UTG

# 2019 Annual Report

March 31, 2020

Dear Shareholder,

We are happy to report a record year of earnings! This is a result of investments we have owned a very long time. Also, our stock performed very well in 2019. We have no debt and over 20% of our assets are in cash and short-term treasuries. We have a strong balance sheet and a great team to manage our company.

As I have said every year, our team owns a significant stake in the company and that aligns all of our interest.

I am writing this letter for 2019 on March 31, 2020. The Dow has capped off the worst 1st quarter on record. I am very glad our company is in good shape. Cash is a call option on every asset class.

We pray for wisdom to manage our company well. We also pray for your good health in this challenging time.

Thank you for the opportunity to serve you.

Sincerely,

Jesse T. Correll
Chairman

## MISSION STATEMENT

The UTG family enriches the lives of others through the giving of our time, talent, treasure, and touch.

## CORPORATE VALUES

### GROW

We grow our family and communities economically, socially, and spiritually.

### INTEGRITY

Do the right thing.

### VALUE

We value everyone by treating them with dignity, honesty, and respect.

### EVOLVE

We strive for excellence in all we do through continuous learning and embracing change.

## Business Overview

UTG, Inc. (the "Registrant", “Company” or “UTG”) is an insurance holding company incorporated in the state of Delaware in 2005. Its primary direct subsidiary is Universal Guaranty Life Insurance Company (“UG”). The Registrant and its primary subsidiary have only one significant segment, insurance. The Company’s dominant business is individual life insurance, which includes the servicing of existing insurance business in-force, the acquisition of other companies in the insurance business, and the administration processing of life insurance business for other entities.

The holding company has no significant business operations of its own and relies on fees, dividends and other distributions from its operating subsidiary as the principal source of cash flows to meet its obligations. Additional information regarding the cash flow and liquidity needs of the holding company can be found in the Liquidity and Capital Resources section of the Management’s Discussion and Analysis of Financial Conditions and Results of Operations.

UG has several wholly-owned and majority-owned subsidiaries. The subsidiaries were formed to hold certain real estate and other investments. The investments were placed into the limited liability companies and partnerships to provide additional protection to the policyholders and to UG.

Increased global IT security threats and more sophisticated and targeted computer crime pose a risk to the security of systems and networks and the confidentiality, availability and integrity of data. Although the Company makes efforts to maintain the security and integrity of the networks and systems, there can be no assurance that the security efforts will be effective or that attempted security breaches or disruptions would not be successful or damaging. In the event a security breach or failure results in the disclosure of sensitive third party data or the transmission of harmful/malicious code to third parties, the Company could be subject to liability claims. The Company does not currently carry insurance coverage against such liabilities. Depending on their nature and scope, such threats also could potentially lead to improper use of our systems and networks, manipulation and destruction of data, loss of trade secrets, system downtimes and operational disruptions, which in turn, could adversely affect our reputation, competitiveness and results of operations.

This document at times will refer to the Registrant’s largest shareholder, Mr. Jesse T. Correll and certain companies controlled by Mr. Correll. Mr. Correll holds a majority ownership of First Southern Funding LLC, a Kentucky corporation, (“FSF”) and First Southern Bancorp, Inc. (“FSBI”), a financial services holding company. FSBI operates through its 100% owned subsidiary bank, First Southern National Bank (“FSNB”). Banking activities are conducted through multiple locations within south-central and western Kentucky. Mr. Correll is Chief Executive Officer and Chairman of the Board of Directors of UTG and is currently UTG’s largest shareholder through his ownership control of FSF, FSBI and affiliates. At December 31, 2019, Mr. Correll owns or controls directly and indirectly approximately 65.64% of UTG’s outstanding stock.

UTG’s website is: www.utgins.com. Information regarding the Company, including recent filings with the Securities and Exchange Commission, are accessible via this website.

## Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following is Management’s discussion and analysis of the financial condition and results of operations of UTG, Inc. and its subsidiaries (collectively with the Parent, the “Company”) for the years ended December 31, 2019 and 2018. This discussion should be read in conjunction with the consolidated financial statements and notes thereto included elsewhere in this report.

**Cautionary Statement Regarding Forward-Looking Statements**

This report on Form 10-K contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, which are intended to be covered by the safe harbors created by those laws. We have based our forward-looking statements on our current expectations and projections about future events. Our forward-looking statements include information about possible or assumed future results of operations. All statements, other than statements of historical facts, included or incorporated by reference in this report that address activities, events or developments that we expect or anticipate may occur in the future, including such things as the growth of our business and operations, our business strategy, competitive strengths, goals, plans, future capital expenditures and references to future successes may be considered forward-looking statements. Also, when we use words such as “anticipate,” “believe,” “estimate,” “expect,” “intend,” “plan,” “probably,” or similar expressions, we are making forward-looking statements.

Numerous risks and uncertainties may impact the matters addressed by our forward-looking statements, any of which could negatively and materially affect our future financial results and performance.

Although we believe that the assumptions underlying our forward-looking statements are reasonable, any of these assumptions, and, therefore, the forward-looking statements based on these assumptions, could themselves prove to be inaccurate. In light of the significant uncertainties inherent in the forward-looking statements that are included in this report, our inclusion of this information is not a representation by us or any other person that our objectives and plans will be achieved. In light of these risks, uncertainties and assumptions, any forward-looking event discussed in this report may not occur. Our forward-looking statements speak only as of the date made, and we undertake no obligation to update or review any forward-looking statement, whether as a result of new information, future events or other developments, unless the securities laws require us to do so.

**Overview**

UTG, Inc., a Delaware corporation, is a life insurance holding company. The Company’s dominant business is individual life insurance, which includes the servicing of existing insurance policies in-force, the acquisition of other companies in the life insurance business, the acquisition of blocks of business and the administration and processing of life insurance business for other entities.

UTG, Inc. has a strong philanthropic program. The Company generally allocates a portion of its earnings to be used for its philanthropic efforts primarily targeted to Christ-centered organizations or organizations that help the weak or poor. The Company also encourages its staff to be involved on a personal level through monetary giving, volunteerism and use of their talents to assist those less fortunate than themselves. Through these efforts, the Company hopes to make a positive difference in the local community, state, nation and world.

**Critical Accounting Policies**

We have identified the accounting policies below as critical to the understanding of our results of operations and our financial condition. The application of these critical accounting policies in preparing our consolidated financial statements requires Management to use significant judgments and estimates concerning future results or other developments including the likelihood, timing or amount of one or more future transactions or amounts. Actual results may differ from these estimates under different assumptions or conditions. On an on-going basis, we evaluate our estimates, assumptions and judgments based upon historical experience and various other information that we believe to be reasonable under the circumstances. For a detailed discussion of other significant accounting policies, see Note 1 – Summary of Significant Accounting Policies in the Notes to the Consolidated Financial Statements.

**Future Policy Benefits** – Because of the long-term nature of insurance contracts, the insurance company is liable for policy benefit payments that will be made in the future. The liability for future policy benefits is determined by standard actuarial procedures common to the life insurance industry. The accounting policies for determining this liability are disclosed in Note 1 – Summary of Significant Accounting Policies in the Notes to the Consolidated Financial Statements.

**Cost of Insurance Acquired** – The costs of acquiring blocks of insurance from other companies or through the acquisition of other companies are deferred and recorded as deferred acquisition costs. The deferred amounts are recorded as an asset and amortized to expense in a systematic manner as indicated in Note 1 – Summary of Significant Accounting Policies in the Notes to the Consolidated Financial Statements.

**Valuation of Securities** – The Company's investment portfolio consists of fixed maturities, equity securities, trading securities, mortgage loans and real estate to provide funding of future policy contractual obligations. The Company's fixed maturities and equity securities are classified as available-for-sale. Available-for-sale investments are carried at fair value with unrealized gains and losses reported in accumulated other comprehensive income (loss) in the Consolidated Balance Sheets.

The Company's trading securities are carried at fair value with unrealized gains and losses reported in income in the Consolidated Statements of Operations. Fair value is the price that the Company would expect to receive upon sale of the asset in an orderly transaction.

Mortgage loans on real estate are carried at their unpaid principal balances, adjusted for amortization of premium or discount and valuation allowances. Valuation allowances are established for impaired loans when it is probable that contractual principal and interest will not be collected. A portion of the mortgage loan balance consists of discounted mortgage loans that were purchased at deep discounts through an auction process led by the Federal Government. In general, the discounted mortgage loans are non-performing and there is a significant amount of uncertainty surrounding the timing and amount of cash flows to be received by the Company. Accordingly, the Company records its investment in the discounted mortgage loans at its original purchase price adjusted for any principal receipts received.

Investment real estate held for sale is reported at the lower of cost or fair value less cost to sell. Expenses to maintain the property are expensed as incurred.

Notes receivable are reported at their unpaid principal balances, adjusted for valuation allowances. Valuation allowances are established for impaired loans when it is probable that contractual principal and interest will not be collected. Interest accruals are analyzed based on the likelihood of repayment. The Company does not utilize a specified number of days delinquent to cause an automatic non-accrual status.

While the available-for-sale securities are generally expected to be held to maturity, they are classified as available-for-sale and are sold periodically to manage risk. Although a majority of the investment portfolio is classified as available-for-sale, the Company has the ability and intent to hold the securities until maturity. See Note 2 – Investments in the Notes to the Consolidated Financial Statements for detailed disclosures regarding the Company's investment portfolio.

**Impairment of Investments** – The Company continually monitors the investment portfolio for investments that have become impaired in value; where fair value has declined below carrying value. While the value of the investments in the Company's portfolio continuously fluctuate due to market conditions, an other-than-temporary impairment charge is recorded only when a security has experienced a decline in fair market value which is deemed to be other than temporary. The policies and procedures the Company uses to evaluate and account for impairments of investments are disclosed in Note 1 – Summary of Significant Accounting Policies and Note 2 – Investments in the Notes to the Consolidated Financial Statements. The Company makes every effort to appropriately assess the status and value of the securities with the information available regarding an other-than-temporary impairment. However, it is difficult to predict the future prospects of a distressed or impaired security.

**Deferred Income Taxes** – The provision for deferred income taxes is based on the asset and liability method of accounting for income taxes. Under this method, deferred income taxes are recognized by applying enacted statutory tax rates to temporary differences between amounts reported in the Consolidated Financial Statements and the tax basis of existing assets and liabilities. A valuation allowance is recognized for the portion of deferred tax assets that, in Management's judgment, is not likely to be realized.

## Results of Operations

On a consolidated basis, the Company had net income attributable to common shareholders of approximately $16.3 million and $12.4 million in 2019 and 2018, respectively. In 2019, income before income taxes was approximately $20.2 million compared to $16.5 million in 2018. Total revenue was approximately $44.2 million in 2019 and $41.3 million in 2018.

One-time events, primarily reflected in realized gains, comprise a substantial portion of the net income and revenue reported by the Company during 2019 and 2018. The magnitude of realized investment gains and losses in a given year is a function of the timing of trades of investments relative to the markets themselves as well as the recognition of any impairments on investments. Future earnings will be significantly negatively impacted should earnings from these one-time items not be realizable in a future period. While Management believes there remain additional investments with such one-time earnings, when or if realized remains uncertain.

Total benefits and other expenses paid in 2019 were approximately $24 million compared to $24.8 million in 2018.

### Revenues

Premiums and policy fee revenues, net of reinsurance premiums and policy fees, were comparable for 2019 to 2018. The Company writes very little new business. Unless the Company acquires a new company or a block of in-force business, Management expects premium revenue to continue to decline on the existing block of business at a rate consistent with prior experience. The Company's average persistency rate for all policies in-force for 2019 and 2018 was approximately 96.6% and 96.1%, respectively. Persistency is a measure of insurance in-force retained in relation to the previous year.

The following table summarizes the Company's investment performance for the years ended December 31:

| | 2019 | 2018 |
|---|---|---|
| Net investment income | $ 11,315,646 | $ 11,202,668 |
| Net investment gains (losses) | 25,425,822 | 22,456,835 |
| Change in net unrealized investment gains (losses on available-for sale securities | 10,822,757 | (7,744,899) |

The following table reflects net investment income of the Company for the years ended December 31:

| | 2019 | 2018 |
|---|---|---|
| Fixed maturities | $ 5,854,031 | $ 7,273,157 |
| Equity securities | 1,543,904 | 1,628,649 |
| Mortgage loans | 479,841 | 1,234,115 |
| Real estate | 2,934,666 | 2,771,348 |
| Notes receivable | 1,848,314 | 979,742 |
| Policy loans | 607,537 | 646,993 |
| Cash and cash equivalents | 175,917 | 355,276 |
| Short-term | - | 18,159 |
| Total consolidated investment income | 13,444,210 | 14,907,439 |
| Investment expenses | (2,128,564) | (3,704,771) |
| Consolidated net investment income | $ 11,315,646 | $ 11,202,668 |

Net investment income represented approximately 26% and 27% of the Company's total revenues as of December 31, 2019 and 2018, respectively. When comparing current and prior year results, net investment income was comparable in the majority of the investment categories, with the largest variance being found in the fixed maturities, mortgage loans, and notes receivable investment categories

Income from the fixed maturities investment portfolio is down approximately 20% when comparing 2019 and 2018 results. In the third quarter of 2018, the Company sold a substantial bond holding. The bond holding was initially acquired over a period of time in 2016 at a deep discount, with an average cost of 25% of its par value. At the time of sale, Management had determined the value of the security had recovered sufficiently enough and the time was right to sell a majority of the holding, realizing a gain of approximately $10 million. A portion of the sales proceeds were used to purchase higher rated, lower yielding bonds.

Income from the mortgage loan portfolio is down approximately 61% when comparing 2019 and 2018 results. The Company's investment in mortgage loans is down approximately 9% when comparing 2019 and 2018 and is one factor contributing to the decline in earnings from the mortgage loan portfolio. During 2018, two of the higher yielding mortgage loans were paid off. Included with one of the loan payoffs was a discount payment of approximately $428,000 which further boosted 2018 earnings in the mortgage loan portfolio. Management has a renewed focus on the mortgage loan investment portfolio with the intent to substantially grow this specific investment portfolio during 2020.

Investment expenses are down approximately $1.6 million when comparing 2019 and 2018 results. The variance is due to a one-time commission of $1.5 million paid as the result of the sale of certain discounted bonds in the third quarter of 2018. Excluding this one-time event, investment expenses are comparable for the 12 months ended 2019 and 2018.

The following table reflects net realized investment gains (losses) for the years ended December 31:

| | 2019 | 2018 |
|---|---|---|
| Fixed maturities available for sale | $ 189,070 | $ 10,751,955 |
| Equity securities | 9,560,716 | - |
| Real estate | 3,929,195 | 1,588,122 |
| Trading securities | (132,518) | - |
| Fixed maturities available for sale – OTTI | (650,956) | - |
| Real estate – OTTI | - | (300,000) |
| Consolidated net realized investment gains | 12,895,507 | 12,040,077 |
| Change in fair value of equity securities | 12,530,315 | 10,416,758 |
| Net investment gains | $ 25,425,822 | $ 22,456,835 |

Net realized investment gains were up approximately 13% in 2019 as compared to 2018. As seen in the table above, the 2019 gains were mainly attributable to the sale of certain equity securities and real estate, which were partially offset by the recognition of an other-than-temporary impairment on a fixed maturity on 2019 and on real estate during 2018.

During 2019, the Company sold 14,000 shares of a certain common stock holding and recognized a gain of approximately $8.9 million. At December 31, 2019, the Company still owned 25,000 shares of this specific common stock and during the first quarter of 2020, sold an additional 3,000 shares of this stock; recognizing a gain of approximately $1.9 million. A substantial portion of this realized gain was previously recognized as an unrealized gain in the December 31, 2019 Consolidated Statements of Operations. Therefore, this gain will have an immaterial impact on the 2020 earnings of the Company. The realized gain will be offset by the reversal of the unrealized gain that was previously recognized by the Company at year end 2019.

During 2019, the Company sold six real estate parcels and recognized gains of approximately $3.9 million. During 2018, the Company recognized gains of approximately $1.6 million from the sale of three real estate parcels.

The 2018 gains were a result of the sale of certain fixed maturities and real estate, which were offset by the recognition of an other-than temporary impairment on a parcel of real estate. During 2018, the Company sold a substantial bond holding. The bond holding was initially acquired during 2016 over a period of time at a deep discount, with an average cost of 25% of its par value. During the third quarter of 2018, the value of this security had recovered sufficiently enough that Management determined the time was right to sell a majority of the holding, realizing a gain of approximately $10 million. At December 31, 2018 the Company held $5 million of par value of this security at a cost basis of $651,000. During 2019, the Company recorded an other-than-temporary impairment of $650,956 on the remaining value of this security due to the deteriorating financial condition of the issuing entity.

During 2019 and 2018, realized gains were partially offset by other-than-temporary impairments of $650,956 and $300,000, respectively. The other-than-temporary impairments were taken as a result of Management's assessment and consideration of the length of time the securities have remained in an unrealized loss position and as a result of management's analysis and determination of value. The investments were written down to better reflect their current estimated fair value.

Realized investment gains are the result of one-time events and are expected to vary from year to year.

The Company has seen significant unrealized gains on its equity investments during 2018 and 2019. A significant portion of these gains are from two equity holdings, both in the area of oil and gas. While the Company has had very strong unrealized gains during 2018 and 2019, a pullback in the stock market, particularly in the oil and gas arena, could slow these gains or even result in future period unrealized losses. Management believes these equity investments continue to be solid investments for the Company and have further growth potential; however, changes in market conditions could cause volatility in market prices.

During 2019, the Company received an offer to purchase its investments in certain music royalties held in the form of equity investments. As a result of this event, the Company elected to change its valuation methodology from using discounted cash flow models to estimate fair value to marking the investment to the offer price to estimate the fair value. The change in methodology resulted in recording an unrealized gain on investment of approximately $2.1 million during the year ended December 31, 2019. The investments were sold during the first quarter of 2020. The Company recognized a gain of approximately $4.2 million on the sale. The 2020 net income is unaffected by the sale as the realized gain is offset by the unrealized gain reversal at the time of sale.

In summary, the Company's basis for future revenue is expected to come from the following primary sources: Conservation of business currently in-force, the maximization of investment earnings and the acquisition of other companies or policy blocks in the life insurance business. Management has placed a significant emphasis on the development of these revenue sources to enhance these opportunities.

**Expenses**

The Company reported total benefits and other expenses of $24 million and $24.8 million for the years ended December 31, 2019 and 2018 respectively. Benefits, claims and settlement expenses represented approximately 63% of the Company's total expenses for 2019 and 2018. The other major expense category of the Company is operating expenses, which represented 33% and 34% of the Company's total expenses for 2019 and 2018, respectively.

Benefits, claims and settlement expenses, net of reinsurance benefits, were comparable for 2018 and 2019. Policy claims vary from year to year and therefore, fluctuations in mortality are to be expected and are not considered unusual by Management.

Changes in policyholder reserves, or future policy benefits, also impact this line item. Reserves are calculated on an individual policy basis and generally increase over the life of the policy as a result of additional premium payments and acknowledgment of increased risk as the insured continues to age.

The short-term impact of policy surrenders is negligible since a reserve for future policy benefits payable is held which is, at a minimum, equal to and generally greater than the cash surrender value of a policy. The benefit of fewer policy surrenders is primarily received over a longer time period through the retention of the Company's asset base.

Operating expenses decreased approximately 6% in 2019 compared to that of the same time period in 2018. The variance is mainly attributable to a decrease in salary expenses. Earnings in the prior year resulted in a higher accrual for salary expense in anticipation of annual performance bonuses for both management and staff. The significant realized gains from the sale of discounted bonds in the third quarter of 2018 was the primary driver of this variation. The Compensation Committee and Management decided not to pay out all of the accrued bonus monies. The excess accrual was released during 2019.

Effective January 1, 2017, the Company and FSNB began sharing certain services. The shared services focuses on departments commonly utilized by both organizations such as financial accounting, human resources and information technology. The shared services did not initially make a noticeable difference in operating expenses, but provides a larger team, which enhances capabilities and quality.

As mentioned above in the Overview section of the Management Discussion and Analysis, UTG has a strong philanthropic program. The Company generally allocates a portion of its earnings to be used for its philanthropic efforts primarily targeted to Christ-centered organizations or organizations that help the weak or poor. Charitable contributions made by the Company are expected to vary from year to year depending on the earnings of the Company.

Net amortization of cost of insurance acquired decreased approximately 4% when comparing current and prior year activity. Cost of insurance acquired is established when an insurance company is acquired or when the Company acquires a block of in-force business. The Company assigns a portion of its cost to the right to receive future profits from insurance contracts existing at the date of the acquisition. Cost of insurance acquired is amortized with interest in relation to expected future profits, including direct charge-offs for any excess of the unamortized asset over the projected future profits. The interest rates may vary due to risk analysis performed at the time of acquisition on the business acquired. The Company utilizes a 12% discount rate on the remaining unamortized business. The amortization is adjusted retrospectively when estimates of current or future gross profits to be realized from a group of products are revised. Amortization of cost of insurance acquired is particularly sensitive to changes in interest rate spreads and persistency of certain blocks of insurance in-force. This expense is expected to decrease, unless the Company acquires a new block of business.

Management continues to place significant emphasis on expense monitoring and cost containment. Maintaining administrative efficiencies directly impacts net income.

## Financial Condition

### Investment Information

Investments are the largest asset group of the Company. The Company's insurance subsidiary is regulated by insurance statutes and regulations as to the type of investments they are permitted to make, and the amount of funds that may be used for any one type of investment.

The following table reflects, by investment category, the investments held by the Company as of December 31:

| | 2019 | As a % of Total Investments | As a % of Total Assets |
|---|---|---|---|
| Fixed maturities | $ 171,629,373 | 49% | 41% |
| Equity securities | 89,581,040 | 25% | 21% |
| Mortgage loans | 8,223,286 | 2% | 2% |
| Real estate | 44,344,236 | 13% | 11% |
| Notes receivable | 19,487,458 | 6% | 5% |
| Policy loans | 8,803,876 | 2% | 2% |
| Short-term investments | 10,442,173 | 3% | 2% |
| Total investments | $ 352,511,442 | 100% | 84% |

| | 2018 | As a % of Total Investments | As a % of Total Assets |
|---|---|---|---|
| Fixed maturities | $ 160,960,784 | 48% | 41% |
| Equity securities | 79,783,099 | 24% | 20% |
| Mortgage loans | 9,069,111 | 3% | 2% |
| Real estate | 52,518,577 | 16% | 13% |
| Notes receivable | 23,717,312 | 7% | 6% |
| Policy loans | 9,204,222 | 2% | 3% |
| Total investments | $ 335,253,105 | 100% | 85% |

The Company's investments are generally managed to match related insurance and policyholder liabilities. The comparison of investment return with insurance or investment product crediting rates establishes an interest spread. Interest crediting rates on adjustable rate policies have been reduced to their guaranteed minimum rates, and as such, cannot be lowered any further. Policy interest crediting rate changes and expense load changes become effective on an individual policy basis on the next policy anniversary. Therefore, it takes a full year from the time the change was determined for the full impact of such change to be realized. If interest rates decline in the future, the Company will not be able to lower rates and both net investment income and net income will be impacted negatively.

The Company’s total investments represented 84% and 85% of the Company’s total assets as of December 31, 2019 and 2018, respectively. Fixed maturities consistently represented a substantial portion, 49% and 48%, respectively, of the total investments during 2019 and 2018. The overall investment mix, as a percentage of total investments, remained fairly consistent when comparing the investments held as of December 31, 2019 and 2018.

During 2019, the Company invested approximately $10.4 million in short-term treasury bills. The Company was holding a significant cash balance and determined it appropriate to invest in these short term treasuries to increase yield, while working to find longer-term quality investments to invest in.

As of December 31, 2019, the carrying value of fixed maturity securities in default as to principal or interest was immaterial in the context of consolidated assets, shareholders’ equity or results from operations. To provide additional flexibility and liquidity, the Company has identified all fixed maturity securities as "investments available for sale". Investments available for sale are carried at market value, with changes in market value charged directly to the other comprehensive component of shareholders' equity. Changes in the market value of available for sale securities resulted in net unrealized gains (losses) of approximately $10.8 million and $(7.7) million as of December 31, 2019 and 2018, respectively. The variance in the net unrealized gains and losses is the result of normal market fluctuations mainly related to changes in interest rates in the market place.

Management continues to view the Company's investment portfolio with utmost priority. Significant time has been spent internally researching the Company's risk and communicating with outside investment advisors about the current investment environment and ways to ensure preservation of capital and mitigate losses. Management has put extensive efforts into evaluating the investment holdings. Additionally, members of the Company's Board of Directors and investment committee have been solicited for advice and provided with information. Management reviews the Company's entire portfolio on a security level basis to be sure all understand our holdings, potential risks and underlying credit supporting the investments. Management intends to continue its close monitoring of its bond holdings and other investments for possible deterioration or market condition changes. Future events may result in Management's determination that certain current investment holdings may need to be sold which could result in gains or losses in future periods. Such future events could also result in other than temporary declines in value that could result in future period impairment losses.

There are a number of significant risks and uncertainties inherent in the process of monitoring impairments and determining if impairment is other-than-temporary. These risks and uncertainties related to Management's assessment of other-than-temporary declines in value include but are not limited to: the risk that Company's assessment of an issuer's ability to meet all of its contractual obligations will change based on changes in the credit characteristics of that issuer; the risk that the economic outlook will be worse than expected or have more of an impact on the issuer than anticipated; the risk that fraudulent information could be provided to the Company's investment professionals who determine the fair value estimates.

**Liquidity**

Liquidity provides the Company with the ability to meet on demand the cash commitments required by its business operations and financial obligations. The Company's liquidity is primarily derived from a portfolio of marketable securities and line of credit facilities. The Company has two principal needs for cash – the insurance company's contractual obligations to policyholders and the payment of operating expenses.

**Parent Company Liquidity**

UTG is a holding company that has no day-to-day operations of its own. Cash flows from UTG's insurance subsidiary, UG, are used to pay costs associated with maintaining the Company in good standing with states in which it does business and purchasing outstanding shares of UTG stock. UTG's cash flow is dependent on management fees received from its insurance subsidiary, stockholder dividends from its subsidiary and earnings received on cash balances. As of December 31, 2019 and 2018, substantially all of the consolidated shareholders' equity represents net assets of its subsidiaries. In 2019, the Parent company received $6 million in dividends from its insurance subsidiary and $5 million in 2018. Certain restrictions exist on the payment of dividends from the insurance subsidiary to the Parent company. For further information regarding the restrictions on the payment of dividends by the insurance subsidiary, see Note 9 – Shareholders' Equity in the Notes to the Consolidated Financial Statements. Although these restrictions exist, dividend availability from the insurance subsidiary has historically been sufficient to meet the cash flow needs of the Parent company.

**Insurance Subsidiary Liquidity**

Sources of cash flows for the insurance subsidiary primarily consist of premium and investment income. Cash outflows from operations include policy benefit payments, administrative expenses, taxes and dividends to the Parent company.

**Short-Term Borrowings**

An additional source of liquidity to the Parent company and its subsidiaries is the line of credit facilities extended to them. As of December 31, 2019 and 2018, the Company and its subsidiaries had available $18 million in line of credit facilities. The Company did not utilize its available credit facilities during 2018 or 2019. For additional information regarding the line of credit facilities, see Note 7 – Credit Arrangements in the Notes to the Consolidated Financial Statements.

The Company expects to have readily available funds for the foreseeable future to conduct its operations and to maintain target capital ratios in the insurance subsidiary through internally generated cash flow and the credit facilities. In the unlikely event that more liquidity is needed, the Company could generate additional funds through such sources as a short-term credit facility and intercompany borrowing.

**Consolidated Liquidity**

Cash used in operating activities was approximately $8.6 million and $5.1 million in 2019 and 2018, respectively. Sources of operating cash flows of the Company, as with most insurance entities, is comprised primarily of premiums received on life insurance products and income earned on investments. Uses of operating cash flows consist primarily of payments of benefits to policyholders and beneficiaries and operating expenses. The Company has not marketed any significant new products for several years. As such, premium revenues continue to decline. Management anticipates future cash flows from operations to remain similar to historic trends.

During 2019 and 2018, the Company's investing activities provided net cash of approximately $18.4 million and $2 million, respectively. The Company recognized proceeds of approximately $69.2 million and $107.7 million from investments sold and matured in 2019 and 2018, respectively. The Company used approximately $50.9 million and $105.7 million to acquire investments during 2019 and 2018, respectively. The net cash provided by investing activities is expected to vary from year to year depending on market conditions and management's ability to find and negotiate favorable investment contracts.

Net cash used in financing activities was approximately $1.2 million and $2.2 million during 2019 and 2018, respectively. As of December 31, 2019 and 2018, the Company had no debt outstanding with third parties.

The Company had cash and cash equivalents of approximately $28.8 million and $20.2 million as of December 31, 2019 and 2018, respectively. The Company has a portfolio of marketable fixed maturities and equity securities that could be sold, if an unexpected event were to occur. These securities had a fair value of approximately $261.2 million and $240.7 million at December 31, 2019 and 2018, respectively. However, the strong cash flows from investing activities, investment maturities and the availability of the line of credit facilities make it unlikely that the Company would need to sell securities for liquidity purposes. See Note 2 – Investments in the Notes to the Consolidated Financial Statements for detailed disclosures regarding the Company's investment portfolio.

Management believes the overall sources of liquidity available will be sufficient to satisfy its financial obligations.

**Capital Resources**

The Company's capital structure consists of available short-term debt, long-term debt and shareholders' equity. A complete analysis and description of the short-term and long-term debt issues available as of December 31, 2019 and 2018 are presented in Note 7 – Credit Arrangements in the Notes to the Consolidated Financial Statements.

The Company had $0 debt outstanding as of December 31, 2019 and 2018.

The NAIC's risk-based capital requirements require insurance companies to calculate and report information under a risk-based capital formula. The risk-based capital (RBC) formula measures the adequacy of statutory capital and surplus in relation to investment and insurance risks such as asset quality, mortality and morbidity, asset and liability matching and other business factors. The RBC formula is used by state insurance regulators as an early warning tool to identify, for the purpose of initiating regulatory action, insurance companies that potentially are inadequately capitalized.

At December 31, 2019, UG has a ratio of approximately 5.81, which is 581% of the authorized control level. Accordingly, the Company meets the RBC requirements.

The Board of Directors of UTG has authorized the repurchase in the open market or in privately negotiated transactions of UTG's common stock. At a meeting of the Board of Directors in June of 2019, the Board of Directors of UTG authorized the repurchase of up to an additional $2.5 million of UTG's common stock, for a total repurchase of $18.5 million. Repurchased shares are available for future issuance for general corporate purposes. Company Management has broad authority to operate the program, including the discretion of whether to purchase shares and the ability to suspend or terminate the program. Open market purchases are made based on the last available market price but may be limited. During 2019, the Company repurchased 29,252 shares through the stock repurchase program for approximately $909,368. Through December 31, 2019, UTG has spent approximately $14.8 million in the acquisition of 1,169,358 shares under this program.

Shareholders' equity was approximately $131 million and $106.3 million as of December 31, 2019 and 2018, respectively. Total shareholders' equity increased approximately 23% in 2019 compared to 2018. The increase is primarily attributable to the change in accumulated other comprehensive income and retained earnings. As of December 31, 2019 and 2018, the Company reported accumulated other comprehensive income of approximately $9 million and $62,000, respectively.

Effective January 1, 2018, the Company adopted ASU 2016-01. As a result equity securities are no longer classified as available-for-sale with unrealized gains and losses recognized in other comprehensive income; rather, all changes in the fair value of equity securities are now recognized in net income. The Company reclassified approximately $18.3 million of unrealized gains from equity securities from being a component of accumulated other comprehensive income to a component of retained earnings.

At December 31, 2019, accumulated other comprehensive income was increased by approximately $8.9 million as a result of unrealized gains on fixed maturity securities. At December 31, 2018, accumulated other comprehensive income was reduced by approximately $14.6 million as a result of unrealized losses on fixed maturity securities. The variance in the net realized gains and losses is the result of normal market fluctuations mainly related to changes in interest rates in the market place.

The Company's investments provide sufficient return to cover future obligations. The Company carries all of its fixed maturity holdings as available for sale, which are reported in the Consolidated Financial Statements at their fair value.

## New Accounting Pronouncements

See Note 1 – Summary of Significant Account Policies in the Notes to the Consolidated Financial Statements for information regarding new accounting pronouncements.

## Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements, financing activities or other relationships with unconsolidated entities or other persons.

## Contractual Obligations

As a smaller reporting company, as defined by Rule 12b-2 of the Exchange Act and Item 10(f)(1) of Regulation S-K, the Company has elected to comply with certain scaled disclosure reporting obligations, and therefore does not have to provide the information required by this item.

## Management's Report on Internal Controls Over Financial Reporting

Our Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

The Company's Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2019. In making the assessment, Management used the criteria issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control-Integrated Framework (2013). Based on Management's assessment, Management concluded that, as of December 31, 2019, the Company's internal control over financial reporting was effective.

This annual report does not include an attestation report of the Company's independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's independent registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permit the Company to provide only Management's report in this Annual Report.

### Changes in Internal Controls

There have been no changes in the Company's internal control over financial reporting since December 31, 2019, in connection with the evaluation required by paragraph (d) of Exchange Act Rule 13a-15(e) and 15d-15(e), that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. The Company's process for evaluating controls and procedures is continuous and encompasses constant improvement of the design and effectiveness of established controls and procedures and the remediation of any deficiencies, which may be identified during this process.

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## Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders
UTG, Inc. and Subsidiaries

***Opinion on the Consolidated Financial Statements***

We have audited the accompanying consolidated balance sheets of UTG, Inc. and Subsidiaries (the "Company") as of December 31, 2019 and 2018, and the related consolidated statements of operations, comprehensive income (loss), shareholders' equity, and cash flows for each of the years in the two-year period ended December 31, 2019, and the related notes to the consolidated financial statements (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2019, in conformity with accounting principles generally accepted in the United States of America.

***Basis for Opinion***

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

We have served as the Company's auditor since 2005.

Brown Smith Wallace, LLP

St. Louis, Missouri
March 20, 2020

UTG

**UTG, Inc.**
**Consolidated Balance Sheets**
**As of December 31, 2019 and 2018**

**ASSETS**

| | | 2019 | | 2018 |
|---|---|---|---|---|
| Investments: | | | | |
| Investments available for sale: | | | | |
| Fixed maturities, at fair value (amortized cost $159,959,855 and $160,895,869) | $ | 171,629,373 | $ | 160,960,784 |
| Equity securities, at fair value (Cost $32,578,862 and $34,885,107) | | 78,661,793 | | 67,664,482 |
| Equity securities, at cost | | 10,919,247 | | 12,118,617 |
| Mortgage loans on real estate at amortized cost | | 8,223,286 | | 9,069,111 |
| Investment real estate, net | | 44,344,236 | | 52,518,577 |
| Notes receivable | | 19,487,458 | | 23,717,312 |
| Policy loans | | 8,803,876 | | 9,204,222 |
| Short-term investments | | 10,442,173 | | - |
| **Total investments** | | 352,511,442 | | 335,253,105 |
| | | | | |
| Cash and cash equivalents | | 28,787,629 | | 20,150,162 |
| Accrued investment income | | 1,679,783 | | 2,119,882 |
| Reinsurance receivables: | | | | |
| Future policy benefits | | 25,665,161 | | 26,117,936 |
| Policy claims and other benefits | | 4,142,142 | | 4,053,882 |
| Cost of insurance acquired | | 4,846,321 | | 5,622,227 |
| Property and equipment, net of accumulated depreciation | | 427,736 | | 688,567 |
| Income taxes receivable | | - | | 279,333 |
| Other assets | | 695,517 | | 1,263,242 |
| **Total assets** | $ | 418,745,731 | $ | 395,548,336 |

LIABILITIES AND SHAREHOLDERS' EQUITY

| | | 2019 | | 2018 |
|---|---|---|---|---|
| Policy liabilities and accruals: | | | | |
| Future policy benefits | $ | 249,264,308 | $ | 253,852,368 |
| Policy claims and benefits payable | | 3,631,666 | | 4,267,481 |
| Other policyholder funds | | 404,177 | | 372,072 |
| Dividend and endowment accumulations | | 14,626,475 | | 14,608,838 |
| Income taxes payable | | 313,662 | | - |
| Deferred income taxes | | 13,222,604 | | 9,113,480 |
| Other liabilities | | 5,785,933 | | 6,257,387 |
| **Total liabilities** | | 287,248,825 | | 288,471,626 |
| | | | | |
| Shareholders' equity: | | | | |
| Common stock - no par value, stated value $0.001 per share. Authorized 7,000,000 shares -3,277,830 and 3,295,870 shares issued and outstanding | | 3,279 | | 3,296 |
| Additional paid-in capital | | 36,012,401 | | 36,567,865 |
| Retained earnings | | 85,979,678 | | 69,708,901 |
| Accumulated other comprehensive income | | 8,977,914 | | 62,495 |
| Total UTG shareholders' equity | | 130,973,272 | | 106,342,557 |
| Noncontrolling interest | | 523,634 | | 734,153 |
| **Total shareholders' equity** | | 131,496,906 | | 107,076,710 |
| **Total liabilities and shareholders' equity** | $ | 418,745,731 | $ | 395,548,336 |

See accompanying notes.

## UTG, Inc.
## Consolidated Statements of Operations
## For the Years Ended December 31, 2019 and 2018

| | 2019 | 2018 |
|---|---|---|
| Revenue: | | |
| Premiums and policy fees | $ 9,601,612 | $ 10,076,351 |
| Ceded reinsurance premiums and policy fees | (2,535,980) | (2,862,701) |
| Net investment income | 11,315,646 | 11,202,668 |
| Other income | 388,340 | 400,034 |
| Revenues before net investment gains (losses) | 18,769,618 | 18,816,352 |
| Net investment gains (losses): | | |
| Other-than-temporary impairments | (650,956) | (300,000) |
| Other realized investment gains, net | 13,546,463 | 12,340,077 |
| Change in fair value of equity securities | 12,530,315 | 10,416,758 |
| Total net investment gains | 25,425,822 | 22,456,835 |
| Total revenues | 44,195,440 | 41,273,187 |
| Benefits and other expenses: | | |
| Benefits, claims and settlement expenses: | | |
| Life | 16,191,227 | 16,751,922 |
| Ceded reinsurance benefits and claims | (2,233,585) | (2,610,586) |
| Annuity | 1,039,604 | 1,044,397 |
| Dividends to policyholders | 359,147 | 390,368 |
| Commissions | (130,828) | (147,922) |
| Amortization of cost of insurance acquired | 775,906 | 806,065 |
| Operating expenses | 8,006,748 | 8,531,113 |
| Total benefits and other expenses | 24,008,219 | 24,765,357 |
| Income before income taxes | 20,187,221 | 16,507,830 |
| Income tax expense (benefit) | 3,591,301 | 3,907,536 |
| Net income | 16,595,920 | 12,600,294 |
| Net income attributable to noncontrolling interest | (325,143) | (209,177) |
| Net income attributable to common shareholders | $ 16,270,777 | $ 12,391,117 |
| Amounts attributable to common shareholders: | | |
| Basic income per share | $ 4.95 | $ 3.75 |
| Diluted income per share | $ 4.95 | $ 3.75 |
| Basic weighted average shares outstanding | 3,285,813 | 3,307,448 |
| Diluted weighted average shares outstanding | 3,285,813 | 3,307,448 |

See accompanying notes.

# UTG, Inc.
## Consolidated Statements of Comprehensive Income (Loss)
## For the Years Ended December 31, 2019 and 2018

| | 2019 | 2018 |
|---|---|---|
| Net income | $ 16,595,920 | $ 12,600,294 |
| Other comprehensive income (loss): | | |
| Unrealized holding gains (losses) arising during period, pre-tax | 10,822,757 | (7,744,899) |
| Tax (expense) benefit on unrealized holding gains (losses) arising during the period | (2,272,779) | 1,626,429 |
| Unrealized holding gains (losses) arising during period, net of tax | 8,549,978 | (6,118,470) |
| Less reclassification adjustment for (gains) losses included in net income | 462,584 | (10,751,955) |
| Tax expense (benefit) for gains included in net income | (97,143) | 2,257,911 |
| Reclassification adjustment for gains included in net income, net of tax | 365,441 | (8,494,044) |
| Subtotal: Other comprehensive income (loss), net of tax | 8,915,419 | (14,612,514) |
| Comprehensive income (loss) | 25,511,339 | (2,012,220) |
| Less comprehensive income attributable to noncontrolling interests | (325,143) | (209,177) |
| Comprehensive income (loss) attributable to UTG, Inc. | $ 25,186,196 | $ (2,221,397) |

See accompanying notes.

**UTG, Inc.**
**Consolidated Statements of Shareholders' Equity**

| Year ended December 31, 2019 | Common Stock | Additional Paid-In Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Noncontrolling Interest | Total Shareholders' Equity |
|---|---|---|---|---|---|---|
| Balance at January 1, 2019 | $ 3,296 | 36,567,865 | 69,708,901 | 62,495 | 734,153 | 107,076,710 |
| Common stock issued during year | 11 | 353,876 | - | - | - | 353,887 |
| Treasury shares acquired and retired | (28) | (909,340) | - | - | - | (909,368) |
| Net income attributable to common shareholders | - | - | 16,270,777 | - | - | 16,270,777 |
| Unrealized holding loss on securities net of noncontrolling interest and reclassification adjustment and taxes | - | - | - | 8,915,419 | - | 8,915,419 |
| Contributions | - | - | - | - | - | 0 |
| Distributions | - | - | - | - | (535,662) | (535,662) |
| Gain attributable to noncontrolling interest | - | - | - | - | 325,143 | 325,143 |
| Balance at December 31, 2019 | $ 3,279 | 36,012,401 | 85,979,678 | 8,977,914 | 523,634 | 131,496,906 |

| Year ended December 31, 2018 | Common Stock | Additional Paid-In Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Noncontrolling Interest | Total Shareholders' Equity |
|---|---|---|---|---|---|---|
| Balance at December 31, 2017 | $ 3,333 | 37,536,164 | 39,040,456 | 32,952,338 | 899,227 | 110,431,518 |
| Adoption of Accounting Standards Update No 2016-01 (Note 1) | - | - | 18,277,328 | (18,277,328) | - | - |
| | 3,333 | 37,536,164 | 57,317,784 | 14,675,010 | 899,227 | 110,431,518 |
| Common stock issued during year | 13 | 360,799 | - | - | - | 360,812 |
| Treasury shares acquired and retired | (50) | (1,329,098) | - | - | - | (1,329,148) |
| Net income attributable to common shareholders | - | - | 12,391,117 | - | - | 12,391,117 |
| Unrealized holding loss on securities net of noncontrolling interest and reclassification adjustment and taxes | - | - | - | (14,612,515) | - | (14,612,515) |
| Contributions | - | - | - | - | - | - |
| Distributions | - | - | - | - | (374,252) | (374,252) |
| Gain attributable to noncontrolling interest | - | - | - | - | 209,178 | 209,178 |
| Balance at December 31, 2018 | $ 3,296 | 36,567,865 | 69,708,901 | 62,495 | 734,153 | 107,076,710 |

See accompanying notes.

UTG, Inc.
Consolidated Statements of Cash Flows
For the Years Ended December 31, 2019 and 2018

| | 2019 | 2018 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net income | $ 16,595,920 | $ 12,600,294 |
| Adjustments to reconcile net income to net cash used in operating activities: | | |
| Amortization (accretion) of investments | 136,991 | (142,519) |
| Other-than-temporary impairments | 650,956 | 300,000 |
| Realized investment gains, net | (13,678,981) | (12,340,077) |
| Change in fair value of equity securities | (12,530,315) | (10,416,758) |
| Realized trading (gains) losses included in income | 132,518 | - |
| Amortization of cost of insurance acquired | 775,906 | 806,065 |
| Depreciation | 1,039,453 | 1,067,297 |
| Stock-based compensation | 353,887 | 360,812 |
| Charges for mortality and administration of universal life and annuity products | (5,211,485) | (6,602,846) |
| Interest credited to account balances | 4,088,309 | 4,221,969 |
| Change in accrued investment income | 440,099 | 870,839 |
| Change in reinsurance receivables | 374,515 | 198,575 |
| Change in policy liabilities and accruals | (4,331,160) | (2,237,947) |
| Change in income taxes receivable (payable) | 592,995 | 270,518 |
| Change in other assets and liabilities, net | 1,988,577 | 5,985,699 |
| **Net cash used in operating activities** | (8,581,815) | (5,058,079) |
| Cash flows from investing activities: | | |
| Proceeds from investments sold and matured: | | |
| Fixed maturities available for sale | 14.390,181 | 66,408,611 |
| Equity securities | 14,385,393 | 2,169,989 |
| Mortgage loans | 5,283,749 | 8,878,073 |
| Real estate | 13,283,895 | 14,341,204 |
| Notes receivable | 20,261,459 | 6,783,702 |
| Policy loans | 1,635,686 | 1,599,896 |
| Short-term investments | - | 7,549,076 |
| Total proceeds from investments sold and matured | 69,240,363 | 107,730,551 |
| Cost of investments acquired: | | |
| Fixed maturities available for sale | (14,634,233) | (56,940,883) |
| Equity securities | (2,092,304) | (12,687,839) |
| Trading securities | (132,518) | - |
| Mortgage loans | (4,367,644) | (91,954) |
| Real estate | (1,958,982) | (15,704,151) |
| Notes receivable | (16,031,605) | (11,496,998) |
| Policy loans | (1,235,340) | (1,244,976) |
| Short-term investments | (10,403,628) | (7,549,076) |
| Total cost of investments acquired | (50,856,254) | (105,715,877) |
| **Net cash provided by investing activities** | 18,384,109 | 2,014,674 |
| Cash flows from financing activities: | | |
| Policyholder contract deposits | 4,669,825 | 4,696,980 |
| Policyholder contract withdrawals | (4,389,622) | (5,234,212) |
| Purchase of treasury stock | (909,368) | (1,329,148) |
| Noncontrolling contributions/(distributions) of consolidated subsidiary | (535,662) | (374,252) |
| **Net cash used in financing activities** | (1,164,827) | (2,240,632) |
| Net increase (decrease) in cash and cash equivalents | 8,637,467 | (5,284,037) |
| Cash and cash equivalents at beginning of year | 20,150,162 | 25,434,199 |
| Cash and cash equivalents at end of year | $ 28,787,629 | $ 20,150,162 |

See accompanying notes.

## Notes to Consolidated Financial Statements

### Note 1 – Summary of Significant Accounting Policies

**Business** – UTG, Inc. is an insurance holding company. The Company's dominant business is individual life insurance, which includes the servicing of existing insurance in-force and the acquisition of other companies in the life insurance business. UTG and its subsidiaries are collectively referred to as the "Company".

This document at times will refer to the Registrant's largest shareholder, Mr. Jesse T. Correll and certain companies controlled by Mr. Correll. Mr. Correll holds a majority ownership of First Southern Funding, LLC ("FSF"), a Kentucky corporation, and First Southern Bancorp, Inc. ("FSBI"), a financial services holding company. FSBI operates through its 100% owned subsidiary bank, First Southern National Bank ("FSNB"). Banking activities are conducted through multiple locations within south-central and western Kentucky. Mr. Correll is Chief Executive Officer and Chairman of the Board of Directors of UTG and is currently UTG's largest shareholder through his ownership control of FSF, FSBI and affiliates. At December 31, 2019, Mr. Correll owns or controls directly and indirectly approximately 66% of UTG's outstanding stock.

UTG's life insurance subsidiary has several wholly-owned and majority-owned subsidiaries. The subsidiaries were formed to hold certain real estate and other investments. The investments were placed into the limited liability companies and partnerships to provide additional protection to the policyholders and to UG.

**Basis of Presentation** – The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP"), under guidance issued by the Financial Accounting Standards Board ("FASB"). The preparation of financial statements in accordance with GAAP requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Principles of Consolidation** – The accompanying consolidated financial statements include the accounts of the Registrant and its wholly and majority-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated during consolidation.

**Business Segments** – The Company has only one business segment – life insurance.

**Investments** – The Company reports its investments as follows:

*Fixed Maturity Investments* – The Company classifies its fixed maturity investments, which include bonds, as available for sale. Investments classified as available for sale are carried at fair value with unrealized gains and losses, net of deferred taxes, reflected directly in accumulated other comprehensive income. Premiums and discounts on debt securities purchased at other than par value are amortized and accreted, respectively, to interest income in the Consolidated Statements of Operations, using the constant yield method over the period to maturity. Net realized gains and losses on sales of available for sale securities, and unrealized losses considered to be other-than-temporary, are recorded to net realized investment gains (losses) in the Consolidated Statements of Operations.

*Equity Securities at Fair Value* – Investments in equity securities, which include common and preferred stocks, are reported at fair value with unrealized gains and losses reported as a component of net income (loss).

*Equity Securities at Cost* – These investments are reported at their cost basis, minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. The Company adopted ASU 2016-01 during 2018 and transferred equity securities of $12,118,617, that do not have a readily determinable fair value, from equity securities at fair value to equity securities at cost on the financial statements. There was no impact to the Consolidated Statements of Operations or net Shareholders' Equity as a result of the change.

*Mortgage Loans on Real Estate* – Mortgage loans on real estate are reported at their unpaid principal balances, adjusted for amortization of premium or discount and valuation allowances. Valuation allowances are established for impaired loans when it is probable that contractual principal and interest will not be collected. Included in the mortgage loans balance is discounted mortgage loans on real estate. Discounted mortgage loans on real estate are loans that the Company purchased at a deep discount through an auction process led by the Federal Government or other intermediary. In general, the discounted loans are non-performing and there is a significant amount of uncertainty surrounding the timing and amount of cash flows to be received by the Company. Accordingly, the Company records its investment in the discounted loans at its original purchase price adjusted for any principal receipts. Management works with the borrower to reach a settlement on the loan or they foreclose on the underlying collateral which is primarily commercial real estate. For cash payments received during the work out process, the Company records these payments to interest income on a cash basis. For loan settlements reached, the Company records the amount in excess of the carrying amount of the loan as a discount accretion to investment income at the closing date. Management reviews the discount loan portfolio regularly for impairment. If an impairment is identified (after consideration of the underlying collateral), the Company records an impairment to earnings in the period the information becomes known.

*Investment Real Estate* – Investment real estate held for sale is reported at the lower of cost or fair value less cost to sell. Expenses to maintain the property are expensed as incurred.

*Notes Receivable* – Notes receivable are reported at their unpaid principal balances, adjusted for valuation allowances. Valuation allowances are established for impaired loans when it is probable that contractual principal and interest will not be collected. Interest accruals are analyzed based on the likelihood of repayment. The Company does not utilize a specified number of days delinquent to cause an automatic non-accrual status.

*Policy Loans* – Policy loans are reported at their unpaid balances, including accumulated interest, but not in excess of the cash surrender value of the related policy.

*Short-Term Investments* – Short-term investments have remaining maturities exceeding three months and under 12 months at the time of purchase and are state at amortized cost, which approximates fair value.

*Gains and Losses* – Realized gains and losses include sales of investments and investment impairments. If any, other-than-temporary impairments in fair value are recognized in net income on the specific identification basis.

**Fair Value** – Fair values for cash, short-term investments, short-term debt, receivables and payables approximate carrying value. Fair values for fixed maturities, equity securities and certain other assets are determined in accordance with specific accounting guidance. Fair values are based on quoted market prices, where available. Otherwise, fair values are based on quoted market prices of comparable instruments in active markets, quotes in inactive markets, or other observable criteria. Mortgage loans on real estate are estimated using discounted cash flow analyses. Discounted mortgage loans on real estate are reported at original purchase price, which Management believes approximates fair value. For more specific information regarding the

Company's measurements and procedures in valuing financial instruments, see Note 3 – Fair Value Measurements.

**Impairment of Investments** – The Company evaluates its investment portfolio for other-than-temporary impairments as described in Note 2 – Investments. If a security is deemed to be other-than-temporarily impaired, the cost basis of the security is written down to fair value and is treated as a realized loss.

Current accounting guidance states that if an entity intends to sell or if it is more likely than not that it will be required to sell an impaired security prior to recovery of its cost basis, the security is to be considered other-than-temporarily impaired and the full amount of impairment must be charged to earnings. Otherwise, losses on fixed maturities which are other-than-temporarily impaired are separated into two categories, the portion of the loss which is considered credit loss and the portion of the loss which is due to other factors. The credit loss portion is charged to earnings while the loss due to other factors is charged to other comprehensive income.

**Cash Equivalents** – Cash equivalents consist of money market accounts and investments with maturities of three months or less when purchased.

**Cash** – Cash consists of balances on hand and on deposit in banks and financial institutions.

**Reinsurance** - In the normal course of business, the Company seeks to limit its exposure to loss on any single insured and to recover a portion of benefits paid by ceding reinsurance to other insurance enterprises or reinsurers under excess coverage and coinsurance contracts. The Company retains a maximum of $125,000 of coverage per individual life.

Reinsurance receivables are recognized in a manner consistent with the liabilities relating to the underlying reinsured contracts. The cost of reinsurance related to long-duration contracts is accounted for over the life of the underlying reinsured policies using assumptions consistent with those used to account for the underlying policies.

**Cost of Insurance Acquired -** When an insurance company is acquired, the Company assigns a portion of its cost to the right to receive future cash flows from insurance contracts existing at the date of the acquisition. The cost of policies purchased represents the actuarially determined present value of the projected future profits from the acquired policies. Cost of insurance acquired is amortized with interest in relation to expected future profits, including direct charge-offs for any excess of the unamortized asset over the projected future profits. The amortization is adjusted retrospectively when estimates of current or future gross profits to be realized from a group of products are revised.

**Property and Equipment** - Company-occupied property, data processing equipment and furniture and office equipment are stated at cost less accumulated depreciation of $5,916,424 and $5,655,593 at December 31, 2019 and 2018, respectively. Depreciation is computed on a straight-line basis for financial reporting purposes using estimated useful lives of 3 to 30 years. Depreciation expense was $260,831 and $430,260 for the years ended December 31, 2019 and 2018, respectively.

**Future Policy Benefits and Expenses** - The liabilities for traditional life insurance and accident and health insurance policy benefits are computed using a net level method. These liabilities include assumptions as to investment yields, mortality, withdrawals, and other assumptions based on the life insurance subsidiary's experience adjusted to reflect anticipated trends and to include provisions for possible unfavorable deviations. The Company makes these assumptions at the time the contract is issued or, in the case of contracts acquired by purchase, at the purchase date. Future policy benefits for individual life insurance and annuity policies are computed using interest rates ranging from 2.0% to 6.0% for life insurance and 2.5% to 7.5% for annuities. Benefit reserves for traditional life insurance policies include certain deferred profits on limited-payment policies that are being recognized in income over the policy term. Policy benefit claims are charged to expense in the period that the claims are incurred. The mortality rate assumptions for policies currently issued by the Company are based on 2001 select and ultimate tables. Withdrawal rate assumptions are based upon Linton B or C, which are industry standard actuarial tables for forecasting assumed policy lapse rates.

Benefit reserves for universal life insurance and interest sensitive life insurance products are computed under a retrospective deposit method and represent policy account balances before applicable surrender charges. Policy benefits and claims that are charged to expense include benefit claims in excess of related policy account balances. Interest crediting rates for universal life and interest sensitive products range from 3.0% to 6.0% as of December 31, 2019 and 2018.

**Policy Claims and Benefits Payable** - Policy and contract claims include provisions for reported claims in process of settlement, valued in accordance with the terms of the policies and contracts, as well as provisions for claims incurred and unreported. The estimate of incurred and unreported claims is based on prior experience. The Company makes an estimate after careful evaluation of all information available to the Company. There is no certainty the stated liability for policy claims and benefits payable, including the estimate for incurred but unreported claims, will be the Company's ultimate obligation.

**Income Taxes** – Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax impact attributable to differences between the financial statement book values and tax bases of assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. More information concerning income taxes is provided in Note 6 – Income Taxes.

**Earnings Per Share** – The objective of both basic earnings per share ("EPS") and diluted EPS is to measure the performance of an entity over the reporting period. The Company presents basic and diluted EPS on the face of the Consolidated Statements of Operations. Basic EPS is computed by dividing income available to common shareholders by the weighted average common shares outstanding for the period. Diluted EPS is calculated by adding to shares outstanding the additional net effect of potentially dilutive securities or contracts, such as stock options, which could be exercised or converted into common shares.

**Recognition of Revenues and Related Expenses -** Premiums for traditional life insurance products, which include those products with fixed and guaranteed premiums and benefits, consist principally of whole life insurance policies, and certain annuities with life contingencies are recognized as revenues when due. Limited payment life insurance policies defer gross premiums received in excess of net premiums, which is then recognized in income in a constant relationship with insurance in-force. Accident and health insurance premiums are recognized as revenue pro rata over the terms of the policies. Benefits and related expenses associated with the premiums earned are charged to expense proportionately over the lives of the policies through a provision for future policy benefit liabilities and through deferral and amortization of deferred policy acquisition costs. For universal life and investment products, generally there is no requirement for payment of premium other than to maintain account values at a level sufficient to pay mortality and expense charges. Consequently, premiums for universal life policies and investment products are not reported as revenue, but as deposits. Policy fee revenue for universal life policies and investment products consists of charges for the cost of insurance and policy administration fees assessed during the period. Expenses include interest credited to policy account balances and benefit claims incurred in excess of policy account balances.

**Recently Issued Accounting Standards**

In January of 2020, the FASB issued Accounting Standards Update No. 2020-01, Investments - Equity Securities (Topic 321), Investments - Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815) - Clarifying the Interactions between Topic 321, Topic 323, and Topic 815 or ASU 2020-01. ASU 2020-01 clarifies the interaction between accounting standards related to equity securities, equity method investments, and certain derivatives. The ASU is effective for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. Early adoption is permitted. The Company is currently evaluating the impact that the adoption of this guidance will have on its consolidated financial statements.

In December of 2019, the FASB issued Accounting Standards Update No. 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes or ASU 2019-12. ASU 2019-12 is expected to reduce the cost and complexity related to the accounting for income taxes. The ASU removes specific exceptions to the general principles in Topic 740 and improves the financial statement preparer's application of income tax related guidance. The ASU is effective for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. Early adoption is permitted. The Company is currently evaluating the impact that the adoption of this guidance will have on its consolidated financial statements.

In August 2018, the FASB issued Accounting Standards Update No. 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement or ASU 2018-13. ASU 2018-13 modifies certain disclosure requirements related to fair value measurements including requiring disclosures on changes in unrealized gains and losses in other comprehensive income for recurring Level 3 fair value measurements and a requirement to disclose the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. The ASU is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted. The Company is currently evaluating the impact that the adoption of this guidance will have on its consolidated financial statements.

In August 2018, the FASB issued Accounting Standards Update No. 2018-12, Financial Services-Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts or ASU 2018-12. ASU 2018-12 significantly changes how insurers account for long-duration insurance contracts. The new guidance will require insurers to review and update, if necessary, the assumptions used to measure insurance liabilities periodically, rather than retain assumptions used at contract inception. The updated guidance also changes the recognition and measurement of deferred acquisition costs (DAC) and created a new category of benefit features called market risk benefits (MRB) that will be measured at fair value. The guidance also significantly expands the disclosure requirements for long-duration contracts. The ASU was originally effective for fiscal years, and interim periods within those years, for years beginning after December 15, 2020 and early adoption is permitted. The guidance on measuring the liabilities for future policy benefits and DAC will be adopted on a modified retrospective basis as of the earliest period presented in the year of adoption. The guidance on MRB will be adopted on a retrospective basis as of the earliest period presented in the year of adoption. In November of 2019, the FASB issued ASU 2019-09, which delayed the effective date of ASU 2018-12 to fiscal years beginning after December 15, 2023 for smaller reporting companies. The Company is currently evaluating the impact that the adoption of this guidance will have on its consolidated financial statements.

Accounting Standards Update (ASU 2016-13), Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments – The amendments included in ASU 2016-13 require the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better evaluate their credit loss estimates. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. In addition, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. ASU 2016-13 was originally effective for public companies for fiscal years beginning after December 15, 2019. In November of 2019, the FASB issued Accounting Standards Update No. 2019-10, which delayed the implementation of ASU 2016-13 to fiscal years beginning after December 15, 2022 for smaller reporting companies. The Company is currently evaluating the impact that the adoption of this guidance will have on its consolidated financial statements.

**Note 2 – Investments**

**Available for Sale Securities – Fixed Maturity and Equity Securities**

The following tables provide a summary of fixed maturities available for sale by original or amortized cost and estimated fair value:

| December 31, 2019 | Original or Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
|---|---|---|---|---|
| Investments available for sale: | | | | |
| Fixed maturities | | | | |
| U.S. Government and govt. agencies and authorities | $ 35,761,440 | $ 402,832 | $ (35,529) | $ 36,128,743 |
| U.S. special revenue and assessments | 14,371,263 | 832,100 | - | 15,203,363 |
| All other corporate bonds | 109,827,152 | 10,470,115 | - | 120,297,267 |
| Total | $ 159,959,855 | $ 11,705,047 | $ (35,529) | $ 171,629,373 |

| December 31, 2018 | Original or Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
|---|---|---|---|---|
| Investments available for sale: | | | | |
| Fixed maturities | | | | |
| U.S. Government and govt. agencies and authorities | $ 25,649,410 | $ 149,006 | $ (138,222) | $ 25,660,194 |
| U.S. special revenue and assessments | 16,350,486 | 334,300 | (4,406) | 16,680,380 |
| All other corporate bonds | 118,895,973 | 2,569,287 | (2,845,050) | 118,620,210 |
| Total | $ 160,895,869 | $ 3,052,593 | $ (2,987,678) | $ 160,960,784 |

The following table provides a summary of fixed maturities by contractual maturity as of December 31, 2019. Actual maturities could differ from contractual maturities due to call or prepayment provisions:

| Fixed Maturities Available for Sale December 31, 2019 | Amortized Cost | Estimated Fair Value |
|---|---|---|
| Due in one year or less | $ 11,286,769 | $ 11,461,374 |
| Due after one year through five years | 50,028,712 | 51,609,109 |
| Due after five years through ten years | 50,866,597 | 56,224,286 |
| Due after ten years | 47,777,777 | 52,334,604 |
| Total | $ 159,959,855 | $ 171,629,373 |

By insurance statute, the majority of the Company's investment portfolio is invested in investment grade securities to provide ample protection for policyholders.

Below investment grade debt securities generally provide higher yields and involve greater risks than investment grade debt securities because their issuers typically are more highly leveraged and more vulnerable to adverse economic conditions than investment grade issuers. In addition, the trading market for these securities is usually more limited than for investment grade debt securities. Debt securities classified as below-investment grade are those that receive a Standard & Poor's rating of BB+ or below.

The Company held below investment grade investments with an estimated market value of $1,031,570 and $2,618,594 as of December 31, 2019 and December 31, 2018, respectively. The investments are all classified as "All other corporate bonds".

The fair value of investments with sustained gross unrealized losses at December 31, 2019 and 2018 are as follows:

| December 31, 2019 | Less than 12 months | | 12 months or longer | | Total | |
|---|---|---|---|---|---|---|
| | Fair value | Unrealized losses | Fair value | Unrealized losses | Fair value | Unrealized losses |
| U.S. Government and govt. agencies and authorities | $ 6,059,380 | (35,529) | $ - | - | $ 6,059,380 | (35,529) |
| Total fixed maturities | $ 6,059,380 | (35,529) | $ - | - | $ 6,059,380 | (35,529) |

| December 31, 2018 | Less than 12 months | | 12 months or longer | | Total | |
|---|---|---|---|---|---|---|
| | Fair value | Unrealized losses | Fair value | Unrealized losses | Fair value | Unrealized losses |
| U.S. Government and govt. agencies and authorities | $ 6,429,700 | (49,904) | $ 1,592,679 | (88,318) | $ 8,022,379 | (138,222) |
| U.S. special revenue and assessments | 4,023,920 | (4,406) | - | - | 4,023,920 | (4,406) |
| All other corporate bonds | 49,270,729 | (2,033,507) | 15,337,739 | (811,543) | 64,608,468 | (2,845,050) |
| Total fixed maturities | $ 59,724,349 | (2,087,817) | $ 16,930,418 | (899,861) | $ 76,654,767 | (2,987,678) |

The following table provides additional information regarding the number of securities that were in an unrealized loss position for greater than or less than twelve months:

| | Less than 12 months | 12 months or longer | Total |
|---|---|---|---|
| As of December 31, 2019 | | | |
| Fixed maturities | 3 | - | 3 |
| As of December 31, 2018 | | | |
| Fixed maturities | 30 | 10 | 40 |

Substantially all of the unrealized losses on fixed maturities available for sale at December 31, 2019 and 2018 are attributable to changes in market interest rates and general disruptions in the credit market subsequent to purchase. The Company does not currently intend to sell nor does it expect to be required to sell any of the securities in an unrealized loss position. Based upon the Company's expected continuation of receipt of contractually required principal and interest payments and its intent and ability to retain the securities until price recovery, as well as the Company's evaluation of other relevant factors, the Company deems these securities to be temporarily impaired as of December 31, 2019 and 2018.

### Cost Method Investments

The Company held equity investments with an aggregate cost of $10,919,247 and $12,118,617 at December 31, 2019 and 2018, respectively. These equity investments were not reported at fair value because it is not practicable to estimate their fair values due to insufficient information being available. Management did not identify any events or changes in circumstances that might have a significant adverse effect on the reported value of those investments. Based on Management's evaluation of the expected cash flow of the investments, and the Company's ability and intent to hold the investments for a reasonable period of time, the Company does not deem an other-than-temporary impairment necessary at December 31, 2019.

### Trading Securities

Securities designated as trading securities are reported at fair value, with gains or losses resulting from changes in fair value recognized in net investment income on the Consolidated Statements of Operations. Trading Securities included exchange-traded equities and exchange-traded options. Trading securities carried as liabilities were securities sold short. A gain, limited to the price at which the security was sold short, or a loss, potentially unlimited in size, was recognized upon the termination of the short sale. Earnings from trading securities were classified in cash flows from operating activities. The Company did not hold any trading securities at December 31, 2019 or 2018.

The following table reflects trading securities revenue charged to net investment income for the periods ended December 31:

| | 2019 | 2018 |
|---|---|---|
| Net unrealized gains (losses) | $ - | - |
| Net realized gains (losses) | (132,518) | - |
| Net unrealized and realized gains (losses) | $ (132,518) | $ - |

### Mortgage Loans on Real Estate

The Company, from time to time, acquires mortgage loans through participation agreements with FSNB. FSNB has been able to provide the Company with additional expertise and experience in underwriting commercial and residential mortgage loans, which provide more attractive yields than the traditional bond market. The Company is able to receive participations from FSNB for three primary reasons: 1) FSNB has already reached its maximum lending limit to a single borrower, but the borrower is still considered a suitable risk; 2) the interest rate on a particular loan may be fixed for a long period that is more suitable for UG given its asset-liability structure; and 3) FSNB’s loan growth might at times outpace its deposit growth, resulting in FSNB participating such excess loan growth rather than turning customers away. For originated loans, the Company’s Management is responsible for the final approval of such loans after evaluation. Before a new loan is issued, the applicant is subject to certain criteria set forth by Company Management to ensure quality control. These criteria include, but are not limited to, a credit report, personal financial information such as outstanding debt, sources of income, and personal equity. Once the loan is approved, the Company directly funds the loan to the borrower. The Company bears all risk of loss associated with the terms of the mortgage with the borrower.

During 2019 and 2018, the Company acquired $4,367,644 and $91,954 in mortgage loans, respectively. FSNB services the majority of the Company's mortgage loan portfolio. The Company pays FSNB a .25% servicing fee on these loans and a one-time fee at loan origination of .50% of the original loan cost to cover costs incurred by FSNB relating to the processing and establishment of the loan.

During 2019 and 2018, the maximum and minimum lending rates for mortgage loans were:

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | Maximum rate | Minimum rate | Maximum rate | Minimum rate |
| Farm Loans | 5.00 % | 5.00 % | 5.00 % | 5.00 % |
| Commercial Loans | 7.50 % | 4.82 % | 7.50 % | 4.00 % |
| Residential Loans | 5.50 % | 5.50 % | 8.00 % | 8.00 % |

Most mortgage loans are first position loans. Loans issued are generally limited to no more than 80% of the appraised value of the property.

The Company has in place a monitoring system to provide Management with information regarding potential troubled loans. Letters are sent to each mortgagee when the loan becomes 30 days or more delinquent. Management is provided with a monthly listing of loans that are 60 days or more past due. All loans 90 days or more past due are placed on a non-performing status and classified as delinquent loans. Quarterly, coinciding with external financial reporting, the Company reviews each delinquent loan and determines how each delinquent loan should be classified. Management believes the current internal controls surrounding the mortgage loan selection process provide a quality portfolio with minimal risk of foreclosure and/or negative financial impact.

Changes in the current economy could have a negative impact on the loans, including the financial stability of the borrowers, the borrowers' ability to pay or to refinance, the value of the property held as collateral and the ability to find purchasers at favorable prices. Interest accruals are analyzed based on the likelihood of repayment. In no event will interest continue to accrue when accrued interest along with the outstanding principal exceeds the net realizable value of the property. The Company does not utilize a specified number of days delinquent to cause an automatic non-accrual status.

A mortgage loan reserve is established and adjusted based on Management's quarterly analysis of the portfolio and any deterioration in value of the underlying property which would reduce the net realizable value of the property below its current carrying value. The mortgage loan reserve was $0 at December 31, 2019 and December 31, 2018.

The following table summarizes the mortgage loan holdings of the Company for the periods ended December 31:

| | 2019 | 2018 |
|---|---|---|
| In good standing | $ 8,223,286 | $ 7,169,272 |
| Overdue interest over 90 days | - | 1,899,839 |
| Total mortgage loans | $ 8,223,286 | $ 9,069,111 |
| Total foreclosed loans during the year | $ 234,044 | $ - |

### Investment Real Estate

Investment real estate held for sale is reported at the lower of cost or fair value less cost to sell. Investment Real estate acquired through foreclosure, consisting of properties obtained through foreclosure proceedings or acceptance of a deed in lieu of foreclosure, is reported on an individual asset basis at the lower of cost or fair value, less disposal costs. Fair value is determined on the basis of current appraisals, comparable sales, and other estimates of value obtained principally from independent sources. When properties are acquired through foreclosure, any excess of the loan balance at the time of foreclosure over the fair value of the real estate held as collateral is recognized and charged to the Consolidated Statements of Operations. Based upon Management’s evaluation of the real estate acquired through foreclosure, additional expense is recorded when necessary in an amount sufficient to reflect any declines in estimated fair value.

The Company's investment real estate portfolio includes ownerships in oil and gas royalties. As of December 31, 2019 and 2018, investments in oil and gas royalties represented 44% and 43%, respectively, of the total investment real estate portfolio.

Gains and losses recognized on the disposition of the properties are recorded as realized gains and losses in the Consolidated Statements of Operations. During 2019 and 2018, the Company acquired $1,958,982 and $15,704,151 of investment real estate, respectively.

### Notes Receivable

Notes receivable represent collateral loans and promissory notes issued by the Company and are reported at their unpaid principal balances, adjusted for valuation allowances. Valuation allowances are established for impaired loans when it is probable that contractual principal and interest will not be collected. The valuation allowance as of December 31, 2019 and 2018 was $0. Interest accruals are analyzed based on the likelihood of repayment. The Company does not utilize a specified number of days delinquent to cause an automatic non-accrual status. During 2019 and 2018, the Company acquired $16,031,605 and $11,496,998 of notes receivable, respectively.

Before a new note is issued, the applicant is subject to certain criteria set forth by Company Management to ensure quality control. Once the note is approved, the Company directly funds the note to the borrower. Several of the notes have participation agreements in place, whereas the Company has reduced its investment in the note receivable by participating a portion of the note to a third party.

Similar to the mortgage loans, FSNB services several of the notes receivable. The Company, and the participants in the notes, share in the risk of loss associated with the terms of the note with the borrower, based upon their ownership percentage in the note. The Company has in place a monitoring system to provide Management with information regarding potential troubled loans.

## Analysis of Investment Operations

The following table reflects the Company's net investment income for the periods ended December 31:

| | 2019 | 2018 |
|---|---|---|
| Fixed maturities | $ 5,854,031 | $ 7,273,157 |
| Equity securities | 1,543,904 | 1,628,649 |
| Mortgage loans | 497,841 | 1,234,115 |
| Real estate | 2,934,666 | 2,771,348 |
| Notes receivable | 1,848,314 | 979,742 |
| Policy loans | 607,537 | 646,993 |
| Cash and cash equivalents | 175,917 | 355,276 |
| Short-term | - | 18,159 |
| Total consolidated investment income | 13,444,210 | 14,907,439 |
| Investment expenses | (2,128,564) | (3,704,771) |
| Consolidated net investment income | $ 11,315,646 | $ 11,202,668 |

The following table presents the Company's net realized investments gains (losses) and the change in net unrealized gains on available-for-sale investments for the periods ended December 31:

| | 2019 | 2018 |
|---|---|---|
| Realized gains on available-for-sale investments: | | |
| Sales of fixed maturities | $ 331,322 | $ 11,708,320 |
| Sales of equity securities | 9,560,716 | - |
| Sales of real estate | 3,929,195 | 1,588,122 |
| Other | - | - |
| Total realized gains | 13,821,233 | 13,296,442 |
| Realized losses on available-for-sale investments: | | |
| Sales of fixed maturities | (142,252) | (956,365) |
| Sales of equity securities | - | - |
| Sales of real estate | - | - |
| Other-than-temporary impairments | (650,956) | (300,000) |
| Other | (132,518) | - |
| Total realized losses | (925,726) | (1,256,365) |
| Net realized investment gains (losses) | 12,895,507 | 12,040,077 |
| Change in fair value of equity securities: | | |
| Change in fair value of equity securities held at the end of the period | 12,530,315 | 10,416,758 |
| Change in fair value of equity securities | 12,530,315 | 10,416,758 |
| Net investment gains (losses) | $ 25,425,822 | $ 22,456,835 |
| Change in net unrealized gains (losses) on available-for-sale investments included in other comprehensive income: | | |
| Fixed maturities | $ 10,822,757 | $ (7,744,899) |
| Net increase (decrease) | $ 10,822,757 | $ (7,744,899) |

**Other-Than-Temporary Impairments**

The Company regularly reviews its investment securities for factors that may indicate that a decline in fair value of an investment is other than temporary. The factors considered by Management in its regular review to identify and recognize other-than-temporary impairment losses on fixed maturities include, but are not limited to: the length of time and extent to which the fair value has been less than cost; the Company's intent to sell, or be required to sell, the debt security before the anticipated recovery of its remaining amortized cost basis; the financial condition and near-term prospects of the issuer; adverse changes in ratings announced by one or more rating agencies; subordinated credit support, whether the issuer of a debt security has remained current on principal and interest payments; current expected cash flows; whether the decline in fair value appears to be issuer specific or, alternatively, a reflection of general market or industry conditions, including the effect of changes in market interest rates. If the Company intends to sell a debt security, or it is more likely than not that it would be required to sell a debt security before the recovery of its amortized cost basis, the entire difference between the security's amortized cost basis and its fair value at the balance sheet date would be recognized by a charge to other-than-temporary losses in the Condensed Consolidated Statements of Operations.

Management regularly reviews its real estate portfolio in comparison to appraisal valuations and current market conditions for indications of other-than-temporary impairments. If a decline in value is judged by Management to be other-than-temporary, a loss is recognized by a charge to other-than-temporary impairment losses in the Consolidated Statements of Operations.

The other-than-temporary impairments recognized during 2018 and 2019 were taken as a result of Management's assessment and determination of value of the investments. The investments were written down to better reflect their current expected value.

Based on Management's review of the investment portfolio, the Company recorded the following losses for other-than-temporary impairments in the Consolidated Statements of Operations for the periods ended December 31:

| | 2019 | 2018 |
|---|---|---|
| Other than temporary impairments: | | |
| Fixed Maturities | $ 650,956 | $ - |
| Real Estate | - | 300,000 |
| Total other than temporary impairments | $ 650,956 | $ 300,000 |

**Investments on Deposit**

The Company had investments with a fair value of $8,371,827 and $8,317,514 on deposit with various state insurance departments as of December 31, 2019 and 2018, respectively.

**Note 3 – Fair Value Measurements**

The Company measures its assets and liabilities recorded at fair value in the Consolidated Balance Sheets based on the framework set forth in the GAAP fair value accounting guidance. The framework establishes a fair value hierarchy of three levels based upon the transparency of information used in measuring the fair value of assets or liabilities as of the measurement date. The fair value hierarchy prioritizes the inputs in the valuation techniques used to measure fair value into three categories.

Level 1 – Valuation is based upon quoted prices for identical assets or liabilities in active markets that the Company is able to access. Level 1 fair value is not subject to valuation adjustments.

Level 2 – Valuation is based upon quoted prices for similar assets and liabilities in active markets or quoted prices for identical or similar instruments in markets that are not active. In addition, the Company may use various valuation techniques or pricing models that use observable inputs to measure fair value.

Level 3 – Valuation is based upon unobservable inputs that are supported by little or no market activity and are significant to the fair value of the assets or liabilities. Unobservable inputs reflect the Company's own assumptions about the inputs that market participants would use in pricing the asset or liability.

The Company determines the existence of an active market for an asset or liability based on its judgment as to whether transactions for the asset or liability occur in such market with sufficient frequency and volume to provide reliable pricing information. If the Company concludes that there has been a significant decrease in the volume and level of activity for an investment in relation to normal market activity for such investment, adjustments to transactions and quoted prices are made to estimate fair value.

The inputs used in the valuation techniques employed by the Company are provided by nationally recognized pricing services, external investment managers and internal resources. To assess these inputs, the Company's review process includes, but is not limited to quantitative analysis including benchmarking, initial and ongoing evaluations of methodologies used by external parties to calculate fair value, and ongoing evaluations of fair value estimates based on the Company's knowledge and monitoring of market conditions.

The Company periodically reviews the pricing service provider's policies and procedures for valuing securities. The assumptions underlying the valuations from external service providers, including unobservable inputs, are generally not readily available as this information is often deemed proprietary. Accordingly, the Company is unable to obtain comprehensive information regarding these assumptions and methodologies.

The Company's investments in fixed maturity securities available for sale, equity securities, and trading securities assets and liabilities are carried at fair value. The following are the Company's methodologies and valuation techniques for assets and liabilities measured at fair value.

Fixed maturities available for sale mainly consist of U.S. treasury securities and corporate debt securities. The Company employs a market approach to the valuation of securities where there are sufficient market transactions involving identical or comparable assets. If sufficient market data is not available for identical or comparable assets, the Company uses an income approach to valuation. The majority of the financial instruments included in fixed maturity securities available for sale are evaluated utilizing observable inputs; accordingly, they are categorized in either Level 1 or Level 2 of the fair value hierarchy. However, in instances where significant inputs utilized in valuation of the securities are unobservable, the securities are categorized in Level 3 of the fair value hierarchy.

Corporate securities primarily include fixed rate corporate bonds. Inputs utilized in connection with the Company's valuation techniques relating to this class of securities include recently executed transactions, market price quotations, benchmark yields and issuer spreads. Corporate securities are categorized in Level 2 of the fair value hierarchy.

U.S. treasury securities are based on quoted prices in active markets and are generally categorized in Level 1 of the fair value hierarchy.

Equity securities consist of common and preferred stocks mainly in private equity investments, financial institutions and publicly traded corporations. Equity securities for which there is sufficient market data are categorized as Level 1 or 2 in the fair value hierarchy. For the equity securities in which quoted market prices are not available, the Company uses industry standard pricing methodologies, including discounted cash flow models that may incorporate various inputs such as payment expectations, risk of the investment, market data, and health of the underlying company. The inputs are based upon Management's assumptions and available market information. When evidence is believed to support a change to the carrying value from the transaction price, adjustments are made to reflect the expected cash flows, material events and market data. These investments are included in Level 3 of the fair value hierarchy.

During 2019, the Company received an offer to purchase its investments in certain music royalties held in the form of Level 3 equity investments. As a result of this event, the Company elected to change its valuation methodology from using discounted cash flow models to estimate fair value to marking the investment do the offer price to estimate the fair value. The change in methodology resulted in recording an unrealized gain on investment of approximately $2.1 million during the year ended December 31, 2019. The investments were sold during the first quarter of 2020. The Company recognized a gain of approximately $4.2 million on the sale. The 2020 net income is unaffected by the sale as the realized gain is offset by the unrealized gain reversal at the time of sale.

The following table presents the Company’s assets and liabilities measured at fair value in the consolidated balance sheet on a recurring basis as of December 31, 2019.

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Assets** | | | | |
| Fixed Maturities, available for sale | $ 36,128,743 | $ 135,500,630 | $ - | $ 171,629,373 |
| Equity Securities | 29,888,281 | 14,258,750 | 34,514,762 | 78,661,793 |
| Total | $ 66,017,024 | $ 149,759,380 | $ 34,514,762 | $ 250,291,166 |

The following table presents the Company’s assets and liabilities measured at fair value in the consolidated balance sheet on a recurring basis as of December 31, 2018.

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Assets** | | | | |
| Fixed Maturities, available for sale | $ 25,660,194 | $ 134,865,746 | $ 434,844 | $ 160,960,784 |
| Equity Securities | 27,634,283 | 10,557,031 | 29,473,168 | 67,664,482 |
| Total | $ 53,294,477 | $ 145,422,777 | $ 29,908,012 | $ 228,625,266 |

The following table provides reconciliations for Level 3 assets measured at fair value on a recurring basis. Transfers into and out of Level 3 are recognized as of the end of the quarter in which they occur.

| | Fixed Maturities, Available for Sale | Equity Securities | Total |
|---|---|---|---|
| Balance at December 31, 2018 | $ 434,844 | $ 29,473,168 | $ 29,908,012 |
| Transfers in to Level 3 | - | - | - |
| Transfers out of Level 3 | - | - | - |
| Total unrealized gains (losses): | | | |
| Included in net income (loss) | - | 6,461,670 | 6,461,670 |
| Included in other comprehensive income | (422,927) | - | (422,927) |
| Purchases | - | 1,038,220 | 1,038,220 |
| Sales | (11,917) | (2,458,296) | (2,470,213) |
| Balance at December 31, 2019 | $ - | $ 34,514,762 | $ 34,514,762 |

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Change in fair value of equity securities included in net income (loss) relation to assets held | $ 6,461,670 | $ 4,633,751 |

The Level 3 securities include one fixed maturity and certain equity securities with unobservable inputs. The Company computed fair value of Level 3 equity investments based on a review of current financial information, earnings trends and similar companies in the same industries.

The Company did not transfer any assets in or out of Level 3 during 2019. The Company transferred certain cost method investments out of Level 3 during 2018. Transfers occur when there is a lack of observable market information.

Certain assets are not carried at fair value on a recurring basis, including investments such as mortgage loans and policy loans. Accordingly, such investments are only included in the fair value hierarchy disclosure when the investment is subject to re-measurement at fair value after initial recognition and the resulting re-measurement is reflected in the Consolidated Financial Statements.

The carrying values and estimated fair values of certain of the Company's financial instruments not recorded at fair value in the Consolidated Balance Sheets are shown below. Because the fair value for all Consolidated Balance Sheet items are not required to be disclosed, the aggregate fair value amounts presented below are not reflective of the underlying value of the Company.

| | December 31, 2019 | | December 31, 2018 | |
|---|---|---|---|---|
| **Assets** | Carrying Amount | Estimated Fair Value | Carrying Amount | Estimated Fair Value |
| Equity securities | $ 10,919,247 | 10,919,247 | $ 12,118,617 | $ 12,118,617 |
| Mortgage loans on real estate | 8,223,286 | 8,223,286 | 9,069,111 | 9,069,111 |
| Investment real estate | 44,344,236 | 44,344,236 | 52,518,577 | 52,518,577 |
| Notes receivable | 19,487,458 | 19,487,458 | 23,717,312 | 23,717,312 |
| Policy loans | 8,803,876 | 8,803,876 | 9,204,222 | 9,204,222 |
| Short-term investments | 10,442,173 | 10,422,173 | - | - |
| Cash and cash equivalents | 28,787,629 | 28,787,629 | 20,150,162 | 20,150,162 |

The above estimated fair value amounts have been determined based upon the following valuation methodologies. Considerable judgment was required to interpret market data in order 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 fair values of mortgage loans on real estate are estimated using discounted cash flow analyses and interest rates being offered for similar loans to borrowers with similar credit ratings. The inputs used to measure the fair value of our mortgage loans on real estate are classified as Level 3 within the fair value hierarchy.

A portion of the mortgage loans balance consists of discounted mortgage loans. The Company has historically purchased non-performing discounted mortgage loans at a deep discount through an auction process led by the Federal Government. In general, the discounted loans are non-performing and there is a significant amount of uncertainty surrounding the timing and amount of cash flows to be received by the Company. Accordingly, the Company records its investment in the discounted loans at its original purchase price, which Management believes approximates fair value. The inputs used to measure the fair value of our discounted mortgage loans are classified as Level 3 within the fair value hierarchy.

Investment real estate, including the Company's investment in oil and gas royalties, is recorded at the lower of the net investment in the real estate or the fair value of the real estate less costs to sell. The determination of fair value assessments are performed on a periodic, non-recurring basis by external appraisal and assessment of property values by Management. The inputs used to measure the fair value of our investment real estate are classified as Level 3 within the fair value hierarchy.

Notes receivable are carried at their unpaid principal balances, which approximates fair value. The inputs used to measure the fair value of the loans are classified as Level 3 within the fair value hierarchy.

Policy loans are carried at the aggregate unpaid principal balances in the Consolidated Balance Sheets which approximate fair value, and earn interest at rates ranging from 4% to 8%. Individual policy liabilities in all cases equal or exceed outstanding policy loan balances. The inputs used to measure the fair value of our policy loans are classified as Level 3 within the fair value hierarchy.

Short-term investments are stated at amortized costs, which approximated fair value.

The carrying amount of cash and cash equivalents in the Consolidated Balance Sheets approximates fair value given the highly liquid nature of the instruments. The inputs used to measure the fair value of our cash and cash equivalents are classified as Level 1 within the fair value hierarchy.

**Note 4 - Reinsurance**

As is customary in the insurance industry, the insurance subsidiary cedes insurance to, and assumes insurance from, other insurance companies under reinsurance agreements. Reinsurance agreements are intended to limit a life insurer's maximum loss on a large or unusually hazardous risk or to obtain a greater diversification of risk. The ceding insurance company remains primarily liable with respect to ceded insurance should any reinsurer be unable to meet the obligations assumed by it. However, it is the practice of insurers to reduce their exposure to loss to the extent that they have been reinsured with other insurance companies. The Company sets a limit on the amount of insurance retained on the life of any one person. The Company will not retain more than $125,000, including accidental death benefits, on any one life. At December 31, 2019, the Company had gross insurance in-force of $1.1 billion of which approximately $214 million was ceded to reinsurers. At December 31, 2018, the Company had gross insurance in-force of $1.1 billion of which approximately $228 million was ceded to reinsurers.

The Company's reinsured business is ceded to numerous reinsurers. The Company monitors the solvency of its reinsurers in seeking to minimize the risk of loss in the event of a failure by one of the parties. The Company is primarily liable to the insureds even if the reinsurers are unable to meet their obligations. The primary reinsurers of the Company are large, well-capitalized entities.

Most recently, UG utilized reinsurance agreements with Optimum Re Insurance Company ("Optimum"), and Swiss Re Life and Health America Incorporated ("SWISS RE"). Optimum and SWISS RE currently hold an "A" (Excellent) and "A+" (Superior) rating, respectively, from A.M. Best, an industry rating company. The reinsurance agreements were effective December 1, 1993, and covered most new business of UG. Under the terms of the agreements, UG cedes risk amounts above its retention limit of $100,000 with a minimum cession of $25,000. Ceded amounts are shared equally between the two reinsurers on a yearly renewable term ("YRT") basis, a common industry method. The treaty is self-administered; meaning the Company records the reinsurance results and reports them to the reinsurers.

Also, Optimum is the reinsurer of 100% of the accidental death benefits ("ADB") in force of UG. This coverage is renewable annually at the Company's option. Optimum specializes in reinsurance agreements with small to mid-size carriers such as UG.

UG entered into a coinsurance agreement with Park Avenue Life Insurance Company ("PALIC") effective September 30, 1996. Under the terms of the agreement, UG ceded to PALIC substantially all of its then in-force paid-up life insurance policies. Paid-up life insurance generally refers to non-premium paying life insurance policies. Under the terms of the agreement, UG sold 100% of the future results of this block of business to PALIC through a coinsurance agreement. UG continues to administer the business for PALIC and receives a servicing fee through a commission allowance based on the remaining in-force policies each month. PALIC has the right to assumption reinsure the business, at its option, and transfer the administration. The Company is not aware of any such plans. PALIC's ultimate parent, The Guardian Life Insurance Company of America ("Guardian"), currently holds an "A++" (Superior) rating from A.M. Best. The PALIC agreement accounts for approximately 64% and 63% of UG's reinsurance reserve credit, as of December 31, 2019 and 2018, respectively.

The Company does not have any short-duration reinsurance contracts. The effect of the Company's long-duration reinsurance contracts on premiums earned in 2019 and 2018 were as follows:

| | 2019 Premiums Earned | 2018 Premiums Earned |
|---|---|---|
| Direct | $ 9,601,259 | $ 10,074,892 |
| Assumed | 353 | 1,459 |
| Ceded | (2,535,980) | (2,862,701) |
| Net Premiums | $ 7,065,632 | $ 7,213,650 |

**Note 5 – Cost of Insurance Acquired**

When an insurance company is acquired, the Company assigns a portion of its cost to the right to receive future cash flows from insurance contracts existing at the date of the acquisition. The cost of policies purchased represents the actuarially determined present value of the projected future profits from the acquired policies. Cost of insurance acquired is amortized with interest in relation to expected future profits, including direct charge-offs for any excess of the unamortized asset over the projected future profits. The interest rates utilized may vary due to differences in the blocks of business. The interest rate utilized in the amortization calculation of the remaining cost of insurance acquired is 12%. The amortization is adjusted retrospectively when estimates of current or future gross profits to be realized from a group of products are revised.

| | 2019 | 2018 |
|---|---|---|
| Cost of insurance acquired, beginning of year | $ 5,622,227 | $ 6,428,292 |
| Interest accretion | 769,612 | 866,339 |
| Amortization | (1,545,518) | (1,672,404) |
| Net amortization | (775,906) | (806,065) |
| Cost of insurance acquired, end of year | $ 4,846,321 | $ 5,622,227 |

Estimated net amortization expense of cost of insurance acquired for the next five years is as follows:

| | Interest Accretion | Amortization | Net Amortization |
|---|---|---|---|
| 2020 | 676,503 | 1,421,353 | 744,850 |
| 2021 | 587,120 | 1,302,090 | 714,970 |
| 2022 | 501,324 | 1,189,672 | 688,348 |
| 2023 | 418,722 | 1,079,979 | 661,257 |
| 2024 | 339,372 | 975,187 | 635,815 |

**Note 6 – Income Taxes**

UTG and UG file separate federal income tax returns.

Income tax expense (benefit) consists of the following components:

| | 2019 | 2018 |
|---|---|---|
| Current tax | $ 1,698,995 | $ 1,922,542 |
| Deferred tax | 1,892,306 | 1,984,994 |
| Income tax expense | $ 3,591,301 | $ 3,907,536 |

The expense for income taxes differed from the amounts computed by applying the applicable United States statutory rate of 21% and 21% as of December 31, 2019 and 2018, respectively, before income taxes as a result of the following differences:

| | 2019 | 2018 |
|---|---|---|
| Tax computed at statutory rate | $ 4,239,316 | $ 3,466,644 |
| Changes in taxes due to: | | |
| Non-controlling interest | (68,280) | (43,927) |
| Dividend received deduction | (175,866) | (170,690) |
| Other | (403,869) | 655,509 |
| Income tax expense | $ 3,591,301 | $ 3,907,536 |

The following table summarizes the major components that comprise the deferred tax liability as reflected in the balance sheets:

| | 2019 | 2018 |
|---|---|---|
| Investments | $ 10,983,955 | $ 6,939,758 |
| Cost of insurance acquired | 1,017,727 | 1,180,668 |
| Management/consulting fees | (9,147) | (15,724) |
| Future policy benefits | (460,923) | (1,670,814) |
| Deferred gain on sale of subsidiary | 1,387,490 | 1,387,490 |
| Other assets (liabilities) | 197,876 | 65,573 |
| Reserves adjustment | 288,320 | 1,426,205 |
| Federal tax DAC | (182,694) | (199,676) |
| Deferred tax liability | $ 13,222,604 | $ 9,113,480 |

At December 31, 2019 and 2018, the Company had gross deferred tax assets of $1,359,230 and $2,723,053, respectively, and gross deferred tax liabilities of $14,581,834 and $11,836,533, respectively, resulting from temporary differences primarily related to the life insurance subsidiary. A valuation allowance is to be provided when it is more likely than not that deferred tax assets will not be realized by the Company. No valuation allowance has been recorded (except as noted below) relating to the Company's deferred tax assets since, in Management's judgment, the Company will more likely than not have sufficient taxable income in future periods to fully realize its existing deferred tax assets.

The Company also has a deferred tax asset of $0 and $43,717 relating to an AMT tax carryforward as of December 31, 2019 and 2018, respectively. As a result of the changes to the Alternative Minimum Tax and corresponding credits resulting from the Tax Cuts and Jobs Act ("TCJA"), Management has determined that an allowance against this asset is no longer required.

The Company's Federal income tax returns are periodically audited by the Internal Revenue Service ("IRS"). There are currently no examinations in process, nor is Management aware of any pending examination by the IRS. The Company follows the accounting guidance for uncertainty in income taxes using the provisions of Financial Accounting Standards Board ("FASB") ASC 740, Income Taxes. Using that guidance, tax positions initially need to be recognized in the financial statements when it is more-likely-than-not the position will be sustained upon examination by the tax authorities. Such tax positions initially and subsequently need to be measured as the largest amount of tax benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with the tax authority assuming full knowledge of the position and relevant facts. The Company has evaluated its tax positions, expiring statutes of limitations, changes in tax law and new authoritative rulings and believes that no disclosure relative to a provision of income taxes is necessary, at this time, to cover any uncertain tax positions. Tax years that remain subject to examination are the years ended December 31, 2016, 2017, 2018 and 2019.

The Company classifies interest and penalties on underpayment of income taxes as income tax expense. No interest or penalties were included in the reported income taxes for the years presented. The Company is not aware of any potential or proposed changes to any of its tax filings.

## Note 7 – Credit Arrangements

At December 31, 2019 and 2018, the Company had the following lines of credit available:

| Instrument | Issue Date | Maturity Date | Revolving Credit Limit | December 31, 2018 | Borrowings | Repayments | December 31, 2019 |
|---|---|---|---|---|---|---|---|
| Lines of Credit: | | | | | | | |
| UTG | 11/20/2013 | 11/20/2020 | $ 8,000,000 | $ - | - | - | $ - |
| UG | 6/2/2015 | 5/8/2020 | 10,000,000 | - | - | - | - |

The UTG line of credit carries interest at a fixed rate of 4.040% and is payable monthly. As collateral, UTG has pledged 100% of the common voting stock of its wholly owned subsidiary, Universal Guaranty Life Insurance Company ("UG").

During May of 2019, the Federal Home Loan Bank approved UG's Cash Management Advance Application ("CMA"). The CMA gives the Company the option of selecting a variable rate of interest for up to 90 days or a fixed rate for a maximum of 30 days. The variable rate CMA is prepayable at any time without a fee, while the fixed CMA is not prepayable prior to maturity.

## Note 8 – Commitments and Contingencies

The insurance industry has experienced a number of civil jury verdicts which have been returned against life and health insurers in the jurisdictions in which the Company does business involving the insurers' sales practices, alleged agent misconduct, failure to properly supervise agents, and other matters. Some of the lawsuits have resulted in the award of substantial judgments against the insurer, including material amounts of punitive damages. In some states, juries have substantial discretion in awarding punitive damages in these circumstances. In the normal course of business, the Company is involved from time to time in various legal actions and other state and federal proceedings. Management is of the opinion that the ultimate disposition of the matters will not have a materially adverse effect on the Company's results of operations or financial position.

Under the insurance guaranty fund laws in most states, insurance companies doing business in a participating state can be assessed up to prescribed limits for policyholder losses incurred by insolvent or failed insurance companies. Although the Company cannot predict the amount of any future assessments, most insurance guaranty fund laws currently provide that an assessment may

be excused or deferred if it would threaten an insurer's financial strength. Mandatory assessments may be partially recovered through a reduction in future premium tax in some states. The Company does not believe such assessments will be materially different from amounts already provided for in the condensed consolidated financial statements, though the Company has no control over such assessments.

Within the Company's trading accounts, certain trading securities carried as liabilities represent securities sold short. A gain, limited to the price at which the security was sold short, or a loss, potentially unlimited in size, will be recognized upon the termination of the short sale.

The following table represents the total funding commitments and the unfunded commitment as of December 31, 2019 related to certain investments:

| | Total Funding Commitment | Unfunded Commitment |
|---|---|---|
| RLF III, LLC | $ 4,000,000 | $ 398,120 |
| Sovereign's Capital, LP Fund I | 500,000 | 20,000 |
| Sovereign's Capital, LP Fund II | 1,000,000 | 158,596 |
| Sovereign's Capital, LP Fund III | 1,000,000 | 800,000 |
| Barton Springs Music, LLC | 1,750,000 | 302,250 |

During 2006, the Company committed to invest in RLF III, LLC ("RLF"), which makes land-based investments in undervalued assets. RLF makes capital calls as funds are needed for continued land purchases.

During 2012, the Company committed to invest in Sovereign's Capital, LP Fund I ("Sovereign's"), which invests in companies in emerging markets. Sovereign's makes capital calls to investors as funds are needed.

During 2015, the Company committed to invest in Sovereign's Capital, LP Fund II ("Sovereign's II"), which invests in companies in emerging markets. Sovereign's II makes capital calls to investors as funds are needed.

During 2018, the Company committed to invest in Sovereign's Capital, LP Fund III ("Sovereign's III"), which invests in companies in emerging markets. Sovereign's III makes capital calls to investors as funds are needed.

During 2018, the Company committed to invest in Barton Springs Music, LLC ("Barton"), which invests in music royalties. Barton makes capital calls to its investors as funds are needed to acquire the royalty rights.

**Note 9 – Shareholders' Equity**

**Stock Repurchase Program** – The Board of Directors of UTG has authorized the repurchase in the open market or in privately negotiated transactions of UTG's common stock. At a meeting of the Board of Directors in June of 2019, the Board of Directors of UTG authorized the repurchase of up to an additional $2.5 million of UTG's common stock, for a total repurchase of $18.5 million of UTG's common stock in the open market or in privately negotiated transactions. Company Management has broad authority to operate the program, including the discretion of whether to purchase shares and the ability to suspend or terminate the program. Open market purchases are made based on the last available market price but may be limited. During 2019, the Company repurchased 29,252 shares through the stock repurchase program for $909,368. Through December 31, 2019, UTG has spent $14,773,097 in the acquisition of 1,169,358 shares under this program.

**Director Compensation** - Effective January 1, 2018, a compensation arrangement was approved whereby each outside Director annually received $5,000 as a retainer and $2,500 per meeting attended. All other provisions from the September 2013 arrangement remained the same. The compensation is being paid in the form of UTG, Inc. common stock. The value is determined annually on the close of business December 20th or the next business day should December 20th be a weekend or holiday, based on the activity of the year just ending. Reasonable travel expenses are reimbursed in cash as incurred. UTG's Director Compensation policy provides that Directors who are employees of UTG or its affiliates do not receive any compensation for their services as Directors except for reimbursement for reasonable travel expenses for attending each meeting.

In December of 2019, the Company issued 3,024 shares of its common stock as compensation to the Directors. The shares were valued at $35.50 per share, the market value at the date of issue. During 2019, the Company recorded $107,352 in operating expense related to the stock issuance. In December of 2018, the Company issued 2,994 shares of its common stock as compensation to the Directors. The shares were valued at $32.50 per share, the market value at the date of issue. During 2018, the Company recorded $97,305 in operating expense related to the stock issuance.

**Other Compensation** - During 2019, the Company issued 8,188 shares of stock to management and employees as compensation at a cost of $246,535. During 2018, The Company issued 10,421 shares of stock to management and employees as compensation at a cost of $263,507. These awards are determined at the discretion of the Board of Directors.

**Earnings Per Share -** The following is a reconciliation of basic and diluted weighted average shares outstanding used in the computation of basic and diluted earnings per share:

| | 2019 | 2018 |
|---|---|---|
| Basic weighted average shares outstanding | 3,285,813 | 3,307,448 |
| Weighted average dilutive options outstanding | 0 | 0 |
| Diluted weighted average shares outstanding | 3,285,813 | 3,307,448 |

The computation of diluted earnings per share is the same as basic earnings per share for the years ending December 31, 2019 and 2018, as there were no outstanding securities, options or other offers that give the right to receive or acquire common shares of UTG.

**Statutory Restrictions** - Restrictions exist on the flow of funds to UTG from its insurance subsidiary. Statutory regulations require life insurance subsidiaries to maintain certain minimum amounts of capital and surplus. UG is required to maintain minimum statutory surplus of $2,500,000. At December 31, 2019, substantially all of the consolidated shareholders' equity represents net assets of UTG's subsidiaries.

UG is domiciled in the state of Ohio. Ohio requires notification within 5 business days to the insurance commissioner following the declaration of any ordinary dividend and at least ten days calendar days prior to payment of such dividend. Ordinary dividends are defined as the greater of: a) prior year statutory net income or b) 10% of statutory capital and surplus. Extraordinary dividends (amounts in excess of ordinary dividend limitations) require prior approval of the insurance commissioner and are not restricted to a specific calculation. UG paid ordinary dividends of $6 million and $5 million to UTG in 2019 and 2018, respectively. No extraordinary dividends were paid during the two years year period. UTG used the dividends received during 2019 and 2018 to purchase outstanding shares of UTG stock and for general operations of the Company.

**Note 10 - Statutory Accounting**

The insurance subsidiary prepares its statutory-based financial statements in accordance with accounting practices prescribed or permitted by the Ohio Department of Insurance. These principles differ significantly from accounting principles generally accepted in the United States of

America. "Prescribed" statutory accounting practices include state laws, regulations, and general administrative rules, as well as a variety of publications of the National Association of Insurance Commissioners (NAIC). "Permitted" statutory accounting practices encompass all accounting practices that are not prescribed; such practices may differ from state to state, from company to company within a state, and may change in the future.

The following table reflects UG's statutory basis net income and capital and surplus (shareholders' equity) as of December 31:

| | 2019 | 2018 |
|---|---|---|
| Net income (loss) | $ 8,268,187 | $ 6,166,411 |
| Capital and surplus | 65,951,037 | 60,024,931 |

**Note 11 – Related Party Transactions**

The articles of incorporation of UG contain the following language under item 12 relative to related party transactions:

A director shall not be disqualified from-dealing with or contracting with the corporation as vendor, purchaser; employee, agent or otherwise; nor, in the absence of fraud, shall any transaction or contract or act of this corporation be void or in any way affected or invalidated by the fact that any director or any firm of which any director is a member or any corporation of which any director is a shareholder, director or officer is in any way interested in such transaction or contract or act, provided the fact that such director or such firm or such corporation so interested shall be disclosed or shall be known to the Board of Directors or such members thereof as shall be present at any meeting of the Board of Directors at which action upon any such contract or transaction or act shall be taken: nor shall any such director be accountable .or responsible to the company for or in respect to such transaction or contract or act of. this corporation or for any gains or profits realized by him by reason of the fact that he or any firm of which he is a member or any corporation of which he is a shareholder, director or officer is interested in such action or contract; and any such director may be counted in determining the existence of a quorum of any meeting of the Board of Directors of the company which shall authorize or take action in respect to any such contract or transaction or act and may vote thereat to authorize, ratify, or approve any such contract or transaction or act, with like force and effect as if he or any firm of which he is a member or any corporation of which he is a shareholder, director or officer were not interested in such transaction or contract or act.

On February 20, 2003, UG purchased $4 million of a trust preferred security offering issued by First Southern Bancorp, Inc. ("FSBI"). The security has a mandatory redemption after 30 years with a call provision after 5 years. The security pays a quarterly dividend at a fixed rate of 6.515%. The Company received dividends of $198,297 and $283,151 during 2019 and 2018, respectively. On March 30, 2009, UG purchased $1 million of FSBI common stock. The sale and transfer of this security is restricted by the provisions of a stock restriction and buy-sell agreement. During 2019, the Company received a preferred pay down of $558,000 leaving a cost basis of $3,002,000.

UTG has a 30.10% ownership interest in an aircraft that is jointly owned with First Southern National Bank and Bandyco, LLC. Bandyco, LLC is affiliated with the Estate of Ward F. Correll. Mr. Correll is the father of Jesse Correll and a former director of the Company. The aircraft is used for business related travel by various officers and employees of the Company. For years 2019 and 2018, UTG paid $354,404 and $391,851 for costs associated with the aircraft, respectively.

Effective January 1, 2007, UTG entered into administrative services and cost sharing agreements with its subsidiary. Under this arrangement, the subsidiary pays its proportionate share of expenses, based on an allocation formula. During 2019 and 2018, UG paid $7,397,953 and $7,093,227, respectively, in expenses. The Ohio Department of Insurance has approved the cost sharing agreement and it is Management's opinion that where applicable, costs have been allocated fairly and such allocations are based upon accounting principles generally accepted in the United States of America.

The Company from time to time acquires mortgage loans through participation agreements with FSNB. FSNB services the Company's mortgage loans including those covered by the participation agreements. The Company pays a .25% servicing fee on these loans and a one-time fee at loan origination of .50% of the original loan cost to cover costs incurred by FSNB relating to the processing and establishment of the loan. The Company paid $15,138 and $8,393 in servicing fees and $0 and $0 in origination fees to FSNB during 2019 and 2018, respectively.

Effective January 1, 2017, UTG entered into a shared services contract with FSNB. Pursuant to the terms of the agreement, UTG and FSNB will utilize the services of the other's staff in certain instances for the betterment of both entities. Personnel within departments, such as accounting, human resources, and information technology, are shared between the entities. Costs of these resources are then reimbursed between the companies. The shared services arrangement provides benefits to both parties such as access to a greater pool of knowledgeable staff, efficiencies from elimination of redundancies and more streamlined operations.

The Company reimbursed expenses incurred by employees of FSNB relating to salaries, travel and other costs incurred on behalf of or relating to the Company and received reimbursements from FSNB. The Company paid $519,857 and $571,648 in 2019 and 2018, respectively to FSNB in net reimbursement of such costs. In addition, the Company reimburses FSNB a portion of salaries and pension costs for Mr. Correll and Mr. Ditto. The reimbursement was approved by the UTG Board of Directors and totaled $322,188 and $307,645 in 2019 and 2018, respectively, which included salaries and other benefits.

Effective July 1, 2018, the Company assumed the employees of several smaller entities associated with UTG. The purpose of this was to support the continued efforts to further streamline operations amongst associated entities. The salaries, benefits, and payroll related processing fees are 100% reimbursed by the associated entities on a monthly basis. During 2019 and 2018, the Company received reimbursements of $922,357 and $372,849, respectively.

The Company rents approximately 8,000 square feet of office space, located in Stanford, Kentucky, from FSNB and pays $2,000 per month in rent. The Company paid rent of $24,000 to FSNB during 2019 and 2018.

As previously disclosed in the Notes Receivable section of Note 2 - Investments, several of the Company's notes have participation agreements in place with third parties. Certain participation agreements are with FSF, a related party. The participation agreements are sold without recourse and assigned to the participant based on their pro-rata share of the principal, interest and collateral as specified in the participation agreements. The undivided participations in the notes receivable range from 20% - 50%. The total amount of loans participated to FSF was $250,000 as of December 31, 2019 and 2018.

During 2016, UG and FSF established a partnership agreement and formed a limited liability company to purchase real estate. FSF contributed $140,000 to the partnership, which gave them a 10% ownership in the LLC. The property held by this LLC was sold in January of 2019 and the funds from the sale were subsequently distributed to the members.

**Note 12 – Other Cash Flow Disclosures**

On a cash basis, the Company paid the following expenses for the periods ended December 31:

| | 2019 | 2018 |
|---|---|---|
| Interest | $ - | $ - |
| Federal income tax | 1,106,000 | 1,652,000 |

UTG

**Note 13 – Concentrations**

The Company maintains cash balances in financial institutions that at times may exceed federally insured limits. The Company maintains its primary operating cash accounts with First Southern National Bank, an affiliate of the largest shareholder of UTG, Mr. Jesse T. Correll, the Company's CEO and Chairman. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Because UTG serves primarily individuals located in four states, the ability of our customers to pay their insurance premiums is impacted by the economic conditions in these areas. As of December 31, 2019 and 2018, approximately 56% of the Company's total direct premium was collected from Illinois, Ohio, Texas and West Virginia. Thus, results of operations are heavily dependent upon the strength of these economies.

The Company reinsures that portion of insurance risk which is in excess of its retention limits. Retention limits range up to $125,000 per life. Life insurance ceded represented 20% of total life insurance in force at December 31, 2019 and 2018, respectively. Insurance ceded represented 33% and 35% of premium income for 2019 and 2018, respectively. The Company would be liable for the reinsured risks ceded to other companies to the extent that such reinsuring companies are unable to meet their obligations.

The Company owns a variety of investments associated with the oil and gas industry. These investments represented approximately 25% of the Company's total invested assets at December 31, 2019 and 2018.

**Note 14 – Selected Quarterly Financial Data**

As a smaller reporting company, as defined by Rule 12b-2 of the Exchange Act and Item 10(f)(1) of Regulation S-K, the Company has elected to comply with certain scaled disclosure reporting obligations, and therefore does not have to provide the information required by this item.

## BOARD OF DIRECTORS

**Jesse T. Correll**
Chairman, President and Director
of First Southern Bancorp, Inc.

**Preston H. Correll**
Founder, Marksbury Farm Market and
Owner, St. Asaph Farm

**John M. Cortines**
Director of Generosity, Maclellan Foundation

**Thomas F. Darden, II**
Founder and Chief Executive Officer
of Cherokee

**Howard L. Dayton, Jr.**
Founder and Chief Executive Officer of
Compass – finances God's way

**Thomas E. Harmon**
Owner and President of Harmon Foods, Inc.

**Gabriel J. Molnar**
Chief Financial Officer, Capstone Realty, Inc.

**Peter L. Ochs**
Founder of Capital III and
Founding Member of Trinity Academy

**James P. Rousey**
President

## EXECUTIVE OFFICERS

**Jesse T. Correll**
Chairman of the Board and
Chief Executive Officer

**James P. Rousey**
President

**Theodore C. Miller**
Senior Vice President,
Chief Financial Officer and
Corporate Secretary

**Douglas P. Ditto**
Vice President

## SHAREHOLDER INFORMATION

**Annual Meeting**
The 2020 Annual Meeting of Shareholders will be held on Wednesday, June 24, 2020 at 9:30 a.m. eastern time at 205 North Depot Street, Stanford, Kentucky 40484. All shareholders are welcome to attend and to take part in the discussion of Company affairs.

**Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

The Registrant is a public company whose common stock is traded in the over-the-counter market. Over-the-counter quotations can be obtained using the UTGN stock symbol.

The following table shows the high and low closing prices for each quarterly period during the past two years, without retail mark-up, mark-down or commission and may not necessarily represent actual transactions. The quotations below were acquired from the Yahoo Finance web site, which also provides quotes for over-the-counter traded securities such as UTG.

| | 2019 | | 2018 | |
|---|---|---|---|---|
| Period | High | Low | High | Low |
| First quarter | 30.50 | 30.10 | 25.20 | 22.95 |
| Second quarter | 34.00 | 29.36 | 28.25 | 24.00 |
| Third quarter | 33.01 | 30.01 | 34.00 | 26.00 |
| Fourth quarter | 39.80 | 33.25 | 33.00 | 31.00 |

UTG has not declared or paid any dividends on its common stock in the past two fiscal years, and has no current plans to pay dividends on its common stock as it intends to retain all earnings for investment in and growth of the Company's business. See Note 9 – Shareholders' Equity in the Notes to the Consolidated Financial Statements for information regarding dividend restrictions, including applicable restrictions on the ability of the Company's life insurance subsidiary to pay dividends.

As of January 31, 2020 there were 4,899 record holders of UTG common stock.

**Purchases of Equity Securities**

The following table provides information with respect to purchases we made of our common stock during the three months ended December 31, 2019 and total repurchases:

| | Total Number of Shares Purchased | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Program | Maximum Number of Shares That May Yet Be Purchased Under the Program | Approximate Dollar Value That May Yet Be Purchased Under the Program |
|---|---|---|---|---|---|
| Oct. 1 through Oct. 31, 2019 | 980 | $ 33.73 | 980 | N/A | $ 3,739,548 |
| Nov. 1 through Nov. 30, 2019 | 480 | $ 34.60 | 480 | N/A | $ 3,722,940 |
| Dec. 1 through Dec. 31, 2019 | 294 | $ 35.50 | 294 | N/A | $ 3,712,503 |
| Total | 1,754 | | 1,754 | | |

The Board of Directors of UTG has authorized the repurchase in the open market or in privately negotiated transactions of UTG's common stock. At a meeting of the Board of Directors in June of 2019, the Board of Directors of UTG authorized the repurchase of up to an additional $2.5 million of UTG's common stock, for a total repurchase of $18.5 million of UTG's common stock in the open market or in privately negotiated transactions. Company Management has broad authority to operate the program, including the discretion of whether to purchase shares and the ability to suspend or terminate the program. Open market purchases are made based on the last available market price but may be limited. During 2019, the Company repurchased 29,252 shares through the stock repurchase program for $909,368. Through December 31, 2019, UTG has spent $14,773,097 in the acquisition of 1,169,358 shares under this program.

UTG

**Corporate Office**
205 North Depot Street
Stanford, KY  40484
(217) 241-6300

**Corporate Website**
www.utgins.com

**Shareholder Services**
The Company acts as its own transfer agent.  Communications regarding stock transfer, lost certificates or changes of address should be directed to the Stock Transfer Department at the corporate office address above or telephone (217) 241-6410.

**Certified Public Accountants**
Brown Smith Wallace LLP
St. Louis, Missouri

**Request for Information**
Shareholders may receive a copy, without charge, of the annual report, Form 10-K, or Form 10-Q upon written request.  Copies of Form 10-K or Form 10-Q are also available electronically at our Web site address at www.utgins.com or the Securities and Exchange Commission's Web site address at www.sec.gov.