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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 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 November 9, 2018: 7,802,593 shares

FIRST TRINITY FINANCIAL CORPORATION
QUARTERLY REPORT ON FORM 10-Q
FOR QUARTERLY PERIOD ENDED SEPTEMBER 30, 2018

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PART I – FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

First Trinity Financial Corporation and Subsidiaries
Consolidated Statements of Financial Position

	(Unaudited) September 30, 2018	December 31, 2017
Assets		
Investments		
Available-for-sale fixed maturity securities at fair value (amortized cost: $134,551,407 and $143,621,947 as of September 30, 2018 and December 31, 2017, respectively)	$ 132,839,018	$ 149,683,139
Available-for-sale preferred stock at fair value (cost: $99,945 as of September 30, 2018 and December 31, 2017)	98,180	100,720
Equity securities (available-for-sale in 2017) at fair value (cost: $185,655 and $502,919 as of September 30, 2018 and December 31, 2017, respectively)	201,383	571,427
Mortgage loans on real estate	121,505,716	102,496,451
Investment real estate	2,442,440	2,382,966
Policy loans	1,755,270	1,660,175
Short-term investments	135,963	547,969
Other long-term investments	58,255,713	55,814,583
Total investments	317,233,683	313,257,430
Cash and cash equivalents	29,913,662	31,496,159
Accrued investment income	2,727,777	2,544,963
Recoverable from reinsurers	1,775,081	1,340,700
Assets held in trust under coinsurance agreement	15,831,355	-
Agents' balances and due premiums	1,517,547	1,485,305
Deferred policy acquisition costs	28,172,290	24,555,902
Value of insurance business acquired	5,271,221	5,526,645
Other assets	11,956,822	10,920,570
Total assets	$ 414,399,438	$ 391,127,674
Liabilities and Shareholders' Equity		
Policy liabilities		
Policyholders' account balances	$ 294,738,874	$ 292,909,762
Future policy benefits	54,316,902	49,663,099
Policy claims	1,030,040	1,148,513
Other policy liabilities	68,331	68,490
Total policy liabilities	350,154,147	343,789,864
Funds withheld under coinsurance agreement	18,720,257	-
Deferred federal income taxes	2,398,299	2,961,929
Other liabilities	4,034,342	3,123,702
Total liabilities	375,307,045	349,875,495
Shareholders' equity		
Common stock, par value $.01 per share (20,000,000 shares authorized, 8,050,173 issued as of September 30, 2018 and December 31, 2017 and 7,802,593 outstanding as of September 30, 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 September 30, 2018 and December 31, 2017)	(893,947)	(893,947)
Accumulated other comprehensive income (loss)	(1,331,860)	4,760,951
Accumulated earnings	12,553,100	8,620,075
Total shareholders' equity	39,092,393	41,252,179
Total liabilities and shareholders' equity	$ 414,399,438	$ 391,127,674

See notes to consolidated financial statements (unaudited).

First Trinity Financial Corporation and Subsidiaries

Consolidated Statements of Operations

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenues				
Premiums	$ 4,701,250	$ 4,058,629	$ 13,760,857	$ 11,560,664
Net investment income	4,979,031	4,631,892	14,701,414	12,296,827
Net realized investment gains (losses)	245,059	(3,486)	269,531	254,108
Loss on other-than-temporary impairments	-	-	-	(224,250)
Service fees	66,474	3,560	300,035	10,849
Other income	11,977	21,689	58,149	81,527
Total revenues	10,003,791	8,712,284	29,089,986	23,979,725
Benefits, Claims and Expenses				
Benefits and claims				
Increase in future policy benefits	1,719,073	1,291,943	4,684,724	3,733,907
Death benefits	876,629	1,310,697	3,963,815	3,744,278
Surrenders	203,287	186,202	666,128	717,790
Interest credited to policyholders	2,329,858	2,293,419	6,941,291	6,530,403
Dividend, endowment and supplementary life contract benefits	64,339	68,492	197,034	200,260
Total benefits and claims	5,193,186	5,150,753	16,452,992	14,926,638
Policy acquisition costs deferred	(1,673,638)	(2,369,432)	(6,162,096)	(7,370,469)
Amortization of deferred policy acquisition costs	682,295	890,135	2,677,918	2,318,277
Amortization of value of insurance business acquired	83,935	88,625	255,424	298,089
Commissions	1,934,194	2,051,910	5,963,852	6,641,883
Other underwriting, insurance and acquisition expenses	1,849,373	1,362,524	4,981,401	4,588,947
Total expenses	2,876,159	2,023,762	7,716,499	6,476,727
Total benefits, claims and expenses	8,069,345	7,174,515	24,169,491	21,403,365
Income before total federal income tax expense (benefit)	1,934,446	1,537,769	4,920,495	2,576,360
Current federal income tax expense (benefit)	-	(1,320)	-	18,589
Deferred federal income tax expense	409,687	294,437	1,055,978	501,597
Total federal income tax expense	409,687	293,117	1,055,978	520,186
Net income	$ 1,524,759	$ 1,244,652	$ 3,864,517	$ 2,056,174
Net income per common share basic and diluted	$ 0.20	$ 0.16	$ 0.50	$ 0.26

See notes to consolidated financial statements (unaudited).

First Trinity Financial Corporation and Subsidiaries

Consolidated Statements of Comprehensive Income (Loss)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income	$ 1,524,759	$ 1,244,652	$ 3,864,517	$ 2,056,174
Other comprehensive income (loss)				
Total net unrealized investment gains (losses) arising during the period	(717,379)	703,274	(7,531,191)	4,423,541
Cumulative effect, adoption of accounting guidance for equity securities	-	-	(68,508)	-
Less net realized investment gains (losses) having no credit losses	205,453	(3,486)	244,930	(36,799)
Net unrealized investment gains (losses)	(922,832)	706,760	(7,844,629)	4,460,340
Less adjustment to deferred acquisition costs	(14,204)	10,532	(132,210)	79,810
Other comprehensive income (loss) before federal income tax expense	(908,628)	696,228	(7,712,419)	4,380,530
Federal income tax expense (benefit)	(190,813)	139,246	(1,619,608)	876,107
Total other comprehensive income (loss)	(717,815)	556,982	(6,092,811)	3,504,423
Total comprehensive income (loss)	$ 806,944	$ 1,801,634	$ (2,228,294)	$ 5,560,597

See notes to consolidated financial statements (unaudited).

First Trinity Financial Corporation and Subsidiaries
Consolidated Statements of Changes in Shareholders' Equity
Nine Months Ended September 30, 2018 and 2017
(Unaudited)

	Common Stock $.01 Par Value	Additional Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	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	-	-	-	-	2,056,174	2,056,174
Other comprehensive income	-	-	-	3,504,423	-	3,504,423
Balance as of September 30, 2017	$ 80,502	$ 28,684,598	$ (893,947)	$ 4,323,099	$ 9,646,620	$ 41,840,872
Balance as of January 1, 2018	$ 80,502	$ 28,684,598	$ (893,947)	$ 4,760,951	$ 8,620,075	$ 41,252,179
Comprehensive loss:						
Net income	-	-	-	-	3,864,517	3,864,517
Cumulative effect, adoption of accounting guidance for equity securities	-	-	-	-	68,508	68,508
Other comprehensive loss	-	-	-	(6,092,811)	-	(6,092,811)
Balance as of September 30, 2018	$ 80,502	$ 28,684,598	$ (893,947)	$ (1,331,860)	$ 12,553,100	$ 39,092,393

See notes to consolidated financial statements (unaudited).

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

	Nine Months Ended September 30, 2018	2017
Operating activities		
Net income	$ 3,864,517	$ 2,056,174
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for depreciation	109,116	109,435
Accretion of discount on investments	(2,951,473)	(2,298,768)
Net realized investment gains	(269,531)	(254,108)
Loss on other-than-temporary impairment	-	224,250
Amortization of policy acquisition cost	2,677,918	2,318,277
Policy acquisition cost deferred	(6,162,096)	(7,370,469)
Amortization of loan origination fees	32,376	44,351
Amortization of value of insurance business acquired	255,424	298,089
Allowance for mortgage loan losses	61,083	105,024
Provision for deferred federal income tax expense	1,055,978	501,597
Interest credited to policyholders	6,941,291	6,530,403
Change in assets and liabilities:		
Policy loans	(95,095)	(28,655)
Short-term investments	412,006	-
Accrued investment income	(182,814)	(441,475)
Recoverable from reinsurers	(434,381)	101,829
Assets held in trust under coinsurance agreement	(15,831,355)	-
Agents' balances and due premiums	(32,242)	(183,349)
Other assets (excludes depreciation of $320 in 2017 and change in receivable for securities sold of ($185,389) and $5,738,274 in 2018 and 2017, respectively)	(850,863)	(939,617)
Future policy benefits	4,653,803	3,736,262
Policy claims	(118,473)	29,307
Other policy liabilities	(159)	20,633
Other liabilities (excludes change in payable for securities purchased of $142,361 and ($57,976) in 2018 and 2017, respectively)	768,279	(4,144,719)
Net cash provided by (used in) operating activities	(6,096,691)	414,471
Investing activities		
Purchases of fixed maturity securities	(11,958,357)	(32,830,057)
Maturities of fixed maturity securities	4,876,000	6,762,000
Sales of fixed maturity securities	15,933,074	10,378,173
Purchases of equity securities	(53,828)	(2,832)
Sales of equity securities	361,947	-
Joint venture distribution	34,877	-
Purchases of mortgage loans	(47,077,889)	(44,857,137)
Payments on mortgage loans	28,034,586	16,129,739
Purchases of other long-term investments	(6,068,995)	(14,036,084)
Payments on other long-term investments	6,606,259	5,863,095
Sale on other long-term investments	-	792,012
Sale of real estate	261,470	190,084
Net change in receivable and payable for securities sold and purchased	(43,028)	5,680,298
Net cash used in investing activities	(9,093,884)	(45,930,709)
Financing activities		
Policyholders' account deposits	35,533,959	54,296,750
Policyholders' account withdrawals	(21,925,881)	(14,044,954)
Net cash provided by financing activities	13,608,078	40,251,796
Decrease in cash	(1,582,497)	(5,264,442)
Cash and cash equivalents, beginning of period	31,496,159	34,223,945
Cash and cash equivalents, end of period	$ 29,913,662	$ 28,959,503

See notes to consolidated financial statements (unaudited).

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

During 2017 the Company reclassified an available-for-sale fixed maturity security totaling $729,737 to other long-term investments as recent third party information indicated the security does not qualify for available-for-sale treatment.

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

	Nine Months Ended September 30, 2017
Reduction in available-for-securities fixed maturity securities	$ 729,737
Other long-term investments	(729,737)
Net cash used in investing activities	$ -

During 2018 and 2017, the Company foreclosed on residential mortgage loans of real estate totaling $378,411 and $142,455 respectively, and transferred those properties to investment real estate that are now held for sale.

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

	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Reduction in mortgage loans due to foreclosure	$ 378,411	$ 142,455
Investment real estate held-for-sale acquired through foreclosure	(378,411)	(142,455)
Net cash used in investing activities	$ -	$ -

See notes to consolidated financial statements (unaudited).

1. Organization and Significant Accounting Policies

Nature of Operations

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

The Company owns 100% of TLIC. TLIC owns 100% of FBLIC. TLIC and FBLIC are primarily engaged in the business of marketing, underwriting and distributing a broad range of individual life insurance and annuity products to individuals. TLIC's and FBLIC's current product portfolio consists of a modified premium whole life insurance policy with a flexible premium deferred annuity rider, whole life, term, final expense, accidental death and dismemberment and annuity products. The term products are both renewable and convertible and issued for 10, 15, 20 and 30 years. They can be issued with premiums fully guaranteed for the entire term period or with a limited premium guarantee. The final expense 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 and assumed liabilities of $3,055,916.

Basis of Presentation

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

The results of operations for the nine months ended September 30, 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 September 30, 2018 through the date that these financial statements have been issued and reports the following subsequent event.

On November 8, 2018, the company executed a $1.5 million line of credit with a bank to provide working capital and funds for expansion. The terms of the line of credit allowed for advances, repayments and re-borrowings through a maturity date of October 31, 2019. Any outstanding advances will incur interest at a variable interest rate of the prime rate set forth in the Wall Street Journal plus 1% per annum adjusting monthly based on a 360 day year.

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).

1. Organization and Significant Accounting Policies (continued)

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 may be applied using a modified retrospective approach effective for annual and interim periods beginning after December 15, 2018. In July 2018, the FASB issued updated guidance (Accounting Standards Update 2018-11) that provides entities with an additional (and optional) transition method to adopt the new standard on leases. Under this new transition method, an entity initially applies the new standard on leases at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. Consequently, an entity's reporting for the comparative periods presented in the financial statements in which it adopts the new standard on leases will continue to be in accordance with current GAAP (Topic 840, Leases). An entity that elects this additional (and optional) transition method must provide the required Topic 840 disclosures for all periods that continue to be in accordance with Topic 840. The Company expects to adopt this guidance in January 2019. 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.

1. Organization and Significant Accounting Policies (continued)

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.

1. Organization and Significant Accounting Policies (continued)

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.

1. Organization and Significant Accounting Policies (continued)

Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract

In August 2018, the FASB issued updated guidance to align the accounting for implementation costs incurred in a software hosting arrangement (i.e., a cloud computing arrangement) that is a service contract with the guidance for capitalizing implementation costs incurred to develop or obtain internal-use software. Accordingly, the updated guidance requires an entity to determine the stage of a project that the implementation activity relates to and the nature of the associated costs in order to determine whether those costs should be expensed as incurred or capitalized. The updated guidance also requires the entity to amortize the capitalized implementation costs as an expense over the term of the hosting arrangement.

The updated guidance is effective for reporting periods beginning after December 15, 2019. 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.

Targeted Improvements to the Accounting for Long-Duration Contracts

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

The updated guidance is effective for reporting periods beginning after December 15, 2020. Early adoption is permitted. With respect to the liability for future policyholder benefits for traditional and limited-payment contracts and deferred acquisition costs, an insurance entity may elect to apply the amendments retrospectively as of the beginning of the earliest period presented. With respect to the market risk benefits, an insurance entity should apply the amendments retrospectively as of the beginning of the earliest period presented. Based on the long-duration contracts 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 long-term contracts held by the Company and the economic conditions at that time.

2. Investments

Investments in fixed maturity and preferred stock available-for-sale and equity securities as of September 30, 2018 and December 31, 2017 are summarized as follows:

	Amortized Cost or Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	September 30, 2018 (Unaudited)			
Fixed maturity securities				
U.S. government and U.S. government agencies	$ 2,979,866	$ 9,761	$ 119,300	$ 2,870,327
States and political subdivisions	9,314,448	101,294	61,109	9,354,633
Residential mortgage-backed securities	24,918	31,552	-	56,470
Corporate bonds	101,310,347	955,437	2,081,931	100,183,853
Asset-backed	253,676	1,462	-	255,138
Foreign bonds	20,668,152	83,698	633,253	20,118,597
Total fixed maturity securities	134,551,407	1,183,204	2,895,593	132,839,018
Preferred stock	99,945	95	1,860	98,180
Equity securities				
Mutual funds	91,981	-	15,245	76,736
Corporate common stock	93,674	30,973	-	124,647
Total equity securities	185,655	30,973	15,245	201,383
Total fixed maturity, preferred stock and equity securities	$ 134,837,007	$ 1,214,272	$ 2,912,698	$ 133,138,581
	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 September 30, 2018 and December 31, 2017 are summarized as follows:

	Fair Value	Unrealized Loss	Number of Securities
	September 30, 2018 (Unaudited)		
Fixed maturity securities			
Less than 12 months in an unrealized loss position			
U.S. government and U.S. government agencies	$ 119,951	$ 5,098	1
States and political subdivisions	2,824,688	25,056	18
Corporate bonds	57,136,200	1,697,585	211
Foreign bonds	13,757,533	538,846	48
Total less than 12 months in an unrealized loss position	73,838,372	2,266,585	278
More than 12 months in an unrealized loss position			
U.S. government and U.S. government agencies	1,440,760	114,202	5
States and political subdivisions	509,217	36,053	4
Corporate bonds	3,686,822	384,346	16
Foreign bonds	639,015	94,407	2
Total more than 12 months in an unrealized loss position	6,275,814	629,008	27
Total fixed maturity securities in an unrealized loss position	80,114,186	2,895,593	305
Preferred stock, less than 12 months in an unrealized loss position	48,140	1,860	1
Equity securities (mutual funds), less than 12 months in an unrealized loss position	76,736	15,245	1
Total fixed maturity, preferred stock and equity securities in an unrealized loss position	$ 80,239,062	$ 2,912,698	$ 307
	December 31, 2017		
Fixed maturity securities			
Less than 12 months in an unrealized loss position			
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 in an unrealized loss position	8,991,581	239,643	35
More than 12 months in an unrealized loss position			
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 in an unrealized loss position	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 September 30, 2018, the Company held 305 available-for-sale fixed maturity securities with an unrealized loss of $2,895,593, fair value of $80,114,186 and amortized cost of $83,009,779. These unrealized losses were primarily due to market interest rate movements in the bond market as of September 30, 2018. The ratio of the fair value to the amortized cost of these 305 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 September 30, 2018, the Company held one preferred stock with an unrealized loss of $1,860, fair value of $48,140 and cost of $50,000. The ratio of fair value to cost of this preferred stock is 96%.

As of September 30, 2018, the Company held one equity security with an unrealized loss of $15,245, fair value of $76,736 and cost of $91,981. The ratio of fair value to cost of this security is 83%.

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

Fixed maturity securities were 96% and 93% investment grade as rated by Standard & Poor’s as of September 30, 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.

The Company has recorded other-than-temporary impairments on its fixed maturity available-for-sale investment in an energy corporation with a total par value of $650,000 as a result of continuing unrealized losses. During fourth quarter 2016 this security was initially impaired by a $207,450 charge to the statement of operations. During second quarter 2017 this security was further impaired by a $224,250 charge to the statement of operations. These impairments were considered fully credit-related and represent the difference between the amortized cost basis of the security and its fair value. The Company experienced no additional other-than-temporary impairments on fixed maturity available-for-sale securities for the three and nine months ended September 30, 2018 and the year ended December 31, 2017.

Management believes that the Company will fully recover its cost basis in the securities held as of September 30, 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 (losses) 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 September 30, 2018 and December 31, 2017, are summarized as follows:

	(Unaudited) September 30, 2018	December 31, 2017
Unrealized appreciation (depreciation) on available-for-sale securities	$ (1,714,154)	$ 6,130,475
Adjustment to deferred acquisition costs	28,255	(103,955)
Deferred income taxes	354,039	(1,265,569)
Net unrealized appreciation (depreciation) on available-for-sale securities	$ (1,331,860)	$ 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 $58,255,713 and $55,814,583 as of September 30, 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 September 30, 2018, by contractual maturity, are summarized as follows:

	September 30, 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	$ 4,276,974	$ 4,294,839	$ 8,397,085	$ 8,499,751
Due after one year through five years	25,798,481	25,921,074	24,362,037	26,306,144
Due after five years through ten years	40,802,369	39,975,538	16,759,405	20,207,607
Due after ten years	63,648,665	62,591,097	8,737,186	13,371,726
Due at multiple maturity dates	24,918	56,470	-	-
	$ 134,551,407	$ 132,839,018	$ 58,255,713	$ 68,385,228

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

2. Investments (continued)

Proceeds and gross realized gains (losses) from the sales, calls and maturities of fixed maturity securities available-for-sale, equity securities, investment real estate and other long-term investments for the three and nine months ended September 30, 2018 and 2017 are summarized as follows:

	Three Months Ended September 30, (Unaudited)					
	Fixed Maturity Securities		Equity Securities		Investment Real Estate	
	2018	2017	2018	2017	2018	2017
Proceeds	$ 12,320,142	$ 4,536,924	$ 346,535	$ -	$ 206,617	$ -
Gross realized gains	305,883	37,337	25,683	-	52,971	-
Gross realized losses	(100,430)	(40,823)	(58)	-	-	-
Loss on other-than-temporary impairment	-	-	-	-	-	-

	Three Months Ended September 30, (Unaudited)	
	Other Long-Term Investments	
	2018	2017
Proceeds	$ -	$ -
Gross realized gains	-	-
Gross realized losses	-	-
Loss on other-than-temporary impairment	-	-

	Nine Months Ended September 30, (Unaudited)					
	Fixed Maturity Securities		Equity Securities		Investment Real Estate	
	2018	2017	2018	2017	2018	2017
Proceeds	$ 20,809,074	$ 17,140,173	$ 361,947	$ -	$ 261,470	$ 190,084
Gross realized gains	386,403	564,589	25,790	-	52,971	6,050
Gross realized losses	(141,473)	(377,138)	(58)	-	(1,322)	(1,668)
Loss on other-than-temporary impairment	-	(224,250)	-	-	-	-

	Nine Months Ended September 30, (Unaudited)	
	Other Long-Term Investments	
	2018	2017
Proceeds	$ -	$ 792,012
Gross realized gains	-	62,275
Gross realized losses	-	-
Loss on other-than-temporary impairment	-	-

2. Investments (continued)

The accumulated change in unrealized investment gains (losses) for fixed maturity and preferred stock available-for-sale and equity securities for the three and nine months ended September 30, 2018 and 2017 and the amount of net realized investment gains (losses) on fixed maturity securities available-for-sale, equity securities, investment real estate and other long-term investments for the three and nine months ended September 30, 2018 and 2017 are summarized as follows:

	Three Months Ended September 30, (Unaudited)		Nine Months Ended September 30, (Unaudited)	
	2018	2017	2018	2017
Change in unrealized investment gains (losses):				
Available-for-sale securities:				
Fixed maturity securities	$ (921,992)	$ 694,379	$ (7,773,581)	$ 4,429,221
Preferred stock	(840)	82	(2,540)	5,660
Equity securities	-	12,299	-	25,459
Net realized investment gains (losses):				
Available-for-sale securities:				
Fixed maturity securities	205,453	(3,486)	244,930	187,451
Equity securities, sale of securities	25,625	-	25,732	-
Equity securities, changes in fair value	(38,990)	-	(52,780)	-
Investment real estate	52,971	-	51,649	4,382
Other long-term investments	-	-	-	62,275

Major categories of net investment income for the three and nine months ended September 30, 2018 and 2017 are summarized as follows:

	Three Months Ended September 30, (Unaudited)		Nine Months Ended September 30, (Unaudited)	
	2018	2017	2018	2017
Fixed maturity securities	$ 1,492,224	$ 1,731,931	$ 4,792,648	$ 4,887,826
Preferred stock and equity securities	24,280	4,382	57,397	14,540
Other long-term investments	995,100	967,959	2,974,163	2,707,438
Mortgage loans	2,877,910	2,431,884	8,253,828	6,101,462
Policy loans	31,055	28,640	90,480	84,657
Real estate	94,102	93,943	282,108	281,366
Short-term and other investments	92,711	20,227	160,392	117,764
Gross investment income	5,607,382	5,278,966	16,611,016	14,195,053
Investment expenses	(628,351)	(647,074)	(1,909,602)	(1,898,226)
Net investment income	$ 4,979,031	$ 4,631,892	$ 14,701,414	$ 12,296,827

TLIC and FBLIC are required to hold assets on deposit with various state insurance departments for the benefit of policyholders and other special deposits in accordance with statutory rules and regulations. As of September 30, 2018 and December 31, 2017, these required deposits, included in investment assets, had amortized costs that totaled $4,355,887 and $4,308,853, respectively. As of September 30, 2018 and December 31, 2017, these required deposits had fair values that totaled $4,238,579 and $4,307,439, respectively.

2. Investments (continued)

The Company's mortgage loans by property type as of September 30, 2018 and December 31, 2017 are summarized as follows:

	(Unaudited) September 30, 2018	December 31, 2017
Residential mortgage loans	$ 112,856,562	$ 100,700,241
Commercial mortgage loans by property type		
Apartment	696,500	-
Industrial	1,528,587	430,613
Lodging	113,160	-
Office building	1,766,622	137,703
Retail	4,544,285	1,227,894
Total commercial mortgage loans by property type	8,649,154	1,796,210
Total mortgage loans	$ 121,505,716	$ 102,496,451

There were 14 loans with a remaining principal balance of $1,049,742 that were more than 90 days past due as of September 30, 2018. There were 23 loans with a remaining principal balance of $3,094,155 that were more than 90 days past due as of December 31, 2017.

There were no mortgage loans in default and in the foreclosure process as of September 30, 2018 and December 31, 2017. The Company, however, holds $520,867 and $352,277 of previously foreclosed residential mortgage loans as residential real estate held for sale as of September 30, 2018 and December 31, 2017, respectively.

The Company's investment real estate as of September 30, 2018 and December 31, 2017 is summarized as follows:

	(Unaudited) September 30, 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	(1,304,299)	(1,195,183)
Buildings net of accumulated depreciation	963,258	1,072,374
Residential real estate - held for sale	520,867	352,277
Total residential real estate	520,867	352,277
Investment real estate, net of accumulated depreciation	$ 2,442,440	$ 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.

2. Investments (continued)

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

During 2017 the Company foreclosed on residential mortgage loans of real estate totaling $207,482 and transferred those properties to investment real estate held for sale. During 2017, the Company sold investment real estate property with an aggregate carrying value of $185,702. The Company recorded a gross realized investment gain on sale of $4,382 based on an aggregate sales price of $190,084.

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.

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

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

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

3. Fair Value Measurements (continued)

The Company's fair value hierarchy for those financial instruments measured at fair value on a recurring basis as of September 30, 2018 and December 31, 2017 is summarized as follows:

	Level 1	Level 2	Level 3	Total
	September 30, 2018 (Unaudited)			
Fixed maturity securities, available-for-sale				
U.S. government and U.S. government agencies	$ -	$ 2,870,327	$ -	$ 2,870,327
States and political subdivisions	-	9,354,633	-	9,354,633
Residential mortgage-backed securities	-	56,470	-	56,470
Corporate bonds	-	100,183,853	-	100,183,853
Asset-backed	-	255,138	-	255,138
Foreign bonds	-	20,118,597	-	20,118,597
Total fixed maturity securities	$ -	$ 132,839,018	$ -	$ 132,839,018
Preferred stock, available-for-sale	$ 98,180	$ -	$ -	$ 98,180
Equity securities				
Mutual funds	$ -	$ 76,736	$ -	$ 76,736
Corporate common stock	62,078	-	62,569	124,647
Total equity securities	$ 62,078	$ 76,736	$ 62,569	$ 201,383
	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 September 30, 2018 and December 31, 2017, Level 3 financial instruments consisted of two private placement common stocks that have no active trading and a joint venture investment with a mortgage loan originator.

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

3. Fair Value Measurements (continued)

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

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

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

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

The change in the fair value of the Company's Level 3 equity securities for the nine months ended September 30, 2018 and 2017 is summarized as follows:

	Unaudited	
	Nine Months Ended September 30,	
	2018	2017
Beginning balance	$ 61,500	$ 61,500
Purchases	10,200	-
Joint venture net income	40,746	-
Sales	(15,000)	-
Joint venture distribution	(34,877)	-
Ending balance	$ 62,569	$ 61,500

3. Fair Value Measurements (continued)

The carrying amount and fair value of the Company's financial assets and financial liabilities disclosed, but not carried, at fair value as of September 30, 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
	September 30, 2018 (Unaudited)				
Financial assets					
Mortgage loans on real estate					
Commercial	$ 8,649,154	$ 8,560,861	$ -	$ -	$ 8,560,861
Residential	112,856,562	109,871,804	-	-	109,871,804
Policy loans	1,755,270	1,755,270	-	-	1,755,270
Short-term investments	135,963	135,963	135,963	-	-
Other long-term investments	58,255,713	68,385,228	-	-	68,385,228
Cash and cash equivalents	29,913,662	29,913,662	29,913,662	-	-
Accrued investment income	2,727,777	2,727,777	-	-	2,727,777
Total financial assets	$ 214,294,101	$ 221,350,565	$ 30,049,625	$ -	$ 191,300,940
Financial liabilities					
Policyholders' account balances	$ 294,738,874	$ 241,572,894	$ -	$ -	$ 241,572,894
Policy claims	1,030,040	1,030,040	-	-	1,030,040
Total financial liabilities	$ 295,768,914	$ 242,602,934	$ -	$ -	$ 242,602,934
	December 31, 2017				
Financial assets					
Mortgage loans on real estate					
Commercial	$ 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 mortgage loans (includes apartment, industrial, lodging, office building and retail), the discount rate used was assumed to be the interest rate on the last commercial mortgage loan 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 September 30, 2018 and December 31, 2017 and for the three and nine months ended September 30, 2018 and 2017 are summarized as follows:

	Three Months Ended September 30, (Unaudited)		Nine Months Ended September 30, (Unaudited)	
	2018	2017	2018	2017
Revenues:				
Life insurance operations	$ 5,556,358	$ 4,723,138	$ 16,095,222	$ 13,321,087
Annuity operations	4,346,120	3,903,408	12,647,899	10,377,974
Corporate operations	101,313	85,738	346,865	280,664
Total	$ 10,003,791	$ 8,712,284	$ 29,089,986	$ 23,979,725
Income before income taxes:				
Life insurance operations	$ 305,976	$ 345,522	$ 605,498	$ 899,547
Annuity operations	1,522,702	1,141,492	4,013,123	1,488,848
Corporate operations	105,768	50,755	301,874	187,965
Total	$ 1,934,446	$ 1,537,769	$ 4,920,495	$ 2,576,360
Depreciation and amortization expense:				
Life insurance operations	$ 829,610	$ 858,012	$ 3,044,057	$ 1,828,933
Annuity operations	(15,587)	178,063	30,777	941,219
Total	$ 814,023	$ 1,036,075	$ 3,074,834	$ 2,770,152

	(Unaudited)	
Assets:	September 30, 2018	December 31, 2017
Life insurance operations	$ 64,870,773	$ 56,780,793
Annuity operations	343,736,487	328,727,443
Corporate operations	5,792,178	5,619,438
Total	$ 414,399,438	$ 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.

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 2015 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 September 30, 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.

During 2018, a settlement was reached by the parties and the Court approved the settlement agreement on June 11, 2018. FBLIC paid $1.85 million to resolve all class and individual claims and all active Decreasing Term to 95 policies for individuals in the class were cancelled.

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

7. Line of Credit

Through June 30, 2018, the Company had a $1.0 million line of credit with a bank executed in July 2017 to provide working capital and funds for expansion. The terms of the line of credit allowed for advances, repayments and re-borrowings through the maturity date of June 30, 2018. Any outstanding advances would have incurred 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. The Company did not utilize this line of credit during 2018 or 2017.

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

The changes in the components of the Company's accumulated other comprehensive income (loss) for the three and nine months ended September 30, 2018 and 2017 are summarized as follows:

	Unrealized Appreciation (Depreciation) on Available-For-Sale Securities	Adjustment to Deferred Acquisition Costs	Accumulated Other Comprehensive Income (loss)
	Three Months Ended September 30, 2018 and 2017 (Unaudited)		
Balance as of July 1, 2018	$ (625,159)	$ 11,114	$ (614,045)
Other comprehensive loss before reclassifications, net of tax	(566,729)	11,221	(555,508)
Less amounts reclassified from accumulated other comprehensive loss having no credit losses, net of tax	162,307	-	162,307
Other comprehensive loss	(729,036)	11,221	(717,815)
Balance as of September 30, 2018	$ (1,354,195)	$ 22,335	$ (1,331,860)
Balance as of July 1, 2017	$ 3,834,781	$ (68,664)	$ 3,766,117
Other comprehensive income before reclassifications, net of tax	562,619	(8,426)	554,193
Less amounts reclassified from accumulated other comprehensive income having no credit losses, net of tax	(2,789)	-	(2,789)
Other comprehensive income	565,408	(8,426)	556,982
Balance as of September 30, 2017	$ 4,400,189	$ (77,090)	$ 4,323,099
	Nine Months Ended September 30, 2018 and 2017 (Unaudited)		
Balance as of January 1, 2018	$ 4,843,061	$ (82,110)	$ 4,760,951
Other comprehensive loss before reclassifications, net of tax	(6,003,761)	104,445	(5,899,316)
Less amounts reclassified from accumulated other comprehensive loss having no credit losses, net of tax	193,495	-	193,495
Other comprehensive loss	(6,197,256)	104,445	(6,092,811)
Balance as of September 30, 2018	$ (1,354,195)	$ 22,335	$ (1,331,860)
Balance as of January 1, 2017	$ 831,917	$ (13,241)	$ 818,676
Other comprehensive income before reclassifications, net of tax	3,538,833	(63,849)	3,474,984
Less amounts reclassified from accumulated other comprehensive income having no credit losses, net of tax	(29,439)	-	(29,439)
Other comprehensive income	3,568,272	(63,849)	3,504,423
Balance as of September 30, 2017	$ 4,400,189	$ (77,090)	$ 4,323,099

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

The pretax components of the Company's other comprehensive income (loss) and the related income tax expense (benefit) for each component for the three and nine months ended September 30, 2018 and 2017 are summarized as follows:

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

	Three Months Ended September 30, 2017 (Unaudited)		
	Pretax	Income Tax Expense (Benefit)	Net of Tax
Other comprehensive income:			
Change in net unrealized gains on available-for-sale securities:			
Unrealized holding gains arising during the period	$ 703,274	$ 140,655	$ 562,619
Reclassification adjustment for net losses included in operations having no credit losses	(3,486)	(697)	(2,789)
Net unrealized gains on investments	706,760	141,352	565,408
Adjustment to deferred acquisition costs	(10,532)	(2,106)	(8,426)
Total other comprehensive income	$ 696,228	$ 139,246	$ 556,982

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

	Nine Months Ended September 30, 2017 (Unaudited)		
	Pretax	Income Tax Expense (Benefit)	Net of Tax
Other comprehensive income:			
Change in net unrealized gains on available-for-sale securities:			
Unrealized holding gains arising during the period	$ 4,423,541	$ 884,708	$ 3,538,833
Reclassification adjustment for net losses included in operations having no credit losses	(36,799)	(7,360)	(29,439)
Net unrealized gains on investments	4,460,340	892,068	3,568,272
Adjustment to deferred acquisition costs	(79,810)	(15,961)	(63,849)
Total other comprehensive income	$ 4,380,530	$ 876,107	$ 3,504,423

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

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

The pretax and the related income tax components of the amounts reclassified from the Company's accumulated other comprehensive income (loss) to the Company's consolidated statement of operations for the three and nine months ended September 30, 2018 and 2017 are summarized as follows:

	Three Months Ended September 30, (Unaudited)		Nine Months Ended September 30, (Unaudited)	
Reclassification Adjustments	2018	2017	2018	2017
Unrealized gains (losses) on available-for-sale securities having no credit losses:				
Realized gains (losses) on sales of securities (a)	$ 205,453	$ (3,486)	$ 244,930	$ (36,799)
Income tax expense (benefit) (b)	43,146	(697)	51,435	(7,360)
Total reclassification adjustments	$ 162,307	$ (2,789)	$ 193,495	$ (29,439)

(a) These items appear within net realized investment gains (losses) and other-than-temporary impairments in the consolidated statements of operations.

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

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

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

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

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

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

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

As of September 30, 2018, $634,817 of independent residential mortgage loans on real estate are held in escrow by a third party for the benefit of the Company. As of September 30, 2018, $430,885 of that escrow amount is available to the Company as additional collateral on $4,662,792 of advances to the loan originator. The remaining September 30, 2018 escrow amount of $203,932 is available to the Company as additional collateral on its investment of $40,786,373 in residential mortgage loans on real estate. In addition, the Company has an additional $403,898 allowance for possible loan losses in the remaining $80,719,343 of investments in mortgage loans on real estate as of September 30, 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.

The balances of and changes in the Company's credit losses related to residential and commercial (includes apartment, industrial, lodging, office building and retail) mortgage loans on real estate as of and for the three and nine months ended September 30, 2018 and 2017 are summarized as follows (excluding $40,786,373 and $32,381,460 of mortgage loans on real estate as of September 30, 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):

	Unaudited					
	Three Months Ended September 30,					
	Residential Mortgage Loans		Commercial Mortgage Loans		Total	
	2018	2017	2018	2017	2018	2017
Allowance, beginning	$ 372,352	$ 336,180	$ 37,944	$ 9,278	$ 410,296	$ 345,458
Charge offs	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-
Provision	(9,539)	4,121	3,141	(128)	(6,398)	3,993
Allowance, ending	$ 362,813	$ 340,301	$ 41,085	$ 9,150	$ 403,898	$ 349,451
Allowance, ending:						
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -
Collectively evaluated for impairment	$ 362,813	$ 340,301	$ 41,085	$ 9,150	$ 403,898	$ 349,451
Carrying Values:						
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -
Collectively evaluated for impairment	$ 72,543,552	$ 68,810,689	$ 8,175,791	$ 1,820,866	$ 80,719,343	$ 70,631,555

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

	(Unaudited) Nine Months Ended September 30,					
	Residential Mortgage Loans		Commercial Mortgage Loans		Total	
	2018	2017	2018	2017	2018	2017
Allowance, beginning	$ 333,789	$ 238,121	$ 9,026	$ 6,306	$ 342,815	$ 244,427
Charge offs	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-
Provision	29,024	102,180	32,059	2,844	61,083	105,024
Allowance, ending	$ 362,813	$ 340,301	$ 41,085	$ 9,150	$ 403,898	$ 349,451
Allowance, ending:						
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -
Collectively evaluated for impairment	$ 362,813	$ 340,301	$ 41,085	$ 9,150	$ 403,898	$ 349,451
Carrying Values:						
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -
Collectively evaluated for impairment	$ 72,543,552	$ 68,810,689	$ 8,175,791	$ 1,820,866	$ 80,719,343	$ 70,631,555

The Company utilizes the ratio of the carrying value of individual mortgage loans compared to the individual appraisal value to evaluate the credit quality of its mortgage loans on real estate (commonly referred to as the loan-to-value ratio). The Company's residential and commercial (includes apartment, industrial, lodging, office building and retail) mortgage loans on real estate by credit quality using this ratio as of September 30, 2018 and December 31, 2017 are summarized as follows:

	Residential Mortgage Loans		Commercial Mortgage Loans		Total Mortgage Loans	
	(Unaudited)		(Unaudited)		(Unaudited)	
Loan-To-Value Ratio	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017
Over 70% to 80%	$ 21,785,852	$ 19,515,632	$ 588,028	$ -	$ 22,373,880	$ 19,515,632
Over 60% to 70%	40,666,684	36,192,035	1,792,207	-	42,458,891	36,192,035
Over 50% to 60%	24,660,854	25,121,248	757,229	835,093	25,418,083	25,956,341
Over 40% to 50%	15,482,145	12,923,381	2,040,413	-	17,522,558	12,923,381
Over 30% to 40%	4,305,553	4,303,273	2,363,418	658,296	6,668,971	4,961,569
Over 20% to 30%	2,654,072	1,867,670	967,801	159,671	3,621,873	2,027,341
Over 10% to 20%	2,426,480	727,245	140,058	143,150	2,566,538	870,395
10% or less	874,922	49,757	-	-	874,922	49,757
Total	$ 112,856,562	$ 100,700,241	$ 8,649,154	$ 1,796,210	$ 121,505,716	$ 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.

Coinsurance

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

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

Critical Accounting Policies and Estimates

The discussion and analysis of our financial condition, results of operations and liquidity and capital resources is based on our consolidated financial statements that have been prepared in accordance with U.S. GAAP. Preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses. We evaluate our estimates and assumptions continually, including those related to investments, deferred acquisition costs, allowance for loan losses from mortgages, value of insurance business acquired, policy liabilities, regulatory requirements, contingencies and litigation. We base our estimates on historical experience and on various other factors and assumptions that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

For a description of the Company's critical accounting policies and estimates, please refer to "Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies and Estimates" in the Company's Annual Report on Form 10-K for the year ended December 31, 2017. The Company considers its most critical accounting estimates to be those applied to investments in fixed maturities, mortgage loans on real estate, deferred policy acquisition costs, value of insurance business acquired and future policy benefits. There have been no material changes to the Company's critical accounting policies and estimates since December 31, 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 may be applied using a modified retrospective approach effective for annual and interim periods beginning after December 15, 2018. In July 2018, the FASB issued updated guidance (Accounting Standards Update 2018-11) that provides entities with an additional (and optional) transition method to adopt the new standard on leases. Under this new transition method, an entity initially applies the new standard on leases at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. Consequently, an entity's reporting for the comparative periods presented in the financial statements in which it adopts the new standard on leases will continue to be in accordance with current GAAP (Topic 840, Leases). An entity that elects this additional (and optional) transition method must provide the required Topic 840 disclosures for all periods that continue to be in accordance with Topic 840. The Company expects to adopt this guidance in January 2019. 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.

Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract

In August 2018, the FASB issued updated guidance to align the accounting for implementation costs incurred in a software hosting arrangement (i.e., a cloud computing arrangement) that is a service contract with the guidance for capitalizing implementation costs incurred to develop or obtain internal-use software. Accordingly, the updated guidance requires an entity to determine the stage of a project that the implementation activity relates to and the nature of the associated costs in order to determine whether those costs should be expensed as incurred or capitalized. The updated guidance also requires the entity to amortize the capitalized implementation costs as an expense over the term of the hosting arrangement.

The updated guidance is effective for reporting periods beginning after December 15, 2019. 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.

Targeted Improvements to the Accounting for Long-Duration Contracts

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

The updated guidance is effective for reporting periods beginning after December 15, 2020. Early adoption is permitted. With respect to the liability for future policyholder benefits for traditional and limited-payment contracts and deferred acquisition costs, an insurance entity may elect to apply the amendments retrospectively as of the beginning of the earliest period presented. With respect to the market risk benefits, an insurance entity should apply the amendments retrospectively as of the beginning of the earliest period presented. Based on the long-duration contracts 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 long-term contracts held by the Company and the economic conditions at that time.

Business Segments

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

Our business segments are as follows:

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

Please see below and Note 4 to the Consolidated Financial Statements for the three and nine months ended September 30, 2018 and 2017 and as of September 30, 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 September 30, 2018 and 2017

	(Unaudited) Three Months Ended September 30, 2018	2017	Amount Change 2018 less 2017
Premiums	$ 4,701,250	$ 4,058,629	$ 642,621
Net investment income	4,979,031	4,631,892	347,139
Net realized investment gains (losses)	245,059	(3,486)	248,545
Service fees	66,474	3,560	62,914
Other income	11,977	21,689	(9,712)
Total revenues	10,003,791	8,712,284	1,291,507
Benefits and claims	5,193,186	5,150,753	42,433
Expenses	2,876,159	2,023,762	852,397
Total benefits, claims and expenses	8,069,345	7,174,515	894,830
Income before federal income tax expense	1,934,446	1,537,769	396,677
Federal income tax expense	409,687	293,117	116,570
Net income	$ 1,524,759	$ 1,244,652	$ 280,107
Net income per common share basic and diluted	$ 0.20	$ 0.16	$ 0.04

Consolidated Condensed Results of Operations for the Nine Months Ended September 30, 2018 and 2017

	(Unaudited) Nine Months Ended September 30, 2018	2017	Amount Change 2018 less 2017
Premiums	$ 13,760,857	$ 11,560,664	$ 2,200,193
Net investment income	14,701,414	12,296,827	2,404,587
Net realized investment gains	269,531	254,108	15,423
Loss on other-than-temporary impairment	-	(224,250)	224,250
Service fees	300,035	10,849	289,186
Other income	58,149	81,527	(23,378)
Total revenues	29,089,986	23,979,725	5,110,261
Benefits and claims	16,452,992	14,926,638	1,526,354
Expenses	7,716,499	6,476,727	1,239,772
Total benefits, claims and expenses	24,169,491	21,403,365	2,766,126
Income before federal income tax expense	4,920,495	2,576,360	2,344,135
Federal income tax expense	1,055,978	520,186	535,792
Net income	$ 3,864,517	$ 2,056,174	$ 1,808,343
Net income per common share basic and diluted	$ 0.50	$ 0.26	$ 0.24

Consolidated Condensed Financial Position as of September 30, 2018 and December 31, 2017

	(Unaudited) September 30, 2018	December 31, 2017	Amount Change 2018 to 2017
Investment assets	$ 317,233,683	$ 313,257,430	$ 3,976,253
Other assets	97,165,755	77,870,244	19,295,511
Total assets	$ 414,399,438	$ 391,127,674	$ 23,271,764
Policy liabilities	$ 350,154,147	$ 343,789,864	$ 6,364,283
Funds withheld under coinsurance agreement	18,720,257	-	18,720,257
Deferred federal income taxes	2,398,299	2,961,929	(563,630)
Other liabilities	4,034,342	3,123,702	910,640
Total liabilities	375,307,045	349,875,495	25,431,550
Shareholders' equity	39,092,393	41,252,179	(2,159,786)
Total liabilities and shareholders' equity	$ 414,399,438	$ 391,127,674	$ 23,271,764
Shareholders' equity per common share	$ 5.01	$ 5.29	$ (0.28)

Results of Operations – Three Months Ended September 30, 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 September 30, 2018 and 2017 are summarized as follows:

	(Unaudited) Three Months Ended September 30, 2018	2017	Amount Change 2018 less 2017
Premiums	$ 4,701,250	$ 4,058,629	$ 642,621
Net investment income	4,979,031	4,631,892	347,139
Net realized investment gains (losses)	245,059	(3,486)	248,545
Service fees	66,474	3,560	62,914
Other income	11,977	21,689	(9,712)
Total revenues	$ 10,003,791	$ 8,712,284	$ 1,291,507

The $1,291,507 increase in total revenues for the three months ended September 30, 2018 is discussed below.

Premiums

Our premiums for the three months ended September 30, 2018 and 2017 are summarized as follows:

	(Unaudited) Three Months Ended September 30, 2018	(Unaudited) Three Months Ended September 30, 2017	Amount Change 2018 less 2017
Whole life and term first year	$ 66,365	$ 43,122	$ 23,243
Whole life and term renewal	479,931	557,335	(77,404)
Final expense first year	1,081,968	1,215,515	(133,547)
Final expense renewal	3,013,248	2,242,657	770,591
Supplementary contracts with life contingencies	59,738	-	59,738
Total premiums	$ 4,701,250	$ 4,058,629	$ 642,621

The $642,621 increase in premiums for the three months ended September 30, 2018 is primarily due to a $770,591 increase in final expense renewal premiums that exceeded a $133,547 decrease in final expense first year premiums.

The increase in final expense renewal premiums reflects the persistency of prior years' final expense production. The decrease in final expense first year premium reflects increased competition from our competitors. Our marketing efforts are focused on final expense and annuity production.

Net Investment Income

The major components of our net investment income for the three months ended September 30, 2018 and 2017 are summarized as follows:

	(Unaudited) Three Months Ended September 30, 2018	(Unaudited) Three Months Ended September 30, 2017	Amount Change 2018 less 2017
Fixed maturity securities	$ 1,492,224	$ 1,731,931	$ (239,707)
Preferred stock and equity securities	24,280	4,382	19,898
Other long-term investments	995,100	967,959	27,141
Mortgage loans	2,877,910	2,431,884	446,026
Policy loans	31,055	28,640	2,415
Real estate	94,102	93,943	159
Short-term and other investments	92,711	20,227	72,484
Gross investment income	5,607,382	5,278,966	328,416
Investment expenses	(628,351)	(647,074)	(18,723)
Net investment income	$ 4,979,031	$ 4,631,892	$ 347,139

The $328,416 increase in gross investment income for the three months ended September 30, 2018 is primarily due to increased investments in mortgage loans that exceeded decreased investments in fixed maturity securities. In the twelve months since September 30, 2017, we had increased investments in mortgage loans of $18.5 million and decreased investments in fixed maturity securities of $15.2 million.

Net Realized Investment Gains (Losses)

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

Our net realized investment gains for the three months ended September 30, 2018 and 2017 are summarized as follows:

	(Unaudited) Three Months Ended September 30,		Amount Change
	2018	2017	2018 less 2017
Fixed maturity securities available-for-sale:			
Sale proceeds	$ 12,320,142	$ 4,536,924	$ 7,783,218
Amortized cost at sale date	12,114,689	4,540,410	7,574,279
Net realized gains (losses)	$ 205,453	$ (3,486)	$ 208,939
Equity securities at fair value:			
Sale proceeds	$ 346,535	$ -	$ 346,535
Cost at sale date	320,910	-	320,910
Net realized gains	$ 25,625	$ -	$ 25,625
Investment real estate:			
Sale proceeds	$ 206,617	$ -	$ 206,617
Carrying value at sale date	153,646	-	153,646
Net realized gains	$ 52,971	$ -	$ 52,971
Equity securities, changes in fair value	$ (38,990)	$ -	$ (38,990)
Net realized investment gains (losses)	$ 245,059	$ (3,486)	$ 248,545

The Company has recorded other-than-temporary impairments on its fixed maturity available-for-sale investment in an energy corporation with a total par value of $650,000 as a result of continuing unrealized losses. During fourth quarter 2016 this security was initially impaired by a $207,450 charge to the statement of operations. During second quarter 2017 this security was further impaired by a $224,250 charge to the statement of operations. These impairments were considered fully credit-related and represent the difference between the amortized cost basis of the security and its fair value. The Company experienced no additional other-than-temporary impairments on fixed maturity available-for-sale securities for the three months ended September 30, 2018 and the year ended December 31, 2017.

Total Benefits, Claims and Expenses

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

Our benefits, claims and expenses for the three months ended September 30, 2018 and 2017 are summarized as follows:

	(Unaudited) Three Months Ended September 30,		Amount Change
	2018	2017	2018 less 2017
Benefits and claims			
Increase in future policy benefits	$ 1,719,073	$ 1,291,943	$ 427,130
Death benefits	876,629	1,310,697	(434,068)
Surrenders	203,287	186,202	17,085
Interest credited to policyholders	2,329,858	2,293,419	36,439
Dividend, endowment and supplementary life contract benefits	64,339	68,492	(4,153)
Total benefits and claims	5,193,186	5,150,753	42,433
Expenses			
Policy acquisition costs deferred	(1,673,638)	(2,369,432)	695,794
Amortization of deferred policy acquisition costs	682,295	890,135	(207,840)
Amortization of value of insurance business acquired	83,935	88,625	(4,690)
Commissions	1,934,194	2,051,910	(117,716)
Other underwriting, insurance and acquisition expenses	1,849,373	1,362,524	486,849
Total expenses	2,876,159	2,023,762	852,397
Total benefits, claims and expenses	$ 8,069,345	$ 7,174,515	$ 894,830

The $894,830 increase in total benefits, claims and expenses for the three months ended September 30, 2018 is discussed below.

Benefits and Claims

The $42,433 increase in benefits and claims for the three months ended September 30, 2018 is primarily due to the following:

- $427,130 increase in future policy benefits is primarily due to the increased number of life policies in force and the aging of existing life policies.

- $434,068 decrease in death benefits is primarily due to approximately $210,000 of decreased final expense settlements, $171,000 of decreased ordinary life settlements, $44,000 of increased ceded claims in the course of settlement and $21,000 of increased ceded claims.

Deferral and Amortization of Deferred Acquisition Costs

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

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

For the three months ended September 30, 2018 and 2017, capitalized costs were $1,673,638 and $2,369,432, respectively. Amortization of deferred policy acquisition costs for the three months ended September 30, 2018 and 2017 were $682,295 and $890,135, respectively.

The $695,794 decrease in the 2018 acquisition costs deferred primarily relates to decreased annuity and first year final expense production resulting in decreased annuity and first year final expense commissions available for deferral. The $207,840 decrease in the 2018 amortization of deferred acquisition costs is primarily due to decreased death benefits.

Amortization of Value of Insurance Business Acquired

The cost of acquiring insurance business is amortized over the emerging profit of the related policies using the same assumptions that were used in computing liabilities for future policy benefits. Amortization of the value of insurance business acquired was $83,935 and $88,625 for the three months ended September 30, 2018 and 2017, respectively.

Commissions

Our commissions for the three months ended September 30, 2018 and 2017 are summarized as follows:

	(Unaudited) Three Months Ended September 30, 2018	(Unaudited) Three Months Ended September 30, 2017	Amount Change 2018 less 2017
Annuity	$ 266,812	$ 325,415	$ (58,603)
Whole life and term first year	60,317	37,637	22,680
Whole life and term renewal	13,513	19,890	(6,377)
Final expense first year	1,297,176	1,453,356	(156,180)
Final expense renewal	296,376	215,612	80,764
Total commissions	$ 1,934,194	$ 2,051,910	$ (117,716)

The $117,716 decrease in commissions for the three months ended September 30, 2018 is primarily due to a $156,180 decrease in final expense first year commissions (corresponding to a $133,547 decrease in first year final expense premiums) and a $58,603 decrease in annuity commissions (corresponding to a $2,259,211 decrease in annuity considerations net of coinsurance) that exceeded an $80,764 increase in final expense renewal commissions (corresponding to a $770,591 increase in final expense renewal premiums).

Other Underwriting, Insurance and Acquisition Expenses

The $486,849 increase in other underwriting, insurance and acquisition expenses for the three months ended September 30, 2018 was primarily related to increased salaries and benefits due to profit bonus paid to the Company's executive officer and increased use of consultants for new business initiatives that exceeded a decrease in legal fees due to the settlement of the Decreasing Term to 95 lawsuit.

Federal Income Taxes

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

Certain items included in income reported for financial statement purposes are not included in taxable income for the current period, resulting in deferred income taxes.

For the three months ended September 30, 2017, current income tax benefit was $1,320. For the three months ended September 30, 2018 and 2017, deferred federal income tax expense was $409,687 and $294,437, respectively.

Net Income Per Common Share Basic and Diluted

Net income was $1,524,759 ($0.20 per common share basic and diluted) and $1,244,652 ($0.16 per common share basic and diluted) for the three months ended September 30, 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 period. The weighted average outstanding and subscribed common shares basic and diluted for the three months ended September 30, 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 September 30, 2018 and 2017 are summarized as follows:

	(Unaudited) Three Months Ended September 30,		Amount Change
	2018	2017	2018 less 2017
Revenues:			
Life insurance operations	$ 5,556,358	$ 4,723,138	$ 833,220
Annuity operations	4,346,120	3,903,408	442,712
Corporate operations	101,313	85,738	15,575
Total	$ 10,003,791	$ 8,712,284	$ 1,291,507
Income before federal income taxes:			
Life insurance operations	$ 305,976	$ 345,522	$ (39,546)
Annuity operations	1,522,702	1,141,492	381,210
Corporate operations	105,768	50,755	55,013
Total	$ 1,934,446	$ 1,537,769	$ 396,677

Life Insurance Operations

The $833,220 increase in revenues from Life Insurance Operations for the three months ended September 30, 2018 is primarily due to the following:

- $642,621 increase in premiums
- $147,440 increase in net investment income
- $43,817 increase in net realized investment gains
- $658 decrease in service fees and other income

The $39,546 decreased profitability from Life Insurance Operations for the three months ended September 30, 2018 is primarily due to the following:

- $472,766 decrease in policy acquisition costs deferred net of amortization
- $455,464 increase in other underwriting, insurance and acquisition expenses
- $427,130 increase in future policy benefits
- $17,085 increase in surrenders
- $658 decrease in service fees and other income
- $2,345 decrease in amortization of value of insurance business acquired
- $4,153 decrease in dividend, endowment and supplementary life contract benefits
- $43,817 increase in net realized investment gains
- $59,113 decrease in commissions
- $147,440 increase in net investment income
- $434,068 decrease in death benefits
- $642,621 increase in premiums

Annuity Operations

The $442,712 increase in revenues from Annuity Operations for the three months ended September 30, 2018 is due to the following:

- $204,728 increase in net realized investment gains
- $174,757 increase in net investment income
- $63,227 increase in service fees and other income

The $381,210 increased profitability from Annuity Operations for the three months ended September 30, 2018 is due to the following:

- $204,728 increase in net realized investment gains
- $174,757 increase in net investment income
- $63,227 increase in service fees and other income
- $58,603 decrease in commissions
- $2,345 decrease in amortization of value of insurance business acquired
- $36,439 increase in interest credited to policyholders
- $15,188 decrease in policy acquisition costs deferred net of amortization
- $70,823 increase in other underwriting, insurance and acquisition expenses

Corporate Operations

The $15,575 increase in revenues from Corporate Operations for the three months ended September 30, 2018 is due to $24,942 of increased net investment income and $9,367 of decreased service fees and other income.

The $55,013 increase in Corporate Operations profitability for the three months ended September 30, 2018 is primarily due to $39,438 of decreased operating expenses and $24,942 of increased net investment income that exceeded $9,367 of decreased service fees and other income.

Results of Operations – Nine Months Ended September 30, 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 nine months ended September 30, 2018 and 2017 are summarized as follows:

	(Unaudited) Nine Months Ended September 30,		Amount Change
	2018	2017	2018 less 2017
Premiums	$ 13,760,857	$ 11,560,664	$ 2,200,193
Net investment income	14,701,414	12,296,827	2,404,587
Net realized investment gains	269,531	254,108	15,423
Loss on other-than-temporary impairment	-	(224,250)	224,250
Service fees	300,035	10,849	289,186
Other income	58,149	81,527	(23,378)
Total revenues	$ 29,089,986	$ 23,979,725	$ 5,110,261

The $5,110,261 increase in total revenues for the nine months ended September 30, 2018 is discussed below.

Premiums

Our premiums for the nine months ended September 30, 2018 and 2017 are summarized as follows:

	(Unaudited) Nine Months Ended September 30, 2018	(Unaudited) Nine Months Ended September 30, 2017	Amount Change 2018 less 2017
Whole life and term first year	$ 175,105	$ 125,009	$ 50,096
Whole life and term renewal	1,574,714	1,718,302	(143,588)
Final expense first year	3,349,181	3,496,902	(147,721)
Final expense renewal	8,515,909	6,213,881	2,302,028
Supplementary contracts with life contingencies	145,948	6,570	139,378
Total premiums	$ 13,760,857	$ 11,560,664	$ 2,200,193

The $2,200,193 increase in premiums for the nine months ended September 30, 2018 is primarily due to the a $2,302,028 increase in final expense renewal premiums and $139,378 increase in considerations for supplementary contracts with life contingencies that exceeded the $147,721 decrease in final expense first year premiums and a $143,588 decrease in whole life and term renewal premiums.

The increase in final expense renewal premiums reflects the persistency of prior years' final expense production. The decrease in final expense first year premium reflects increased competition from our competitors. Our marketing efforts are focused on final expense and annuity production and we have not been focused on whole life and term production the past few years. The increase in supplementary contracts with life contingencies reflects policyholder decisions to receive future payment streams during their remaining life instead of a lump sum payment.

Net Investment Income

The major components of our net investment income for the nine months ended September 30, 2018 and 2017 are summarized as follows:

	(Unaudited) Nine Months Ended September 30, 2018	(Unaudited) Nine Months Ended September 30, 2017	Amount Change 2018 less 2017
Fixed maturity securities	$ 4,792,648	$ 4,887,826	$ (95,178)
Preferred stock and equity securities	57,397	14,540	42,857
Other long-term investments	2,974,163	2,707,438	266,725
Mortgage loans	8,253,828	6,101,462	2,152,366
Policy loans	90,480	84,657	5,823
Real estate	282,108	281,366	742
Short-term and other investments	160,392	117,764	42,628
Gross investment income	16,611,016	14,195,053	2,415,963
Investment expenses	(1,909,602)	(1,898,226)	11,376
Net investment income	$ 14,701,414	$ 12,296,827	$ 2,404,587

The $2,415,963 increase in gross investment income for the nine months ended September 30, 2018 is primarily due to increases in investments in mortgage loans and other long-term investments that exceeded fixed maturity securities. In the twelve months since September 30, 2017, our investments in mortgage loans have increased approximately $18.5 million, other long term investments have increased approximately $0.6 million and fixed maturity securities decreased approximately $15.2 million.

Net Realized Investment Gains

Our net realized investment gains result from sales of fixed maturity securities available-for-sale, equity securities at fair value, investment real estate, other long-term investments and changes in fair value of equity securities.

Our net realized investment gains for the nine months ended September 30, 2018 and 2017 are summarized as follows:

	(Unaudited) Nine Months Ended September 30, 2018	(Unaudited) Nine Months Ended September 30, 2017	Amount Change 2018 less 2017
Fixed maturity securities available-for-sale:			
Sale proceeds	$ 20,809,074	$ 17,140,173	$ 3,668,901
Amortized cost at sale date	20,564,144	16,952,722	3,611,422
Net realized gains	$ 244,930	$ 187,451	$ 57,479
Equity securities at fair value:			
Sale proceeds	$ 361,947	$ -	$ 361,947
Cost at sale date	336,215	-	336,215
Net realized gains	$ 25,732	$ -	$ 25,732
Investment real estate:			
Sale proceeds	$ 261,470	$ 190,084	$ 71,386
Carrying value at sale date	209,821	185,702	24,119
Net realized gains (losses)	$ 51,649	$ 4,382	$ 47,267
Other long-term investments			
Sale proceeds	$ -	$ 792,012	$ (792,012)
Carrying value at sale date	-	729,737	(729,737)
Net realized gains	$ -	$ 62,275	$ (62,275)
Equity securities, changes in fair value	$ (52,780)	$ -	$ (52,780)
Net realized investment gains	$ 269,531	$ 254,108	$ 15,423

The Company has recorded other-than-temporary impairments on its fixed maturity available-for-sale investment in an energy corporation with a total par value of $650,000 as a result of continuing unrealized losses. During fourth quarter 2016 this security was initially impaired by a $207,450 charge to the statement of operations. During second quarter 2017 this security was further impaired by a $224,250 charge to the statement of operations. These impairments were considered fully credit-related and represent the difference between the amortized cost basis of the security and its fair value. The Company experienced no additional other-than-temporary impairments on fixed maturity available-for-sale securities for the nine months ended September 30, 2018 and the year ended December 31, 2017.

Total Benefits, Claims and Expenses

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

Our benefits, claims and expenses for the nine months ended September 30, 2018 and 2017 are summarized as follows:

	(Unaudited) Nine Months Ended September 30,		Amount Change
	2018	2017	2018 less 2017
Benefits and claims			
Increase in future policy benefits	$ 4,684,724	$ 3,733,907	$ 950,817
Death benefits	3,963,815	3,744,278	219,537
Surrenders	666,128	717,790	(51,662)
Interest credited to policyholders	6,941,291	6,530,403	410,888
Dividend, endowment and supplementary life contract benefits	197,034	200,260	(3,226)
Total benefits and claims	16,452,992	14,926,638	1,526,354
Expenses			
Policy acquisition costs deferred	(6,162,096)	(7,370,469)	1,208,373
Amortization of deferred policy acquisition costs	2,677,918	2,318,277	359,641
Amortization of value of insurance business acquired	255,424	298,089	(42,665)
Commissions	5,963,852	6,641,883	(678,031)
Other underwriting, insurance and acquisition expenses	4,981,401	4,588,947	392,454
Total expenses	7,716,499	6,476,727	1,239,772
Total benefits, claims and expenses	$ 24,169,491	$ 21,403,365	$ 2,766,126

The $2,766,126 increase in total benefits, claims and expenses for the nine months ended September 30, 2018 is discussed below.

Benefits and Claims

The $1,526,354 increase in benefits and claims for the nine months ended September 30, 2018 is primarily due to the following:

- $950,817 increase in future policy benefits is primarily due to the increased number of life policies in force and the aging of existing life policies.

- $410,888 increase in interest credited to policyholders is primarily due to an increase in the crediting rate on new annuity production and an increase of approximately $2.6 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 September 30, 2017.

- $219,537 increase in death benefits is primarily due to approximately $706,000 of increased final expense settlements that exceeded $351,000 of decreased ordinary life settlements, $119,000 of increased ceded claims and $16,000 of decreased assumed claims.

Deferral and Amortization of Deferred Acquisition Costs

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

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

For the nine months ended September 30, 2018 and 2017, capitalized costs were $6,162,096 and $7,370,469, respectively. Amortization of deferred policy acquisition costs for the nine months ended September 30, 2018 and 2017 were $2,677,918 and $2,318,277, respectively.

The $1,208,373 decrease in the 2018 acquisition costs deferred primarily relates to decreased annuity and first year final expense production resulting in decreased annuity and first year final expense commissions available for deferral. The $359,641 increase in the 2018 amortization of deferred acquisition costs is primarily due to increased death benefits.

Amortization of Value of Insurance Business Acquired

The cost of acquiring insurance business is amortized over the emerging profit of the related policies using the same assumptions that were used in computing liabilities for future policy benefits. Amortization of the value of insurance business acquired was $255,424 and $298,089 for the nine months ended September 30, 2018 and 2017, respectively.

Commissions

Our commissions for the nine months ended September 30, 2018 and 2017 are summarized as follows:

	(Unaudited) Nine Months Ended September 30, 2018	(Unaudited) Nine Months Ended September 30, 2017	Amount Change 2018 less 2017
Annuity	$ 909,591	$ 1,697,220	$ (787,629)
Whole life and term first year	160,536	110,426	50,110
Whole life and term renewal	46,150	61,762	(15,612)
Final expense first year	4,011,656	4,181,772	(170,116)
Final expense renewal	835,919	590,703	245,216
Total commissions	$ 5,963,852	$ 6,641,883	$ (678,031)

The $678,031 decrease in commissions for the nine months ended September 30, 2018 is primarily due to a $787,629 decrease in annuity commissions (due to a $38,099,528 decline in annuity considerations net of coinsurance) and a $170,116 decrease in final expense first year commissions (due to a $147,721 decline in final expense first year premiums) that exceeded a $245,216 increase in final expense renewal commissions (due to a $2,302,028 increase in final expense renewal premiums).

Other Underwriting, Insurance and Acquisition Expenses

The $392,454 increase in other underwriting, insurance and acquisition expenses for the nine months ended September 30, 2018 was primarily related to increased use of consultants for new business initiatives, increased third party administration fees primarily related to the increased number of policies in force and increased service requests, increased salaries and benefits due to increased salaries and profit bonus paid to the Company’s executive officer that exceeded a decrease in legal fees due to the settlement of the Decreasing Term to 95 lawsuit.

Federal Income Taxes

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

Certain items included in income reported for financial statement purposes are not included in taxable income for the current period, resulting in deferred income taxes.

For the nine months ended September 30, 2017, current income tax expense was $18,589. Deferred federal income tax expense was $1,055,978 and $501,597 for the nine months ended September 30, 2018 and 2017, respectively. The $554,381 increase in deferred income taxes is primarily due to the $1,850,000 lawsuit settlement payment during 2018 and the corresponding $388,500 increase in deferred tax expense.

Net Income Per Common Share Basic and Diluted

Net income was $3,864,517 ($0.50 per common share basic and diluted) and $2,056,174 ($0.26 per common share basic and diluted) for the nine months ended September 30, 2018 and 2017, respectively.

Net income per common share basic and diluted is calculated using the weighted average number of common shares outstanding and subscribed during the period. The weighted average outstanding and subscribed common shares basic and diluted for both the nine months ended September 30, 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 nine months ended September 30, 2018 and 2017 are summarized as follows:

	(Unaudited) Nine Months Ended September 30,		Amount Change
	2018	2017	2018 less 2017
Revenues:			
Life insurance operations	$ 16,095,222	$ 13,321,087	$ 2,774,135
Annuity operations	12,647,899	10,377,974	2,269,925
Corporate operations	346,865	280,664	66,201
Total	$ 29,089,986	$ 23,979,725	$ 5,110,261
Income before income taxes:			
Life insurance operations	$ 605,498	$ 899,547	$ (294,049)
Annuity operations	4,013,123	1,488,848	2,524,275
Corporate operations	301,874	187,965	113,909
Total	$ 4,920,495	$ 2,576,360	$ 2,344,135

Life Insurance Operations

The $2,774,135 increase in revenues from Life Insurance Operations for the nine months ended September 30, 2018 is primarily due to the following:

- $2,200,193 increase in premiums
- $534,727 increase in net investment income
- $38,569 increase in net realized investment gains (that also includes a loss on other-than-temporary impairment)
- $646 increase in service fees and other income

The $294,049 decreased profitability from Life Insurance Operations for the nine months ended September 30, 2018 is primarily due to the following:

- $1,223,164 increase in other underwriting, insurance and acquisition expenses
- $950,817 increase in future policy benefits
- $641,288 decrease in policy acquisition costs deferred net of amortization
- $219,537 increase in death benefits
- $109,598 increase in commissions
- $646 increase in service fees and other income
- $3,226 decrease in dividend, endowment and supplementary life contract benefits
- $21,332 decrease in amortization of value of insurance business acquired
- $38,569 increase in net realized investment gains (that also includes a loss on other-than-temporary impairment)
- $51,662 decrease in surrenders
- $534,727 increase in net investment income
- $2,200,193 increase in premiums

Annuity Operations

The $2,269,925 increase in revenues from Annuity Operations for the nine months ended September 30, 2018 is due to the following:

- $1,778,770 increase in net investment income
- $290,051 increase in service fees and other income
- $201,104 increase in net realized investment gains (that also includes a loss on other-than-temporary impairment)

The $2,524,275 increased profitability from Annuity Operations for the nine months ended September 30, 2018 is due to the following:

- $1,778,770 increase in net investment income
- $787,629 decrease in commission
- $783,002 decrease in other underwriting, insurance and acquisition expenses
- $290,051 increase in service fees and other income
- $201,104 increase in net realized investment gains (that also includes a loss on other-than-temporary impairment)
- $21,333 decrease in amortization of value of insurance business acquired
- $410,888 increase in interest credited to policyholders
- $926,726 decrease in policy acquisition costs deferred net of amortization

Corporate Operations

The $66,201 increase in revenues from Corporate Operations for the nine months ended September 30, 2018 is primarily due to $91,090 of increased net investment income that exceeded $24,889 of decreased service fees and other income.

The $113,909 increased Corporate Operations profitability for the nine months ended September 30, 2018 is primarily due to $91,090 of increased net investment income and $47,708 of decreased operating expenses that exceeded $24,889 of decreased service fees and other income.

Consolidated Financial Condition

Our invested assets as of September 30, 2018 and December 31, 2017 are summarized as follows:

	(Unaudited) September 30, 2018	December 31, 2017	Amount Change 2018 less 2017
Assets			
Investments			
Available-for-sale fixed maturity securities at fair value (amortized cost: $134,551,407 and $143,621,947 as of September 30, 2018 and December 31, 2017, respectively)	$ 132,839,018	$ 149,683,139	$ (16,844,121)
Available-for-sale preferred stock at fair value (cost: $99,945 as of September 30, 2018 and December 31, 2017)	98,180	100,720	(2,540)
Equity securities (available-for-sale 2017) at fair value (cost: $185,655 and $502,919 as of September 30, 2018 and December 31, 2017, respectively)	201,383	571,427	(370,044)
Mortgage loans on real estate	121,505,716	102,496,451	19,009,265
Investment real estate	2,442,440	2,382,966	59,474
Policy loans	1,755,270	1,660,175	95,095
Short-term investments	135,963	547,969	(412,006)
Other long-term investments	58,255,713	55,814,583	2,441,130
Total investments	$ 317,233,683	$ 313,257,430	$ 3,976,253

The $16,844,121 decrease and $18,731,633 increase in fixed maturity available-for-sale securities for the nine months ended September 30, 2018 and 2017, respectively, are summarized as follows:

	(Unaudited)	
	Nine Months Ended September 30,	
	2018	2017
Fixed maturity securities, available-for-sale, beginning	$ 149,683,139	$ 129,311,155
Purchases	11,958,357	32,830,057
Unrealized appreciation (depreciation)	(7,773,581)	4,429,221
Net realized investment gains (losses)	244,930	(36,799)
Sales proceeds	(15,933,074)	(10,378,173)
Maturities	(4,876,000)	(6,762,000)
Transfer to other long-term investments	-	(729,737)
Premium amortization	(464,753)	(620,936)
Increase (decrease)	(16,844,121)	18,731,633
Fixed maturity securities, available-for-sale, ending	$ 132,839,018	$ 148,042,788

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, asset-backed securities and foreign securities.

The $2,540 decrease and $5,660 increase in preferred stock available-for-sale for the nine months ended September 30, 2018 and 2017, respectively, are summarized as follows:

	(Unaudited)	
	Nine Months Ended September 30,	
	2018	2017
Preferred stock, available-for-sale, beginning	$ 100,720	$ 96,360
Unrealized appreciation (depreciation)	(2,540)	5,660
Increase (decrease)	(2,540)	5,660
Preferred stock, available-for-sale, ending	$ 98,180	$ 102,020

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

The $370,044 decrease and $28,291 increase in equity securities for the nine months ended September 30, 2018 and 2017, respectively, are summarized as follows:

	(Unaudited) Nine Months Ended September 30, 2018	2017
Equity securities, beginning	$ 571,427	$ 542,047
Purchases	53,828	2,832
Sales proceeds	(361,947)	-
Joint venture distribution	(34,877)	-
Unrealized appreciation	-	25,459
Net realized investment gains sale of securities	25,732	-
Net realized investment losses, changes in fair value	(52,780)	-
Increase (decrease)	(370,044)	28,291
Equity securities, ending	$ 201,383	$ 570,338

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 $19,009,265 and $28,641,729 increases in mortgage loans on real estate for the nine months ended September 30, 2018 and 2017, respectively, are summarized as follows:

	(Unaudited) Nine Months Ended September 30, 2018	2017
Mortgage loans on real estate, beginning	$ 102,496,451	$ 74,371,286
Purchases	47,077,889	44,857,137
Discount accretion	437,832	206,161
Payments	(28,034,586)	(16,129,739)
Foreclosed - transfer to real estate	(378,411)	(142,455)
Increase in allowance for bad debts	(61,083)	(105,024)
Amortization of loan origination fees	(32,376)	(44,351)
Increase	19,009,265	28,641,729
Mortgage loans on real estate, ending	$ 121,505,716	$ 103,013,015

The $59,474 increase and $152,362 decrease in investment real estate for the nine months ended September 30, 2018 and 2017, respectively, are summarized as follows:

	(Unaudited) Nine Months Ended September 30, 2018	2017
Investment real estate, beginning	$ 2,382,966	$ 2,506,673
Real estate acquired through mortgage loan foreclosure	378,411	142,455
Sales proceeds	(261,470)	(190,084)
Depreciation of building	(109,116)	(109,115)
Net realized investment gains	51,649	4,382
Increase (decrease)	59,474	(152,362)
Investment real estate, ending	$ 2,442,440	$ 2,354,311

The $2,441,130 and $10,886,532 increases in other long-term investments (composed of lottery receivables) for the nine months ended September 30, 2018 and 2017, respectively, are summarized as follows:

	(Unaudited) Nine Months Ended September 30, 2018	2017
Other long-term investments, beginning	$ 55,814,583	$ 46,788,873
Purchases	6,068,995	14,036,084
Transfer from fixed maturity available-for-sale securities	-	729,737
Accretion of discount	2,978,394	2,713,543
Net realized investment gains	-	62,275
Sales proceeds	-	(792,012)
Payments	(6,606,259)	(5,863,095)
Increase	2,441,130	10,886,532
Other long-term investments, ending	$ 58,255,713	$ 57,675,405

Our assets other than invested assets as of September 30, 2018 and December 31, 2017 are summarized as follows:

	(Unaudited) September 30, 2018	December 31, 2017	Amount Change 2018 less 2017
Cash and cash equivalents	$ 29,913,662	$ 31,496,159	$ (1,582,497)
Accrued investment income	2,727,777	2,544,963	182,814
Recoverable from reinsurers	1,775,081	1,340,700	434,381
Assets held in trust under coinsurance agreement	15,831,355	-	15,831,355
Agents' balances and due premiums	1,517,547	1,485,305	32,242
Deferred policy acquisition costs	28,172,290	24,555,902	3,616,388
Value of insurance business acquired	5,271,221	5,526,645	(255,424)
Other assets	11,956,822	10,920,570	1,036,252
Assets other than investment assets	$ 97,165,755	$ 77,870,244	$ 19,295,511

The $1,582,497 decrease in cash and cash equivalents is discussed below in the "Liquidity and Capital Resources" section where cash flows are addressed.

The increases in deferred policy acquisition costs for the nine months ended September 30, 2018 and 2017, respectively, are summarized as follows:

	(Unaudited) Nine Months Ended September 30, 2018	2017
Balance, beginning of year	$ 24,555,902	$ 18,191,990
Capitalization of commissions, sales and issue expenses	6,162,096	7,370,469
Amortization	(2,677,918)	(2,318,277)
Deferred acquisition costs allocated to investments	132,210	(79,810)
Balance, end of year	$ 28,172,290	$ 23,164,372

Our other assets as of September 30, 2018 and December 31, 2017 are summarized as follows:

	(Unaudited) September 30, 2018	December 31, 2017	Amount Change 2018 less 2017
Advances to mortgage loan originator	$ 4,662,791	$ 4,925,259	$ (262,468)
Federal and state income taxes recoverable	4,043,054	2,504,494	1,538,560
Notes receivable	447,238	448,006	(768)
Accrual of mortgage loan and long-term investment payments due	1,978,500	2,516,490	(537,990)
Receivable for securities sold	550,000	364,611	185,389
Guaranty funds	77,440	73,151	4,289
Other receivables, prepaid assets and deposits	197,799	88,559	109,240
Total other assets	$ 11,956,822	$ 10,920,570	$ 1,036,252

There was a $1,538,560 increase in federal and state income taxes recoverable primarily due to federal and state tax withholdings on lottery receivables.

As of September 30, 2018, the Company had $550,000 of 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 $537,990 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 October 2018.

There was a $262,468 decrease in advances to one mortgage loan originator who acquires residential mortgage loans for our life companies.

The increase in other receivables, prepaid assets and deposits of $109,240 was due to a $125,000 deposit to acquire a Barbados, West Indies domiciled life insurance company that will soon be approved by local country regulators.

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 September 30, 2018 and December 31, 2017 are summarized as follows:

	(Unaudited) September 30, 2018	December 31, 2017	Amount Change 2018 less 2017
Policy liabilities			
Policyholders' account balances	$ 294,738,874	$ 292,909,762	$ 1,829,112
Future policy benefits	54,316,902	49,663,099	4,653,803
Policy claims	1,030,040	1,148,513	(118,473)
Other policy liabilities	68,331	68,490	(159)
Total policy liabilities	350,154,147	343,789,864	6,364,283
Funds withheld under coinsurance agreement	18,720,257	-	18,720,257
Deferred federal income taxes	2,398,299	2,961,929	(563,630)
Other liabilities	4,034,342	3,123,702	910,640
Total liabilities	$ 375,307,045	$ 349,875,495	$ 25,431,550

The $1,829,112 and $46,782,199 increases in policyholders' account balances for the nine months ended September 30, 2018 and 2017, respectively, are summarized as follows:

	(Unaudited) Nine Months Ended September 30, 2018	2017
Policyholders' account balances, beginning	$ 292,909,762	$ 245,346,489
Deposits	35,533,959	54,296,750
Withdrawals	(21,925,881)	(14,044,954)
Funds withheld under coinsurance agreement	(18,720,257)	-
Interest credited	6,941,291	6,530,403
Increase	1,829,112	46,782,199
Policyholders' account balances, ending	$ 294,738,874	$ 292,128,688

The $4,653,803 increase in future policy benefits during the nine months ended September 30, 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 $563,630 decrease in deferred federal income taxes during the nine months ended September 30, 2018 was due to $1,619,608 of decreased deferred federal income taxes on the unrealized appreciation (depreciation) of fixed maturity and preferred stock available-for-sale and $1,055,978 of operating deferred federal tax expense.

Our other liabilities as of September 30, 2018 and December 31, 2017 are summarized as follows:

	(Unaudited) September 30, 2018	December 31, 2017	Amount Change 2018 less 2017
Suspense accounts payable	$ 2,921,812	$ 42,901	$ 2,878,911
Accounts payable	26,711	1,898,817	(1,872,106)
Accrued expenses payable	714,000	776,000	(62,000)
Payable for securities purchased	604,959	462,598	142,361
Guaranty fund assessments	43,000	43,000	-
Unearned investment income	73,703	62,326	11,377
Deferred revenue	21,661	29,784	(8,123)
Unclaimed funds	47,209	23,622	23,587
Other payables, withholdings and escrows	(418,713)	(215,346)	(203,367)
Total other liabilities	$ 4,034,342	$ 3,123,702	$ 910,640

The $2,878,911 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 $1,872,106 decrease in accounts payable is primarily due to a payment of $1,850,000 to settle the FBLIC Decreasing Term to 95 lawsuit.

As of September 30, 2018, the Company had $604,959 of 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 $203,367 decline in other payables, withholdings and escrows is primarily due to an increase in escrow amounts on purchased mortgage loans due from previous servicers.

Liquidity and Capital Resources

Our operations have been financed primarily through the private placement of equity securities and intrastate public stock offerings. Through September 30, 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 September 30, 2018, we had cash and cash equivalents totaling $29,913,662. As of September 30, 2018, cash and cash equivalents of $15,038,654 and $12,184,822, respectively, totaling $27,223,476 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 $17,126,600 and $21,835,216 as of September 30, 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.

Through June 30, 2018, the Company had a $1.0 million line of credit with a bank executed in July 2017 to provide working capital and funds for expansion. The terms of the line of credit allowed for advances, repayments and re-borrowings through the maturity date of June 30, 2018. Any outstanding advances would have incurred 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. The Company did not utilize this line of credit during 2018 or 2017.

Our cash flows for the nine months ended September 30, 2018 and 2017 are summarized as follows:

	(Unaudited) Nine Months Ended September 30, 2018	2017	Amount Change 2018 less 2017
Net cash provided by (used in) by operating activities	$ (6,096,691)	$ 414,471	$ (6,511,162)
Net cash used in investing activities	(9,093,884)	(45,930,709)	36,836,825
Net cash provided by financing activities	13,608,078	40,251,796	(26,643,718)
Decrease in cash and cash equivalents	(1,582,497)	(5,264,442)	3,681,945
Cash and cash equivalents, beginning of period	31,496,159	34,223,945	(2,727,786)
Cash and cash equivalents, end of period	$ 29,913,662	$ 28,959,503	$ 954,159

The $6,096,691 cash used by operating activities and $414,471 cash provided by operating activities for the nine months ended September 30, 2018 and 2017, respectively, are summarized as follows:

	(Unaudited) Nine Months Ended September 30, 2018	2017	Amount Change 2018 less 2017
Premiums collected	$ 13,755,081	$ 11,582,534	$ 2,172,547
Net investment income collected	12,116,494	8,778,763	3,337,731
Service fees and other income collected	358,184	92,376	265,808
Death benefits paid	(4,516,669)	(3,613,141)	(903,528)
Surrenders paid	(666,128)	(717,790)	51,662
Dividends and endowments paid	(199,435)	(201,813)	2,378
Commissions paid	(5,988,077)	(6,824,917)	836,840
Other underwriting, insurance and acquisition expenses paid	(6,888,595)	(4,359,559)	(2,529,036)
Taxes paid	(1,538,560)	(739,692)	(798,868)
Decreased advances to mortgage loan originator	262,468	552,886	(290,418)
Increased (decreased) deposits of pending policy applications	2,878,911	(4,108,873)	6,987,784
Increased assets held in trust under coinsurance agreement	(15,831,355)	-	(15,831,355)
Decreased short-term investments	412,006	-	412,006
Increased policy loans	(95,095)	(28,655)	(66,440)
Increased deposits	(125,000)	-	(125,000)
Other	(30,921)	2,352	(33,273)
Cash provided by (used in) operating activities	$ (6,096,691)	$ 414,471	$ (6,511,162)

Please see the statements of cash flows for the nine months ended September 30, 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 September 30, 2018 and December 31, 2017 is summarized as follows:

	(Unaudited) September 30, 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 September 30, 2018 and December 31, 2017 and 7,802,593 outstanding as of September 30, 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 September 30, 2018 and December 31, 2017)	(893,947)	(893,947)	-
Accumulated other comprehensive income (loss)	(1,331,860)	4,760,951	(6,092,811)
Accumulated earnings	12,553,100	8,620,075	3,933,025
Total shareholders' equity	$ 39,092,393	$ 41,252,179	$ (2,159,786)

The decrease in shareholders' equity of $2,159,786 for the nine months ended September 30, 2018 is due to $6,092,811 in other comprehensive loss that exceeded $3,864,517 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 5.3% from $5.29 per share as of December 31, 2017 to $5.01 per share as of September 30, 2018, based upon 7,802,593 common shares outstanding as of both September 30, 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 (depreciation) on available-for-sale securities of ($1,714,154) and $6,130,475 as of September 30, 2018 and December 31, 2017, respectively, prior to the impact of income taxes and deferred acquisition cost adjustments. A decrease of $7,531,191 in unrealized losses arising for the nine months ended September 30, 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 gains of $244,930 originating from the sale and call activity for fixed maturity securities available-for-sale resulting in net unrealized losses on investments of $7,844,629.

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

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

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

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

As of September 30, 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 12.2% 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 September 30, 2018, the Company has outstanding advances to this loan originator totaling $4,662,792. The advances are secured by $5,403,030 of residential mortgage loans on real estate that are assigned to the Company. The Company has committed to fund up to an additional $837,208 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 September 30, 2018, $634,817 of additional and secured residential mortgage loan balances on real estate are held in escrow by the Company. As of September 30, 2018, $430,885 of that escrow amount is available to the Company as additional collateral on $4,662,792 of advances to the loan originator. The remaining September 30, 2018 escrow amount of $203,932 is available to the Company as additional collateral on its investment of $40,786,373 in residential mortgage loans on real estate.

We are not aware of any commitments or unusual events that could materially affect our capital resources. We are not aware of any current recommendations by any regulatory authority which, if implemented, would have a material adverse effect on our liquidity, capital resources or operations. We believe that our existing cash and cash equivalents as of September 30, 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 September 30, 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 September 30, 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.

During 2018, a settlement was reached by the parties and the Court approved the settlement agreement on June 11, 2018. FBLIC paid $1.85 million to resolve all class and individual claims and all active Decreasing Term to 95 policies for individuals in the class were cancelled.

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

None

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

None

Item 5. Other Information

None

Item 6. Exhibits

31.1	Rule 13a-14(a)/15d-14(a) Certification of Principal Executive Officer
31.2	Rule 13a-14(a)/15d-14(a) Certification of Principal Financial Officer
32.1	Section 1350 Certification of Principal Executive Officer
32.2	Section 1350 Certification of Principal Financial Officer
101.INS**	XBRL Instance
101.SCH**	XBRL Taxonomy Extension Schema
101.CAL**	XBRL Taxonomy Extension Calculation
101.DEF**	XBRL Taxonomy Extension Definition
101.LAB**	XBRL Taxonomy Extension Labels
101.PRE**	XBRL Taxonomy Extension Presentation
**XBRL	Information is furnished and not filed as part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

SIGNATURES

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

FIRST TRINITY FINANCIAL CORPORATION
an Oklahoma corporation

November 13, 2018

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

November 13, 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: November 13, 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: November 13, 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 September 30, 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: November 13, 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 September 30, 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: November 13, 2018

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