acquired and future policy benefits. There have been no material changes to the Company's critical accounting policies and estimates since December 31, 2017.

Recent Accounting Pronouncements

Revenue from Contracts with Customers

In May 2014, the FASB issued updated guidance to clarify the principles for recognizing revenue. While insurance contracts are not within the scope of this updated guidance, the Company's fee income related to providing services will be subject to this updated guidance. The updated guidance requires an entity to recognize revenue as performance obligations are met, in order to reflect the transfer of promised goods or services to customers in an amount that reflects the consideration the entity is entitled to receive for those goods or services. The following steps are applied in the updated guidance: (1) identify the contract(s) with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract and (5) recognize revenue when, or as, the entity satisfies a performance obligation. In July 2015, the FASB deferred the effective date of the updated guidance on revenue recognition by one year to the quarter ending March 31, 2018. The adoption of this guidance did not have a material effect on the Company's result of operations, financial position or liquidity.

Recognition and Measurement of Financial Assets and Financial Liabilities

In January 2016, the FASB issued updated guidance regarding financial instruments. This guidance intends to enhance reporting for financial instruments and addresses certain aspects of recognition, measurement, presentation and disclosure of financial instruments. The significant amendments in this update generally require equity investments to be measured at fair value with changes in fair value recognized in net income, require the use of an exit price notion when measuring the fair value of financial instruments for disclosure purposes and clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities. This guidance also intends to enhance the presentation of certain fair value changes for financial liabilities measured at fair value. It also amends certain disclosure requirements associated with the fair value of financial instruments.

This guidance is effective for fiscal years beginning after December 15, 2017. The recognition and measurement provisions of this guidance was applied by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption and early adoption is not permitted. The adoption of this guidance did not have a material effect on the Company's result of operations, financial position or liquidity.

Leases

In February 2016, the FASB issued updated guidance regarding leases that generally requires the lessee and lessor to recognize lease assets and lease liabilities on the statement of financial position. A lessee should recognize on the statement of financial position a liability to make lease payments and an asset representing its right-to-use the underlying assets for the lease term. Optional payments to extend the lease or purchase the underlying leased asset should be included in the measurement of lease assets and lease liabilities only if the lessee is reasonably certain to exercise the option(s).

If the lease has a term of 12 months or less, a lessee can make an election to recognize lease expenses for such leases on a straight-line basis over the lease term. There is a differentiation between finance leases and operating leases for the lessee in the statements of operations and cash flows. Finance leases recognize interest on the lease liability separately from the right-to-use the asset whereas an operating lease recognizes a single lease cost allocated over the lease term on a generally straight-line basis. All cash payments are within operating activities in the statement of cash flows except finance leases classify repayments of the principal portion of the lease liability within financing activities.

The accounting applied by the lessor is largely unchanged from that applied under previous U.S. GAAP. Key aspects of the lessor accounting model, however, were aligned with the revenue recognition guidance of Codification Topic 606. The previous accounting model for leverage leases continues to apply only to those leveraged leases that commenced before the effective date of Codification Update 2016-02 Leases (Topic 842).

Entities will generally continue to account for leases that commenced before the effective date of this update in accordance with previous U.S. GAAP unless the lease is modified. Lessees are required to recognize a right-of-use asset and a lease liability for all operating leases at each reporting date based on the present value of the remaining minimal rental payments that were tracked and disclosed under previous U.S. GAAP. The updated guidance is to be applied using a modified retrospective approach effective for annual and interim periods beginning after December 15, 2018. Early adoption is permitted. The adoption of this guidance is not expected to have a material effect on the Company's results of operations, financial position or liquidity.

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

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

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

The updated guidance is effective for reporting periods beginning after December 15, 2019. Early adoption is permitted for reporting periods beginning after December 15, 2018. Based on the financial instruments currently held by the Company, the Company expects there would not be a material effect on the Company's results of operations, financial position or liquidity if the new guidance were able to be adopted in the current accounting period.

The impact on the Company’s results of operations, financial position or liquidity at the date of adoption of the updated guidance will be determined by the financial instruments held by the Company and the economic conditions at that time.

Statement of Cash Flows – Classification of Certain Cash Receipts and Cash Payments

In August 2016, the FASB issued specific guidance to reduce the existing diversity in practice in how eight specific cash flow issues of certain cash receipts and cash payments are presented and classified in the statement of cash flows. The updated guidance is effective for annual and interim periods beginning after December 15, 2017, and is to be applied retrospectively. Early adoption is permitted. The adoption of this guidance did not have a material effect on the Company’s cash flows statement.

Statement of Cash Flows – Classification of Certain Cash Receipts and Cash Payments

In November 2016, the FASB issued specific guidance on the cash flow classification and presentation of changes in restricted cash or restricted cash equivalents when there are transfers between cash, cash equivalents and restricted cash or restricted cash equivalents and when there are direct cash receipts into restricted cash or restricted cash equivalents or direct cash payments made from restricted cash or restricted cash equivalents.

The updated guidance is effective for annual and interim periods beginning after December 15, 2017, and is to be applied retrospectively. Early adoption is permitted. The adoption of this guidance did not have a material effect on the Company’s results of operations, financial position or liquidity.

Business Combinations – Clarifying the Definition of a Business

In January 2017, the FASB issued guidance to clarify the definition of a business to assist reporting entities in evaluating whether transactions should be accounted for as an acquisition or disposal of assets or businesses. This update provides a screen to determine when an integrated set of assets or activities is not a business and the requirements to be met to be considered a business.

The updated guidance is effective for annual and interim periods beginning after December 15, 2017, and is to be applied retrospectively. Early adoption is permitted in certain situations. The adoption of this guidance did not have a material effect on the Company’s results of operations, financial position or liquidity.

Intangibles – Goodwill and Other - Simplifying the Test for Goodwill Impairment

In January 2017, the FASB issued guidance to modify the concept of impairment from the condition that exists when the carrying amount of goodwill exceeds its implied value to the condition that exists when the carrying amount of a reporting unit exceeds its fair value. Reporting entities will no longer determine goodwill impairment by calculating the implied fair value of goodwill by assigning the fair value of a reporting unit to all of its assets and liabilities as if that reporting unit had been acquired in a business combination. The updated guidance is effective for annual and interim periods beginning after December 15, 2019, and is to be applied prospectively. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The adoption of this guidance is not expected to have a material effect on the Company's results of operations, financial position or liquidity.

Compensation — Retirement Benefits: Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost

In March 2017, the FASB issued updated guidance to improve the presentation of net periodic pension cost and net periodic post retirement cost (net benefit costs). Net benefit costs comprise several components that reflect different aspects of an employer’s financial arrangements as well as the cost of benefits provided to employees. The update requires that the employer service cost component be reported in the same lines as other employee compensation cost and that the other components (non-service costs) be presented separately from the service cost and outside of a subtotal of income from operations if one is presented. The update also allows only the service cost component to be eligible for capitalization in assets when applicable.

The updated guidance is effective for reporting periods beginning after December 15, 2017. The update is to be applied retrospectively with respect to the presentation of service cost and non-service cost and prospectively with respect to applying the service cost only eligible for capitalization in assets guidance. Early adoption is permitted as of the first interim period of an annual period if an entity issues interim financial statements. This pronouncement did not impact the Company since it does not have any pension or postretirement benefit plans and has no intention to adopt such plans.

Compensation — Stock Compensation: Scope of Modification Accounting

In May 2017, the FASB issued updated guidance related to a change to the terms or conditions (modification) of a share-based payment award. The updated guidance provides that an entity should account for the effects of a modification unless the fair value and vesting conditions of the modified award and the classification of the modified award (equity or liability instrument) are the same as the original award immediately before the modification.

The updated guidance is effective for the quarter ending March 31, 2018. The update is to be applied prospectively to an award modified on or after the adoption date. Early adoption is permitted in any interim periods for which financial statements have not yet been made available for issuance. The adoption of this guidance did not have a material effect on the Company’s results of operations, financial position or liquidity.

Target Improvement to Accounting for Hedging Activities

In August 2017, the FASB issued updated authoritative guidance for the application of hedge accounting. The updated guidance updates certain recognition and measurement requirements for hedge accounting. The objective of the guidance is to more closely align the economics of a company’s risk management activities in its financial results and reduce the complexity of applying hedge accounting. The updates include the expansion of hedging strategies that are eligible for hedge accounting, elimination of the separate measurement and reporting of hedge ineffectiveness, presentation of the changes in the fair value of the hedging instrument in the same consolidated statement of operations line as the earnings effect of the hedged item and simplification of hedge effectiveness assessments. This guidance also includes new disclosures and will be applied using a modified retrospective approach by recording a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year of adoption.

The updated guidance is effective for reporting periods beginning after December 15, 2018. Early adoption is permitted for reporting periods beginning before December 15, 2018. The Company does not currently and does not intend to participate in hedging activities and there is therefore no impact on the Company’s results of operations, financial position or liquidity. This pronouncement would be adopted if the Company begins to participate in hedging activities in the future.

Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income

On February 14, 2018, the FASB issued updated guidance that allows a reclassification of the stranded tax effects in accumulated other comprehensive income resulting from the Tax Cuts and Jobs Act of 2017. Current guidance requires the effect of a change in tax laws or rates on deferred tax balances to be reported in income from continuing operations in the accounting period that includes the period of enactment, even if the related income tax effects were originally charged or credited directly to accumulated other comprehensive income. The amount of the reclassification would include the effect of the change in the U.S. federal corporate income tax rate on the gross deferred tax amounts and related valuation allowances, if any, at the date of the enactment of the Tax Cuts and Jobs Act of 2017 related to items in accumulated other comprehensive income. The updated guidance is effective for reporting periods beginning after December 15, 2018 and is to be applied retrospectively to each period in which the effect of the Tax Cuts and Jobs Act of 2017 related to items remaining in accumulated other comprehensive income are recognized or at the beginning of the period of adoption. Early adoption is permitted.

The Company adopted the updated guidance effective December 31, 2017. The adoption of this guidance did not have a material effect on the Company’s result of operations, financial position or liquidity.

Business Segments

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

Our business segments are as follows:

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

Please see below and Note 4 to the Consolidated Financial Statements for the three months ended March 31, 2018 and 2017 and as of March 31, 2018 and December 31, 2017 for additional information regarding segment information.

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

FINANCIAL HIGHLIGHTS

Consolidated Condensed Results of Operations for the Three Months Ended March 31, 2018 and 2017

	(Unaudited) Three Months Ended March 31,		Amount Change
	2018	2017	2018 less 2017
Premiums	$ 4,486,735	$ 3,621,690	$ 865,045
Net investment income	4,684,242	3,669,871	1,014,371
Net realized investment gains (losses)	(24,784)	166,506	(191,290)
Other income	21,227	49,892	(28,665)
Total revenues	9,167,420	7,507,959	1,659,461
Benefits and claims	5,604,332	4,891,044	713,288
Expenses	2,351,641	2,267,398	84,243
Total benefits, claims and expenses	7,955,973	7,158,442	797,531
Income before federal income tax expense	1,211,447	349,517	861,930
Federal income tax expense	271,066	88,039	183,027
Net income	$ 940,381	$ 261,478	$ 678,903
Net income per common share basic and diluted	$ 0.12	$ 0.03	$ 0.09

Consolidated Condensed Financial Position as of March 31, 2018 and December 31, 2017

	(Unaudited) March 31, 2018	December 31, 2017	Amount Change 2018 to 2017
Investment assets	$ 327,351,715	$ 313,257,430	$ 14,094,285
Other assets	66,023,775	77,870,244	(11,846,469)
Total assets	$ 393,375,490	$ 391,127,674	$ 2,247,816
Policy liabilities	$ 347,870,381	$ 343,789,864	$ 4,080,517
Deferred federal income taxes	2,314,783	2,961,929	(647,146)
Other liabilities	4,383,484	3,123,702	1,259,782
Total liabilities	354,568,648	349,875,495	4,693,153
Shareholders' equity	38,806,842	41,252,179	(2,445,337)
Total liabilities and shareholders' equity	$ 393,375,490	$ 391,127,674	$ 2,247,816
Shareholders' equity per common share	$ 4.97	$ 5.29	$ (0.32)

Results of Operations – Three Months Ended March 31, 2018 and 2017

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 March 31, 2018 and 2017 are summarized as follows:

	(Unaudited) Three Months Ended March 31,		Amount Change
	2018	2017	2018 less 2017
Premiums	$ 4,486,735	$ 3,621,690	$ 865,045
Net investment income	4,684,242	3,669,871	1,014,371
Net realized investment gains (losses)	(24,784)	166,506	(191,290)
Other income	21,227	49,892	(28,665)
Total revenues	$ 9,167,420	$ 7,507,959	$ 1,659,461

The $1,659,461 increase in total revenues for the three months ended March 31, 2018 is discussed below.

Premiums

Our premiums for the three months ended March 31, 2018 and 2017 are summarized as follows:

	(Unaudited) Three Months Ended March 31, 2018	(Unaudited) Three Months Ended March 31, 2017	Amount Change 2018 less 2017
Whole life and term first year	$ 50,854	$ 39,624	$ 11,230
Whole life and term renewal	574,364	596,440	(22,076)
Final expense first year	1,148,028	1,075,980	72,048
Final expense renewal	2,627,279	1,903,076	724,203
Supplementary contracts with life contingencies	86,210	6,570	79,640
Total premiums	$ 4,486,735	$ 3,621,690	$ 865,045

The $865,045 increase in premiums for the three months ended March 31, 2018 is primarily due to a $724,203 increase in final expense renewal premiums, $79,640 increase in supplementary contracts with life contingencies and a $72,048 increase in final expense first year premiums.

The increase in final expense first year premiums represents management’s focus on expanding final expense production by contracting new, independent agents in expanded locations. The increase in final expense renewal premiums reflects the persistency of prior years’ final expense production. Our marketing efforts are focused on final expense and annuity production.

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

Net Investment Income

The major components of our net investment income for the three months ended March 31, 2018 and 2017 are summarized as follows:

	(Unaudited) Three Months Ended March 31, 2018	(Unaudited) Three Months Ended March 31, 2017	Amount Change 2018 less 2017
Fixed maturity securities	$ 1,630,474	$ 1,490,370	$ 140,104
Preferred stock and equity securities	5,083	5,072	11
Other long-term investments	970,056	857,470	112,586
Mortgage loans	2,488,413	1,667,394	821,019
Policy loans	29,083	27,564	1,519
Real Estate	94,003	93,711	292
Short-term and other investments	41,742	110,286	(68,544)
Gross investment income	5,258,854	4,251,867	1,006,987
Investment expenses	(574,612)	(581,996)	(7,384)
Net investment income	$ 4,684,242	$ 3,669,871	$ 1,014,371

The $1,006,987 increase in gross investment income for the three months ended March 31, 2018 is primarily due to the increase in investments in mortgage loans and other long-term investments. In the twelve months since March 31, 2017, we had increased investment in mortgage loans of $25.0 million and other long term investments of $9.3 million. The increase in gross investment income from fixed maturity securities is primarily due to securities that have been called or matured and replaced with securities with higher yields.

Net Realized Investment Gains (Losses)

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

Our net realized investment gains (losses) for the three months ended March 31, 2018 and 2017 are summarized as follows:

	(Unaudited) Three Months Ended March 31, 2018	(Unaudited) Three Months Ended March 31, 2017	Amount Change 2018 less 2017
Fixed maturity securities available-for-sale:			
Sale proceeds	$ 2,579,791	$ 4,449,231	$ (1,869,440)
Amortized cost at sale date	2,580,961	4,285,212	(1,704,251)
Net realized gains (losses)	$ (1,170)	$ 164,019	$ (165,189)
Equity securities sold:			
Sale proceeds	$ 412	$ -	$ 412
Cost at sale date	306	-	306
Net realized gains	$ 106	$ -	$ 106
Mortgage loans on real estate:			
Payments and early payoffs of mortgage loans	$ 6,810,769	$ 5,125,389	$ 1,685,380
Principal collections	6,810,769	5,125,389	1,685,380
Net realized gains	$ -	$ -	$ -
Investment real estate:			
Sale proceeds	$ -	$ 107,167	$ (107,167)
Carrying value at sale date	-	104,680	(104,680)
Net realized gains	$ -	$ 2,487	$ (2,487)
Equity securites, changes in fair value	$ (23,720)	$ -	$ (23,720)
Net realized investment gains (losses)	$ (24,784)	$ 166,506	$ (191,290)

Total Benefits, Claims and Expenses

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

Our benefits, claims and expenses for the three months ended March 31, 2018 and 2017 are summarized as follows:

	(Unaudited) Three Months Ended March 31,		Amount Change
	2018	2017	2018 less 2017
Benefits and claims			
Increase in future policy benefits	$ 1,439,591	$ 959,805	$ 479,786
Death benefits	1,562,056	1,545,836	16,220
Surrenders	227,669	283,376	(55,707)
Interest credited to policyholders	2,307,331	2,035,054	272,277
Dividend, endowment and supplementary life contract benefits	67,685	66,973	712
Total benefits and claims	5,604,332	4,891,044	713,288
Expenses			
Policy acquisition costs deferred	(2,308,033)	(2,414,719)	106,686
Amortization of deferred policy acquisition costs	823,548	680,836	142,712
Amortization of value of insurance business acquired	89,611	102,168	(12,557)
Commissions	2,103,122	2,244,910	(141,788)
Other underwriting, insurance and acquisition expenses	1,643,393	1,654,203	(10,810)
Total expenses	2,351,641	2,267,398	84,243
Total benefits, claims and expenses	$ 7,955,973	$ 7,158,442	$ 797,531

The $797,531 increase in total benefits, claims and expenses for the three months ended March 31, 2018 is discussed below.

Benefits and Claims

The $713,288 increase in benefits and claims for the three months ended March 31, 2018 is primarily due to the following:

- $479,786 increase in future policy benefits is primarily due to the increased number of life policies in force and the aging of existing life policies.

- $272,277 increase in interest credited to policyholders is primarily due to an increase of approximately $27.6 million in the amount of policyholders' account balances in the consolidated statement of financial position (increased deposits and interest credited in excess of withdrawals) since March 31, 2017.

- $55,707 decrease in surrenders primarily corresponding to lapsation decisions of whole life and term policyholders.

Deferral and Amortization of Deferred Acquisition Costs

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

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

For the three months ended March 31, 2018 and 2017, capitalized costs were $2,308,033 and $2,414,719, respectively. Amortization of deferred policy acquisition costs for the three months ended March 31, 2018 and 2017 were $823,548 and $680,836, respectively.

The $106,686 decrease in the 2018 acquisition costs deferred primarily relates to decreased annuity production and deferral and capitalization of primarily decreased eligible annuity commissions. The $142,712 increase in the 2018 amortization of deferred acquisition costs is primarily due to an increased number and amount of final expense policies and annuity contracts in force and lapsation of ordinary life policies reflected by increased death benefits and annuity withdrawals.

Amortization of Value of Insurance Business Acquired

The cost of acquiring insurance business is amortized over the emerging profit of the related policies using the same assumptions that were used in computing liabilities for future policy benefits. Amortization of the value of insurance business acquired was $89,611 and $102,168 for the three months ended March 31, 2018 and 2017, respectively.

Commissions

Our commissions for the three months ended March, 2018 and 2017 are summarized as follows:

	(Unaudited)		
	Three Months Ended March 31,		Amount Change
	2018	2017	2018 less 2017
Annuity	$ 406,931	$ 718,911	$ (311,980)
Whole life and term first year	47,659	35,826	11,833
Whole life and term renewal	17,698	23,984	(6,286)
Final expense first year	1,374,440	1,287,695	86,745
Final expense renewal	256,394	178,494	77,900
Total commissions	$ 2,103,122	$ 2,244,910	$ (141,788)

The $141,788 decrease in commissions for the three months ended March 31, 2018 is primarily due to a $311,980 (due to a $17,618,611 decrease in annuity deposits) decrease in annuity commissions that exceeded an $86,745 increase in final expense first year commissions and a $77,900 increase in final expense renewal commissions.

Federal Income Taxes

FTFC files a consolidated federal income tax return with FTCC but does not file a consolidated tax return with TLIC or FBLIC. TLIC and FBLIC are taxed as life insurance companies under the provisions of the Internal Revenue Code. Life insurance companies must file separate tax returns until they have been a member of the consolidated filing group for five years. We continue to file consolidated life insurance company federal tax returns for TLIC and FBLIC. Certain items included in income reported for financial statement purposes are not included in taxable income for the current period, resulting in deferred income taxes.

For the three months ended March 31, 2018 and 2017, deferred federal income tax expense was $271,066 and $88,039, respectively.

Net Income Per Common Share Basic and Diluted

Net income was $940,381 ($.12 per common share basic and diluted) and $261,478 ($0.03 per common share basic and diluted) for the three months ended March 31, 2018 and 2017, respectively. Net income per common share basic and diluted is calculated using the weighted average number of common shares outstanding during the year. The weighted average outstanding and subscribed common shares basic and diluted for the three months ended March 31, 2018 and 2017 were 7,802,593.

Business Segments

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

The revenues and income before federal income taxes from our business segments for the three months ended March 31, 2018 and 2017 are summarized as follows:

	(Unaudited)		
	Three Months Ended March 31,		Amount Change
	2018	2017	2018 less 2017
Revenues:			
Life insurance operations	$ 5,176,172	$ 4,184,653	$ 991,519
Annuity operations	3,878,137	3,188,969	689,168
Corporate operations	113,111	134,337	(21,226)
Total	$ 9,167,420	$ 7,507,959	$ 1,659,461
Income before federal income taxes:			
Life insurance operations	$ 171,519	$ 117,848	$ 53,671
Annuity operations	957,389	160,414	796,975
Corporate operations	82,539	71,255	11,284
Total	$ 1,211,447	$ 349,517	$ 861,930

Life Insurance Operations

The $991,519 increase in revenues from Life Insurance Operations for the three months ended March 31, 2018 is primarily due to the following:

- $865,045 increase in premiums
- $161,347 increase in net investment income
- $5,260 decrease in other income

- $29,613 decrease in net realized investment gains

The $53,671 increased profitability from Life Insurance Operations for the three months ended March 31, 2018 is primarily due to the following:

- $865,045 increase in premiums
- $161,347 increase in net investment income
- $74,897 increase in policy acquisition costs deferred net of amortization
- $55,707 decrease in surrenders
- $6,278 decrease in amortization of value of insurance business acquired
- $712 increase in dividend, endowment and supplementary life contract benefits
- $5,260 decrease in other income
- $16,220 increase in death benefits
- $29,613 decrease in net realized investment gains
- $170,192 increase in commissions
- $407,820 increase in other underwriting, insurance and acquisition expenses
- $479,786 increase in future policy benefits

Annuity Operations

The $689,168 increase in revenues from Annuity Operations for the three months ended March 31, 2018 is due to the following:

- $850,845 increase in net investment income
- $161,677 decrease in net realized investment gains

The $796,975 increased profitability from Annuity Operations for the three months ended March 31, 2018 is due to the following:

- $850,845 increase in net investment income
- $386,120 decrease in other underwriting, insurance and acquisition expenses
- $311,980 decrease in commissions
- $6,279 decrease in amortization of value of insurance business acquired
- $161,677 decrease in net realized investment gains
- $272,277 increase in interest credited to policyholders
- $324,295 decrease in policy acquisition costs deferred net of amortization

Corporate Operations

The $21,226 decrease in revenues from Corporate Operations for the three months ended March 31, 2018 is due to $23,405 of decreased other income from service fees that exceeded $2,179 of increased net investment income.

The $11,284 increase in Corporate Operations profitability for the three months ended March 31, 2018 is primarily due to $32,510 of decreased operating expenses and $2,179 of increased net investment income that exceeded $23,405 of decreased other income from service fees.

Consolidated Financial Condition

Our invested assets as of March 31, 2018 and December 31, 2017 are summarized as follows:

	(Unaudited) March 31, 2018	December 31, 2017	Amount Change 2018 less 2017
Assets			
Investments			
Available-for-sale fixed maturity securities at fair value (amortized cost: $147,759,019 and $143,621,947 as of March 31, 2018 and December 31, 2017, respectively)	$ 149,444,371	$ 149,683,139	$ (238,768)
Available-for-sale preferred stock at fair value (cost: $99,945 as of March 31, 2018 and December 31, 2017)	96,940	100,720	(3,780)
Equity securities (available-for-sale 2017) at fair value (cost: $503,581 and $502,919 as of March 31, 2018 and December 31, 2017, respectively)	548,369	571,427	(23,058)
Mortgage loans on real estate	111,912,198	102,496,451	9,415,747
Investment real estate	2,346,594	2,382,966	(36,372)
Policy loans	1,647,320	1,660,175	(12,855)
Short-term investments	2,543,912	547,969	1,995,943
Other long-term investments	58,812,011	55,814,583	2,997,428
Total investments	$ 327,351,715	$ 313,257,430	$ 14,094,285

The $238,768 decrease and $22,614,658 increase in fixed maturity available-for-sale securities for the three months ended March 31, 2018 and 2017, respectively, are summarized as follows:

	(Unaudited) Three Months Ended March 31, 2018 Amount	2017 Amount
Fixed maturity securities, available-for-sale, beginning	$ 149,683,139	$ 129,311,155
Purchases	6,885,843	26,056,647
Unrealized appreciation (depreciation)	(4,375,840)	1,061,041
Net realized investment gains (losses)	(1,170)	164,019
Sales proceeds	(629,791)	(1,679,231)
Maturities	(1,950,000)	(2,770,000)
Premium amortization	(167,810)	(217,818)
Increase (decrease)	(238,768)	22,614,658
Fixed maturity securities, available-for-sale, ending	$ 149,444,371	$ 151,925,813

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

The $3,780 decrease and $5,600 increase in preferred stock available-for-sale for the three months ended March 31, 2018 and 2017, respectively, are summarized as follows:

	(Unaudited) Three Months Ended March 31,	
	2018	2017
	Amount	Amount
Preferred stock, available-for-sale, beginning	$ 100,720	$ 96,360
Unrealized appreciation (depreciation)	(3,780)	5,600
Increase (decrease)	(3,780)	5,600
Preferred stock, available-for-sale, ending	$ 96,940	$ 101,960

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

The $23,058 decrease and $13,553 increase in equity securities for the three months ended March 31, 2018 and 2017, respectively, are summarized as follows:

	(Unaudited) Three Months Ended March 31,	
	2018	2017
	Amount	Amount
Equity securities, beginning	$ 571,427	$ 542,047
Purchases	968	1,129
Sales proceeds	(412)	-
Unrealized appreciation (depreciation)	-	12,424
Net realized investment gains sale of securities	106	-
Net realized investment losses, changes in fair value	(23,720)	-
Increase (decrease)	(23,058)	13,553
Equity securities, ending	$ 548,369	$ 555,600

Equity securities in 2018 are reported at fair value with the change in fair value reflected in net realized investment gains (losses) within the consolidated statements of operations. Equity securities in 2017 were reported at fair value with unrealized gains and losses, net of applicable income taxes, reflected as a separate component in shareholders' equity within "Accumulated Other Comprehensive Income."

The $9,415,747 and $12,507,562 increases in mortgage loans on real estate for the three months ended March 31, 2018 and 2017, respectively, are summarized as follows:

	(Unaudited) Three Months Ended March 31, 2018 Amount	(Unaudited) Three Months Ended March 31, 2017 Amount
Mortgage loans on real estate, beginning	$ 102,496,451	$ 74,371,286
Purchases	16,247,647	17,643,638
Discount accretion	33,437	46,164
Payments	(6,810,769)	(5,125,389)
Increase in allowance for bad debts	(41,203)	(42,054)
Amortization of loan origination fees	(13,365)	(14,797)
Increase	9,415,747	12,507,562
Mortgage loans on real estate, ending	$ 111,912,198	$ 86,878,848

The $36,372 and $141,052 decreases in investment real estate for the three months ended March 31, 2018 and 2017, respectively, are summarized as follows:

	(Unaudited) Three Months Ended March 31, 2018 Amount	(Unaudited) Three Months Ended March 31, 2017 Amount
Investment real estate, beginning	$ 2,382,966	$ 2,506,673
Sales proceeds	-	(107,167)
Depreciation of building	(36,372)	(36,372)
Net realized investment gains	-	2,487
Decrease	(36,372)	(141,052)
Investment real estate, ending	$ 2,346,594	$ 2,365,621

The $2,997,428 and $2,726,145 increases in other long-term investments (composed of lottery receivables) for the three months ended March 31, 2018 and 2017, respectively, are summarized as follows:

	(Unaudited) Three Months Ended March 31, 2018 Amount	(Unaudited) Three Months Ended March 31, 2017 Amount
Other long-term investments, beginning	$ 55,814,583	$ 46,788,873
Purchases	4,737,503	3,648,817
Accretion of discount	971,593	857,471
Payments	(2,711,668)	(1,780,143)
Increase	2,997,428	2,726,145
Other long-term investments, ending	$ 58,812,011	$ 49,515,018

Our assets other than invested assets as of March 31, 2018 and December 31, 2017 are summarized as follows:

	(Unaudited) March 31, 2018	December 31, 2017	Amount Change 2018 less 2017
Cash and cash equivalents	$ 17,805,871	$ 31,496,159	$ (13,690,288)
Accrued investment income	2,624,443	2,544,963	79,480
Recoverable from reinsurers	1,173,251	1,340,700	(167,449)
Agents' balances and due premiums	1,415,157	1,485,305	(70,148)
Deferred policy acquisition costs	26,116,077	24,555,902	1,560,175
Value of insurance business acquired	5,437,034	5,526,645	(89,611)
Other assets	11,451,942	10,920,570	531,372
Assets other than investment assets	$ 66,023,775	$ 77,870,244	$ (11,846,469)

The $13,690,288 decrease in cash and cash equivalents is discussed below in the "Liquidity and Capital Resources" section where cash flows are addressed.

Our other assets as of March 31, 2018 and December 31, 2017 are summarized as follows:

	(Unaudited) March 31, 2018	December 31, 2017	Amount Change 2018 less 2017
Advances to mortgage loan originator	$ 5,239,896	$ 4,925,259	$ 314,637
Federal and state income taxes recoverable	2,961,434	2,504,494	456,940
Notes receivable	447,752	448,006	(254)
Accrual of mortgage loan and long-term investment payments due	1,981,792	2,516,490	(534,698)
Receivable for securities sold	667,625	364,611	303,014
Guaranty funds	68,360	73,151	(4,791)
Other receivables, prepaid assets and deposits	85,083	88,559	(3,476)
Total other assets	$ 11,451,942	$ 10,920,570	$ 531,372

There was a $456,940 increase in federal and state income taxes recoverable primarily due to federal and state tax withholdings on lottery receivables.

There was a $314,637 increase in advances to one mortgage loan originator who acquires residential mortgage loans for our life companies.

As of March 31, 2018, the Company had $667,625 security sales where the trade date and settlement date were in different financial reporting periods compared to $364,611 of security sales overlapping financial reporting periods as of December 31, 2017.

There was a $534,698 decrease in the accrual of mortgage loans and long-term investment payments due based upon the scheduled timing of investment payments remitted by the third party servicers. Those cash payments were received in April 2018.

On April 15, 2018, the Company renewed its previous one-year loan of $400,000 to its former Chairman. The renewed loan also has a term of one year and a contractual interest rate of 5.00%. The loan is collateralized by 100,000 shares of the Company's Class A Common stock owned by the former Chairman.

Our liabilities as of March 31, 2018 and December 31, 2017 are summarized as follows:

	(Unaudited) March 31, 2018	December 31, 2017	Amount Change 2018 less 2017
Policy liabilities			
Policyholders' account balances	$ 295,489,982	$ 292,909,762	$ 2,580,220
Future policy benefits	51,096,235	49,663,099	1,433,136
Policy claims	1,213,535	1,148,513	65,022
Other policy liabilities	70,629	68,490	2,139
Total policy liabilities	347,870,381	343,789,864	4,080,517
Deferred federal income taxes	2,314,783	2,961,929	(647,146)
Other liabilities	4,383,484	3,123,702	1,259,782
Total liabilities	$ 354,568,648	$ 349,875,495	$ 4,693,153

The $2,580,220 and $22,565,380 increases in policyholders' account balances for the three months ended March 31, 2018 and 2017, respectively, are summarized as follows:

	(Unaudited) Three Months Ended March 31,	
	2018	2017
	Amount	Amount
Policyholders' account balances, beginning	$ 292,909,762	$ 245,346,489
Deposits	7,433,520	25,052,131
Withdrawals	(7,160,631)	(4,521,805)
Interest credited	2,307,331	2,035,054
Increase	2,580,220	22,565,380
Policyholders' account balances, ending	$ 295,489,982	$ 267,911,869

The $1,433,136 increase in future policy benefits during the three months ended March 31, 2018 is primarily related to the production of new life insurance policies, initial sales of policies to older age bands (resulting in increased mortality reserve charges) and the aging of existing policies.

The $647,146 decrease in deferred federal income taxes during the three months ended March 31, 2018 was due to $918,212 of decreased deferred federal income taxes on the unrealized appreciation of fixed maturity and preferred stock available-for-sale and $271,066 of operating deferred federal tax expense.

Our other liabilities as of March 31, 2018 and December 31, 2017 are summarized as follows:

	(Unaudited) March 31, 2018	December 31, 2017	Amount Change 2018 less 2017
Suspense accounts payable	$ 2,732,537	$ 42,901	$ 2,689,636
Accounts payable	946,087	1,898,817	(952,730)
Accrued expenses payable	503,000	776,000	(273,000)
Payable for securities purchased	329,627	462,598	(132,971)
Guaranty fund assessments	43,000	43,000	-
Unearned investment income	90,865	62,326	28,539
Deferred revenue	27,076	29,784	(2,708)
Unclaimed funds	40,751	23,622	17,129
Other payables, withholdings and escrows	(329,459)	(215,346)	(114,113)
Total other liabilities	$ 4,383,484	$ 3,123,702	$ 1,259,782

The $2,689,636 increase in suspense accounts payable is due to increased deposits on policy applications that had not been issued as of the financial reporting date.

The $952,730 decrease in accounts payable is primarily due to a payment of $925,000 on the partial settlement of the FBLIC Term to 95 lawsuit.

The $273,000 decrease in accrued expenses payable is primarily due to payments of accrued legal fees.

As of March 31, 2018, the Company had $329,627 in security purchases where the trade date and settlement date were in different financial reporting periods compared to $462,598 of security purchases overlapping financial reporting periods as of December 31, 2017.

The $114,113 decline in other payables, withholdings and escrows is primarily due to an increase in escrows on commercial mortgage loans.

Liquidity and Capital Resources

Our operations have been financed primarily through the private placement of equity securities and intrastate public stock offerings. Through March 31, 2018, we have received $27,119,480 from the sale of our shares.

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

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

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

As of March 31, 2018, we had cash and cash equivalents totaling $17,805,871. As of March 31, 2018, cash and cash equivalents of $13,109,806 and $3,109,479, respectively, of the total $17,805,871 were held by TLIC and FBLIC and may not be available for use by FTFC due to the required pre-approval by the OID and Missouri Department of Insurance of any dividend or intercompany transaction to transfer funds to FTFC. The maximum dividend, which may be paid in any twelve-month period without notification or approval, is limited to the greater of 10% of statutory surplus as of December 31 of the preceding year or the net gain from operations of the preceding calendar year.

Cash dividends may only be paid out of surplus derived from realized net profits. Based on these limitations, there is capacity for TLIC to pay a dividend up to $1,124,823 in 2018 without prior approval. In addition, based on those limitations, there is the capacity for FBLIC to pay a dividend up to $760,348 in 2018 without prior approval. FBLIC paid no dividends to TLIC in 2018 and 2017. TLIC has paid no dividends to FTFC in 2018 and 2017.

The Company maintains cash and cash equivalents at multiple institutions. The Federal Deposit Insurance Corporation insures interest and non-interest bearing accounts up to $250,000. Uninsured balances aggregate $11,697,280 and $21,835,216 as of March 31, 2018 and December 31, 2017, respectively. Other funds are invested in mutual funds that invest in U.S. government securities. We monitor the solvency of all financial institutions in which we have funds to minimize the exposure for loss. The Company has not experienced any losses in such accounts.

On September 1, 2017, the Company agreed to a $1.0 million line of credit with a bank to provide working capital and funds for expansion. The terms of the line of credit allow for advances, repayments and re-borrowings through the maturity date of July 1, 2018. The outstanding advances incur interest at a variable interest rate of the prime rate set forth in the Wall Street Journal plus 1% per annum adjusting monthly based on a 360 day year. This line of credit is subject to annual renewal based upon the discretion of both the Company and the bank. The Company has not utilized this line of credit during 2018 or 2017.

Our cash flows for the three months ended March 31, 2018 and 2017 are summarized as follows:

	(Unaudited) Three Months Ended March 31,		Amount Change
	2018	2017	2018 less 2017
Net cash provided by operating activities	$ 2,242,119	$ 825,861	$ 1,416,258
Net cash used in investing activities	(16,205,296)	(29,617,596)	13,412,300
Net cash provided by financing activities	272,889	20,530,326	(20,257,437)
Decrease in cash and cash equivalents	(13,690,288)	(8,261,409)	(5,428,879)
Cash and cash equivalents, beginning of period	31,496,159	34,223,945	(2,727,786)
Cash and cash equivalents, end of period	$ 17,805,871	$ 25,962,536	$ (8,156,665)

The $2,242,119 and $825,861 of cash provided by operating activities for the three months ended March 31, 2018 and 2017, respectively, are summarized as follows:

	(Unaudited) Three Months Ended March 31, 2018	(Unaudited) Three Months Ended March 31, 2017	Amount Change 2018 less 2017
Premiums collected	$ 4,494,584	$ 3,666,596	$ 827,988
Net investment income collected	4,330,779	1,465,450	2,865,329
Other income collected	21,227	49,892	(28,665)
Death benefits paid	(1,329,585)	(1,557,814)	228,229
Surrenders paid	(227,669)	(283,376)	55,707
Dividends and endowments paid	(67,866)	(67,129)	(737)
Commissions paid	(2,039,550)	(2,365,670)	326,120
Other underwriting, insurance and acquisition expenses paid	(2,868,303)	(1,574,517)	(1,293,786)
Taxes (paid) recovered	(456,940)	247,264	(704,204)
(Increased) decreased advances to mortgage loan originator	(314,637)	1,477,223	(1,791,860)
Increased (decreased) deposits of pending policy applications	2,689,635	(250,506)	2,940,141
Increased short-term investments	(1,995,943)	-	(1,995,943)
Decreased policy loans	12,855	21,809	(8,954)
Other	(6,468)	(3,361)	(3,107)
Increase in cash provided by operating activities	$ 2,242,119	$ 825,861	$ 1,416,258

Please see the statements of cash flows for the three months ended March 31, 2018 and 2017 for a summary of the components of net cash used in investing activities and net cash provided by financing activities.

Our shareholders' equity as of March 31, 2018 and December 31, 2017 is summarized as follows:

	(Unaudited) March 31, 2018	December 31, 2017	Amount Change 2018 less 2017
Common stock, par value $.01 per share (20,000,000 shares authorized, 8,050,173 issued as of March 31, 2018 and December 31, 2017 and 7,802,593 outstanding as of March 31, 2018 and December 31, 2017)	$ 80,502	$ 80,502	$ -
Additional paid-in capital	28,684,598	28,684,598	-
Treasury stock, at cost (247,580 shares as of March 31, 2018 and December 31, 2017)	(893,947)	(893,947)	-
Accumulated other comprehensive income	1,306,725	4,760,951	(3,454,226)
Accumulated earnings	9,628,964	8,620,075	1,008,889
Total shareholders' equity	$ 38,806,842	$ 41,252,179	$ (2,445,337)

The decrease in shareholders' equity of $2,445,337 for the three months ended March 31, 2018 is due to a $3,454,226 decrease in other comprehensive income that exceeded a $940,381 increase in net income and a $68,508 cumulative-effect of adoption of accounting guidance for reporting changes in fair value of equity securities in net realized gains and losses instead of accumulated other comprehensive income.

Equity per common share outstanding decreased 6.0% from $5.29 per share as of December 31, 2017 to $4.97 per share as of March 31, 2018, based upon 7,802,593 common shares outstanding as of both March 31, 2018 and December 31, 2017.

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 2018 or 2017. Our investments include marketable debt securities that could be readily converted to cash for liquidity needs.

We are subject to various market risks. The quality of our investment portfolio and the current level of shareholders' equity continue to provide a sound financial base as we strive to expand our marketing to offer competitive products. Our investment portfolio had unrealized appreciation on available-for-sale securities of $1,682,347 and $6,130,475 as of March 31, 2018 and December 31, 2017, respectively, prior to the impact of income taxes and deferred acquisition cost adjustments. A decrease of $4,380,790 in unrealized losses arising for the three months ended March 31, 2018 has been offset by the cumulative effect adjustment for the adoption of accounting guidance for equity securities of $68,508 and 2018 net realized investment losses of $1,170 originating from the sale and call activity for fixed maturity securities available-for-sale resulting in net unrealized losses on investments of $4,448,128.

A primary liquidity concern is the risk of an extraordinary level of early policyholder withdrawals. We include provisions within our insurance policies, such as surrender charges, that help limit and discourage early withdrawals. Individual life insurance policies are less susceptible to withdrawal than annuity reserves and deposit liabilities because policyholders may incur surrender charges and undergo a new underwriting process in order to obtain a new insurance policy. Cash flow projections and cash flow tests under various market interest rate scenarios are also performed annually to assist in evaluating liquidity needs and adequacy. We currently anticipate that available liquidity sources and future cash flows will be adequate to meet our needs for funds.

One of our significant risks relates to the fluctuations in interest rates. Regarding interest rates, the value of our available-for-sale fixed maturity securities investment portfolio will increase or decrease in an inverse relationship with fluctuations in interest rates, while net investment income earned on newly acquired available-for-sale fixed maturity securities increases or decreases in direct relationship with interest rate changes.

From an income perspective, we are exposed to rising interest rates which could be a significant risk, as TLIC's and FBLIC's annuity business is impacted by changes in interest rates. Life insurance company policy liabilities bear fixed rates. From a liquidity perspective, our fixed rate policy liabilities are relatively insensitive to interest rate fluctuations.

We believe gradual increases in interest rates do not present a significant liquidity exposure for the life insurance policies and annuity contracts. We maintain conservative durations in our fixed maturity portfolio.

As of March 31, 2018, 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 10.3% 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 2017, 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, 2017, the Company entered into a revised advance agreement with one loan originator. As of March 31, 2018, the Company has outstanding advances to this loan originator totaling $5,239,896. The advances are secured by $7,400,479 of residential mortgage loans on real estate that are assigned to the Company. The Company has committed to fund up to an additional $260,104 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, 2017, the Company also entered into a revised escrow agreement with the same loan originator. According to the revised terms of the escrow agreement, as of March 31, 2018, $615,804 of additional and secured residential mortgage loan balances on real estate are held in escrow by the Company. As of March 31, 2018, $440,154 of that escrow amount is available to the Company as additional collateral on $5,239,896 of advances to the loan originator. The remaining March 31, 2018 escrow amount of $175,650 is available to the Company as additional collateral on its investment of $35,129,998 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 March 31, 2018 will be sufficient to fund our anticipated operating expenses.

Off-Balance Sheet Arrangements

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

SPECIAL NOTE CONCERNING FORWARD-LOOKING STATEMENTS

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

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

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

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

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

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer ("Certifying Officers"), has evaluated the effectiveness of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) of the Securities and Exchange Act of 1934 as amended ("Exchange Act") as of the end of the fiscal period covered by this Quarterly Report on Form 10-Q. Based upon such evaluation, the Certifying Officers have concluded that the Company's disclosure controls and procedures were effective to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is made known to management, including our Certifying Officers, as appropriate, to allow timely decisions regarding disclosure and that such information is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

Changes to Internal Control over Financial Reporting

There were no changes in the Company's internal control over financial reporting during the three months ended March 31, 2018 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

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

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

Mr. Pettigrew has appealed this decision but has failed to post an appeal bond. As a consequence, the Company and Mr. Zahn are in the process of executing on the judgments against Mr. Pettigrew's assets. The Company and Mr. Zahn have so far collected some property and money in the execution process and will continue to execute on the judgments. Any money or property collected to date during the execution of the judgments are held in an escrow by a third party, have not been reflected in the March 31, 2018 consolidated financial statements and would have to be returned to Mr. Pettigrew in the event the judgments are reversed by the appellate courts.

Prior to being acquired by TLIC, FBLIC developed, marketed, and sold life insurance products known as "Decreasing Term to 95" policies. On January 17, 2013, FBLIC's Board of Directors voted that, effective March 1, 2013, it was not approving, and therefore was not providing, a dividend for the Decreasing Term to 95 policies. On November 22, 2013, a lawsuit was filed in the Circuit Court of Greene County, Missouri asserting claims against FBLIC relating to this decision. A trial was held November 27, 2017 through December 1, 2017 on the individual claims of two policyholders asserting fraud and negligent misrepresentation and on claims of a class of Missouri residents asking the Court to (1) find that the dividend provisions in the Decreasing Term to 95 policies violate Missouri law, specifically, § 376.360 RSMo.; (2) order that the policies are void ab initio; and (3) order that FBLIC return all premiums collected under these policies, plus interest and attorneys' fees.

Following the conclusion of the trial, subject to the approval of the Court, the parties reached a settlement resolving of both the individual and class claims. If approved by the Court, FBLIC will pay $1.85 million as accrued in the December 31, 2017 consolidated financial statements to resolve all class and individual claims and all active Decreasing Term to 95 policies for individuals in the class will be cancelled. After the Courts preliminary approval in March 2018, FBLIC transferred half of the settlement totaling $925,000 into a third party escrow account. A hearing date for final approval of the settlement has not yet been scheduled.

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

None

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

None

Item 5. Other Information

None

Item 6. Exhibits

31.1	Rule 13a-14(a)/15d-14(a) Certification of Principal Executive Officer
31.2	Rule 13a-14(a)/15d-14(a) Certification of Principal Financial Officer
32.1	Section 1350 Certification of Principal Executive Officer
32.2	Section 1350 Certification of Principal Financial Officer
101.INS**	XBRL Instance
101.SCH**	XBRL Taxonomy Extension Schema
101.CAL**	XBRL Taxonomy Extension Calculation
101.DEF**	XBRL Taxonomy Extension Definition

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

SIGNATURES

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

FIRST TRINITY FINANCIAL CORPORATION
an Oklahoma corporation

May 14, 2018

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

May 14, 2018

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

EXHIBIT NO. 31.1

CERTIFICATION

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

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

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

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

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

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

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

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

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

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

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

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

Date: May 14, 2018

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

EXHIBIT NO. 31.2

CERTIFICATION

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

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

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

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

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

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

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

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

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

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

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

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

Date: May 14, 2018

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

EXHIBIT NO. 32.1

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

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

To my knowledge, the Quarterly Report on Form 10-Q of the Company for the quarter ended March 31, 2018 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 14, 2018

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

EXHIBIT NO. 32.2

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

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

To my knowledge, the Quarterly Report on Form 10-Q of the Company for the quarter ended March 31, 2018 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 14, 2018

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