

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2015

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

For the transition period From _____ to _____ .

Commission file number: **000-52613**

FIRST TRINITY FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

Oklahoma

(State or other jurisdiction of incorporation or organization)

34-1991436

(I.R.S. Employer Identification Number)

7633 East 63rd Place, Suite 230

Tulsa, Oklahoma 74133-1246

(Address of principal executive offices)

(918) 249-2438

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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

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

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date:
Common stock .01 par value as of August 10, 2015: 7,802,593 shares

**FIRST TRINITY FINANCIAL CORPORATION
QUARTERLY REPORT ON FORM 10-Q
FOR QUARTERLY PERIOD ENDED JUNE 30, 2015**

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PART I – FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

First Trinity Financial Corporation and Subsidiaries
Consolidated Statements of Financial Position

	June 30, 2015 (Unaudited)	December 31, 2014
Assets		
Investments		
Available-for-sale fixed maturity securities at fair value (amortized cost: \$120,831,456 and \$107,412,322 as of June 30, 2015 and December 31, 2014, respectively)	\$ 122,415,027	\$ 110,651,429
Available-for-sale equity securities at fair value (cost: \$528,521 and \$519,595 as of June 30, 2015 and December 31, 2014, respectively)	643,154	671,357
Mortgage loans on real estate	49,902,045	38,649,733
Investment real estate	2,399,302	9,165,090
Policy loans	1,436,351	1,520,620
Short-term investments	1,141,710	1,141,199
Other long-term investments	24,908,063	21,781,925
Total investments	<u>202,845,652</u>	<u>183,581,353</u>
Cash and cash equivalents	8,817,165	10,158,386
Accrued investment income	1,994,610	1,682,906
Recoverable from reinsurers	1,179,389	1,222,245
Agents' balances and due premiums	921,077	562,146
Deferred policy acquisition costs	10,671,277	9,287,851
Value of insurance business acquired	6,475,057	6,674,414
Property and equipment, net	58,300	84,001
Other assets	7,605,743	5,747,866
Total assets	<u>\$ 240,568,270</u>	<u>\$ 219,001,168</u>
Liabilities and Shareholders' Equity		
Policy liabilities		
Policyholders' account balances	\$ 163,549,166	\$ 140,554,973
Future policy benefits	37,624,329	35,913,730
Policy claims	674,283	602,269
Other policy liabilities	63,303	87,148
Total policy liabilities	<u>201,911,081</u>	<u>177,158,120</u>
Notes payable	-	4,076,473
Deferred federal income taxes	1,707,109	2,198,753
Other liabilities	4,384,474	2,357,484
Total liabilities	<u>208,002,664</u>	<u>185,790,830</u>
Shareholders' equity		
Common stock, par value \$.01 per share (20,000,000 shares authorized, 8,050,173 and 8,050,193 issued as of June 30, 2015 and December 31, 2014, respectively and 7,802,593 and 7,812,038 outstanding as of June 30, 2015 and December 31, 2014, respectively)	80,502	80,502
Additional paid-in capital	28,684,598	28,684,748
Treasury stock, at cost (247,580 and 238,155 shares as of June 30, 2015 and December 31, 2014, respectively)	(893,947)	(855,304)
Accumulated other comprehensive income	1,343,818	2,683,543
Accumulated earnings	3,350,635	2,616,849
Total shareholders' equity	<u>32,565,606</u>	<u>33,210,338</u>
Total liabilities and shareholders' equity	<u>\$ 240,568,270</u>	<u>\$ 219,001,168</u>

See notes to consolidated financial statements (unaudited).

First Trinity Financial Corporation and Subsidiaries

Consolidated Statements of Operations

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Revenues				
Premiums	\$ 2,325,124	\$ 1,932,055	\$ 4,645,438	\$ 3,942,038
Net investment income	2,504,762	2,261,603	4,912,322	4,232,411
Net realized investment gains	82,087	465,151	506,089	761,716
Loss on other-than-temporary impairment	(304,256)	-	(304,256)	-
Gain on reinsurance assumption	550,000	-	550,000	-
Other income	11,353	6,763	16,164	20,075
Total revenues	5,169,070	4,665,572	10,325,757	8,956,240
Benefits, Claims and Expenses				
Benefits and claims				
Increase in future policy benefits	904,650	594,832	1,695,961	1,214,804
Death benefits	851,418	750,013	1,770,209	1,472,462
Surrenders	135,487	152,492	277,881	243,938
Interest credited to policyholders	1,345,410	1,079,517	2,593,300	2,101,727
Dividend, endowment and supplementary life contract benefits	104,671	71,390	158,104	137,600
Total benefits and claims	3,341,636	2,648,244	6,495,455	5,170,531
Policy acquisition costs deferred	(1,251,016)	(558,309)	(2,222,967)	(1,086,471)
Amortization of deferred policy acquisition costs	463,089	308,272	857,549	589,554
Amortization of value of insurance business acquired	99,399	96,744	199,357	202,598
Commissions	1,039,469	529,531	1,909,615	1,039,981
Other underwriting, insurance and acquisition expenses	1,179,530	1,189,823	2,410,446	2,323,282
Total expenses	1,530,471	1,566,061	3,154,000	3,068,944
Total benefits, claims and expenses	4,872,107	4,214,305	9,649,455	8,239,475
Income before total federal income tax expense (benefit)	296,963	451,267	676,302	716,765
Current federal income tax expense	24,413	28,191	99,378	78,450
Deferred federal income tax benefit	(98,056)	(11,104)	(156,712)	(39,019)
Total federal income tax expense (benefit)	(73,643)	17,087	(57,334)	39,431
Net income	\$ 370,606	\$ 434,180	\$ 733,636	\$ 677,334
Net income per common share basic and diluted	\$ 0.05	\$ 0.06	\$ 0.09	\$ 0.09

See notes to consolidated financial statements (unaudited).

First Trinity Financial Corporation and Subsidiaries
Consolidated Statements of Comprehensive Income (Loss)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Net income	\$ 370,606	\$ 434,180	\$ 733,636	\$ 677,334
Other comprehensive income (loss)				
Total net unrealized gains (losses) arising during the period	(2,997,563)	2,006,124	(1,911,843)	3,643,148
Less net realized investment gains (losses)	(241,927)	287,827	(219,178)	566,431
Net unrealized gains (losses)	(2,755,636)	1,718,297	(1,692,665)	3,076,717
Less adjustment to deferred acquisition costs	(35,497)	15,055	(18,008)	24,565
Other comprehensive income (loss) before income tax expense	(2,720,139)	1,703,242	(1,674,657)	3,052,152
Income tax expense (benefit)	(544,027)	340,648	(334,932)	610,430
Total other comprehensive income (loss)	(2,176,112)	1,362,594	(1,339,725)	2,441,722
Total comprehensive income (loss)	<u>\$ (1,805,506)</u>	<u>\$ 1,796,774</u>	<u>\$ (606,089)</u>	<u>\$ 3,119,056</u>

See notes to consolidated financial statements (unaudited).

First Trinity Financial Corporation and Subsidiaries
Consolidated Statements of Changes in Shareholders' Equity
Six Months Ended June 30, 2015 and 2014
(Unaudited)

	Common Stock \$.01 Par Value	Additional Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Income	Accumulated Earnings	Total Shareholders' Equity
Balance as of January 1, 2014	\$ 80,502	\$ 28,684,748	\$ (693,731)	\$ 1,878,157	\$ 691,338	\$ 30,641,014
Repurchase of common stock	-	-	(80,000)	-	-	(80,000)
Comprehensive income:						
Net income	-	-	-	-	677,334	677,334
Other comprehensive income	-	-	-	2,441,722	-	2,441,722
Balance as of June 30, 2014	<u>\$ 80,502</u>	<u>\$ 28,684,748</u>	<u>\$ (773,731)</u>	<u>\$ 4,319,879</u>	<u>\$ 1,368,672</u>	<u>\$ 33,680,070</u>
Balance as of January 1, 2015	\$ 80,502	\$ 28,684,748	\$ (855,304)	\$ 2,683,543	\$ 2,616,849	\$ 33,210,338
Repurchase of common stock	-	-	(38,643)	-	-	(38,643)
Stock dividend adjustment	-	(150)	-	-	150	-
Comprehensive income (loss):						
Net income	-	-	-	-	733,636	733,636
Other comprehensive loss	-	-	-	(1,339,725)	-	(1,339,725)
Balance as of June 30, 2015	<u>\$ 80,502</u>	<u>\$ 28,684,598</u>	<u>\$ (893,947)</u>	<u>\$ 1,343,818</u>	<u>\$ 3,350,635</u>	<u>\$ 32,565,606</u>

See notes to consolidated financial statements (unaudited).

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

	Six Months Ended June 30,	
	2015	2014
Operating activities		
Net income	\$ 733,636	\$ 677,334
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for depreciation	98,445	101,821
Accretion of discount on investments	(477,735)	(459,252)
Net realized investment gains	(506,089)	(761,716)
Loss on other-than-temporary impairment	304,256	-
Gain on reinsurance assumption	(550,000)	-
Amortization of policy acquisition cost	857,549	589,554
Policy acquisition cost deferred	(2,222,967)	(1,086,471)
Mortgage loan origination fees deferred	(50,000)	(49,500)
Amortization of loan origination fees	33,194	47,937
Amortization of value of insurance business acquired	199,357	202,598
Provision for deferred federal income tax benefit	(156,712)	(39,019)
Interest credited to policyholders	2,593,300	2,101,727
Change in assets and liabilities:		
Accrued investment income	(311,704)	(122,056)
Policy loans	84,269	(29,351)
Short-term investments	(511)	(1,392,649)
Allowance for mortgage and premium finance loan losses	37,805	36,904
Recoverable from reinsurers	42,856	19,752
Agents' balances and due premiums	(358,931)	13,465
Other assets (excludes \$126 and \$9,500 of premium finance loans for 2015 and 2014, respectively)	(1,307,751)	(782,354)
Future policy benefits	1,710,599	1,232,196
Policy claims	72,014	18,613
Other policy liabilities	(23,845)	4,245
Other liabilities	2,026,990	493,953
Net cash provided by operating activities	2,828,025	817,731
Investing activities		
Purchases of fixed maturity securities	(16,654,068)	(15,551,685)
Maturities of fixed maturity securities	1,405,000	3,309,000
Sales of fixed maturity securities	1,183,161	5,271,058
Purchases of equity securities	(544,835)	(105,542)
Sales of equity securities	533,813	101,080
Purchases of mortgage loans	(15,299,124)	(12,342,197)
Payments on mortgage loans	4,124,035	3,010,790
Purchases of other long-term investments	(4,368,725)	(1,837,619)
Payments on other long-term investments	2,082,413	1,947,162
Loans repaid for premiums financed	61	19,000
Purchases of real estate	-	(2,817,857)
Sale of real estate	7,083,246	36,000
Net cash used in investing activities	(20,455,023)	(18,960,810)
Financing activities		
Policyholders' account deposits	25,903,955	15,658,605
Policyholders' account withdrawals	(5,503,062)	(3,239,258)
Purchases of treasury stock	(38,643)	(80,000)
Proceeds from issuance of notes payable	-	4,076,473
Repayment of notes payable	(4,076,473)	-
Net cash provided by financing activities	16,285,777	16,415,820
Decrease in cash	(1,341,221)	(1,727,259)
Cash and cash equivalents, beginning of period	10,158,386	10,608,438
Cash and cash equivalents, end of period	<u>\$ 8,817,165</u>	<u>\$ 8,881,179</u>

See notes to consolidated financial statements (unaudited).

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

On April 28, 2015, the Company acquired a block of life insurance policies and annuity contracts according to the terms of an assumption reinsurance agreement. The Company recorded an asset of \$550,000 associated with this reinsurance assumption during second quarter 2015 which was equivalent to the estimated gain on the reinsurance assumption transaction. During third quarter 2015, the Company will complete the evaluation of assets and liabilities associated with the reinsurance assumption. Once this analysis is complete, any adjustments will be recorded as a gain (loss) on reinsurance assumption.

In conjunction with this 2015 reinsurance assumption transaction, the non-cash impact on operating activities is summarized as follows:

	(Unaudited)
	Six Months Ended
	<u>June 30, 2015</u>
Reinsurance assumption asset	<u>\$ 550,000</u>
Gain on reinsurance assumption	<u>\$ 550,000</u>

See notes to consolidated financial statements (unaudited).

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2015
(Unaudited)

1. Organization and Significant Accounting Policies

Nature of Operations

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

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

The Company owns 100% of FTCC that was incorporated in 2006, and began operations in January 2007. FTCC provided financing for casualty insurance premiums for individuals and companies and was licensed to conduct premium financing business in the states of Alabama, Arkansas, Louisiana, Mississippi and Oklahoma. FTCC currently has no operations other than minor premium refunds, collections of past due accounts and accounts involved in litigation.

Company Capitalization

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

The Company also issued 702,685 shares of its common stock in connection with two stock dividends paid to shareholders in 2011 and 2012 that resulted in accumulated earnings being charged \$5,270,138 with an offsetting credit of \$5,270,138 to common stock and additional paid-in capital. As a result, the Company’s accumulated earnings as of June 30, 2015, as shown in the consolidated statement of financial position was negatively impacted in 2011 (\$2,428,328) and 2012 (\$2,841,810) and all periods thereafter by the \$5,270,138 charge from the two stock dividends.

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

Acquisition of Other Companies

On December 23, 2008, FTFC acquired 100% of the outstanding common stock of First Life America Corporation (“FLAC”) from an unaffiliated company. The acquisition of FLAC was accounted for as a purchase. The aggregate purchase price for FLAC was approximately \$2,695,000 (including direct cost associated with the acquisition of approximately \$195,000). The acquisition of FLAC was financed with the working capital of FTFC. On December 31, 2008, FTFC made FLAC a 15 year loan in the form of a surplus note in the amount of \$250,000 with an interest rate of 6% payable monthly, that was approved by the Oklahoma Insurance Department (“OID”). This surplus note is eliminated in consolidation.

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2015
(Unaudited)

1. Organization and Significant Accounting Policies (continued)

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

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

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (consisting primarily of normal recurring accruals) considered necessary for a fair presentation of the results for the interim periods have been included. The results of operations for the three and six months ended June 30, 2015 are not necessarily indicative of the results to be expected for the year ended December 31, 2015 or for any other interim period or for any other future year. Certain financial information which is normally included in notes to consolidated financial statements prepared in accordance with U.S. GAAP, but which is not required for interim reporting purposes, has been condensed or omitted. The accompanying consolidated financial statements and notes thereto should be read in conjunction with the financial statements and notes thereto included in the Company's report on Form 10-K for the year ended December 31, 2014.

Principles of Consolidation

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

Reclassifications

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

Use of Estimates

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

Common Stock

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

Treasury Stock

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

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2015
(Unaudited)

1. Organization and Significant Accounting Policies (continued)

Subsequent Events

Management has evaluated all events subsequent to June 30, 2015 through the date that these financial statements have been issued.

Recent Accounting Pronouncements

Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity

In April 2014, the Financial Accounting Standards Board (“FASB”) issued revised guidance to reduce diversity in practice for reporting discontinued operations. Under the previous guidance, any component of an entity that was a reportable segment, an operating segment, a reporting unit, a subsidiary or an asset group was eligible for discontinued operations presentation.

The revised guidance only allows disposals of components of an entity that represent a strategic shift (e.g., disposal of a major geographical area, a major line of business, a major equity method investment or other major parts of an entity) and that have a major effect on a reporting entity's operations and financial results to be reported as discontinued operations. The revised guidance also requires expanded disclosure in the financial statements for discontinued operations as well as for disposals of significant components of an entity that do not qualify for discontinued operations presentation.

The updated guidance is effective for the quarter ending March 31, 2015. The adoption of this guidance did not have a material effect on the Company's results of operations, financial position or liquidity.

Revenue from Contracts with Customers

In May 2014, the FASB issued updated guidance to clarify the principles for recognizing revenue. While insurance contracts are not within the scope of this updated guidance, the Company's fee income related to providing services will be subject to this updated guidance. The updated guidance requires an entity to recognize revenue as performance obligations are met, in order to reflect the transfer of promised goods or services to customers in an amount that reflects the consideration the entity is entitled to receive for those goods or services.

The following steps are applied in the updated guidance: (1) identify the contract(s) with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract and (5) recognize revenue when, or as, the entity satisfies a performance obligation.

The updated guidance is effective for the quarter ending March 31, 2017. The adoption of this guidance is not expected to have a material effect on the Company's results of operations, financial position or liquidity.

In July 2015, the FASB deferred the effective date of the updated guidance on revenue recognition by one year to the quarter ending March 31, 2018. The adoption of this guidance is not expected to have a material effect on the Company's result of operations, financial position or liquidity.

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2015
(Unaudited)

1. Organization and Significant Accounting Policies (continued)

Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period

In June 2014, the FASB issued updated guidance to resolve diversity in practice concerning employee share-based payments that contain performance targets that could be achieved after the requisite service period. Many reporting entities account for performance targets that could be achieved after the requisite service period as performance conditions that affect the vesting of the award and, therefore, do not reflect the performance targets in the estimate of the grant-date fair value of the award. Other reporting entities treat those performance targets as nonvesting conditions that affect the grant-date fair value of the award.

The updated guidance requires that a performance target that affects vesting and that can be achieved after the requisite service period be treated as a performance condition. As such, the performance target that affects vesting should not be reflected in estimating that fair value of the award at the grant date. Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the periods for which service has been rendered. If the performance target becomes probable of being achieved before the end of the service period, the remaining unrecognized compensation cost for which requisite service has not yet been rendered is recognized prospectively over the remaining service period. The total amount of compensation cost recognized during and after the service period should reflect the number of awards that are expected to vest and should be adjusted to reflect those awards that ultimately vest.

The updated guidance is effective for annual and interim periods beginning after December 15, 2015, with early adoption permitted. The adoption of this guidance is not expected to have a material effect on the Company's results of operations, financial position or liquidity.

Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern

In August 2014, the FASB issued guidance to address the diversity in practice in determining when there is substantial doubt about an entity's ability to continue as a going concern and when an entity must disclose certain relevant conditions and events. The new guidance requires an entity to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued (or available to be issued). The new guidance allows the entity to consider the mitigating effects of management's plans that will alleviate the substantial doubt and requires certain disclosures when substantial doubt is alleviated as a result of consideration of management's plans.

If conditions or events raise substantial doubt that is not alleviated, an entity should disclose that there is substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued (or available to be issued), along with the principal conditions or events that raise substantial doubt, management's evaluation of the significance of those conditions or events in relation to the entity's ability to meet its obligations and management's plans that are intended to mitigate those conditions.

The guidance is effective for annual periods ending after December 15, 2016, and interim and annual periods thereafter.

Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share Is More Akin to Debt or to Equity

In November 2014, the FASB issued updated guidance to clarify when the separation of certain embedded derivative features in a hybrid financial instrument that is issued in the form of a share is required. That is, an entity will continue to evaluate whether the economic characteristics and risks of the embedded derivative feature are clearly and closely related to those of the host contract. Specifically, the amendments clarify that an entity should consider all relevant terms and features, including the embedded derivative feature being evaluated for bifurcation, in evaluating the nature of the host contract.

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2015
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1. Organization and Significant Accounting Policies (continued)

Furthermore, the amendments clarify that no single term or feature would necessarily determine the economic characteristics and risks of the host contract. Rather, the nature of the host contract depends upon the economic characteristics and risks of the entire hybrid financial instrument.

The updated guidance is effective for reporting periods beginning after December 15, 2015. Early adoption is permitted. The adoption of this guidance is not expected to have a material effect on the Company's results of operations, financial position or liquidity.

Receivables – Troubled Debt Restructurings by Creditors

In January 2014, the FASB issued updated guidance for troubled debt restructurings clarifying when an in substance repossession or foreclosure occurs, and when a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan. The new guidance is effective for annual periods and interim periods within those annual periods, beginning after December 15, 2015. This guidance can be elected for prospective adoption or by using a retrospective transition method. The adoption of this guidance is not expected to have a material effect on the Company's results of operations, financial position or liquidity.

Amendments to the Consolidation Analysis

In February 2015, the FASB issued updated guidance that makes targeted amendments to the current consolidation accounting guidance. The update is in response to accounting complexity concerns, particularly from the asset management industry. The guidance simplifies consolidation accounting by reducing the number of approaches to consolidation, provides a scope exception to registered money market funds and similar unregistered money market funds and ends the indefinite deferral granted to investment companies from applying the variable interest entity guidance.

The updated guidance is effective for annual and interim periods beginning after December 15, 2015. The adoption of this guidance is not expected to have a material effect on the Company's results of operations, financial position or liquidity.

Simplifying the Presentation of Debt Issuance Costs

In April 2015, the FASB issued updated guidance to clarify the required presentation of debt issuance costs. The amended guidance requires that debt issuance costs be presented in the balance sheet as a direct reduction from the carrying amount of the recognized debt liability, consistent with the treatment of debt discounts. Amortization of debt issuance costs is to be reported as interest expense. The recognition and measurement guidance for debt issuance costs are not affected by the updated guidance.

The updated guidance is effective for reporting periods beginning after December 15, 2015. Early adoption is permitted. The adoption of this guidance will not have any effect on the Company's results of operations, financial position or liquidity.

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2. Investments

Fixed Maturity and Equity Securities Available-For-Sale

Investments in fixed maturity and equity securities available-for-sale as of June 30, 2015 and December 31, 2014 are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<u>June 30, 2015 (Unaudited)</u>				
Fixed maturity securities				
U.S. government and U.S. government agencies	\$ 2,670,662	\$ 159,937	\$ 100,703	\$ 2,729,896
States and political subdivisions	3,754,088	9,118	90,933	3,672,273
Residential mortgage-backed securities	64,277	43,213	-	107,490
Corporate bonds	99,261,901	2,842,887	1,281,903	100,822,885
Foreign bonds	15,080,528	384,686	382,731	15,082,483
Total fixed maturity securities	<u>120,831,456</u>	<u>3,439,841</u>	<u>1,856,270</u>	<u>122,415,027</u>
Equity securities				
Mutual funds	81,325	-	5,081	76,244
Corporate preferred stock	258,137	3,308	2,105	259,340
Corporate common stock	189,059	120,226	1,715	307,570
Total equity securities	<u>528,521</u>	<u>123,534</u>	<u>8,901</u>	<u>643,154</u>
Total fixed maturity and equity securities	<u>\$ 121,359,977</u>	<u>\$ 3,563,375</u>	<u>\$ 1,865,171</u>	<u>\$ 123,058,181</u>
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<u>December 31, 2014</u>				
Fixed maturity securities				
U.S. government and U.S. government agencies	\$ 2,650,994	\$ 168,071	\$ 69,052	\$ 2,750,013
States and political subdivisions	1,184,034	20,982	863	1,204,153
Residential mortgage-backed securities	68,242	62,193	-	130,435
Corporate bonds	92,367,191	3,711,276	885,169	95,193,298
Foreign bonds	11,141,861	426,197	194,528	11,373,530
Total fixed maturity securities	<u>107,412,322</u>	<u>4,388,719</u>	<u>1,149,612</u>	<u>110,651,429</u>
Equity securities				
Mutual funds	80,879	2,586	-	83,465
Corporate preferred stock	254,502	3,273	1,700	256,075
Corporate common stock	184,214	147,603	-	331,817
Total equity securities	<u>519,595</u>	<u>153,462</u>	<u>1,700</u>	<u>671,357</u>
Total fixed maturity and equity securities	<u>\$ 107,931,917</u>	<u>\$ 4,542,181</u>	<u>\$ 1,151,312</u>	<u>\$ 111,322,786</u>

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2. Investments (continued)

All securities in an unrealized loss position as of the financial statement dates, the estimated fair value, pre-tax gross unrealized loss and number of securities by length of time that those securities have been continuously in an unrealized loss position as of June 30, 2015 and December 31, 2014 are summarized as follows:

<u>June 30, 2015 (Unaudited)</u>	<u>Fair Value</u>	<u>Unrealized Loss</u>	<u>Number of Securities</u>
Fixed maturity securities			
Less than 12 months			
U.S. government and U.S. government agencies	\$ 291,720	\$ 8,280	1
States and political subdivisions	3,008,732	90,933	15
Corporate bonds	29,964,140	871,737	105
Foreign bonds	6,141,590	382,731	26
Total less than 12 months	39,406,182	1,353,681	147
More than 12 months			
U.S. government and U.S. government agencies	1,037,577	92,423	2
Corporate bonds	2,808,975	410,166	18
Total more than 12 months	3,846,552	502,589	20
Total fixed maturity securities	43,252,734	1,856,270	167
Equity securities			
Less than 12 months			
Mutual funds	76,244	5,081	1
Corporate preferred stock	97,840	2,105	2
Corporate common stock	47,034	1,715	1
Total equity securities	221,118	8,901	4
Total fixed maturity and equity securities	\$ 43,473,852	\$ 1,865,171	171
<u>December 31, 2014</u>	<u>Fair Value</u>	<u>Unrealized Loss</u>	<u>Number of Securities</u>
Fixed maturity securities			
Less than 12 months			
Corporate bonds	\$ 12,258,681	\$ 477,590	47
Foreign bonds	3,446,676	194,528	16
Total less than 12 months	15,705,357	672,118	63
More than 12 months			
U.S. government and U.S. government agencies	1,360,948	69,052	3
States and political subdivisions	105,569	863	1
Corporate bonds	2,761,555	407,579	14
Total more than 12 months	4,228,072	477,494	18
Total fixed maturity securities	19,933,429	1,149,612	81
Equity securities			
Greater than 12 months			
Corporate preferred stock	48,300	1,700	1
Total equity securities	48,300	1,700	1
Total fixed maturity and equity securities	\$ 19,981,729	\$ 1,151,312	82

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
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2. Investments (continued)

As of June 30, 2015, the Company held 167 available-for-sale fixed maturity securities with an unrealized loss of \$1,856,270, fair value of \$43,252,734 and amortized cost of \$45,109,004. These unrealized losses were primarily due to market interest rate movements in the bond market as of June 30, 2015. The ratio of the fair value to the amortized cost of these 167 securities is 96%.

The Company has recorded one other-than-temporary impairment during 2015. During the second quarter of 2015, the Company impaired its bonds in a mining corporation with a total par value of \$600,000 as a result of continuing unrealized losses. This impairment was considered fully credit-related, resulting in a charge to the statement of operations before tax of \$304,256 for the three and six months ended June 30, 2015. This charge represents the credit-related portion of the difference between the amortized cost basis of the security and its fair value. The Company has experienced no additional other-than-temporary impairments during 2015.

As of December 31, 2014, the Company held 81 available-for-sale fixed maturity securities with an unrealized loss of \$1,149,612, fair value of \$19,933,429 and amortized cost of \$21,083,041. These unrealized losses were primarily due to market interest rate movements in the bond market as of December 31, 2014. The ratio of the fair value to the amortized cost of these 81 securities is 95%.

As of June 30, 2015, the Company has four available-for-sale equity securities with an unrealized loss of \$8,901, fair value of \$221,118 and cost of \$230,019. The ratio of fair value to cost of these securities is 96%.

As of December 31, 2014, the Company held one available-for-sale equity security with an unrealized loss of \$1,700, fair value of \$48,300 and cost of \$50,000. The ratio of fair value to cost of this security is 97%.

Fixed maturity securities were 93% and 95% investment grade as rated by Standard & Poor's as of June 30, 2015 and December 31, 2014, respectively.

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

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

Based on management's review, the Company experienced one other-than-temporary impairment during the three and six months ended June 30, 2015. There were no impairments during the three and six months ended June 30, 2014 nor during the year ended December 31, 2014. Management believes that the Company will fully recover its cost basis in the securities held as of June 30, 2015, and management does not have the intent to sell nor is it more likely than not that the Company will be required to sell such securities until they recover or mature. The remaining temporary impairments shown herein are primarily the result of the current interest rate environment rather than credit factors that would imply other-than-temporary impairment.

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Notes to Consolidated Financial Statements
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2. Investments (continued)

Net unrealized gains included in other comprehensive income for investments classified as available-for-sale, net of the effect of deferred income taxes and deferred acquisition costs assuming that the appreciation had been realized as of June 30, 2015 and December 31, 2014, are summarized as follows:

	(Unaudited)	
	June 30, 2015	December 31, 2014
Unrealized appreciation on available-for-sale securities	\$ 1,698,204	\$ 3,390,869
Adjustment to deferred acquisition costs	(18,432)	(36,440)
Deferred income taxes	(335,954)	(670,886)
Net unrealized appreciation on available-for-sale securities	\$ 1,343,818	\$ 2,683,543

The Company's investment in lottery prize cash flows categorized as other long-term investments in the statement of financial position was \$24,908,063 and \$21,781,925 as of June 30, 2015 and December 31, 2014, respectively. The lottery prize cash flows are assignments of the future rights from lottery winners purchased at a discounted price. Payments on these investments are made by state run lotteries.

The amortized cost and fair value of fixed maturity available-for-sale securities and other long-term investments as of June 30, 2015, by contractual maturity, are summarized as follows:

	June 30, 2015 (Unaudited)			
	Fixed Maturity Available-For-Sale Securities		Other Long-Term Investments	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	\$ 4,478,270	\$ 4,561,555	\$ 3,758,713	\$ 3,799,344
Due in one year through five years	34,619,118	36,252,266	10,168,906	10,974,518
Due after five years through ten years	54,038,399	54,528,772	7,137,414	8,587,183
Due after ten years	27,631,392	26,964,944	3,843,030	5,201,473
Due at multiple maturity dates	64,277	107,490	-	-
	\$ 120,831,456	\$ 122,415,027	\$ 24,908,063	\$ 28,562,518

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

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
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2. Investments (continued)

Proceeds and gross realized gains (losses) from the sales, calls and maturities of fixed maturity securities available-for-sale, equity securities available-for-sale, mortgage loans on real estate and investment real estate for the three and six months ended June 30, 2015 and 2014 are summarized as follows:

	Three Months Ended June 30, (Unaudited)							
	Fixed Maturity Securities		Equity Securities		Mortgage Loans on Real Estate		Investment Real Estate	
	2015	2014	2015	2014	2015	2014	2015	2014
Proceeds	\$ 1,399,932	\$ 5,149,728	\$ 7,529	\$ 101,080	\$ 2,573,436	\$ 2,300,954	\$ -	\$ 36,000
Gross realized gains	62,791	266,493	-	21,400	19,758	177,324	-	-
Gross realized losses	(462)	(66)	-	-	-	-	-	-
Loss on other-than-temporary impairment	(304,256)	-	-	-	-	-	-	-

	Six Months Ended June 30, (Unaudited)							
	Fixed Maturity Securities		Equity Securities		Mortgage Loans on Real Estate		Investment Real Estate	
	2015	2014	2015	2014	2015	2014	2015	2014
Proceeds	\$ 2,588,161	\$ 8,580,058	\$ 533,813	\$ 101,080	\$ 4,124,035	\$ 3,010,790	\$ 7,083,246	\$ 36,000
Gross realized gains	88,632	546,063	996	21,400	30,809	195,285	390,202	-
Gross realized losses	(1,654)	(1,032)	(2,896)	-	-	-	-	-
Loss on other-than-temporary impairment	(304,256)	-	-	-	-	-	-	-

The accumulated change in net unrealized investment gains for fixed maturity and equity securities available-for-sale for the three and six months ended June 30, 2015 and 2014 and the amount of realized investment gains on fixed maturity securities available-for-sale, equity securities available-for-sale, mortgage loans on real estate and investment real estate for the three and six months ended June 30, 2015 and 2014 are summarized as follows:

	Three Months Ended June 30, (Unaudited)		Six Months Ended June 30, (Unaudited)	
	2015	2014	2015	2014
Change in unrealized investment gains:				
Available-for-sale securities:				
Fixed maturity securities	\$ (2,723,522)	\$ 1,710,928	\$ (1,655,536)	\$ 3,073,930
Equity securities	(32,114)	7,369	(37,129)	2,787
Net realized investment gains (losses):				
Available-for-sale securities:				
Fixed maturity securities	(241,927)	266,427	(217,278)	545,031
Equity securities	-	21,400	(1,900)	21,400
Mortgage loans on real estate	19,758	177,324	30,809	195,285
Investment real estate	-	-	390,202	-

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
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2. Investments (continued)

Major categories of net investment income for the three and six months ended June 30, 2015 and 2014 are summarized as follows:

	Three Months Ended June 30, (Unaudited)		Six Months Ended June 30, (Unaudited)	
	2015	2014	2015	2014
Fixed maturity securities	\$ 1,245,734	\$ 1,128,167	\$ 2,419,515	\$ 2,248,063
Equity securities	8,725	10,747	20,254	21,404
Other long-term investments	424,587	418,379	838,829	833,790
Mortgage loans	980,728	581,733	1,936,872	1,035,705
Policy loans	25,165	25,435	50,306	50,378
Real estate	71,822	204,799	259,410	377,994
Short-term and other investments	65,434	35,781	113,626	72,078
Gross investment income	2,822,195	2,405,041	5,638,812	4,639,412
Investment expenses	(317,433)	(143,438)	(726,490)	(407,001)
Net investment income	<u>\$ 2,504,762</u>	<u>\$ 2,261,603</u>	<u>\$ 4,912,322</u>	<u>\$ 4,232,411</u>

TLIC and FBLIC are required to hold assets on deposit with various state insurance departments for the benefit of policyholders and other special deposits in accordance with statutory rules and regulations. As of June 30, 2015 and December 31, 2014, these required deposits, included in investment assets, had amortized costs that totaled \$3,972,666 and \$3,954,696, respectively. As of June 30, 2015 and December 31, 2014, these required deposits had fair values that totaled \$4,024,276 and \$4,057,740, respectively.

The Company's mortgage loans by property type as of June 30, 2015 and December 31, 2014 are summarized as follows:

	(Unaudited)			
	June 30, 2015		December 31, 2014	
	Amount	Percentage	Amount	Percentage
Commercial mortgage loans				
Retail stores	\$ 1,313,679	2.63%	\$ 1,635,412	4.23%
Office buildings	318,925	0.64%	327,181	0.85%
Total commercial mortgage loans	1,632,604	3.27%	1,962,593	5.08%
Residential mortgage loans	48,269,441	96.73%	36,687,140	94.92%
Total mortgage loans	<u>\$ 49,902,045</u>	<u>100.00%</u>	<u>\$ 38,649,733</u>	<u>100.00%</u>

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
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2. Investments (continued)

The Company's investment real estate as of June 30, 2015 and December 31, 2014 is summarized as follows:

	(Unaudited)	
	June 30, 2015	December 31, 2014
Land - held for the production of income	\$ 213,160	\$ 213,160
Land - held for sale	750,047	2,034,478
Total land	963,207	2,247,638
Building - held for the production of income	2,267,557	2,267,557
Less - accumulated depreciation	(831,462)	(758,718)
Buildings net of accumulated depreciation	1,436,095	1,508,839
Building - held for sale	-	5,408,613
Total buildings	1,436,095	6,917,452
Investment real estate, net of accumulated depreciation	\$ 2,399,302	\$ 9,165,090

TLIC owns approximately six and one-half acres of land located in Topeka, Kansas that includes a 20,000 square foot office building on approximately one-fourth of this land. This building and one and one-half acres of land is held for the production of income. The remaining five acres of land are held for sale. In addition, FBLIC owns one-half acre of undeveloped land located in Jefferson City, Missouri. This land is held for sale. FTCC also owned a small, undeveloped land parcel in Carthage, Mississippi that was sold during 2014.

In December 2013, TLIC purchased one acre of land in Greensburg, Indiana that included a 3,975 square foot retail building on approximately 8% of this land. Also in December 2013, TLIC purchased another acre of land in Norman, Oklahoma that included a 9,100 square foot retail building on approximately 18% of this land. These buildings and land were held for sale and, as discussed below, were sold on March 11, 2015.

In February 2014, TLIC purchased one acre of land in Houston, Texas that included a 9,195 square foot building constructed on approximately 25% of this land. Also in February 2014, TLIC purchased three-fourths of an acre of land in Harrisonville, Missouri that included a 6,895 square foot building constructed on approximately 20% of this land. This building and land were also held for sale and, as discussed below, were sold on March 11, 2015.

On March 11, 2015, the Company sold its investment real estate in buildings and land held for sale in Greensburg, Indiana; Norman, Oklahoma; Houston, Texas and Harrisonville, Missouri with an aggregate carrying value of \$6,693,044 as of both December 31, 2014 and March 11, 2015. The Company recorded a gross profit on these sales of \$390,202 based on an aggregate sales price of \$7,083,246 less closing costs and expenses of \$20,119.

In addition, simultaneously with these sales, the Company settled its two notes payable, collateralized by the held for sale buildings and land (including assignment of the tenant leases), with an aggregate payment to Grand Bank (the creditor) of \$4,076,473. In connection with the repayments of the two notes payable, the Company expensed the loan origination fees remaining as of March 11, 2015 of \$72,744. During the period from January 1, 2015 to March 11, 2015, the Company incurred interest expense of \$35,181 on the two notes payable and amortized \$7,423 of loan origination fees.

3. Fair Value Measurements

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

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Notes to Consolidated Financial Statements
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3. Fair Value Measurements (continued)

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

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

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

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

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

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

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3. Fair Value Measurements (continued)

The Company's fair value hierarchy for those financial instruments measured at fair value on a recurring basis as of June 30, 2015 and December 31, 2014 is summarized as follows:

<u>June 30, 2015 (Unaudited)</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Fixed maturity securities, available-for-sale				
U.S. government and U.S. government agencies	\$ -	\$ 2,729,896	\$ -	\$ 2,729,896
States and political subdivisions	-	3,672,273	-	3,672,273
Residential mortgage-backed securities	-	107,490	-	107,490
Corporate bonds	-	100,822,885	-	100,822,885
Foreign bonds	-	15,082,483	-	15,082,483
	<u>\$ -</u>	<u>\$ 122,415,027</u>	<u>\$ -</u>	<u>\$ 122,415,027</u>
Equity securities, available-for-sale				
Mutual funds	\$ -	\$ 76,244	\$ -	\$ 76,244
Corporate preferred stock	207,040	52,300	-	259,340
Corporate common stock	261,070	-	46,500	307,570
	<u>\$ 468,110</u>	<u>\$ 128,544</u>	<u>\$ 46,500</u>	<u>\$ 643,154</u>
<u>December 31, 2014</u>				
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Fixed maturity securities, available-for-sale				
U.S. government and U.S. government agencies	\$ -	\$ 2,750,013	\$ -	\$ 2,750,013
States and political subdivisions	-	1,204,153	-	1,204,153
Residential mortgage-backed securities	-	130,435	-	130,435
Corporate bonds	-	95,193,298	-	95,193,298
Foreign bonds	-	11,373,530	-	11,373,530
	<u>\$ -</u>	<u>\$ 110,651,429</u>	<u>\$ -</u>	<u>\$ 110,651,429</u>
Equity securities, available-for-sale				
Mutual funds	\$ 3,592	\$ 79,873	\$ -	\$ 83,465
Corporate preferred stock	203,999	52,076	-	256,075
Corporate common stock	285,317	-	46,500	331,817
	<u>\$ 492,908</u>	<u>\$ 131,949</u>	<u>\$ 46,500</u>	<u>\$ 671,357</u>

As of both June 30, 2015 and December 31, 2014, Level 3 financial instruments consisted of two private placement common stocks that have no active trading. These private placement stocks represent investments in small insurance holding companies. The fair value for these securities was determined through the use of unobservable assumptions about market participants. The Company has assumed a willing market participant would purchase the securities for the same price as the Company paid until such time as the development stage company commences operations.

First Trinity Financial Corporation and Subsidiaries
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(Unaudited)

3. Fair Value Measurements (continued)

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

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

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

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

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3. Fair Value Measurements (continued)

The carrying amount and fair value of the Company's financial assets and financial liabilities disclosed, but not carried, at fair value as of June 30, 2015 and December 31, 2014, and the level within the fair value hierarchy at which such assets and liabilities are measured on a recurring basis are summarized as follows:

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

		June 30, 2015 (Unaudited)				
		Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Financial assets						
Mortgage loans on real estate						
Commercial	\$	1,632,604	\$ 1,661,060	\$ -	\$ -	\$ 1,661,060
Residential		48,269,441	50,276,568	-	-	50,276,568
Policy loans		1,436,351	1,436,351	-	-	1,436,351
Short-term investments		1,141,710	1,141,710	1,141,710	-	-
Other long-term investments		24,908,063	28,562,518	-	-	28,562,518
Cash and cash equivalents		8,817,165	8,817,165	8,817,165	-	-
Accrued investment income		1,994,610	1,994,610	-	-	1,994,610
Loans from premium financing		123,825	123,825	-	-	123,825
Total financial assets	\$	<u>88,323,769</u>	<u>\$ 94,013,807</u>	<u>\$ 9,958,875</u>	<u>\$ -</u>	<u>\$ 84,054,932</u>
Financial liabilities						
Policyholders' account balances	\$	163,549,166	\$ 135,792,751	\$ -	\$ -	\$ 135,792,751
Policy claims		674,283	674,283	-	-	674,283
Total financial liabilities	\$	<u>164,223,449</u>	<u>\$ 136,467,034</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 136,467,034</u>
		December 31, 2014				
		Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Financial assets						
Mortgage loans on real estate						
Commercial	\$	1,962,593	\$ 2,000,041	\$ -	\$ -	\$ 2,000,041
Residential		36,687,140	38,613,679	-	-	38,613,679
Policy loans		1,520,620	1,520,620	-	-	1,520,620
Short-term investments		1,141,199	1,141,199	1,141,199	-	-
Other long-term investments		21,781,925	25,912,178	-	-	25,912,178
Cash and cash equivalents		10,158,386	10,158,386	10,158,386	-	-
Accrued investment income		1,682,906	1,682,906	-	-	1,682,906
Loans from premium financing		123,886	123,886	-	-	123,886
Total financial assets	\$	<u>75,058,655</u>	<u>\$ 81,152,895</u>	<u>\$ 11,299,585</u>	<u>\$ -</u>	<u>\$ 69,853,310</u>
Financial liabilities						
Policyholders' account balances	\$	140,554,973	\$ 126,144,182	\$ -	\$ -	\$ 126,144,182
Notes payable		4,076,473	4,076,473	-	-	4,076,473
Policy claims		602,269	602,269	-	-	602,269
Total financial liabilities	\$	<u>145,233,715</u>	<u>\$ 130,822,924</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 130,822,924</u>

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3. Fair Value Measurements (continued)

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

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

Fixed Maturity Securities and Equity Securities

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

Mortgage Loans on Real Estate

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

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

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

Other Long-Term Investments

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

Investment Contracts – Policyholders' Account Balances

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

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

Policy Claims

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

Notes Payable

The carrying amounts reported for these liabilities approximate their fair value. These notes payable were issued on March 26, 2014 and the current refinancing of these liabilities would result in notes payable yielding approximately the carrying amount as shown in the December 31, 2014 consolidated statement of financial position. The notes payable were settled on March 11, 2015.

First Trinity Financial Corporation and Subsidiaries
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(Unaudited)

4. Notes Payable

Notes payable as of December 31, 2014 are summarized as follows:

	<u>December 31, 2014</u>
Promissory note payable to Grand Bank, secured by real estate and tenant leases located in Indiana, Oklahoma and Texas, 35 monthly payments of interest at 4.50% with a final payment in the 36th month of \$3,009,265 of principal plus unpaid accrued interest at 4.50%, maturity date is March 26, 2017	\$ 3,009,265
Promissory note payable to Grand Bank, secured by real estate and tenant leases located in Missouri, 35 monthly payments of interest at 4.50% with a final payment on the 36th month of \$1,067,208 of principal plus unpaid accrued interest at 4.50%, maturity date is March 26, 2017	1,067,208
Total promissory notes payable	<u>\$ 4,076,473</u>

On March 11, 2015, the Company sold its investment real estate in buildings and land held for sale in Greensburg, Indiana; Norman, Oklahoma; Houston, Texas and Harrisonville, Missouri with an aggregate carrying value of \$6,693,044 as of both December 31, 2014 and March 11, 2015. The Company recorded a gross profit on these sales of \$390,202 based on an aggregate sales price of \$7,083,246 less closing costs and expenses of \$20,119. In addition, simultaneously with these sales, the Company settled its two notes payable, collateralized by the held for sale buildings and land (including assignment of the tenant leases), with an aggregate payment to Grand Bank (the creditor) of \$4,076,473. The \$3,009,265 promissory note was collateralized (including assignment of the tenant leases) by three properties, located in Indiana, Oklahoma and Texas, purchased for \$4,940,647 in December 2013 and February 2014.

In December 2013, TLIC purchased one acre of land in Greensburg, Indiana that included a 3,975 square foot building constructed on approximately 8% of this land at a cost of \$2,444,203 (including closing costs of \$50,516). The building is leased through October 31, 2027 plus four future five year extensions effective on November 1, 2027, November 1, 2032, November 1, 2037 and November 1, 2042. The terms of the lease have the lessee responsible for paying real estate taxes, building insurance and building and ground maintenance. The monthly lease payments were as follows: \$14,661 in 2014; \$14,881 in 2015; \$15,104 in 2016; \$15,331 in 2017; \$15,561 in 2018 and \$15,794 in 2019.

In December 2013, TLIC also purchased one acre of land in Norman, Oklahoma that included a 9,100 square foot building constructed on approximately 18% of this land at a cost of \$1,519,431 (including closing costs of \$37,931). The building is leased through August 31, 2028 plus three future five year extensions on September 1, 2028, September 1, 2033 and September 1, 2038. The terms of the lease have the lessee responsible for paying real estate taxes, building insurance and building and ground maintenance. The monthly lease payments were \$8,004 through August 31, 2028.

In February 2014, TLIC purchased one acre of land in Houston, Texas that included a 9,195 square foot building constructed on approximately 25% of this land at a cost of \$977,013 (including closing costs of \$31,063). The building is leased through December 31, 2023 plus four future five year extensions effective on January 1, 2024, January 1, 2029, January 1, 2034 and January 1, 2039. The terms of the lease have the lessee responsible for paying real estate taxes and building insurance. TLIC is responsible for building and ground maintenance. The monthly lease payments were \$5,833 through December 31, 2019.

The \$1,067,208 promissory note was collateralized (including assignment of the tenant leases) by the February 2014 TLIC purchase of three-fourths of an acre of land in Harrisonville, Missouri that included a 6,895 square foot building constructed on approximately 20% of this land at a cost of \$1,752,397 (including closing costs of \$44,864). The building is leased through October 31, 2028 plus three future five year extensions on November 1, 2028, November 1, 2033 and November 1, 2038. The terms of the lease have the lessee responsible for paying real estate taxes, building insurance and building and ground maintenance. The monthly lease payments were \$9,463 through October 31, 2028.

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4. Notes Payable (continued)

When the two promissory notes were originated on March 26, 2014, \$106,889 of loan origination fees were capitalized with amortization of the capitalized loan origination fees during the 36 month term of the loan. For the year ended December 31, 2014, \$26,722 of the loan origination fees has been amortized and the unamortized loan origination fees as of December 31, 2014 were \$80,167. The Company incurred \$137,581 of interest expense during 2014 on these two notes payable. In connection with the repayments of the two notes payable on March 11, 2015, the Company expensed the loan origination fees remaining as of March 11, 2015 of \$72,744. During the period from January 1, 2015 to March 11, 2015, the Company incurred interest expense of \$35,181 on the two notes payable and amortized \$7,423 of loan origination fees.

5. Segment Data

The Company has a life insurance segment, consisting of the life insurance operations of TLIC and FBLIC, an annuity segment, consisting of the annuity operations of TLIC and FBLIC and a corporate segment. Results for the parent company and the operations of FTCC, after elimination of intercompany amounts, are allocated to the corporate segment. These segments as of June 30, 2015 and December 31, 2014 and for the three and six months ended June 30, 2015 and 2014 are summarized as follows:

	Three Months Ended June 30, (Unaudited)		Six Months Ended June 30, (Unaudited)	
	2015	2014	2015	2014
Revenues:				
Life insurance operations	\$ 2,828,290	\$ 2,501,936	\$ 5,691,976	\$ 5,015,313
Annuity operations	2,221,647	2,091,196	4,405,722	3,752,434
Corporate operations	119,133	72,440	228,059	188,493
Total	<u>\$ 5,169,070</u>	<u>\$ 4,665,572</u>	<u>\$ 10,325,757</u>	<u>\$ 8,956,240</u>
Income (loss) before income taxes:				
Life insurance operations	\$ (99,996)	\$ (110,708)	\$ 2,190	\$ (121,275)
Annuity operations	353,586	506,364	469,091	734,155
Corporate operations	43,373	55,611	205,021	103,885
Total	<u>\$ 296,963</u>	<u>\$ 451,267</u>	<u>\$ 676,302</u>	<u>\$ 716,765</u>
Depreciation and amortization expense:				
Life insurance operations	\$ 472,131	\$ 304,173	\$ 817,745	\$ 659,460
Annuity operations	150,809	126,927	345,511	276,880
Corporate operations	12,563	2,227	25,289	5,570
Total	<u>\$ 635,503</u>	<u>\$ 433,327</u>	<u>\$ 1,188,545</u>	<u>\$ 941,910</u>
	(Unaudited)			
	<u>June 30, 2015</u>	<u>December 31, 2014</u>		
Assets:				
Life insurance operations	\$ 44,603,959	\$ 44,448,441		
Annuity operations	189,163,321	167,947,889		
Corporate operations	6,800,990	6,604,838		
Total	<u>\$ 240,568,270</u>	<u>\$ 219,001,168</u>		

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6. Federal Income Taxes

The provision for federal income taxes is based on the asset and liability method of accounting for income taxes. Deferred income taxes are provided for the cumulative temporary differences between balances of assets and liabilities determined under GAAP and the balances using tax bases. A valuation allowance has been established due to the uncertainty of certain loss carryforwards.

The Company has no known uncertain tax benefits within its provision for income taxes. In addition, the Company does not believe it would be subject to any penalties or interest relative to any open tax years and, therefore, has not accrued any such amounts. The Company files U.S. federal income tax returns and income tax returns in various state jurisdictions. The 2011 through 2014 U.S. federal tax years are subject to income tax examination by tax authorities. The Company classifies any interest and penalties (if applicable) as income tax expense in the financial statements.

7. Legal Matters and Contingent Liabilities

The Company and Chairman, President and Chief Executive Officer, Gregg E. Zahn, filed an action in the District Court of Tulsa County, Oklahoma in 2013, Case No. CJ-2013-03385, against former Company Board of Directors member, Wayne Pettigrew and Mr. Pettigrew's company, Group & Pension Planners, Inc. (the "Defendants"). The petition filed in the case alleges that Mr. Pettigrew, during and after the time he was a member of the Company's Board of Directors, made defamatory statements regarding the Company and Mr. Zahn and committed breaches of his fiduciary duties to the Company. The defendants are alleged to have made defamatory statements to certain shareholders of the Company, to the press and to the Oklahoma Insurance Department and the Oklahoma Department of Securities. Mr. Pettigrew has denied the allegations.

The Board of Directors, represented by independent counsel, concluded that there was no action to be taken against Mr. Zahn and that the allegations by Mr. Pettigrew were without substance. The Company has been informed by the Oklahoma Insurance Department that it would take no action and was also informed that the Oklahoma Department of Securities, after its investigation of the allegations, concluded that no proceedings were needed with respect to the alleged matters.

It is the Company's intention to vigorously prosecute this action against the Defendants for damages and for the correction of the defamatory statements. In the opinion of the Company's management, the ultimate resolution of any contingencies that may arise from this litigation is not considered material in relation to the financial position or results of operations of the Company.

Prior to its acquisition by TLIC, FBLIC developed, marketed, and sold life insurance products known as "Decreasing Term to 95" policies. On January 17, 2013, FBLIC's Board of Directors voted that, effective March 1, 2013, it was not approving, and therefore was not providing, a dividend for the Decreasing Term to 95 policies. On November 22, 2013, three individuals who owned Decreasing Term to 95 policies filed a Petition in the Circuit Court of Greene County, Missouri asserting claims against FBLIC relating to FBLIC's decision to not provide a dividend under the Decreasing Term to 95 policies.

The Petition asserts claims for breach of contract and anticipatory breach of contract and alleges that FBLIC breached, and will anticipatorily breach, the Decreasing Term to 95 policies of insurance by not providing a dividend sufficient to purchase a one year term life insurance policy which would keep the death benefit under the Decreasing Term to 95 policies the same as that provided during the first year of coverage under the policy. In addition to these claims, the Petition asserts claims for negligent misrepresentation, fraud, and violation of the Missouri Merchandising Practices Act ("MMPA"). It alleges that during its sale of the Decreasing Term to 95 policies, FBLIC represented that the owners of these policies would always be entitled to dividends to purchase a one-year term life insurance policy and that the owners would have a level death benefit without an increase in premium.

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7. Legal Matters and Contingent Liabilities (continued)

The Petition also seeks to certify a class of individuals with similar claims but no class has been certified by the Court. FBLIC denies the allegations in the Petition and will continue to defend against them. It is the Company's intention to vigorously defend the request for class certification, as well as to defend vigorously against the individual allegations. FBLIC filed a motion for partial summary judgment seeking summary judgment on the claims for violation of MMPA. This motion for partial summary judgment asked the court to declare that the MMPA does not apply to insurance companies such as FBLIC and enter judgment for FBLIC on the petition. A hearing for the motion of summary judgment was held on February 25, 2015 and it was subsequently denied by the court on March 2, 2015. The Company is unable to determine the potential magnitude of the claims in the event of a final certification and the plaintiffs prevailing on this substantive action.

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

The changes in the components of the Company's accumulated other comprehensive income for the three and six months ended June 30, 2015 and 2014 are summarized as follows:

	Three Months Ended June 30, 2015 and 2014 (Unaudited)		
	Unrealized Appreciation on Available-For-Sale Securities	Adjustment to Deferred Acquisition Costs	Accumulated Other Comprehensive Income
Balance as of April 1, 2015	\$ 3,563,071	\$ (43,141)	\$ 3,519,930
Other comprehensive loss before reclassifications, net of tax	(2,398,050)	28,397	(2,369,653)
Less amounts reclassified from accumulated other comprehensive income, net of tax	(193,541)	-	(193,541)
Other comprehensive loss	(2,204,509)	28,397	(2,176,112)
Balance as of June 30, 2015	<u>\$ 1,358,562</u>	<u>\$ (14,744)</u>	<u>\$ 1,343,818</u>
Balance as of April 1, 2014	\$ 2,975,234	\$ (17,949)	\$ 2,957,285
Other comprehensive income before reclassifications, net of tax	1,604,900	(12,044)	1,592,856
Less amounts reclassified from accumulated other comprehensive income, net of tax	230,262	-	230,262
Other comprehensive income	1,374,638	(12,044)	1,362,594
Balance as of June 30, 2014	<u>\$ 4,349,872</u>	<u>\$ (29,993)</u>	<u>\$ 4,319,879</u>

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

	Six Months Ended June 30, 2015 (Unaudited)		
	Pretax	Income Tax	
		Expense (Benefit)	Net of Tax
Other comprehensive loss:			
Change in net unrealized gains on available-for-sale securities:			
Unrealized holding losses arising during the period	\$ (1,911,843)	\$ (382,369)	\$ (1,529,474)
Reclassification adjustment for net losses included in operations	219,178	43,836	175,342
Net unrealized losses on investments	(1,692,665)	(338,533)	(1,354,132)
Adjustment to deferred acquisition costs	18,008	3,601	14,407
Total other comprehensive loss	<u>\$ (1,674,657)</u>	<u>\$ (334,932)</u>	<u>\$ (1,339,725)</u>
	Six Months Ended June 30, 2014 (Unaudited)		
	Pretax	Income Tax	
		Expense (Benefit)	Net of Tax
Other comprehensive income:			
Change in net unrealized gains on available-for-sale securities:			
Unrealized holding gains arising during the period	\$ 3,643,148	\$ 728,629	\$ 2,914,519
Reclassification adjustment for net gains included in operations	(566,431)	(113,286)	(453,145)
Net unrealized gains on investments	3,076,717	615,343	2,461,374
Adjustment to deferred acquisition costs	(24,565)	(4,913)	(19,652)
Total other comprehensive income	<u>\$ 3,052,152</u>	<u>\$ 610,430</u>	<u>\$ 2,441,722</u>

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

The pretax and the related income tax components of the amounts reclassified from the Company's accumulated other comprehensive income to the Company's consolidated statement of operations for the three and six months ended June 30, 2015 and 2014 are summarized as follows:

Reclassification Adjustments	Three Months Ended June 30, (Unaudited)		Six Months Ended June 30, (Unaudited)	
	2015	2014	2015	2014
Unrealized gains on available-for-sale securities:				
Realized gains (losses) on sales of securities (a)	\$ (241,927)	\$ 287,827	\$ (219,178)	\$ 566,431
Income tax expense (benefit) (b)	(48,386)	57,565	(43,836)	113,286
Total reclassification adjustments	<u>\$ (193,541)</u>	<u>\$ 230,262</u>	<u>\$ (175,342)</u>	<u>\$ 453,145</u>

(a) These items appear within net realized investment gains and loss on other-than-temporary impairment in the consolidated statement of operations.

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

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

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

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

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

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

As of June 30, 2015, \$563,792 of independent mortgage loan balances are held in escrow by a third party for the benefit of the Company related to its investment in \$16,871,255 of mortgage loans on real estate with one loan originator. In addition, the Company has an additional \$164,458 allowance for possible loan losses in the remaining \$33,030,790 of investments in mortgage loans on real estate as of June 30, 2015.

As of December 31, 2014, \$540,049 of independent mortgage loan balances are held in escrow by a third party for the benefit of the Company related to its investment in \$12,892,150 of mortgage loans on real estate with one loan originator. In addition, the Company had an additional \$126,466 allowance for possible loan losses in the remaining \$25,757,583 of investments in mortgage loans on real estate as of December 31, 2014.

Through June 30, 2012, FTCC financed amounts up to 80% of the premium on property and casualty insurance policies after a 20% or greater down payment was made by the policy owner. The premiums financed were collateralized by the amount of the unearned premium of the insurance policy. Policies that became delinquent were submitted for cancellation and recovery of the unearned premium, up to the amount of the loan balance, 25 days after a payment became delinquent. Loans from premium financing of \$320,996 and \$321,244 as of June 30, 2015 and December 31, 2014, respectively, are carried net of estimated loan losses of \$197,171 and \$197,358 as of June 30, 2015 and December 31, 2014, respectively. The Company has made no premium financing loans since June 30, 2012. FTCC currently has no operations other than minor premium refunds, collections of past due accounts and accounts involved in litigation.

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(Unaudited)

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

The balances of and changes in the Company's credit losses related to mortgage loans on real estate and loans from premium financing as of and for the three and six months ended June 30, 2015 and 2014 are summarized as follows (excluding \$16,871,255 and \$7,120,469 of mortgage loans on real estate as of June 30, 2015 and 2014, respectively, with one loan originator where independent mortgage loan balances are held in escrow by a third party for the benefit of the Company):

(Unaudited)

As of and for the Three Months Ended June 30,

	Residential Mortgage Loans		Commercial Mortgage Loans		Premium Finance Loans		Total	
	2015	2014	2015	2014	2015	2014	2015	2014
Allowance, beginning	\$ 141,395	\$ 65,398	\$ 9,674	\$ 10,400	\$ 197,358	\$ 206,858	\$ 348,427	\$ 282,656
Charge offs	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-	-
Provision	14,859	28,966	(1,470)	(165)	(187)	(9,500)	13,202	19,301
Allowance, ending	<u>\$ 156,254</u>	<u>\$ 94,364</u>	<u>\$ 8,204</u>	<u>\$ 10,235</u>	<u>\$ 197,171</u>	<u>\$ 197,358</u>	<u>\$ 361,629</u>	<u>\$ 301,957</u>
Allowance, ending:								
Individually evaluated for impairment	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 192,689</u>	<u>\$ 192,876</u>	<u>\$ 192,689</u>	<u>\$ 192,876</u>
Collectively evaluated for impairment	<u>\$ 156,254</u>	<u>\$ 94,364</u>	<u>\$ 8,204</u>	<u>\$ 10,235</u>	<u>\$ 4,482</u>	<u>\$ 4,482</u>	<u>\$ 168,940</u>	<u>\$ 109,081</u>
Carrying Values:								
Individually evaluated for impairment	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 316,514</u>	<u>\$ 318,499</u>	<u>\$ 316,514</u>	<u>\$ 318,499</u>
Collectively evaluated for impairment	<u>\$ 31,398,186</u>	<u>\$ 19,507,402</u>	<u>\$ 1,632,604</u>	<u>\$ 2,034,420</u>	<u>\$ 4,482</u>	<u>\$ 4,482</u>	<u>\$ 33,035,272</u>	<u>\$ 21,546,304</u>

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(Unaudited)

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

(Unaudited)

As of and for the Six Months Ended June 30,

	Residential Mortgage Loans		Commercial Mortgage Loans		Premium Finance Loans		Total	
	2015	2014	2015	2014	2015	2014	2015	2014
Allowance, beginning	\$ 116,604	\$ 50,210	\$ 9,862	\$ 7,985	\$ 197,358	\$ 206,858	\$ 323,824	\$ 265,053
Charge offs	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-	-
Provision	39,650	44,154	(1,658)	2,250	(187)	(9,500)	37,805	36,904
Allowance, ending	\$ 156,254	\$ 94,364	\$ 8,204	\$ 10,235	\$ 197,171	\$ 197,358	\$ 361,629	\$ 301,957
Allowance, ending:								
Individually evaluated for impairment	\$ -	\$ -	\$ -	\$ -	\$ 192,689	\$ 192,876	\$ 192,689	\$ 192,876
Collectively evaluated for impairment	\$ 156,254	\$ 94,364	\$ 8,204	\$ 10,235	\$ 4,482	\$ 4,482	\$ 168,940	\$ 109,081
Carrying Values:								
Individually evaluated for impairment	\$ -	\$ -	\$ -	\$ -	\$ 316,514	\$ 318,499	\$ 316,514	\$ 318,499
Collectively evaluated for impairment	\$ 31,398,186	\$ 19,507,402	\$ 1,632,604	\$ 2,034,420	\$ 4,482	\$ 4,482	\$ 33,035,272	\$ 21,546,304

The Company utilizes the ratio of the carrying value of individual residential and commercial mortgage loans compared to the individual appraisal value to evaluate the credit quality of its mortgage loans on real estate (commonly referred to as the loan-to-value ratio). The Company's residential and commercial mortgage loans on real estate by credit quality using this ratio as of June 30, 2015 and December 31, 2014 are summarized as follows:

Loan to Value Ratio	Residential Mortgage Loans		Commercial Mortgage Loans		Total Mortgage Loans	
	(Unaudited)		(Unaudited)		(Unaudited)	
	June 30, 2015	December 31, 2014	June 30, 2015	December 31, 2014	June 30, 2015	December 31, 2014
Over 70% to 80%	\$ 13,169,630	\$ 9,049,051	\$ -	\$ -	\$ 13,169,630	\$ 9,049,051
Over 60% to 70%	16,904,764	11,129,632	922,674	938,703	17,827,438	12,068,335
Over 50% to 60%	7,148,378	6,176,648	196,217	201,352	7,344,595	6,378,000
Over 40% to 50%	8,587,810	7,734,658	387,214	409,338	8,975,024	8,143,996
Over 30% to 40%	1,634,390	1,635,865	126,499	405,152	1,760,889	2,041,017
Over 20% to 30%	101,940	448,381	-	-	101,940	448,381
Over 10% to 20%	602,018	87,634	-	-	602,018	87,634
10% or less	120,511	425,271	-	8,048	120,511	433,319
Total	\$ 48,269,441	\$ 36,687,140	\$ 1,632,604	\$ 1,962,593	\$ 49,902,045	\$ 38,649,733

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2015
(Unaudited)

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

Overview

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

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

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

Acquisitions

The Company expects to facilitate growth through acquisitions of other life insurance companies and/or blocks of life insurance business. In late December 2008, the Company completed its acquisition of 100% of the outstanding stock of FLAC, included in the life insurance and annuity segments, for \$2,500,000 and had additional acquisition related expenses of \$195,000. In late December 2011, the Company completed its acquisition of 100% of the outstanding stock of FBLIC, also included in the life insurance and annuity segments, for \$13,855,129.

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

Critical Accounting Policies and Estimates

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

For a description of the Company’s critical accounting policies and estimates, please refer to “Item 7 — Management’s Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies and Estimates” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2014. The Company considers its most critical accounting estimates to be those applied to investments in fixed maturity and equity securities, mortgage loans on real estate, deferred policy acquisition costs, value of insurance business acquired and future policy benefits. There have been no material changes to the Company’s critical accounting policies and estimates since December 31, 2014.

Recent Accounting Pronouncements

Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity

In April 2014, the Financial Accounting Standards Board (“FASB”) issued revised guidance to reduce diversity in practice for reporting discontinued operations. Under the previous guidance, any component of an entity that was a reportable segment, an operating segment, a reporting unit, a subsidiary or an asset group was eligible for discontinued operations presentation.

The revised guidance only allows disposals of components of an entity that represent a strategic shift (e.g., disposal of a major geographical area, a major line of business, a major equity method investment or other major parts of an entity) and that have a major effect on a reporting entity's operations and financial results to be reported as discontinued operations. The revised guidance also requires expanded disclosure in the financial statements for discontinued operations as well as for disposals of significant components of an entity that do not qualify for discontinued operations presentation.

The updated guidance is effective for the quarter ending March 31, 2015. The adoption of this guidance did not have a material effect on the Company's results of operations, financial position or liquidity.

Revenue from Contracts with Customers

In May 2014, the FASB issued updated guidance to clarify the principles for recognizing revenue. While insurance contracts are not within the scope of this updated guidance, the Company's fee income related to providing services will be subject to this updated guidance. The updated guidance requires an entity to recognize revenue as performance obligations are met, in order to reflect the transfer of promised goods or services to customers in an amount that reflects the consideration the entity is entitled to receive for those goods or services.

The following steps are applied in the updated guidance: (1) identify the contract(s) with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract and (5) recognize revenue when, or as, the entity satisfies a performance obligation.

The updated guidance is effective for the quarter ending March 31, 2017. The adoption of this guidance is not expected to have a material effect on the Company's results of operations, financial position or liquidity.

In July 2015, the FASB deferred the effective date of the updated guidance on revenue recognition by one year to the quarter ending March 31, 2018. The adoption of this guidance is not expected to have a material effect on the Company's result of operations, financial position or liquidity.

Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period

In June 2014, the FASB issued updated guidance to resolve diversity in practice concerning employee share-based payments that contain performance targets that could be achieved after the requisite service period. Many reporting entities account for performance targets that could be achieved after the requisite service period as performance conditions that affect the vesting of the award and, therefore, do not reflect the performance targets in the estimate of the grant-date fair value of the award. Other reporting entities treat those performance targets as nonvesting conditions that affect the grant-date fair value of the award.

The updated guidance requires that a performance target that affects vesting and that can be achieved after the requisite service period be treated as a performance condition. As such, the performance target that affects vesting should not be reflected in estimating that fair value of the award at the grant date. Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the periods for which service has been rendered.

If the performance target becomes probable of being achieved before the end of the service period, the remaining unrecognized compensation cost for which requisite service has not yet been rendered is recognized prospectively over the remaining service period. The total amount of compensation cost recognized during and after the service period should reflect the number of awards that are expected to vest and should be adjusted to reflect those awards that ultimately vest.

The updated guidance is effective for annual and interim periods beginning after December 15, 2015, with early adoption permitted. The adoption of this guidance is not expected to have a material effect on the Company's results of operations, financial position or liquidity.

Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern

In August 2014, the FASB issued guidance to address the diversity in practice in determining when there is substantial doubt about an entity's ability to continue as a going concern and when an entity must disclose certain relevant conditions and events. The new guidance requires an entity to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued (or available to be issued). The new guidance allows the entity to consider the mitigating effects of management's plans that will alleviate the substantial doubt and requires certain disclosures when substantial doubt is alleviated as a result of consideration of management's plans.

If conditions or events raise substantial doubt that is not alleviated, an entity should disclose that there is substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued (or available to be issued), along with the principal conditions or events that raise substantial doubt, management's evaluation of the significance of those conditions or events in relation to the entity's ability to meet its obligations and management's plans that are intended to mitigate those conditions.

The guidance is effective for annual periods ending after December 15, 2016, and interim and annual periods thereafter.

Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share Is More Akin to Debt or to Equity

In November 2014, the FASB issued updated guidance to clarify when the separation of certain embedded derivative features in a hybrid financial instrument that is issued in the form of a share is required. That is, an entity will continue to evaluate whether the economic characteristics and risks of the embedded derivative feature are clearly and closely related to those of the host contract. Specifically, the amendments clarify that an entity should consider all relevant terms and features, including the embedded derivative feature being evaluated for bifurcation, in evaluating the nature of the host contract. Furthermore, the amendments clarify that no single term or feature would necessarily determine the economic characteristics and risks of the host contract. Rather, the nature of the host contract depends upon the economic characteristics and risks of the entire hybrid financial instrument.

The updated guidance is effective for reporting periods beginning after December 15, 2015. Early adoption is permitted. The adoption of this guidance is not expected to have a material effect on the Company's results of operations, financial position or liquidity.

Receivables – Troubled Debt Restructurings by Creditors

In January 2014, the FASB issued updated guidance for troubled debt restructurings clarifying when an in substance repossession or foreclosure occurs, and when a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan. The new guidance is effective for annual periods and interim periods within those annual periods, beginning after December 15, 2015. This guidance can be elected for prospective adoption or by using a retrospective transition method. The adoption of this guidance is not expected to have a material effect on the Company's results of operations, financial position or liquidity.

Amendments to the Consolidation Analysis

In February 2015, the FASB issued updated guidance that makes targeted amendments to the current consolidation accounting guidance. The update is in response to accounting complexity concerns, particularly from the asset management industry. The guidance simplifies consolidation accounting by reducing the number of approaches to consolidation, provides a scope exception to registered money market funds and similar unregistered money market funds and ends the indefinite deferral granted to investment companies from applying the variable interest entity guidance.

The updated guidance is effective for annual and interim periods beginning after December 15, 2015. The adoption of this guidance is not expected to have a material effect on the Company's results of operations, financial position or liquidity.

Simplifying the Presentation of Debt Issuance Costs

In April 2015, the FASB issued updated guidance to clarify the required presentation of debt issuance costs. The amended guidance requires that debt issuance costs be presented in the balance sheet as a direct reduction from the carrying amount of the recognized debt liability, consistent with the treatment of debt discounts. Amortization of debt issuance costs is to be reported as interest expense. The recognition and measurement guidance for debt issuance costs are not affected by the updated guidance.

The updated guidance is effective for reporting periods beginning after December 15, 2015. Early adoption is permitted. The adoption of this guidance will not have any effect on the Company's results of operations, financial position or liquidity.

Business Segments

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

Our business segments are as follows:

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

Please see below and Note 5 to the Consolidated Financial Statements for the three and six months ended June 30, 2015 and 2014 and as of June 30, 2015 and December 31, 2014 for additional information regarding segment information.

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

FINANCIAL HIGHLIGHTS

Consolidated Condensed Results of Operations for the Three Months Ended June 30, 2015 and 2014

	(Unaudited)		Increase (Decrease) 2015 less 2014	Percentage Change 2015 to 2014
	Three Months Ended June 30,			
	2015	2014		
Premiums	\$ 2,325,124	\$ 1,932,055	\$ 393,069	20.3%
Net investment income	2,504,762	2,261,603	243,159	10.8%
Net realized investment gains	82,087	465,151	(383,064)	-82.4%
Loss on other-than-temporary impairment	(304,256)	-	(304,256)	100.0%
Gain on reinsurance assumption	550,000	-	550,000	100.0%
Other income	11,353	6,763	4,590	67.9%
Total revenues	5,169,070	4,665,572	503,498	10.8%
Benefits and claims	3,341,636	2,648,244	693,392	26.2%
Expenses	1,530,471	1,566,061	(35,590)	-2.3%
Total benefits, claims and expenses	4,872,107	4,214,305	657,802	15.6%
Income before federal income tax expense (benefit)	296,963	451,267	(154,304)	-34.2%
Federal income tax expense (benefit)	(73,643)	17,087	(90,730)	-531.0%
Net income	\$ 370,606	\$ 434,180	\$ (63,574)	-14.6%
Net income per common share				
basic and diluted	\$ 0.05	\$ 0.06	\$ (0.01)	

Consolidated Condensed Results of Operations for the Six Months Ended June 30, 2015 and 2014

	(Unaudited)		Increase (Decrease) 2015 less 2014	Percentage Change 2015 to 2014
	Six Months Ended June 30,			
	2015	2014		
Premiums	\$ 4,645,438	\$ 3,942,038	\$ 703,400	17.8%
Net investment income	4,912,322	4,232,411	679,911	16.1%
Net realized investment gains	506,089	761,716	(255,627)	-33.6%
Loss on other-than-temporary impairment	(304,256)	-	(304,256)	100.0%
Gain on reinsurance assumption	550,000	-	550,000	100.0%
Other income	16,164	20,075	(3,911)	-19.5%
Total revenues	10,325,757	8,956,240	1,369,517	15.3%
Benefits and claims	6,495,455	5,170,531	1,324,924	25.6%
Expenses	3,154,000	3,068,944	85,056	2.8%
Total benefits, claims and expenses	9,649,455	8,239,475	1,409,980	17.1%
Income before federal income tax expense (benefit)	676,302	716,765	(40,463)	-5.6%
Federal income tax expense (benefit)	(57,334)	39,431	(96,765)	-245.4%
Net income	\$ 733,636	\$ 677,334	\$ 56,302	8.3%
Net income per common share				
basic and diluted	\$ 0.09	\$ 0.09	\$ (0.00)	

Consolidated Condensed Financial Position as of June 30, 2015 and December 31, 2014

	(Unaudited)		Increase (Decrease) 2015 to 2014	Percentage Change 2015 to 2014
	June 30, 2015	December 31, 2014		
Investment assets	\$ 202,845,652	\$ 183,581,353	\$ 19,264,299	10.5%
Other assets	37,722,618	35,419,815	2,302,803	6.5%
Total assets	<u>\$ 240,568,270</u>	<u>\$ 219,001,168</u>	<u>\$ 21,567,102</u>	9.8%
Policy liabilities	\$ 201,911,081	\$ 177,158,120	\$ 24,752,961	14.0%
Notes payable	-	4,076,473	(4,076,473)	-100.0%
Deferred federal income taxes	1,707,109	2,198,753	(491,644)	-22.4%
Other liabilities	4,384,474	2,357,484	2,026,990	86.0%
Total liabilities	208,002,664	185,790,830	22,211,834	12.0%
Shareholders' equity	32,565,606	33,210,338	(644,732)	-1.9%
Total liabilities and shareholders' equity	<u>\$ 240,568,270</u>	<u>\$ 219,001,168</u>	<u>\$ 21,567,102</u>	9.8%
Shareholders' equity per common share	<u>\$ 4.17</u>	<u>\$ 4.25</u>	<u>\$ (0.08)</u>	

Results of Operations – Three Months Ended June 30, 2015 and 2014

Revenues

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

Our revenues for the three months ended June 30, 2015 and 2014 are summarized as follows:

	(Unaudited)		Increase (Decrease) 2015 less 2014	Percentage Change 2015 to 2014
	Three Months Ended June 30,			
	2015	2014		
Premiums	\$ 2,325,124	\$ 1,932,055	\$ 393,069	20.3%
Net investment income	2,504,762	2,261,603	243,159	10.8%
Net realized investment gains	82,087	465,151	(383,064)	-82.4%
Loss on other-than-temporary impairment	(304,256)	-	(304,256)	100.0%
Gain on reinsurance assumption	550,000	-	550,000	100.0%
Other income	11,353	6,763	4,590	67.9%
Total revenues	<u>\$ 5,169,070</u>	<u>\$ 4,665,572</u>	<u>\$ 503,498</u>	10.8%

The \$503,498 increase in total revenues for the three months ended June 30, 2015 is discussed below.

Premiums

Our premiums for the three months ended June 30, 2015 and 2014 are summarized as follows:

	(Unaudited)		Increase	Percentage Change
	Three Months Ended June 30,		(Decrease)	
	2015	2014	2015 less 2014	2015 to 2014
Whole life and term first year	\$ 22,691	\$ 12,386	\$ 10,305	83.2%
Whole life and term renewal	609,445	617,086	(7,641)	-1.2%
Final expense first year	521,817	201,488	320,329	159.0%
Final expense renewal	1,171,171	1,101,095	70,076	6.4%
Total premiums	<u>\$ 2,325,124</u>	<u>\$ 1,932,055</u>	<u>\$ 393,069</u>	20.3%

The \$393,069 increase in premiums for the three months ended June 30, 2015 is primarily due to a \$320,329 increase in final expense first year premiums due to increased production from the expansion of FBLIC into additional states. There was also a \$70,076 increase in final expense renewal premiums reflecting the persistency of prior years' final expense production.

Net Investment Income

The major components of our net investment income for the three months ended June 30, 2015 and 2014 are summarized as follows:

	(Unaudited)		Increase	Percentage Change
	Three Months Ended June 30,		(Decrease)	
	2015	2014	2015 less 2014	2015 to 2014
Fixed maturity securities	\$ 1,245,734	\$ 1,128,167	\$ 117,567	10.4%
Equity securities	8,725	10,747	(2,022)	-18.8%
Other long-term investments	424,587	418,379	6,208	1.5%
Mortgage loans	980,728	581,733	398,995	68.6%
Policy loans	25,165	25,435	(270)	-1.1%
Real estate	71,822	204,799	(132,977)	-64.9%
Short-term and other investments	65,434	35,781	29,653	82.9%
Gross investment income	2,822,195	2,405,041	417,154	17.3%
Investment expenses	(317,433)	(143,438)	173,995	-121.3%
Net investment income	<u>\$ 2,504,762</u>	<u>\$ 2,261,603</u>	<u>\$ 243,159</u>	10.8%

The \$417,154 increase in gross investment income for the three months ended June 30, 2015 is due to additional investments in mortgage loans and fixed maturity securities. In the twelve months since June 30, 2014, our investments in mortgage loans have increased approximately \$21.2 million. In addition, in the twelve months since June 30, 2014, our investments in fixed maturity securities have increased approximately \$11.8 million. The \$132,977 decrease in real estate investment income is related to our sale of \$6,693,044 of real estate held for investment in March 2015.

The \$173,995 increase in investment expenses for the three months ended June 30, 2015 is primarily related to fees and expenses associated with the increased investments in mortgage loans and the expenses incurred during second quarter 2015 in engaging an investment advisor.

Net Realized Investment Gains

There was a \$383,064 decrease in net realized investment gains for the three months ended June 30, 2015.

The net realized investment gains from the sales and maturities of fixed maturity securities available-for-sale of \$62,329 for the three months ended June 30, 2015 resulted from proceeds of \$1,399,932 for these securities that had carrying values of \$1,337,603 at the 2015 disposal dates.

The net realized investment gains from the sales and maturities of fixed maturity securities available-for-sale of \$266,427 for the three months ended June 30, 2014 resulted from proceeds of \$5,149,728 for these securities that had carrying values of \$4,883,301 at the 2014 disposal dates.

There were no realized gains and losses from the sales of equity securities available-for-sale for the three months ended June 30, 2015.

The net realized investment gains from the sales of equity securities available-for-sale of \$21,400 for the three months ended June 30, 2014 resulted from proceeds of \$101,080 for these securities that had carrying values of \$79,680 at the 2014 disposal dates.

The net realized investment gains from mortgage loans on real estate of \$19,758 for the three months ended June 30, 2015 resulted from the early pay off of mortgage loans that the Company had acquired at a discount price.

The net realized investment gains from mortgage loans on real estate of \$177,324 for the three months ended June 30, 2014 resulted from the early pay off of mortgage loans that the Company had acquired at a discount price.

We have recorded one other-than-temporary impairment during 2015. During the second quarter of 2015, we impaired our bonds in a mining corporation with a total par value of \$600,000 as a result of continuing unrealized losses. This impairment was considered fully credit-related, resulting in a charge to the statement of operations before tax of \$304,256 for the three months ended June 30, 2015. This charge represents the credit-related portion of the difference between the amortized cost basis of the security and its fair value. We have experienced no additional other-than-temporary impairments during 2015.

On April 28, 2015, we acquired a block of life insurance policies and annuity contracts according to the terms of an assumption reinsurance agreement. We recorded an asset of \$550,000 associated with this reinsurance assumption during second quarter 2015 which was equivalent to the estimated gain on the reinsurance assumption transaction. During third quarter 2015, we will complete the evaluation of assets and liabilities associated with the reinsurance assumption. Once this analysis is complete, any adjustments will be recorded as a gain (loss) on reinsurance assumption.

Total Benefits, Claims and Expenses

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

Our benefits, claims and expenses for the three months ended June 30, 2015 and 2014 are summarized as follows:

	(Unaudited)		Increase (Decrease)	Percentage Change
	Three Months Ended June 30,			
	2015	2014	2015 less 2014	2015 to 2014
Benefits and claims				
Increase in future policy benefits	\$ 904,650	\$ 594,832	\$ 309,818	52.1%
Death benefits	851,418	750,013	101,405	13.5%
Surrenders	135,487	152,492	(17,005)	-11.2%
Interest credited to policyholders	1,345,410	1,079,517	265,893	24.6%
Dividend, endowment and supplementary life contract benefits	104,671	71,390	33,281	46.6%
Total benefits and claims	3,341,636	2,648,244	693,392	26.2%
Expenses				
Policy acquisition costs deferred	(1,251,016)	(558,309)	(692,707)	124.1%
Amortization of deferred policy acquisition costs	463,089	308,272	154,817	50.2%
Amortization of value of insurance business acquired	99,399	96,744	2,655	2.7%
Commissions	1,039,469	529,531	509,938	96.3%
Other underwriting, insurance and acquisition expenses	1,179,530	1,189,823	(10,293)	-0.9%
Total expenses	1,530,471	1,566,061	(35,590)	-2.3%
Total benefits, claims and expenses	\$ 4,872,107	\$ 4,214,305	\$ 657,802	15.6%

The \$657,802 increase in total benefits, claims and expenses for the three months ended June 30, 2015 is discussed below.

Benefits and Claims

The \$693,392 increase in benefits and claims for the three months ended June 30, 2015 is primarily due to the following:

- \$309,818 increase in future policy benefits is primarily related to the production of new policies, initial sales of policies to older age bands resulting in an increased mortality reserve charge and the aging of existing policies.
- \$265,893 increase in interest credited to policyholders is primarily due to an increase of approximately \$35.3 million in the amount of policyholders' account balances in the consolidated statement of financial position (increased deposits in excess of withdrawals) since June 30, 2014.
- \$101,405 increase in death benefits is primarily due to seven additional final expense claims at an average of approximately \$13,900 per claim. The increased final expense mortality was offset by less mortality in the other lines. Final expense mortality is above actuarial estimates when the products were introduced but management and actuarial analysis continues to conclude that its final expense products are profitable.

Deferral and Amortization of Deferred Acquisition Costs

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

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

For the three months ended June 30, 2015 and 2014, capitalized costs were \$1,251,016 and \$558,309, respectively. Amortization of deferred policy acquisition costs for the three months ended June 30, 2015 and 2014 were \$463,089 and \$308,272, respectively.

The \$692,707 increase in the acquisition costs deferred primarily relates to increased production of final expense and annuity products. The \$154,817 increase in the 2015 amortization of deferred acquisition costs is primarily due to increased mortality associated with final expense policies and a decrease in the percentage of submitted policies issued.

Amortization of Value of Insurance Business Acquired

The cost of acquiring insurance business is amortized over the emerging profit of the related policies using the same assumptions that were used in computing liabilities for future policy benefits. Amortization of the value of insurance business acquired was \$99,399 and \$96,744 for the three months ended June 30, 2015 and 2014, respectively.

Commissions

Our commissions for the three months ended June 30, 2015 and 2014 are summarized as follows:

	(Unaudited)		Increase 2015 less 2014	Percentage Change 2015 to 2014
	Three Months Ended June 30,			
	2015	2014		
Annuity	\$ 280,864	\$ 167,038	\$ 113,826	68.1%
Whole life and term first year	13,897	10,926	2,971	27.2%
Whole life and term renewal	28,380	27,554	826	3.0%
Final expense first year	617,140	227,427	389,713	171.4%
Final expense renewal	99,188	96,586	2,602	2.7%
Total commissions	\$ 1,039,469	\$ 529,531	\$ 509,938	96.3%

The \$509,938 increase in commissions for the three months ended June 30, 2015 is primarily due to:

- \$389,713 increase in final expense first year commissions that correspond to the \$320,329 increase in final expense first year premiums.
- \$113,826 increase in annuity first year, single and renewal commissions that corresponds to \$4,218,726 of increased annuity considerations deposited in excess of withdrawals.

Other Underwriting, Insurance and Acquisition Expenses

There was a minor decrease of \$10,293 in other underwriting, insurance and acquisition expenses for the three months ended June 30, 2015.

Federal Income Taxes

FTFC files a consolidated federal income tax return with FTCC but does not file a consolidated tax return with TLIC or FBLIC. TLIC and FBLIC are taxed as life insurance companies under the provisions of the Internal Revenue Code. Life insurance companies must file separate tax returns until they have been a member of the consolidated filing group for five years.

However, in 2014 and 2013, TLIC and FBLIC filed combined life insurance company 2013 and 2012 federal tax returns and intend to also file a combined life insurance company 2014 federal tax return for TLIC and FBLIC in 2015. Certain items included in income reported for financial statement purposes are not included in taxable income for the current period, resulting in deferred income taxes.

For the three months ended June 30, 2015 and 2014, current income tax expense was \$24,413 and \$28,191, respectively. Deferred federal income tax benefits were \$98,056 and \$11,104 for the three months ended June 30, 2015 and 2014, respectively.

Net Income Per Common Share Basic and Diluted

Net income was \$370,606 (\$0.05 per common share basic and diluted) and \$434,180 (\$0.06 per common share basic and diluted) for the three months ended June 30, 2015 and 2014, respectively.

Net income per common share basic and diluted is calculated using the weighted average number of common shares outstanding and subscribed during the year. The weighted average outstanding and subscribed common shares basic and diluted for the three months ended June 30, 2015 and 2014 were 7,802,610 and 7,831,934, respectively.

Business Segments

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

The revenues and income (loss) before federal income taxes from our business segments for the three months ended June 30, 2015 and 2014 are summarized as follows:

	(Unaudited)		Increase (Decrease) 2015 to 2014	Percentage Change 2015 to 2014
	Three Months Ended June 30,			
	2015	2014		
Revenues:				
Life insurance operations	\$ 2,828,290	\$ 2,501,936	\$ 326,354	13.0%
Annuity operations	2,221,647	2,091,196	130,451	6.2%
Corporate operations	119,133	72,440	46,693	64.5%
Total	<u>\$ 5,169,070</u>	<u>\$ 4,665,572</u>	<u>\$ 503,498</u>	10.8%
Income (loss) before income taxes:				
Life insurance operations	\$ (99,996)	\$ (110,708)	\$ 10,712	9.7%
Annuity operations	353,586	506,364	(152,778)	-30.2%
Corporate operations	43,373	55,611	(12,238)	-22.0%
Total	<u>\$ 296,963</u>	<u>\$ 451,267</u>	<u>\$ (154,304)</u>	-34.2%

Life Insurance Operations

The \$326,354 increase in revenues from Life Insurance Operations for the three months ended June 30, 2015 is primarily due to the following:

- \$393,069 increase in premiums
- \$4,848 increase in other income

- \$24,144 decrease in net investment income
- \$47,419 decrease in net realized investment gains (that also includes a loss on other-than-temporary impairment and gain on reinsurance assumption)

The \$10,712 increased profitability from Life Insurance Operations for the three months ended June 30, 2015 is primarily due to the following:

- \$419,998 increase in policy acquisition costs deferred net of amortization
- \$393,069 increase in premiums
- \$47,045 decrease in amortization of value of insurance business acquired
- \$40,926 decrease in other underwriting, insurance and acquisition expenses
- \$17,005 decrease in surrenders
- \$4,848 increase in other income
- \$24,144 decrease in net investment income
- \$33,281 increase in dividend, endowment and supplementary life contract benefits
- \$47,419 decrease in net realized investment gains (that also includes a loss on other-than-temporary impairment and gain on reinsurance assumption)
- \$101,405 increase in death benefits
- \$309,818 increase in future policy benefits
- \$396,112 increase in commissions

Annuity Operations

The \$130,451 increase in revenues from Annuity Operations for the three months ended June 30, 2015 is due to the following:

- \$220,352 increase in net investment income
- \$89,901 decrease in net realized investment gains (that also includes a loss on other-than-temporary impairment and gain on reinsurance assumption)

The \$152,778 decreased profitability from Annuity Operations for the three months ended June 30, 2015 is due to the following:

- \$265,893 increase in interest credited to policyholders
- \$113,826 increase in commissions
- \$89,901 decrease in net realized investment gains (that also includes a loss on other-than-temporary impairment and gain on reinsurance assumption)

- \$49,700 increase in amortization of value of insurance business acquired
- \$28,298 decrease in other underwriting, insurance and acquisition expenses
- \$117,892 increase in policy acquisition costs deferred net of amortization
- \$220,352 increase in net investment income

Corporate Operations

The \$46,693 increase in revenues from Corporate Operations for the three months ended June 30, 2015 is primarily due to \$46,951 of increased net investment income and \$258 of decreased other income.

The \$12,238 decreased Corporate Operations profitability for the three months ended June 30, 2015 is primarily due to \$58,931 of increased operating expenses and \$258 of decreased other income that exceeded \$46,951 of increased net investment income.

Results of Operations – Six Months Ended June 30, 2015 and 2014

Revenues

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

Our revenues for the six months ended June 30, 2015 and 2014 are summarized as follows:

	(Unaudited)		Increase (Decrease) 2015 less 2014	Percentage Change 2015 to 2014
	Six Months Ended June 30, 2015	2014		
Premiums	\$ 4,645,438	\$ 3,942,038	\$ 703,400	17.8%
Net investment income	4,912,322	4,232,411	679,911	16.1%
Net realized investment gains	506,089	761,716	(255,627)	-33.6%
Loss on other-than-temporary impairment	(304,256)	-	(304,256)	100.0%
Gain on reinsurance assumption	550,000	-	550,000	100.0%
Other income	16,164	20,075	(3,911)	-19.5%
Total revenues	<u>\$ 10,325,757</u>	<u>\$ 8,956,240</u>	<u>\$ 1,369,517</u>	15.3%

The \$1,369,517 increase in total revenues for the six months ended June 30, 2015 is discussed below.

Premiums

Our premiums for the six months ended June 30, 2015 and 2014 are summarized as follows:

	(Unaudited)		Increase	Percentage Change
	Six Months Ended June 30,			
	2015	2014	2015 less 2014	2015 to 2014
Whole life and term first year	\$ 43,932	\$ 31,917	\$ 12,015	37.6%
Whole life and term renewal	1,372,280	1,338,662	33,618	2.5%
Final expense first year	913,639	388,272	525,367	135.3%
Final expense renewal	2,315,587	2,183,187	132,400	6.1%
Total premiums	\$ 4,645,438	\$ 3,942,038	\$ 703,400	17.8%

The \$703,400 increase in premiums for the six months ended June 30, 2015 is primarily due to a \$525,367 increase in final expense first year premiums due to increased production from the expansion of FBLIC into additional states. There was also a \$132,400 increase in final expense renewal premiums reflecting the persistency of prior years' final expense production.

Net Investment Income

The major components of our net investment income for the six months ended June 30, 2015 and 2014 are summarized as follows:

	(Unaudited)		Increase (Decrease)	Percentage Change
	Six Months Ended June 30,			
	2015	2014	2015 less 2014	2015 to 2014
Fixed maturity securities	\$ 2,419,515	\$ 2,248,063	\$ 171,452	7.6%
Equity securities	20,254	21,404	(1,150)	-5.4%
Other long-term investments	838,829	833,790	5,039	0.6%
Mortgage loans	1,936,872	1,035,705	901,167	87.0%
Policy loans	50,306	50,378	(72)	-0.1%
Real estate	259,410	377,994	(118,584)	-31.4%
Short-term and other investments	113,626	72,078	41,548	57.6%
Gross investment income	5,638,812	4,639,412	999,400	21.5%
Investment expenses	(726,490)	(407,001)	319,489	-78.5%
Net investment income	\$ 4,912,322	\$ 4,232,411	\$ 679,911	16.1%

The \$999,400 increase in gross investment income for the six months ended June 30, 2015 is due to additional investments in mortgage loans and fixed maturity securities. In the twelve months since June 30, 2014, our investments in mortgage loans have increased approximately \$21.2 million. In addition, in the twelve months since June 30, 2014, our investments in fixed maturity securities have increased approximately \$11.8 million. The \$118,584 decrease in real estate investment income is related to our sale of \$6,693,044 of real estate held for sale in March 2015.

The \$319,489 increase in investment expenses for the six months ended June 30, 2015 is primarily related to fees and expenses associated with the increased investments in mortgage loans, the expenses incurred during second quarter 2015 in engaging an investment advisor and expenses incurred with the sale of investment real estate on March 11, 2015. The investment real estate sale included expensing the remaining loan origination fees, interest on the note payable and closing costs.

Net Realized Investment Gains

There was a \$255,627 decrease in net realized investment gains for the six months ended June 30, 2015.

The net realized investment gains from the sales and maturities of fixed maturity securities available-for-sale of \$86,978 for the six months ended June 30, 2015 resulted from proceeds of \$2,588,161 for these securities that had carrying values of \$2,501,183 at the 2015 disposal dates.

The net realized investment gains from the sales and maturities of fixed maturity securities available-for-sale of \$545,031 for the six months ended June 30, 2014 resulted from proceeds of \$8,580,058 for these securities that had carrying values of \$8,035,027 at the 2014 disposal dates.

The net realized investment losses from the sales of equity securities available-for-sale of \$1,900 for the six months ended June 30, 2015 resulted from proceeds of \$533,813 for these securities that had carrying values of \$535,713 at the 2015 disposal dates.

The net realized investment gains from the sales of equity securities available-for-sale of \$21,400 for the six months ended June 30, 2014 resulted from proceeds of \$101,080 for these securities that had carrying values of \$79,680 at the 2014 disposal dates.

The net realized investment gains from mortgage loans on real estate of \$30,809 for the six months ended June 30, 2015 resulted from the early pay off of mortgage loans that the Company had acquired at a discount price.

The net realized investment gains from mortgage loans on real estate of \$195,285 for the six months ended June 30, 2014 resulted from the early pay off of mortgage loans that the Company had acquired at a discount price.

On March 11, 2015, the Company sold its investment real estate in buildings and land held for sale in Greensburg, Indiana; Norman, Oklahoma; Houston, Texas and Harrisonville, Missouri with an aggregate carrying value of \$6,693,044 as of both December 31, 2014 and March 11, 2015. The Company recorded a gross profit on these sales of \$390,202 based on an aggregate sales price of \$7,083,246 less closing costs and expenses of \$20,119.

We have recorded one other-than-temporary impairment during 2015. During the second quarter of 2015, we impaired our bonds in a mining corporation with a total par value of \$600,000 as a result of continuing unrealized losses. This impairment was considered fully credit-related, resulting in a charge to the statement of operations before tax of \$304,256 for the six months ended June 30, 2015. This charge represents the credit-related portion of the difference between the amortized cost basis of the security and its fair value. We have experienced no additional other-than-temporary impairments during 2015.

On April 28, 2015, we acquired a block of life insurance policies and annuity contracts according to the terms of an assumption reinsurance agreement. We recorded an asset of \$550,000 associated with this reinsurance assumption during second quarter 2015 which was equivalent to the estimated gain on the reinsurance assumption transaction. During third quarter 2015, we will complete the evaluation of assets and liabilities associated with the reinsurance assumption. Once this analysis is complete, any adjustments will be recorded as a gain (loss) on reinsurance assumption.

Total Benefits, Claims and Expenses

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

Our benefits, claims and expenses for the six months ended June 30, 2015 and 2014 are summarized as follows:

	(Unaudited)		Increase	Percentage Change
	Six Months Ended June 30,		(Decrease)	
	2015	2014	2015 less 2014	
Benefits and claims				
Increase in future policy benefits	\$ 1,695,961	\$ 1,214,804	\$ 481,157	39.6%
Death benefits	1,770,209	1,472,462	297,747	20.2%
Surrenders	277,881	243,938	33,943	13.9%
Interest credited to policyholders	2,593,300	2,101,727	491,573	23.4%
Dividend, endowment and supplementary life contract benefits	158,104	137,600	20,504	14.9%
Total benefits and claims	6,495,455	5,170,531	1,324,924	25.6%
Expenses				
Policy acquisition costs deferred	(2,222,967)	(1,086,471)	(1,136,496)	104.6%
Amortization of deferred policy acquisition costs	857,549	589,554	267,995	45.5%
Amortization of value of insurance business acquired	199,357	202,598	(3,241)	-1.6%
Commissions	1,909,615	1,039,981	869,634	83.6%
Other underwriting, insurance and acquisition expenses	2,410,446	2,323,282	87,164	3.8%
Total expenses	3,154,000	3,068,944	85,056	2.8%
Total benefits, claims and expenses	\$ 9,649,455	\$ 8,239,475	\$ 1,409,980	17.1%

The \$1,409,980 increase in total benefits, claims and expenses for the six months ended June 30, 2015 is discussed below.

Benefits and Claims

The \$1,324,924 increase in benefits and claims for the six months ended June 30, 2015 is primarily due to the following:

- \$491,573 increase in interest credited to policyholders is primarily due to an increase of approximately \$35.3 million in the amount of policyholders' account balances in the consolidated statement of financial position (increased deposits in excess of withdrawals) since June 30, 2014.
- \$481,157 increase in future policy benefits is primarily related to the production of new policies, initial sales of policies to older age bands resulting in an increased mortality reserve charge and the aging of existing policies.
- \$297,747 increase in death benefits is primarily due to 22 additional final expense claims at an average of approximately \$13,800 per claim. The increased final expense mortality was offset by less mortality in the other lines. Final expense mortality is above actuarial estimates when the products were introduced but management and actuarial analysis continues to conclude that its final expense products are profitable.

Deferral and Amortization of Deferred Acquisition Costs

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

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

For the six months ended June 30, 2015 and 2014, capitalized costs were \$2,222,967 and \$1,086,471, respectively. Amortization of deferred policy acquisition costs for the six months ended June 30, 2015 and 2014 were \$857,549 and \$589,554, respectively.

The \$1,136,496 increase in the acquisition costs deferred primarily relates to increased production of final expense and annuity products. The \$267,995 increase in the 2015 amortization of deferred acquisition costs is primarily due to increased mortality associated with final expense policies and a decrease in the percentage of submitted policies issued.

Amortization of Value of Insurance Business Acquired

The cost of acquiring insurance business is amortized over the emerging profit of the related policies using the same assumptions that were used in computing liabilities for future policy benefits. Amortization of the value of insurance business acquired was \$199,357 and \$202,598 for the six months ended June 30, 2015 and 2014, respectively.

Commissions

Our commissions for the six months ended June 30, 2015 and 2014 are summarized as follows:

	(Unaudited)		Increase 2015 less 2014	Percentage Change 2015 to 2014
	Six Months Ended June 30,			
	2015	2014		
Annuity	\$ 538,664	\$ 332,381	\$ 206,283	62.1%
Whole life and term first year	36,734	27,462	9,272	33.8%
Whole life and term renewal	59,400	53,559	5,841	10.9%
Final expense first year	1,078,316	434,561	643,755	148.1%
Final expense renewal	196,501	192,018	4,483	2.3%
Total commissions	<u>\$ 1,909,615</u>	<u>\$ 1,039,981</u>	<u>\$ 869,634</u>	83.6%

The \$869,634 increase in commissions for the six months ended June 30, 2015 is primarily due to:

- \$643,755 increase in final expense first year commissions that correspond to the \$525,367 increase in final expense first year premiums.
- \$206,283 increase in annuity first year, single and renewal commissions that corresponds to \$7,981,546 of increased annuity considerations deposited in excess of withdrawals.

Other Underwriting, Insurance and Acquisition Expenses

There was a minor increase of \$87,164 in other underwriting, insurance and acquisition expenses for the six months ended June 30, 2015.

Federal Income Taxes

FTFC files a consolidated federal income tax return with FTCC but does not file a consolidated tax return with TLIC or FBLIC. TLIC and FBLIC are taxed as life insurance companies under the provisions of the Internal Revenue Code. Life insurance companies must file separate tax returns until they have been a member of the consolidated filing group for five years.

However, in 2014 and 2013, TLIC and FBLIC filed combined life insurance company 2013 and 2012 federal tax returns and intend to also file a combined life insurance company 2014 federal tax return for TLIC and FBLIC in 2015. Certain items included in income reported for financial statement purposes are not included in taxable income for the current period, resulting in deferred income taxes.

For the six months ended June 30, 2015 and 2014, current income tax expense was \$99,378 and \$78,450, respectively. Deferred federal income tax benefits were \$156,712 and \$39,019 for the six months ended June 30, 2015 and 2014, respectively.

Net Income Per Common Share Basic and Diluted

Net income was \$733,636 (\$0.09 per common share basic and diluted) and \$677,334 (\$0.09 per common share basic and diluted) for the six months ended June 30, 2015 and 2014, respectively.

Net income per common share basic and diluted is calculated using the weighted average number of common shares outstanding and subscribed during the year. The weighted average outstanding and subscribed common shares basic and diluted for the six months ended June 30, 2015 and 2014 were 7,806,538 and 7,833,605, respectively.

Business Segments

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

The revenues and income (loss) before federal income taxes from our business segments for the six months ended June 30, 2015 and 2014 are summarized as follows:

	(Unaudited)		Increase (Decrease) 2015 to 2014	Percentage Change 2015 to 2014
	Six Months Ended June 30,			
	2015	2014		
Revenues:				
Life insurance operations	\$ 5,691,976	\$ 5,015,313	\$ 676,663	13.5%
Annuity operations	4,405,722	3,752,434	653,288	17.4%
Corporate operations	228,059	188,493	39,566	21.0%
Total	<u>\$ 10,325,757</u>	<u>\$ 8,956,240</u>	<u>\$ 1,369,517</u>	15.3%
Income (loss) before income taxes:				
Life insurance operations	\$ 2,190	\$ (121,275)	\$ 123,465	101.8%
Annuity operations	469,091	734,155	(265,064)	-36.1%
Corporate operations	205,021	103,885	101,136	97.4%
Total	<u>\$ 676,302</u>	<u>\$ 716,765</u>	<u>\$ (40,463)</u>	-5.6%

Life Insurance Operations

The \$676,663 increase in revenues from Life Insurance Operations for the six months ended June 30, 2015 is primarily due to the following:

- \$703,400 increase in premiums
- \$10,576 increase in net investment income

- \$3,398 decrease in other income
- \$33,915 decrease in net realized investment gains (that also includes a loss on other-than-temporary impairment and gain on reinsurance assumption)

The \$123,465 increased profitability from Life Insurance Operations for the six months ended June 30, 2015 is primarily due to the following:

- \$703,400 increase in premiums
- \$640,685 increase in policy acquisition costs deferred net of amortization
- \$199,901 decrease in other underwriting, insurance and acquisition expenses
- \$102,918 decrease in amortization of value of insurance business acquired
- \$10,576 increase in net investment income
- \$3,398 decrease in other income
- \$20,504 increase in dividend, endowment and supplementary life contract benefits
- \$33,915 decrease in net realized investment gains (that also includes a loss on other-than-temporary impairment and gain on reinsurance assumption)
- \$33,943 increase in surrenders
- \$297,747 increase in death benefits
- \$481,157 increase in future policy benefits
- \$663,351 increase in commissions

Annuity Operations

The \$653,288 increase in revenues from Annuity Operations for the six months ended June 30, 2015 is due to the following:

- \$629,256 increase in net investment income
- \$24,032 increase in net realized investment gains (that also includes a loss on other-than-temporary impairment and gain on reinsurance assumption)

The \$265,064 decreased profitability from Annuity Operations for the six months ended June 30, 2015 is due to the following:

- \$491,573 increase in interest credited to policyholders
- \$348,635 increase in other underwriting, insurance and acquisition expenses
- \$206,283 increase in commissions
- \$99,677 increase in amortization of value of insurance business acquired

- \$24,032 increase in net realized investment gains (that also includes a loss on other-than-temporary impairment and gain on reinsurance assumption)
- \$227,816 increase in policy acquisition costs deferred net of amortization
- \$629,256 increase in net investment income

Corporate Operations

The \$39,566 increase in revenues from Corporate Operations for the six months ended June 30, 2015 is primarily due to \$40,079 of increased net investment income and \$513 of decreased other income.

The \$101,136 increased Corporate Operations profitability for the six months ended June 30, 2015 is primarily due to \$61,570 of decreased operating expenses, \$40,079 of increased net investment income that exceeded \$513 of decreased other income. The decreased Corporate segment operating expenses relate to decreased expenses incurred by that segment since we are focused on expanding the life insurance and annuity operations of TLIC and FBLIC. The focus of our marketing and executive team is on expanding FBLIC into additional states utilizing final expense and annuity products. There is also significant marketing and executive focus on increasing TLIC production of life insurance and annuity products in TLIC's current eight licensed states.

Consolidated Financial Condition

Our invested assets as of June 30, 2015 and December 31, 2014 are summarized as follows:

	(Unaudited)		Increase (Decrease)	Percentage Change
	June 30, 2015	December 31, 2014	2015 to 2014	2015 to 2014
Assets				
Investments				
Available-for-sale fixed maturity securities at fair value (amortized cost: \$120,831,456 and \$107,412,322, as of June 30, 2015 and December 31, 2014, respectively)	\$ 122,415,027	\$ 110,651,429	\$ 11,763,598	10.6%
Available-for-sale equity securities at fair value (cost: \$528,521 and \$519,595 as of June 30, 2015 and December 31, 2014, respectively)	643,154	671,357	(28,203)	-4.2%
Mortgage loans on real estate	49,902,045	38,649,733	11,252,312	29.1%
Investment real estate	2,399,302	9,165,090	(6,765,788)	-73.8%
Policy loans	1,436,351	1,520,620	(84,269)	-5.5%
Short-term investments	1,141,710	1,141,199	511	0.0%
Other long-term investments	24,908,063	21,781,925	3,126,138	14.4%
Total investments	<u>\$ 202,845,652</u>	<u>\$ 183,581,353</u>	<u>\$ 19,264,299</u>	10.5%

The \$11,763,598 increase in available-for-sale fixed maturity securities for the six months ended June 30, 2015 is primarily due to purchases of \$16,654,068 and net realized investment gains of \$86,978 in excess of sales and maturities of \$2,588,161, loss on other-than-temporary impairment of \$304,256, decrease in unrealized appreciation of \$1,655,536 and premium amortization of \$429,495. This portfolio is reported at fair value with unrealized gains and losses, net of applicable income taxes, reflected as a separate component in shareholders' equity within "Accumulated Other Comprehensive Income." The available-for-sale fixed maturity securities portfolio is invested primarily in a variety of companies, U. S. government and government agencies, states and political subdivisions and foreign securities.

As of June 30, 2015, we held 167 available-for-sale fixed maturity securities with an unrealized loss of \$1,856,270, fair value of \$43,252,734 and amortized cost of \$45,109,004.

The \$28,203 decrease in available-for-sale equity securities for the six months ended June 30, 2015 is primarily due to sales of \$533,813, net realized investment losses of \$1,900, decrease in unrealized appreciation of available-for-sale equity securities of \$37,129 and premium amortization of \$196 in excess of purchases of \$544,835. This portfolio is also reported at fair value with unrealized gains and losses, net of applicable income taxes, reflected as a separate component in shareholders' equity within "Accumulated Other Comprehensive Income." The available-for-sale equity securities portfolio is invested in several companies.

As of June 30, 2015, we held four available-for-sale equity securities with an unrealized loss of \$8,901, fair value of \$221,118 and cost of \$230,019.

The \$11,252,312 increase in mortgage loans for the six months ended June 30, 2015 is primarily due to the purchase of mortgage loans of \$15,299,124, capitalization of loan origination fees of \$50,000, realized gains on the early pay off of loans purchased at a discount of \$30,809, discount accretion of \$67,600 in excess of principal payments of \$4,124,035, charges to the allowance for bad debts of \$37,992 and amortization of loan origination fees of \$33,194.

The \$3,126,138 increase in other long-term investments (comprised of lottery receivables) for the six months ended June 30, 2015 is primarily due to purchases of \$4,368,725 and accretion of discount of \$839,826 less principal payments of \$2,082,413.

The \$6,765,788 decrease in investment real estate is primarily due to our March 11, 2015 sale of investment real estate in buildings and land held for sale in Greensburg, Indiana; Norman, Oklahoma; Houston, Texas and Harrisonville, Missouri with an aggregate carrying value of \$6,693,044 as of both December 31, 2014 and March 11, 2015. The Company recorded a gross profit on these sales of \$390,202 based on an aggregate sales price of \$7,083,246 less closing costs and expenses of \$20,119. The remaining \$72,744 difference is the depreciation of the Topeka building that is held for the production of income.

Our assets other than invested assets as of June 30, 2015 and December 31, 2014 are summarized as follows:

	(Unaudited)		Increase (Decrease)	Percentage Change
	June 30, 2015	December 31, 2014	2015 to 2014	2015 to 2014
Cash and cash equivalents	\$ 8,817,165	\$ 10,158,386	\$ (1,341,221)	-13.2%
Accrued investment income	1,994,610	1,682,906	311,704	18.5%
Recoverable from reinsurers	1,179,389	1,222,245	(42,856)	-3.5%
Agents' balances and due premiums	921,077	562,146	358,931	63.9%
Deferred policy acquisition costs	10,671,277	9,287,851	1,383,426	14.9%
Value of insurance business acquired	6,475,057	6,674,414	(199,357)	-3.0%
Property and equipment, net	58,300	84,001	(25,701)	-30.6%
Other assets	7,605,743	5,747,866	1,857,877	32.3%
Assets other than investment assets	<u>\$ 37,722,618</u>	<u>\$ 35,419,815</u>	<u>\$ 2,302,803</u>	6.5%

The \$358,931 increase in agents' balances and due premiums is primarily due to a \$385,562 increase in agents' balances. This increase is due to increased production of annuity contracts and final expense policies.

The \$311,704 increase in accrued investment income is due to the \$19,264,299 increase in invested assets during the first six months of 2015.

The changes in deferred policy acquisition costs and value of business acquired are presented in the consolidated statements of operations for the six months ended June 30, 2015. In addition, the \$18,008 deferred policy acquisition costs adjustment included in other comprehensive loss is presented in the consolidated statement of comprehensive loss for the six months ended June 30, 2015.

The change in cash and cash equivalents is presented in the consolidated statement of cash flow for the six months ended June 30, 2015 and is discussed in more detail in the liquidity and capital resources section below.

The \$25,701 decrease in property and equipment is due to the depreciation of those assets for the six months ended June 30, 2015.

The \$42,856 decrease in recoverable from reinsurers relates to the timing of collections under our reinsurance agreements.

Other assets consist primarily of recoverable federal and state income taxes, receivables from mortgage loans and other long-term assets (lottery receivables), guaranty funds, notes receivable, prepaid expenses, other receivables, assumption reinsurance asset and loans from premium financing.

The \$1,857,877 increase in other assets is primarily due to increases in notes receivable of \$1,179,486, other receivables of \$840,545, reinsurance assumption asset of \$550,000 and recoverable state income taxes of \$42,567 that exceeded decreases in receivables from mortgage loans and other long-term assets (lottery receivables) of \$496,503, recoverable federal income taxes of \$189,162 and prepaid assets of \$60,644.

On April 28, 2015, we acquired a block of life insurance policies and annuity contracts according to the terms of an assumption reinsurance agreement. We recorded an asset of \$550,000 associated with this reinsurance assumption during second quarter 2015 which was equivalent to the estimated gain on the reinsurance assumption transaction. During third quarter 2015, we will complete the evaluation of assets and liabilities associated with the reinsurance assumption in accordance with U.S. GAAP. Once this analysis is complete, any adjustments will be recorded as a gain (loss) on reinsurance assumption.

On April 15, 2015, the Company loaned \$400,000 to its former Chairman. The loan has a term of one year and has a contractual interest rate of 5.50%. The loan is collateralized by 100,000 shares of the Company's Class A Common stock owned by the former Chairman.

Our liabilities as of June 30, 2015 and December 31, 2014 are summarized as follows:

	(Unaudited) June 30, 2015	December 31, 2014	Increase (Decrease) 2015 to 2014	Percentage Change 2015 to 2014
Policy liabilities				
Policyholders' account balances	\$ 163,549,166	\$ 140,554,973	\$ 22,994,193	16.4%
Future policy benefits	37,624,329	35,913,730	1,710,599	4.8%
Policy claims	674,283	602,269	72,014	12.0%
Other policy liabilities	63,303	87,148	(23,845)	-27.4%
Total policy liabilities	<u>201,911,081</u>	<u>177,158,120</u>	<u>24,752,961</u>	14.0%
Notes payable	-	4,076,473	(4,076,473)	-100.0%
Deferred federal income taxes	1,707,109	2,198,753	(491,644)	-22.4%
Other liabilities	<u>4,384,474</u>	<u>2,357,484</u>	<u>2,026,990</u>	86.0%
Total liabilities	<u>\$ 208,002,664</u>	<u>\$ 185,790,830</u>	<u>\$ 22,211,834</u>	12.0%

The \$24,752,961 increase in policy liabilities is primarily due to deposits on annuity and deposit-type contracts (\$25,903,955) exceeding withdrawals (\$5,503,062) by \$20,400,893, interest credited to policyholders' account balances of \$2,593,300 and increased future policy benefit reserves of \$1,710,599.

On March 11, 2015, the Company sold its investment real estate in buildings and land held for sale in Greensburg, Indiana; Norman, Oklahoma; Houston, Texas and Harrisonville, Missouri with an aggregate carrying value of \$6,693,044 as of both December 31, 2014 and March 11, 2015. The Company recorded a gross profit on these sales of \$390,202 based on an aggregate sales price of \$7,083,246 less closing costs and expenses of \$20,119. In addition, simultaneously with these sales, the Company settled its two notes payable, collateralized by the held for sale buildings and land (including assignment of the tenant leases), with an aggregate payment to Grand Bank (the creditor) of \$4,076,473.

On March 26, 2014, we issued two notes payable totaling \$4,076,473. The first note payable totaling \$3,009,265 was collateralized (including assignment of the tenant leases) by three properties, located in Indiana, Oklahoma and Texas, purchased for a total of \$4,940,647 in December 2013 and February 2014.

In December 2013, TLIC purchased one acre of land in Greensburg, Indiana that included a 3,975 square foot building constructed on approximately 8% of this land at a cost of \$2,444,203 (including closing costs of \$50,516). The building is leased through October 31, 2027 plus four future five year extensions effective on November 1, 2027, November 1, 2032, November 1, 2037 and November 1, 2042. The terms of the lease have the lessee responsible for paying real estate taxes, building insurance and building and ground maintenance. The monthly lease payments are as follows: \$14,661 in 2014; \$14,881 in 2015; \$15,104 in 2016; \$15,531 in 2017; \$15,561 in 2018 and \$15,794 in 2019.

In December 2013, TLIC also purchased one acre of land in Norman, Oklahoma that included a 9,100 square foot building constructed on approximately 18% of this land at a cost of \$1,519,431 (including closing costs of \$37,931). The building is leased through August 31, 2028 plus three future five year extensions on September 1, 2028, September 1, 2033 and September 1, 2038. The terms of the lease have the lessee responsible for paying real estate taxes, building insurance and building and ground maintenance. The monthly lease payments are \$8,004 through August 31, 2028.

In February 2014, TLIC purchased one acre of land in Houston, Texas that included a 9,195 square foot building constructed on approximately 25% of this land at a cost of \$977,013 (including closing costs of \$31,063). The building is leased through December 31, 2023 plus four future five year extensions effective on January 1, 2024, January 1, 2029, January 1, 2034 and January 1, 2039. The terms of the lease have the lessee responsible for paying real estate taxes and building insurance. TLIC is responsible for building and ground maintenance. The monthly lease payments are \$5,833 through December 31, 2019.

The second promissory note totaling \$1,067,208 was collateralized (including assignment of the tenant leases) by the February 2014 TLIC purchase of three-fourths of an acre of land in Harrisonville, Missouri that included a 6,895 square foot building constructed on approximately 20% of this land at a cost of \$1,752,397 (including closing costs of \$44,864). The building is leased through October 31, 2028 plus three future five year extensions on November 1, 2028, November 1, 2033 and November 1, 2038. The terms of the lease have the lessee responsible for paying real estate taxes, building insurance and building and ground maintenance. The monthly lease payments are \$9,463 through October 31, 2028.

When the two promissory notes were originated on March 26, 2014, \$106,889 of loan origination fees were capitalized with amortization of the capitalized loan origination fees during the 36 month term of the loan. For the year ended December 31, 2014, \$26,722 of the loan origination fees has been amortized and the unamortized loan origination fees as of December 31, 2014 were \$80,167. The Company incurred \$137,581 of interest expense during 2014 on these two notes payable. In connection with the repayments of the two notes payable on March 11, 2015, the Company expensed the loan origination fees remaining as of March 11, 2015 of \$72,744. During the period from January 1, 2015 to March 11, 2015, the Company incurred interest expense of \$35,181 on the two notes payable and amortized \$7,423 of loan origination fees.

The \$491,644 decrease in deferred federal income taxes during the six months ended June 30, 2015 was due to \$334,932 of decreased deferred federal income taxes on the unrealized appreciation of available-for-sale fixed maturity and equity securities and \$156,712 of operating deferred tax benefits.

Other liabilities consist primarily of accrued expenses, account payables, deposits on pending policy applications, estimated guaranty fund assessment liability, unearned investment income, unclaimed funds, withholdings and purchase of securities where the trade date and settlement date are in different accounting periods.

The \$2,026,990 increase in other liabilities is primarily due to a \$1,781,697 increase in deposits on pending applications, a \$190,000 increase in accrued expenses and \$80,167 decrease in loan origination fees.

Liquidity and Capital Resources

Our operations have been financed primarily through the private placement of equity securities and intrastate public stock offerings. Through June 30, 2015, we have received \$27,119,480 from the sale of our shares.

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

Our operations have been profitable and have generated \$8,620,773 of net income from operations since we were incorporated in 2004. The Company also issued 702,685 shares of its common stock in connection with two stock dividends paid to shareholders in 2011 and 2012 that resulted in accumulated earnings being charged \$5,270,138 with an offsetting credit of \$5,270,138 to common stock and additional paid-in capital.

The historic impact of these two stock dividend charges of \$5,270,138 decreased during 2011 and 2012 the balance of accumulated earnings and resulted in a reported balance as of June 30, 2015 of \$3,350,635, as shown in the accumulated earnings caption in the June 30, 2015 consolidated statement of financial position.

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

As of June 30, 2015, we had cash and cash equivalents totaling \$8,817,165. As of June 30, 2015, cash and cash equivalents of \$6,397,018 and \$1,947,686, respectively, of the total \$8,817,165 were held by TLIC and FBLIC and may not be available for use by FTFC due to the required pre-approval by the OID and Missouri Department of Insurance of any dividend or intercompany transaction to transfer funds to FTFC. The maximum dividend, which may be paid in any twelve-month period without notification or approval, is limited to the greater of 10% of statutory surplus as of December 31 of the preceding year or the net gain from operations of the preceding calendar year.

Cash dividends may only be paid out of surplus derived from realized net profits. Based on these limitations, there is capacity for TLIC to pay a dividend up to \$2,167,518 in 2015 without prior approval. In addition, based on those limitations, there is the capacity for FBLIC to pay a dividend up to \$980,906 in 2015 without prior approval. FBLIC paid a dividend of \$1,500,000 to TLIC in December 2014. This dividend was eliminated in consolidation. TLIC has paid no dividends to FTFC.

The Company maintains cash and cash equivalents at multiple institutions. The Federal Deposit Insurance Corporation insures interest and non-interest bearing accounts up to \$250,000. Uninsured balances aggregate \$6,087,342 as of June 30, 2015. Uninsured balances aggregated \$6,494,515 as of December 31, 2014. Other funds are invested in mutual funds that invest in U.S. government securities. We monitor the solvency of all financial institutions in which we have funds to minimize the exposure for loss. The Company has not experienced any losses in such accounts.

Our cash flows for the six months ended June 30, 2015 and 2014 are summarized as follows:

	(Unaudited)		Increase (Decrease) 2015 to 2014	Percentage Change 2015 to 2014
	Six Months Ended March 31, 2015	2014		
Net cash provided by operating activities	\$ 2,828,025	\$ 817,731	\$ 2,010,294	245.8%
Net cash used in investing activities	(20,455,023)	(18,960,810)	(1,494,213)	7.9%
Net cash provided by financing activities	16,285,777	16,415,820	(130,043)	-0.8%
Decrease in cash	(1,341,221)	(1,727,259)	386,038	-22.3%
Cash and cash equivalents, beginning of period	10,158,386	10,608,438	(450,052)	-4.2%
Cash and cash equivalents, end of period	<u>\$ 8,817,165</u>	<u>\$ 8,881,179</u>	<u>\$ (64,014)</u>	-0.7%

The \$2,010,294 increase in cash provided by operating activities during the six months ended June 30, 2015 is primarily due to increases in short-term investments of \$1,392,138, net investment income of \$968,293, premiums of \$699,405, net tax refunds of \$562,973 and policy loan payments of \$113,620 that exceeded commissions of \$1,255,942, death benefits of \$221,242, expenses of \$174,139, surrenders of \$33,942 and dividends of \$32,322.

The \$1,494,213 decrease in cash used for investing activities during the six months ended June 30, 2015 was primarily related to \$5,991,897 of decreased 2015 sales and maturity of fixed maturity securities, \$2,956,927 of increased 2015 purchases of mortgage loans, \$2,531,106 of increased purchases of other long-term investments, \$1,102,383 of increased 2015 purchases of fixed maturity securities that exceeded \$7,083,246 of proceeds from the 2015 sale of investment real estate held for sale, \$2,817,857 of decreased purchases of real estate held for sale, \$1,113,245 of increased 2015 payments of mortgage loans and \$135,251 of increased payments of long-term investments.

The \$130,043 decrease in cash provided by financing activities for the six months ended June 30, 2015 resulted from \$8,152,946 less funds available in 2015 due to both the settlement of and issuance of note payable proceeds of \$4,076,473 that exceeded \$7,981,546 of increased 2015 policyholder account deposits (\$10,245,350) in excess of withdrawals (\$2,263,804) and \$41,357 of 2015 decreased purchases of treasury shares.

Our shareholders' equity as of June 30, 2015 and December 31, 2014 is summarized as follows:

	(Unaudited) June 30, 2015	December 31, 2014	Increase (Decrease) 2015 to 2014	Percentage Change 2015 to 2014
Common stock, par value \$.01 per share, 20,000,000 shares authorized, and 8,050,173 and 8,050,193 issued as of June 30, 2015 and December 31, 2014, respectively, and 7,802,593 and 7,812,038 outstanding as of June 30, 2015 and December 31, 2014, respectively	\$ 80,502	\$ 80,502	\$ -	0.0%
Additional paid-in capital	28,684,598	28,684,748	(150)	0.0%
Treasury stock, at cost (247,580 and 238,155 shares as of June 30, 2015 and December 31, 2014, respectively)	(893,947)	(855,304)	(38,643)	4.5%
Accumulated other comprehensive income	1,343,818	2,683,543	(1,339,725)	-49.9%
Accumulated earnings	3,350,635	2,616,849	733,786	28.0%
Total shareholders' equity	<u>\$ 32,565,606</u>	<u>\$ 33,210,338</u>	<u>\$ (644,732)</u>	-1.9%

The decrease in shareholders' equity of \$644,732 for the six months ended June 30, 2015 is due to \$1,339,725 of other comprehensive loss and \$38,643 for purchases of 9,425 shares of treasury stock from the former chairman of FTFC that exceeded net income of \$733,636.

Equity per common share outstanding decreased 1.9% to \$4.17 as of June 30, 2015 compared to \$4.25 per share as of December 31, 2014, based upon 7,802,593 common shares outstanding as of June 30, 2015 and 7,812,038 common shares outstanding as of December 31, 2014.

The liquidity requirements of our life insurance companies are met primarily by funds provided from operations. Premium deposits and revenues, investment income and investment maturities are the primary sources of funds, while investment purchases, policy benefits, and operating expenses are the primary uses of funds. There were no liquidity issues in 2015 or 2014. Our investments consist primarily of marketable debt securities that could be readily converted to cash for liquidity needs.

We are subject to various market risks. The quality of our investment portfolio and the current level of shareholders' equity continue to provide a sound financial base as we strive to expand our marketing to offer competitive products. Our investment portfolio had unrealized appreciation on available-for-sale securities of \$1,698,204 and \$3,390,869 as of June 30, 2015 and December 31, 2014, respectively, prior to the impact of income taxes and deferred acquisition cost adjustments. The \$1,911,843 decrease in unrealized gains arising for the six months ended June 30, 2015 has been offset by net realized investment losses for the six months ended June 30, 2015 of \$219,178 originating from the sale and call activity for available-for-sale fixed maturity and equity securities and a loss on other-than-temporary impairment.

A primary liquidity concern is the risk of an extraordinary level of early policyholder withdrawals. We include

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

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

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

We believe gradual increases in interest rates do not present a significant liquidity exposure for the life insurance policies. We maintain conservative durations in our fixed maturity portfolio. As of June 30, 2015, cash, short-term investments and the fair value of fixed maturity available-for-sale securities with maturities of less than one year and the fair value of lottery receivables with maturities of less than one year equaled 9.1% of total policy liabilities. If interest rates rise significantly in a short time frame, there can be no assurance that the life insurance industry, including the Company, would not experience increased levels of surrenders and reduced sales, and thereby be materially adversely affected.

In addition to the measures described above, TLIC and FBLIC must comply with the NAIC promulgated Standard Valuation Law ("SVL") which specifies minimum reserve levels and prescribes methods for determining them, with the intent of enhancing solvency. Upon meeting certain tests, which TLIC and FBLIC met during 2014, the SVL also requires the Company to perform annual cash flow testing for TLIC and FBLIC. This testing is designed to ensure that statutory reserve levels will maintain adequate protection in a variety of potential interest rate scenarios. The Actuarial Standards Board of the American Academy of Actuaries also requires cash flow testing as a basis for the actuarial opinion on the adequacy of the reserves which is a required part of the annual statutory reporting process.

Our marketing plan could be modified to emphasize certain product types and reduce others. New business levels could be varied in order to find the optimum level. We believe that our current liquidity, current bond portfolio maturity distribution and cash position give us substantial resources to administer our existing business and fund growth generated by direct sales.

The operations of TLIC and FBLIC may require additional capital contributions to meet statutory capital and surplus requirements mandated by state insurance departments. Life insurance contract liabilities are generally long term in nature and are generally paid from future cash flows or existing assets and reserves.

We will service other expenses and commitments by: (1) using available cash, (2) dividends from TLIC and FBLIC that are limited by law to the greater of prior year net operating income or 10% of prior year-end surplus unless specifically approved by the controlling insurance department, (3) public and private offerings of our common stock and (4) corporate borrowings, if necessary.

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

We believe that our existing cash and cash equivalents as of June 30, 2015 will be sufficient to fund our anticipated operating expenses.

Off-Balance Sheet Arrangements

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

SPECIAL NOTE CONCERNING FORWARD-LOOKING STATEMENTS

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

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

These factors include among others:

- general economic conditions and financial factors, including the performance and fluctuations of fixed income, equity, real estate, credit capital and other financial markets;
- differences between actual experience regarding mortality, morbidity, persistency, surrenders, investment returns, and our pricing assumptions establishing liabilities and reserves or for other purposes;
- the effect of increased claims activity from natural or man-made catastrophes, pandemic disease, or other events resulting in catastrophic loss of life;
- adverse determinations in litigation or regulatory matters and our exposure to contingent liabilities, including and in connection with our divestiture or winding down of businesses such as FTCC;
- inherent uncertainties in the determination of investment allowances and impairments and in the determination of the valuation allowance on the deferred income tax asset;
- investment losses and defaults;
- competition in our product lines;
- attraction and retention of qualified employees and agents;
- ineffectiveness of risk management policies and procedures in identifying, monitoring and managing risks;
- the availability, affordability and adequacy of reinsurance protection;
- the effects of emerging claim and coverage issues;
- the cyclical nature of the insurance business;
- interest rate fluctuations;
- changes in our experiences related to deferred policy acquisition costs;
- the ability and willingness of counterparties to our reinsurance arrangements and derivative instruments to pay balances due to us;
- rating agencies’ actions;
- domestic or international military actions;
- the effects of extensive government regulation of the insurance industry;
- changes in tax and securities law;
- changes in statutory or U.S. generally accepted accounting principles (“GAAP”), practices or policies;
- regulatory or legislative changes or developments;
- the effects of unanticipated events on our disaster recovery and business continuity planning;
- failures or limitations of our computer, data security and administration systems;
- risks of employee error or misconduct;
- the introduction of alternative healthcare solutions;
- the assimilation of life insurance businesses we acquire and the sound management of these businesses; and
- the availability of capital to expand our business.

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

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Changes to Internal Control over Financial Reporting

There were no changes in the Company’s internal control over financial reporting during the three months ended June 30, 2015 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

The Company and Chairman, President and Chief Executive Officer, Gregg E. Zahn, filed an action in the District Court of Tulsa County, Oklahoma in 2013, Case No. CJ-2013-03385, against former Company Board of Directors member, Wayne Pettigrew and Mr. Pettigrew’s company, Group & Pension Planners, Inc. (the “Defendants”). The petition filed in the case alleges that Mr. Pettigrew, during and after the time he was a member of the Company’s Board of Directors, made defamatory statements regarding the Company and Mr. Zahn and committed breaches of his fiduciary duties to the Company. The defendants are alleged to have made defamatory statements to certain shareholders of the Company, to the press and to the Oklahoma Insurance Department and the Oklahoma Department of Securities. Mr. Pettigrew has denied the allegations.

The Board of Directors, represented by independent counsel, concluded that there was no action to be taken against Mr. Zahn and that the allegations by Mr. Pettigrew were without substance. The Company has been informed by the Oklahoma Insurance Department that it would take no action and was also informed that the Oklahoma Department of Securities, after its investigation of the allegations, concluded that no proceedings were needed with respect to the alleged matters.

It is the Company’s intention to vigorously prosecute this action against the Defendants for damages and for the correction of the defamatory statements. In the opinion of the Company’s management, the ultimate resolution of any contingencies that may arise from this litigation is not considered material in relation to the financial position or results of operations of the Company.

Prior to its acquisition by TLIC, FBLIC developed, marketed, and sold life insurance products known as “Decreasing Term to 95” policies. On January 17, 2013, FBLIC’s Board of Directors voted that, effective March 1, 2013, it was not approving, and therefore was not providing, a dividend for the Decreasing Term to 95 policies. On November 22, 2013, three individuals who owned Decreasing Term to 95 policies filed a Petition in the Circuit Court of Greene County, Missouri asserting claims against FBLIC relating to FBLIC’s decision to not provide a dividend under the Decreasing Term to 95 policies.

The Petition asserts claims for breach of contract and anticipatory breach of contract and alleges that FBLIC breached, and will anticipatorily breach, the Decreasing Term to 95 policies of insurance by not providing a dividend sufficient to purchase a one year term life insurance policy which would keep the death benefit under the Decreasing Term to 95 policies the same as that provided during the first year of coverage under the policy. In addition to these claims, the Petition asserts claims for negligent misrepresentation, fraud, and violation of the Missouri Merchandising Practices Act (“MMPA”).

It alleges that during its sale of the Decreasing Term to 95 policies, FBLIC represented that the owners of these policies would always be entitled to dividends to purchase a one-year term life insurance policy and that the owners would have a level death benefit without an increase in premium.

The Petition also seeks to certify a class of individuals with similar claims but no class has been certified by the Court. FBLIC denies the allegations in the Petition and will continue to defend against them. It is the Company's intention to vigorously defend the request for class certification, as well as to defend vigorously against the individual allegations. FBLIC filed a motion for partial summary judgment seeking summary judgment on the claims for violation of MMPA. This motion for partial summary judgment asked the court to declare that the MMPA does not apply to insurance companies such as FBLIC and enter judgment for FBLIC on the petition. A hearing for the motion of summary judgment was held on February 25, 2015 and it was subsequently denied by the court on March 2, 2015. The Company is unable to determine the potential magnitude of the claims in the event of a final certification and the plaintiffs prevailing on this substantive action.

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

None

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

None

Item 5. Other Information

None

Item 6. Exhibits

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

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

SIGNATURES

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

FIRST TRINITY FINANCIAL CORPORATION
an Oklahoma corporation

August 13, 2015

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

August 13, 2015

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

CERTIFICATION

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

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

Date: August 13, 2015

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

CERTIFICATION

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

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

Date: August 13, 2015

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

EXHIBIT NO. 32.1

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

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

To my knowledge, the Quarterly Report on Form 10-Q of the Company for the quarter ended June 30, 2015 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 13, 2015

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

EXHIBIT NO. 32.2

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

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

To my knowledge, the Quarterly Report on Form 10-Q of the Company for the quarter ended June 30, 2015 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 13, 2015

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