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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2016

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

For the transition period From _______________ to ________________ .

Commission file number: **000-52613**

FIRST TRINITY FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

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

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

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

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

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, 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 8, 2016: 7,802,593 shares

FIRST TRINITY FINANCIAL CORPORATION
QUARTERLY REPORT ON FORM 10-Q
FOR QUARTERLY PERIOD ENDED JUNE 30, 2016

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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, 2016	December 31, 2015
Assets	(Unaudited)	
Investments		
Available-for-sale fixed maturity securities at fair value (amortized cost: $134,151,115 and $138,028,455 as of June 30, 2016 and December 31, 2015, respectively)	$ 138,938,866	$ 134,556,027
Available-for-sale equity securities at fair value (cost: $678,438 and $790,215 as of June 30, 2016 and December 31, 2015, respectively)	774,269	892,800
Mortgage loans on real estate	64,524,791	58,774,918
Investment real estate	2,452,436	2,326,558
Policy loans	1,522,192	1,486,317
Short-term investments	50,033	599,855
Other long-term investments	37,896,791	31,566,927
Total investments	246,159,378	230,203,402
Cash and cash equivalents	10,806,505	9,047,586
Accrued investment income	2,181,988	2,205,469
Recoverable from reinsurers	1,261,836	1,243,618
Agents' balances and due premiums	1,263,929	1,070,050
Deferred policy acquisition costs	14,955,564	13,015,679
Value of insurance business acquired	6,098,990	6,288,200
Property and equipment, net	633	949
Other assets	10,455,040	6,054,889
Total assets	$ 293,183,863	$ 269,129,842
Liabilities and Shareholders' Equity		
Policy liabilities		
Policyholders' account balances	$ 207,963,636	$ 197,688,616
Future policy benefits	42,109,842	39,464,124
Policy claims	859,740	714,928
Other policy liabilities	68,685	76,554
Total policy liabilities	251,001,903	237,944,222
Deferred federal income taxes	1,738,321	33,210
Other liabilities	3,094,212	937,367
Total liabilities	255,834,436	238,914,799
Shareholders' equity		
Common stock, par value $.01 per share (20,000,000 shares authorized, 8,050,173 issued as of June 30, 2016 and December 31, 2015 and 7,802,593 outstanding as of June 30, 2016 and December 31, 2015)	80,502	80,502
Additional paid-in capital	28,684,598	28,684,598
Treasury stock, at cost (247,580 shares as of June 30, 2016 and December 31, 2015)	(893,947)	(893,947)
Accumulated other comprehensive income (loss)	3,845,155	(2,655,817)
Accumulated earnings	5,633,119	4,999,707
Total shareholders' equity	37,349,427	30,215,043
Total liabilities and shareholders' equity	$ 293,183,863	$ 269,129,842

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,	
	2016	2015	2016	2015
Revenues				
Premiums	$ 3,037,033	$ 2,325,124	$ 6,229,575	$ 4,645,438
Net investment income	3,258,634	2,504,762	6,618,837	4,912,322
Net realized investment gains	166,093	82,087	146,942	506,089
Loss on other-than-temporary impairment	-	(304,256)	-	(304,256)
Gain on reinsurance assumption	-	550,000	-	550,000
Other income	7,893	11,353	15,206	16,164
Total revenues	6,469,653	5,169,070	13,010,560	10,325,757
Benefits, Claims and Expenses				
Benefits and claims				
Increase in future policy benefits	1,279,874	904,650	2,638,018	1,695,961
Death benefits	1,034,230	851,418	1,986,288	1,770,209
Surrenders	198,643	135,487	336,369	277,881
Interest credited to policyholders	1,681,501	1,345,410	3,335,221	2,593,300
Dividend, endowment and supplementary life contract benefits	67,454	104,671	133,512	158,104
Total benefits and claims	4,261,702	3,341,636	8,429,408	6,495,455
Policy acquisition costs deferred	(1,542,926)	(1,251,016)	(3,119,135)	(2,222,967)
Amortization of deferred policy acquisition costs	355,491	463,089	1,052,037	857,549
Amortization of value of insurance business acquired	99,078	99,399	189,210	199,357
Commissions	1,548,635	1,039,469	2,828,721	1,909,615
Other underwriting, insurance and acquisition expenses	1,345,086	1,179,530	2,879,526	2,410,446
Total expenses	1,805,364	1,530,471	3,830,359	3,154,000
Total benefits, claims and expenses	6,067,066	4,872,107	12,259,767	9,649,455
Income before total federal income tax expense (benefit)	402,587	296,963	750,793	676,302
Current federal income tax expense	34,212	24,413	37,510	99,378
Deferred federal income tax expense (benefit)	30,276	(98,056)	79,871	(156,712)
Total federal income tax expense (benefit)	64,488	(73,643)	117,381	(57,334)
Net income	$ 338,099	$ 370,606	$ 633,412	$ 733,636
Net income per common share basic and diluted	$ 0.04	$ 0.05	$ 0.08	$ 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,	
	2016	2015	2016	2015
Net income	$ 338,099	$ 370,606	$ 633,412	$ 733,636
Other comprehensive income (loss)				
Total net unrealized gains (losses) arising during the period	4,602,854	(2,997,563)	8,382,376	(1,911,843)
Less net realized investment gains (losses)	151,677	(241,927)	128,951	(219,178)
Net unrealized gains (losses)	4,451,177	(2,755,636)	8,253,425	(1,692,665)
Less adjustment to deferred acquisition costs	67,083	(35,497)	127,213	(18,008)
Other comprehensive income (loss) before income tax expense	4,384,094	(2,720,139)	8,126,212	(1,674,657)
Income tax expense (benefit)	876,817	(544,027)	1,625,240	(334,932)
Total other comprehensive income (loss)	3,507,277	(2,176,112)	6,500,972	(1,339,725)
Total comprehensive income (loss)	$ 3,845,376	$ (1,805,506)	$ 7,134,384	$ (606,089)

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, 2016 and 2015
(Unaudited)

	Common Stock $.01 Par Value	Additional Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Accumulated Earnings	Total Shareholders' Equity
Balance as of January 1, 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	$ 80,502	$ 28,684,598	$ (893,947)	$ 1,343,818	$ 3,350,635	$ 32,565,606
Balance as of January 1, 2016	$ 80,502	$ 28,684,598	$ (893,947)	$ (2,655,817)	$ 4,999,707	$ 30,215,043
Comprehensive income:						
Net income	-	-	-	-	633,412	633,412
Other comprehensive income	-	-	-	6,500,972	-	6,500,972
Balance as of June 30, 2016	$ 80,502	$ 28,684,598	$ (893,947)	$ 3,845,155	$ 5,633,119	$ 37,349,427

See notes to consolidated financial statements (unaudited).

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

	Six Months Ended June 30,	
	2016	2015
Operating activities		
Net income	$ 633,412	$ 733,636
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for depreciation	73,060	98,445
Accretion of discount on investments	(797,906)	(477,735)
Net realized investment gains	(146,942)	(506,089)
Loss on other-than-temporary impairment	-	304,256
Gain on reinsurance assumption	-	(550,000)
Amortization of policy acquisition cost	1,052,037	857,549
Policy acquisition cost deferred	(3,119,135)	(2,222,967)
Mortgage loan origination fees deferred	(4,531)	(50,000)
Amortization of loan origination fees	22,784	33,194
Amortization of value of insurance business acquired	189,210	199,357
Provision for deferred federal income tax benefit (expense)	79,871	(156,712)
Interest credited to policyholders	3,335,221	2,593,300
Change in assets and liabilities:		
Accrued investment income	23,481	(311,704)
Policy loans	(35,875)	84,269
Short-term investments	549,822	(511)
Allowance for mortgage loan losses	14,516	37,992
Recoverable from reinsurers	(18,218)	42,856
Agents' balances and due premiums	(193,879)	(358,931)
Other assets	(4,400,151)	(1,307,877)
Future policy benefits	2,645,718	1,710,599
Policy claims	144,812	72,014
Other policy liabilities	(7,869)	(23,845)
Other liabilities	2,156,845	2,026,990
Net cash provided by operating activities	2,196,283	2,828,086
Investing activities		
Purchases of fixed maturity securities	(3,936,924)	(16,654,068)
Maturities of fixed maturity securities	3,554,000	1,405,000
Sales of fixed maturity securities	3,940,211	1,183,161
Purchases of equity securities	(8,990)	(544,835)
Sales of equity securities	128,010	533,813
Purchases of mortgage loans	(9,362,778)	(15,299,124)
Payments on mortgage loans	3,661,522	4,124,035
Purchases of other long-term investments	(7,101,665)	(4,368,725)
Payments on other long-term investments	1,948,073	2,082,413
Purchase of real estate	(198,622)	-
Sale of real estate	-	7,083,246
Net cash used in investing activities	(7,377,163)	(20,455,084)
Financing activities		
Policyholders' account deposits	14,145,326	25,903,955
Policyholders' account withdrawals	(7,205,527)	(5,503,062)
Purchases of treasury stock	-	(38,643)
Repayment of notes payable	-	(4,076,473)
Net cash provided by financing activities	6,939,799	16,285,777
Increase (decrease) in cash	1,758,919	(1,341,221)
Cash and cash equivalents, beginning of period	9,047,586	10,158,386
Cash and cash equivalents, end of period	$ 10,806,505	$ 8,817,165

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. During the second quarter of 2015, the Company estimated and recorded assets of $550,000 and a gain of $550,000 on the reinsurance assumption transaction. The Company completed the reinsurance assumption transaction during the third quarter of 2015 and adjusted the gain to $588,923 and recorded assets of $3,644,839 (including cash) and assumed liabilities of $3,055,916.

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

	(Unaudited) Six Months Ended June 30, 2015
Reinsurance assumption asset	$ 550,000
Gain on reinsurance assumption	$ 550,000

See notes to consolidated financial statements (unaudited).

1. Organization and Significant Accounting Policies

Nature of Operations

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

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

The Company owns 100% of FTCC that was incorporated in 2006, and began operations in January 2007. FTCC provided financing for casualty insurance premiums for individuals and companies and was licensed to conduct premium financing business in the states of Alabama, Arkansas, Louisiana, Mississippi and Oklahoma. FTCC 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.

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.

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.

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. During the second quarter of 2015, the Company estimated and recorded assets of $550,000 and a gain of $550,000 on the reinsurance assumption transaction. The Company completed the reinsurance assumption transaction during the third quarter of 2015 and adjusted the gain to $588,923 and recorded assets of $3,644,839 (including cash) and assumed liabilities of $3,055,916.

Basis of Presentation

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

The results of operations for the three and six months ended June 30, 2016 are not necessarily indicative of the results to be expected for the year ended December 31, 2016 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, 2015.

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.

1. Organization and Significant Accounting Policies (continued)

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.

Subsequent Events

Management has evaluated all events subsequent to June 30, 2016 through the date that these financial statements have been issued.

Recent Accounting Pronouncements

Revenue from Contracts with Customers

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

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

In July 2015, the FASB deferred the effective date of the updated guidance on revenue recognition by one year to the quarter ending March 31, 2018. The adoption of this guidance 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.

1. Organization and Significant Accounting Policies (continued)

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

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 did not have a material effect on the Company's results of operations, financial position or liquidity.

Troubled Debt Restructurings by Creditors

In January 2015, 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 did not have a material effect on the Company's results of operations, financial position or liquidity.

1. Organization and Significant Accounting Policies (continued)

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 did not 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 did not have a material effect on the Company's results of operations, financial position or liquidity.

Simplifying the Accounting for Measurement-Period Adjustments

In September 2015, the FASB issued updated guidance regarding business combinations that requires an acquirer to recognize post-close measurement adjustments for provisional amounts in the period the adjustment amounts are determined rather than retrospectively. The acquirer is also required to recognize, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the provisional amount, calculated as if the accounting had been completed at the acquisition date. The updated guidance is to be applied prospectively effective for annual and interim periods beginning after December 15, 2015. In connection with business combinations which have already been completed, the adoption of this guidance did not have a material effect on the Company's results of operations, financial position or liquidity.

Recognition and Measurement of Financial Assets and Financial Liabilities

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

This guidance is effective for fiscal years beginning after December 15, 2017. The recognition and measurement provisions of this guidance will be applied by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption and early adoption is not permitted. The Company is evaluating this guidance but expects the primary impact will be the recognition of unrealized gains and losses on available-for-sale equity securities in net income. Currently, all unrealized gains and losses on available-for-sale equity securities are recognized in other comprehensive income (loss).

1. Organization and Significant Accounting Policies (continued)

The effect of the adoption of this guidance on the Company's results of operations, financial position and liquidity is primarily dependent on the fair value of the available-for-sale equity securities in future periods and the existence of a deferred tax asset related to available-for-sale securities in future periods that have not yet been fully assessed.

Leases

In February 2016, the FASB issued updated guidance to require lessees to recognize a right-to-use asset and a lease liability for leases with terms of more than 12 months. The updated guidance retains the two classifications of a lease as either an operating or finance lease (previously referred to as a capital lease). Both lease classifications require the lessee to record the right-to-use asset and the lease liability based upon the present value of cash flows. Finance leases will reflect the financial arrangement by recognizing interest expense on the lease liability separately from the amortization expense of the right-to-use asset. Operating leases will recognize lease expense (with no separate recognition of interest expense) on a straight-line basis over the term of the lease. The accounting by lessors is not significantly changed by the updated guidance. The updated guidance requires expanded qualitative and quantitative disclosures, including additional information about the amounts recorded in the financial statements.

The updated guidance is effective for reporting periods beginning after December 15, 2018, and will require that the earliest comparative period presented include the measurement and recognition of existing leases with an adjustment to equity as if the updated guidance had always been applied. 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.

Improvements to Employee Share-Based Payment Accounting

In March 2016, the FASB issued updated guidance to simplify several aspects of accounting for share-based payment transactions as follows:

<u>Accounting for Income Taxes</u>

Under current accounting guidance, if the deduction for a share-based payment award for tax purposes exceeds, or is less than, the compensation cost recognized for financial reporting purposes, the resulting excess tax benefit, or tax deficiency, is reported as part of additional paid-in capital. Under the updated guidance, these excess tax benefits, or tax deficiencies, are reported as part of income tax expense or benefit in the income statement. The updated guidance also removes the requirement to delay recognition of any excess tax benefit when there are no current taxes payable to which the benefit would be applied. The tax-related cash flows resulting from share-based payments are to be included with other income tax cash flows as an operating activity rather than being reported separately as a financing activity.

<u>Forfeitures</u>

The updated guidance permits an entity to make an accounting policy election to either account for forfeitures when they occur or continue to apply the current method of accruing the compensation cost based on the number of awards that are expected to vest.

<u>Minimum Statutory Tax Withholding Requirements</u>

The updated guidance changes the threshold amount an entity can withhold for taxes when settling an equity award and still qualify for equity classification. A company can withhold up to the maximum statutory tax rates in the employees' applicable jurisdiction rather than withholding up to the employers' minimum statutory withholding requirement. The update also clarifies that all cash payments made to taxing authorities on behalf of employees for withheld shares are to be presented in financing activities on the statement of cash flows.

1. Organization and Significant Accounting Policies (continued)

Transition

The updated guidance is effective for reporting periods beginning after December 15, 2016. Early adoption is permitted in any interim period; if early adoption is elected, the entity must adopt all of the amendments in the same reporting period and reflect any adjustments as of the beginning of the fiscal year. The Company has not elected early adoption. 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 Transition to the Equity Method of Accounting

In March 2016, the FASB issued updated guidance that eliminates the requirement to retroactively apply the equity method of accounting when an investment that was previously accounted for using another method of accounting becomes qualified to apply the equity method due to an increase in the level of ownership interest or degree of influence. If the investment was previously accounted for as an available-for-sale security, any related unrealized gain or loss in accumulated other comprehensive income at the date the investment becomes qualified for the equity method is recognized through earnings. The updated guidance is effective for reporting periods beginning after December 15, 2016, and is to be applied prospectively. 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.

Contingent Put and Call Options in Debt Instruments

In March 2016, the FASB issued updated guidance clarifying that when a call (put) option in a debt instrument can accelerate the repayment of principal on the debt instrument, a reporting entity does not need to assess whether the contingent event that triggers the ability to exercise the call (put) option is related to interest rates or credit risk in determining whether the option should be accounted for separately. The updated guidance is effective for reporting periods beginning after December 15, 2016. 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.

Measurement of Credit Losses on Financial Instruments

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

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

The updated guidance is effective for reporting periods beginning after December 15, 2019. Early adoption is permitted for reporting periods beginning after December 15, 2018. The Company will not be able to determine the impact that the updated guidance will have on its results of operations, financial position or liquidity until the updated guidance is adopted.

2. Investments

Fixed Maturity and Equity Securities Available-For-Sale

Investments in fixed maturity and equity securities available-for-sale as of June 30, 2016 and December 31, 2015 are summarized as follows:

	Amortized Cost or Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	June 30, 2016 (Unaudited)			
Fixed maturity securities				
U.S. government and U.S. government agencies	$ 3,287,423	$ 143,821	$ 2,314	$ 3,428,930
States and political subdivisions	8,958,695	530,719	-	9,489,414
Residential mortgage-backed securities	36,284	53,016	-	89,300
Corporate bonds	105,456,971	5,084,674	1,397,412	109,144,233
Foreign bonds	16,411,742	713,152	337,905	16,786,989
Total fixed maturity securities	134,151,115	6,525,382	1,737,631	138,938,866
Equity securities				
Mutual funds	339,564	-	681	338,883
Corporate preferred stock	149,725	9,059	-	158,784
Corporate common stock	189,149	87,453	-	276,602
Total equity securities	678,438	96,512	681	774,269
Total fixed maturity and equity securities	$ 134,829,553	$ 6,621,894	$ 1,738,312	$ 139,713,135
	December 31, 2015			
Fixed maturity securities				
U.S. government and U.S. government agencies	$ 2,793,161	$ 136,190	$ 108,597	$ 2,820,754
States and political subdivisions	8,993,848	61,592	102,835	8,952,605
Residential mortgage-backed securities	49,980	43,846	-	93,826
Corporate bonds	109,164,942	1,820,894	4,234,897	106,750,939
Foreign bonds	17,026,524	185,225	1,273,846	15,937,903
Total fixed maturity securities	138,028,455	2,247,747	5,720,175	134,556,027
Equity securities				
Mutual funds	335,554	-	10,613	324,941
Corporate preferred stock	259,993	6,035	990	265,038
Corporate common stock	194,668	117,196	9,043	302,821
Total equity securities	790,215	123,231	20,646	892,800
Total fixed maturity and equity securities	$ 138,818,670	$ 2,370,978	$ 5,740,821	$ 135,448,827

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, 2016 and December 31, 2015 are summarized as follows:

	Fair Value	Unrealized Loss	Number of Securities
	June 30, 2016 (Unaudited)		
Fixed maturity securities			
Less than 12 months			
U.S. government and U.S. government agencies	$ 347,687	$ 2,314	1
Corporate bonds	3,994,028	101,673	18
Foreign bonds	1,749,956	105,859	9
Total less than 12 months	6,091,671	209,846	28
More than 12 months			
Corporate bonds	12,505,112	1,295,739	55
Foreign bonds	1,167,258	232,046	6
Total more than 12 months	13,672,370	1,527,785	61
Total fixed maturity securities	19,764,041	1,737,631	89
Equity securities			
Less than 12 months			
Mutual funds	87,825	681	1
Total equity securities	87,825	681	1
Total fixed maturity and equity securities	$ 19,851,866	$ 1,738,312	90
	December 31, 2015		
Fixed maturity securities			
Less than 12 months			
U.S. government and U.S. government agencies	$ 381,592	$ 20,006	2
States and political subdivisions	5,422,934	102,835	26
Corporate bonds	46,907,532	2,646,997	186
Foreign bonds	9,155,830	879,659	40
Total less than 12 months	61,867,888	3,649,497	254
More than 12 months			
U.S. government and U.S. government agencies	1,041,409	88,591	2
Corporate bonds	5,646,642	1,587,900	31
Foreign bonds	489,008	394,187	3
Total more than 12 months	7,177,059	2,070,678	36
Total fixed maturity securities	69,044,947	5,720,175	290
Equity securities			
Less than 12 months			
Mutual funds	74,547	10,613	1
Corporate preferred stock	109,279	990	1
Corporate common stock	41,804	9,043	1
Total equity securities	225,630	20,646	3
Total fixed maturity and equity securities	$ 69,270,577	$ 5,740,821	293

2. Investments (continued)

As of June 30, 2016, the Company held 89 available-for-sale fixed maturity securities with an unrealized loss of $1,737,631, fair value of $19,764,041 and amortized cost of $21,501,672. The ratio of the fair value to the amortized cost of these 89 securities is 92%.

As of December 31, 2015, the Company held 290 available-for-sale fixed maturity securities with an unrealized loss of $5,720,175, fair value of $69,044,947 and amortized cost of $74,765,122. These unrealized losses were primarily due to market interest rate movements in the bond market as of December 31, 2015 coupled with a downturn in the Chinese economy, decreases in the value of commodities and a drop in oil prices. The ratio of the fair value to the amortized cost of these 290 securities is 92%.

As of June 30, 2016, the Company had one available-for-sale equity security with an unrealized loss of $681, fair value of $87,825 and cost of $88,506. The ratio of fair value to cost of these securities is 99%.

As of December 31, 2015, the Company had three available-for-sale equity securities with an unrealized loss of $20,646, fair value of $225,630 and cost of $246,276. The ratio of fair value to cost of these securities is 92%.

Fixed maturity securities were 93% and 94% investment grade as rated by Standard & Poor's as of June 30, 2016 and December 31, 2015, respectively.

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

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

There were no impairments during the six months ended June 30, 2016.

During second quarter and fourth quarter 2015, the Company impaired its bonds in a mining corporation with a total par value of $600,000 as a result of an analysis of the mining corporation's ability to fulfill its obligations. This impairment was considered fully credit-related, resulting in a charge to the statement of operations before tax of $304,256 and $502,013 for the six months ended June 30, 2015 and year ended December 31, 2015, respectively. This charge represents the credit-related portion of the difference between the amortized cost basis of the security and its fair value. The Company experienced no additional other-than-temporary impairments during 2015.

Management believes that the Company will fully recover its cost basis in the securities held as of June 30, 2016, and management does not have the intent to sell nor is it more likely than not that the Company will be required to sell such securities until they recover or mature. The remaining temporary impairments shown herein are primarily the result of the current interest rate environment rather than credit factors that would imply other-than-temporary impairment.

2. Investments (continued)

Net unrealized gains (losses) included in other comprehensive income (loss) for investments classified as available-for-sale, net of the effect of deferred income taxes and deferred acquisition costs assuming that the appreciation (depreciation) had been realized as of June 30, 2016 and December 31, 2015, are summarized as follows:

	(Unaudited) June 30, 2016	December 31, 2015
Unrealized appreciation (depreciation) on available-for-sale securities	$ 4,883,582	$ (3,369,843)
Adjustment to deferred acquisition costs	(77,140)	50,073
Deferred income taxes	(961,287)	663,953
Net unrealized appreciation (depreciation) on available-for-sale securities	$ 3,845,155	$ (2,655,817)

The Company's investment in lottery prize cash flows categorized as other long-term investments in the statement of financial position was $37,896,791 and $31,566,927 as of June 30, 2016 and December 31, 2015, 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, 2016, by contractual maturity, are summarized as follows:

	June 30, 2016 (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	$ 6,996,581	$ 7,097,315	$ 4,301,079	$ 4,365,290
Due in one year through five years	33,406,995	34,668,060	13,320,129	14,602,101
Due after five years through ten years	48,357,584	49,392,939	10,961,293	13,634,874
Due after ten years	45,353,671	47,691,252	9,314,290	15,624,273
Due at multiple maturity dates	36,284	89,300	-	-
	$ 134,151,115	$ 138,938,866	$ 37,896,791	$ 48,226,538

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

2. Investments (continued)

Proceeds and gross realized gains (losses) from the sales, calls and maturities of fixed maturity securities available-for-sale, equity securities available-for-sale, mortgage loans on real estate and investment real estate for the three and six months ended June 30, 2016 and 2015 are summarized as follows:

	Three Months Ended June 30, (Unaudited)							
	Fixed Maturity Securities		Equity Securities		Mortgage Loans on Real Estate		Investment Real Estate	
	2016	2015	2016	2015	2016	2015	2016	2015
Proceeds	$ 5,219,798	$ 1,399,932	$ 19,210	$ 7,529	$ 2,089,278	$ 2,573,436	$ -	$ -
Gross realized gains	155,956	62,791	8,711	-	14,416	19,758	-	-
Gross realized losses	(12,990)	(462)	-	-	-	-	-	-
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	
	2016	2015	2016	2015	2016	2015	2016	2015
Proceeds	$ 7,494,211	$ 2,588,161	$ 128,010	$ 533,813	$ 3,661,522	$ 4,124,035	$ -	$ 7,083,246
Gross realized gains	163,050	88,632	8,711	996	17,991	30,809	-	390,202
Gross realized losses	(41,342)	(1,654)	(1,468)	(2,896)	-	-	-	-
Loss on other-than-temporary impairment	-	(304,256)	-	-	-	-	-	-

The accumulated change in net unrealized investment gains (losses) for fixed maturity and equity securities available-for-sale for the three and six months ended June 30, 2016 and 2015 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, 2016 and 2015 are summarized as follows:

	Three Months Ended June 30, (Unaudited)		Six Months Ended June 30, (Unaudited)	
	2016	2015	2016	2015
Change in unrealized investment gains:				
Available-for-sale securities:				
Fixed maturity securities	$ 4,452,781	$ (2,723,522)	$ 8,260,179	$ (1,655,536)
Equity securities	(1,604)	(32,114)	(6,754)	(37,129)
Net realized investment gains (losses):				
Available-for-sale securities:				
Fixed maturity securities	142,966	(241,927)	121,708	(217,278)
Equity securities	8,711	-	7,243	(1,900)
Mortgage loans on real estate	14,416	19,758	17,991	30,809
Investment real estate	-	-	-	390,202

2. Investments (continued)

Major categories of net investment income for the three and six months ended June 30, 2016 and 2015 are summarized as follows:

	Three Months Ended June 30, (Unaudited)		Six Months Ended June 30, (Unaudited)	
	2016	2015	2016	2015
Fixed maturity securities	$ 1,533,301	$ 1,245,734	$ 3,100,519	$ 2,419,515
Equity securities	6,658	8,725	13,840	20,254
Other long-term investments	622,502	424,587	1,170,324	838,829
Mortgage loans	1,328,427	980,728	2,681,498	1,936,872
Policy loans	26,491	25,165	52,589	50,306
Real estate	91,968	71,822	183,936	259,410
Short-term and other investments	69,874	65,434	142,144	113,626
Gross investment income	3,679,221	2,822,195	7,344,850	5,638,812
Investment expenses	(420,587)	(317,433)	(726,013)	(726,490)
Net investment income	$ 3,258,634	$ 2,504,762	$ 6,618,837	$ 4,912,322

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, 2016 and December 31, 2015, these required deposits, included in investment assets, had amortized costs that totaled $3,977,404 and $3,989,742, respectively. As of June 30, 2016 and December 31, 2015, these required deposits had fair values that totaled $4,167,034 and $4,034,042, respectively.

The Company's mortgage loans by property type as of June 30, 2016 and December 31, 2015 are summarized as follows:

	(Unaudited) June 30, 2016		December 31, 2015	
	Amount	Percentage	Amount	Percentage
Commercial mortgage loans				
Retail stores	$ 1,113,771	1.72%	$ 1,272,881	2.17%
Office buildings	186,238	0.29%	191,774	0.32%
Total commercial mortgage loans	1,300,009	2.01%	1,464,655	2.49%
Residential mortgage loans	63,224,782	97.99%	57,310,263	97.51%
Total mortgage loans	$ 64,524,791	100.00%	$ 58,774,918	100.00%

2. Investments (continued)

The Company's investment real estate as of June 30, 2016 and December 31, 2015 is summarized as follows:

	(Unaudited) June 30, 2016	December 31, 2015
Land - held for the production of income	$ 213,160	$ 213,160
Land - held for sale	750,047	750,047
Total land	963,207	963,207
Building - held for the production of income	2,267,557	2,267,557
Less - accumulated depreciation	(976,950)	(904,206)
Buildings net of accumulated depreciation	1,290,607	1,363,351
Residential real estate - held for sale	198,622	-
Total residential real estate	198,622	-
Investment real estate, net of accumulated depreciation	$ 2,452,436	$ 2,326,558

During the second quarter of 2016, the Company held residential real estate for resale due to foreclosure of three residential mortgage loans totaling $198,622. The Company has reduced the carrying value of the residential real estate obtained through foreclosure to the lower of acquisition cost or net realizable value.

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.

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 acquired during December 2013 and February 2014 with an aggregate carrying value of $6,693,044 as of 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 to Grand Bank (the creditor) originated in March 2014 aggregating $4,076,473. These loans were collateralized by the held for sale buildings and land (including assignment of the tenant leases). 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.

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:

3. Fair Value Measurements (continued)

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.

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, 2016 and December 31, 2015 is summarized as follows:

	Level 1	Level 2	Level 3	Total
	June 30, 2016 (Unaudited)			
Fixed maturity securities, available-for-sale				
U.S. government and U.S. government agencies	$ -	$ 3,428,930	$ -	$ 3,428,930
States and political subdivisions	-	9,489,414	-	9,489,414
Residential mortgage-backed securities	-	89,300	-	89,300
Corporate bonds	-	109,144,233	-	109,144,233
Foreign bonds	-	16,786,989	-	16,786,989
Total fixed maturity securities	$ -	$ 138,938,866	$ -	$ 138,938,866
Equity securities, available-for-sale				
Mutual funds	$ -	$ 338,883	$ -	$ 338,883
Corporate preferred stock	105,440	53,344	-	158,784
Corporate common stock	230,102	-	46,500	276,602
Total equity securities	$ 335,542	$ 392,227	$ 46,500	$ 774,269
	December 31, 2015			
Fixed maturity securities, available-for-sale				
U.S. government and U.S. government agencies	$ -	$ 2,820,754	$ -	$ 2,820,754
States and political subdivisions	-	8,952,605	-	8,952,605
Residential mortgage-backed securities	-	93,826	-	93,826
Corporate bonds	-	106,750,939	-	106,750,939
Foreign bonds	-	15,937,903	-	15,937,903
Total fixed maturity securities	$ -	$ 134,556,027	$ -	$ 134,556,027
Equity securities, available-for-sale				
Mutual funds	$ -	$ 324,941	$ -	$ 324,941
Corporate preferred stock	211,278	53,760	-	265,038
Corporate common stock	256,321	-	46,500	302,821
Total equity securities	$ 467,599	$ 378,701	$ 46,500	$ 892,800

As of both June 30, 2016 and December 31, 2015, Level 3 financial instruments consisted of two private placement common stocks that have no active trading.

These private placement stocks represent investments in small financial 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 financial holding company commences operations.

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.

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, 2016 and December 31, 2015, 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, 2016 (Unaudited)				
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Financial assets					
Mortgage loans on real estate					
Commercial	$ 1,300,009	$ 1,317,503	$ -	$ -	$ 1,317,503
Residential	63,224,782	63,327,961	-	-	63,327,961
Policy loans	1,522,192	1,522,192	-	-	1,522,192
Short-term investments	50,033	50,033	50,033	-	-
Other long-term investments	37,896,791	48,226,538	-	-	48,226,538
Cash and cash equivalents	10,806,505	10,806,505	10,806,505	-	-
Accrued investment income	2,181,988	2,181,988	-	-	2,181,988
Loans from premium financing	68,223	68,223	-	-	68,223
Total financial assets	$ 117,050,523	$ 127,500,943	$ 10,856,538	$ -	$ 116,644,405
Financial liabilities					
Policyholders' account balances	$ 207,963,636	$ 196,912,001	$ -	$ -	$ 196,912,001
Policy claims	859,740	859,740	-	-	859,740
Total financial liabilities	$ 208,823,376	$ 197,771,741	$ -	$ -	$ 197,771,741

	December 31, 2015				
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Financial assets					
Mortgage loans on real estate					
Commercial	$ 1,464,655	$ 1,486,601	$ -	$ -	$ 1,486,601
Residential	57,310,263	57,356,546	-	-	57,356,546
Policy loans	1,486,317	1,486,317	-	-	1,486,317
Short-term investments	599,855	599,855	599,855	-	-
Other long-term investments	31,566,927	37,755,989	-	-	37,755,989
Cash and cash equivalents	9,047,586	9,047,586	9,047,586	-	-
Accrued investment income	2,205,469	2,205,469	-	-	2,205,469
Loans from premium financing	123,824	123,824	-	-	123,824
Total financial assets	$ 103,804,896	$ 110,062,187	$ 9,647,441	$ -	$ 100,414,746
Financial liabilities					
Policyholders' account balances	$ 197,688,616	$ 179,233,152	$ -	$ -	$ 179,233,152
Policy claims	714,928	714,928	-	-	714,928
Total financial liabilities	$ 198,403,544	$ 179,948,080	$ -	$ -	$ 179,948,080

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.

4. Segment Data

The Company has a life insurance segment, consisting of the life insurance operations of TLIC and FBLIC, an annuity segment, consisting of the annuity operations of TLIC and FBLIC and a corporate segment. Results for the parent company and the operations of FTCC, after elimination of intercompany amounts, are allocated to the corporate segment. These segments as of June 30, 2016 and December 31, 2015 and for the three and six months ended June 30, 2016 and 2015 are summarized as follows:

	Three Months Ended June 30, (Unaudited)		Six Months Ended June 30, (Unaudited)	
	2016	2015	2016	2015
Revenues:				
Life insurance operations	$ 3,602,546	$ 2,828,290	$ 7,347,790	$ 5,691,976
Annuity operations	2,718,287	2,221,647	5,355,711	4,405,722
Corporate operations	148,820	119,133	307,059	228,059
Total	$ 6,469,653	$ 5,169,070	$ 13,010,560	$ 10,325,757
Income (loss) before income taxes:				
Life insurance operations	$ 22,562	$ (99,996)	$ 52,515	$ 2,190
Annuity operations	350,169	353,586	578,425	469,091
Corporate operations	29,856	43,373	119,853	205,021
Total	$ 402,587	$ 296,963	$ 750,793	$ 676,302
Depreciation and amortization expense:				
Life insurance operations	$ 324,040	$ 472,131	$ 998,587	$ 817,745
Annuity operations	182,591	150,809	338,503	345,511
Corporate operations	-	12,563	-	25,289
Total	$ 506,631	$ 635,503	$ 1,337,090	$ 1,188,545

	(Unaudited) June 30, 2016	December 31, 2015
Assets:		
Life insurance operations	$ 48,902,428	$ 44,151,860
Annuity operations	237,429,746	218,172,909
Corporate operations	6,851,689	6,805,073
Total	$ 293,183,863	$ 269,129,842

5. Federal Income Taxes

The provision for federal income taxes is based on the asset and liability method of accounting for income taxes. Deferred income taxes are provided for the cumulative temporary differences between balances of assets and liabilities determined under GAAP and the balances using tax bases. A valuation allowance has been established due to the uncertainty of certain loss 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 2012 through 2015 U.S. federal tax years are subject to income tax examination by tax authorities. The Company classifies any interest and penalties (if applicable) as income tax expense in the financial statements.

6. Legal Matters and Contingent Liabilities

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 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.

On June 18, 2015, plaintiffs filed an amended petition. Like the original Petition, the amended 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. It also 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 main difference between the original Petition and the amended Petition is that the amended Petition also seeks equitable relief based on two new theories: that the Decreasing Term to 95 policies should be reformed so that they will provide a level death benefit for a level premium payment until the policyholder reaches 95 years of age; and alternatively, Count VIII of the amended Petition asks the Court to (1) find that the dividend provisions in the Decreasing Term to 95 policies violate Missouri law, specifically, § 376.360 RSMo.; (2) order that the policies are *void* ab initio; and (3) order that FBLIC return all premiums collected under these policies. In addition, as part of the MMPA claim, plaintiffs are now alleging that FBLIC undertook a fraudulent scheme to sell the Decreasing Term to 95 policies as a level premium for level benefit even though FBLIC never intended to pay dividends for the life of the policies and that part of this alleged fraudulent scheme included having a dividend option which is not allowed under Missouri law.

FBLIC denies the allegations in the amended Petition and will continue to defend against them.

6. Legal Matters and Contingent Liabilities (continued)

On February 1, 2016, the plaintiffs asked that the Court certify the case as a class action. With their motion, Plaintiffs filed an affidavit from an actuary stating the opinion that FBLIC has collected at least $2,548,939 in premiums on the Decreasing Term to 95 policies. This presumably is the amount that Plaintiffs will seek to be refunded to policyholders if the policies are declared void. FBLIC opposed the request for class certification. On July 21, 2016, the Court certified three classes to maintain the claims for breach of contract, anticipatory breach of contract, violation of the MMPA, reformation, and to void the Decreasing Term to 95 policies. On August 1, 2016, FBLIC filed a Petition for Leave to Appeal with the Missouri Court of Appeals, Southern District asking for permission to appeal the Court's class certification. The Petition for Leave to Appeal was denied.

FBLIC intends to defend vigorously against the class and individual allegations. 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.

On May 13, 2015, FBLIC filed a Counterclaim against Doyle Nimmo seeking indemnity and seeking damages for breach of fiduciary duty in the event FBLIC is liable under Plaintiffs' underlying claims. In addition, on April 29, 2015, TLIC filed a lawsuit against Doyle Nimmo and Michael Teel alleging that they were liable for violations of federal and state securities laws for failing to disclose information relating to the Decreasing Term to 95 policies. This lawsuit is currently pending in the District Court for the Western District of Missouri (hereinafter the "Federal Lawsuit"). No claims have been made against TLIC in the Federal Lawsuit. The Federal Lawsuit has been stayed pending resolution of the lawsuit against FBLIC in the Circuit Court of Greene County, Missouri.

On September 28, 2015, Doyle Nimmo filed a Third-Party Petition for Declaratory Judgment (and Other Relief) against FBLIC. In this Third-Party Petition, Doyle Nimmo, a former director for FBLIC, seeks a declaratory judgment that the corporate by-laws of FBLIC require FBLIC to indemnify him for attorney's fees, judgments, costs, fines, and amounts paid in defense of both the Counterclaim and the Federal Lawsuit and seeks a monetary judgment for the amounts expended by Doyle Nimmo in such defense. Prior to Doyle Nimmo's filing of the Third-Party Petition, FBLIC's Board of Directors executed a Unanimous Written Consent in Lieu of a Special Meeting in which it denied Doyle Nimmo's tender of defense and request for indemnification finding Mr. Nimmo did not meet the applicable standard of conduct for indemnification under Missouri law. FBLIC intends to vigorously defend the Third-Party Petition on these grounds. The Company is unable to determine the potential magnitude of the claims in the event Doyle Nimmo prevails on his Third-Party Petition.

As stated above, FBLIC filed a Counterclaim and TLIC filed the Federal Lawsuit against Doyle Nimmo. Doyle Nimmo submitted a claim and tendered the defense of these claims to Utica Mutual Insurance Company under a policy providing Insurance Agents and Brokers Errors and Omissions Liability coverage. On November 4, 2015, Utica Mutual Insurance Company filed a lawsuit against Doyle Nimmo and other interested parties, including FBLIC and TLIC. The lawsuit is pending in the District Court for the Western District of Missouri and asks the Court to determine whether the Errors and Omissions policy provides coverage for the lawsuits filed against Doyle Nimmo. Utica Mutual Insurance Company does not seek a monetary judgment against FBLIC or TLIC.

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

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

The changes in the components of the Company's accumulated other comprehensive income (loss) for the three and six months ended June 30, 2016 and 2015 are summarized as follows:

	Three Months Ended June 30, 2016 and 2015 (Unaudited)		
	Unrealized Appreciation on Available-For-Sale Securities	Adjustment to Deferred Acquisition Costs	Accumulated Other Comprehensive Income
Balance as of April 1, 2016	$ 345,923	$ (8,045)	$ 337,878
Other comprehensive income before reclassifications, net of tax	3,682,284	(53,666)	3,628,618
Less amounts reclassified from accumulated other comprehensive income, net of tax	121,341	-	121,341
Other comprehensive income	3,560,943	(53,666)	3,507,277
Balance as of June 30, 2016	$ 3,906,866	$ (61,711)	$ 3,845,155
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	$ 1,358,562	$ (14,744)	$ 1,343,818

	Six Months Ended June 30, 2016 and 2015 (Unaudited)		
	Unrealized Appreciation (Depreciation) on Available-For-Sale Securities	Adjustment to Deferred Acquisition Costs	Accumulated Other Comprehensive Income (Loss)
Balance as of January 1, 2016	$ (2,695,876)	$ 40,059	$ (2,655,817)
Other comprehensive income before reclassifications, net of tax	6,705,902	(101,770)	6,604,132
Less amounts reclassified from accumulated other comprehensive loss, net of tax	103,160	-	103,160
Other comprehensive income	6,602,742	(101,770)	6,500,972
Balance as of June 30, 2016	$ 3,906,866	$ (61,711)	$ 3,845,155
Balance as of January 1, 2015	$ 2,712,694	$ (29,151)	$ 2,683,543
Other comprehensive loss before reclassifications, net of tax	(1,529,474)	14,407	(1,515,067)
Less amounts reclassified from accumulated other comprehensive income, net of tax	(175,342)	-	(175,342)
Other comprehensive loss	(1,354,132)	14,407	(1,339,725)
Balance as of June 30, 2015	$ 1,358,562	$ (14,744)	$ 1,343,818

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

The pretax components of the Company's other comprehensive income (loss) and the related income tax expense (benefit) for each component for the three and six months ended June 30, 2016 and 2015 are summarized as follows:

	Three Months Ended June 30, 2016 (Unaudited)		
	Pretax	Income Tax Expense	Net of Tax
Other comprehensive income:			
Change in net unrealized gains on available-for-sale securities:			
Unrealized holding gains arising during the period	$ 4,602,854	$ 920,570	$ 3,682,284
Reclassification adjustment for net gains included in operations	151,677	30,336	121,341
Net unrealized gains on investments	4,451,177	890,234	3,560,943
Adjustment to deferred acquisition costs	(67,083)	(13,417)	(53,666)
Total other comprehensive income	$ 4,384,094	$ 876,817	$ 3,507,277

	Three 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	$ (2,997,563)	$ (599,513)	$ (2,398,050)
Reclassification adjustment for net losses included in operations	(241,927)	(48,386)	(193,541)
Net unrealized losses on investments	(2,755,636)	(551,127)	(2,204,509)
Adjustment to deferred acquisition costs	35,497	7,100	28,397
Total other comprehensive loss	$ (2,720,139)	$ (544,027)	$ (2,176,112)

	Six Months Ended June 30, 2016 (Unaudited)		
	Pretax	Income Tax Expense	Net of Tax
Other comprehensive income:			
Change in net unrealized gains on available-for-sale securities:			
Unrealized holding gains arising during the period	$ 8,382,376	$ 1,676,474	$ 6,705,902
Reclassification adjustment for net gains included in operations	128,951	25,791	103,160
Net unrealized gains on investments	8,253,425	1,650,683	6,602,742
Adjustment to deferred acquisition costs	(127,213)	(25,443)	(101,770)
Total other comprehensive income	$ 8,126,212	$ 1,625,240	$ 6,500,972

	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	$ (1,674,657)	$ (334,932)	$ (1,339,725)

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

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

The pretax and the related income tax components of the amounts reclassified from the Company's accumulated other comprehensive income to the Company's consolidated statement of operations for the three and six months ended June 30, 2016 and 2015 are summarized as follows:

	Three Months Ended June 30, (Unaudited)		Six Months Ended June 30, (Unaudited)	
Reclassification Adjustments	2016	2015	2016	2015
Unrealized gains on available-for-sale securities:				
Realized gains (losses) on sales of securities (a)	$ 151,677	$ (241,927)	$ 128,951	$ (219,178)
Income tax expense (benefit) (b)	30,336	(48,386)	25,791	(43,836)
Total reclassification adjustments	$ 121,341	$ (193,541)	$ 103,160	$ (175,342)

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

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

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

The allowance for possible loan losses from investments in mortgage loans on real estate and loans from premium financing is a reserve established through a provision for possible loan losses charged to expense which represents, in the Company's judgment, the known and inherent credit losses existing in the residential and commercial 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, 2016, $525,696 of independent mortgage loan balances are held in escrow by a third party for the benefit of the Company related to its investment in $24,629,791 of mortgage loans on real estate with one loan originator. In addition, the Company has an additional $197,864 allowance for possible loan losses in the remaining $39,895,000 of investments in mortgage loans on real estate as of June 30, 2016.

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

As of December 31, 2015, $525,696 of independent mortgage loan balances are held in escrow by a third party for the benefit of the Company related to its investment in $21,755,620 of mortgage loans on real estate with one loan originator. In addition, the Company has an additional $183,348 allowance for possible loan losses in the remaining $37,019,298 of investments in mortgage loans on real estate as of December 31, 2015.

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 $347,885 and $320,996 as of June 30, 2016 and December 31, 2015, respectively, are carried net of estimated loan losses of $279,662 and $197,172 as of June 30, 2016 and December 31, 2015, 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.

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, 2016 and 2015 are summarized as follows (excluding $24,629,791 and $16,871,255 of mortgage loans on real estate as of June 30, 2016 and 2015, 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	
	2016	2015	2016	2015	2016	2015	2016	2015
Allowance, beginning	$ 182,472	$ 141,395	$ 7,245	$ 9,674	$ 192,690	$ 197,358	$ 382,407	$ 348,427
Charge offs	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-	-
Provision	8,860	14,859	(713)	(1,470)	86,972	(187)	95,119	13,202
Allowance, ending	$ 191,332	$ 156,254	$ 6,532	$ 8,204	$ 279,662	$ 197,171	$ 477,526	$ 361,629
Allowance, ending:								
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ 279,662	$ 192,689	$ 279,662	$ 192,689
Collectively evaluated for impairment	$ 191,332	$ 156,254	$ 6,532	$ 8,204	$ -	$ 4,482	$ 197,864	$ 168,940
Carrying Values:								
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ 347,885	$ 316,514	$ 347,885	$ 316,514
Collectively evaluated for impairment	$ 38,594,991	$ 31,398,186	$ 1,300,009	$ 1,632,604	$ -	$ 4,482	$ 39,895,000	$ 33,035,272

8. 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	
	2016	2015	2016	2015	2016	2015	2016	2015
Allowance, beginning	$ 175,988	$ 116,604	$ 7,360	$ 9,862	$ 197,172	$ 197,358	$ 380,520	$ 323,824
Charge offs	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-	-
Provision	15,344	39,650	(828)	(1,658)	82,490	(187)	97,006	37,805
Allowance, ending	$ 191,332	$ 156,254	$ 6,532	$ 8,204	$ 279,662	$ 197,171	$ 477,526	$ 361,629
Allowance, ending:								
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ 279,662	$ 192,689	$ 279,662	$ 192,689
Collectively evaluated for impairment	$ 191,332	$ 156,254	$ 6,532	$ 8,204	$ -	$ 4,482	$ 197,864	$ 168,940
Carrying Values:								
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ 347,885	$ 316,514	$ 347,885	$ 316,514
Collectively evaluated for impairment	$ 38,594,991	$ 31,398,186	$ 1,300,009	$ 1,632,604	$ -	$ 4,482	$ 39,895,000	$ 33,035,272

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, 2016 and December 31, 2015 are summarized as follows:

	Residential Mortgage Loans		Commercial Mortgage Loans		Total Mortgage Loans	
	(Unaudited)		(Unaudited)		(Unaudited)	
Loan to Value Ratio	June 30, 2016	December 31, 2015	June 30, 2016	December 31, 2015	June 30, 2016	December 31, 2015
Over 70% to 80%	$ 15,414,911	$ 15,058,997	$ -	$ -	$ 15,414,911	$ 15,058,997
Over 60% to 70%	24,408,263	21,749,312	-	439,250	24,408,263	22,188,562
Over 50% to 60%	11,401,933	9,700,752	1,075,411	658,693	12,477,344	10,359,445
Over 40% to 50%	9,198,911	8,553,256	-	-	9,198,911	8,553,256
Over 30% to 40%	1,810,765	1,430,835	224,598	366,712	2,035,363	1,797,547
Over 20% to 30%	308,850	159,930	-	-	308,850	159,930
Over 10% to 20%	665,513	650,688	-	-	665,513	650,688
10% or less	15,636	6,493	-	-	15,636	6,493
Total	$ 63,224,782	$ 57,310,263	$ 1,300,009	$ 1,464,655	$ 64,524,791	$ 58,774,918

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, Utah, Virginia and West Virginia through independent agents.

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

Acquisitions

The Company expects to facilitate growth through acquisitions of other life insurance companies and/or blocks of life insurance 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. The acquisition of FLAC was financed with the working capital of FTFC.

In late December 2011, TLIC completed its acquisition of 100% of the outstanding stock of FBLIC, also included in the life insurance and annuity segments, for $13,855,129. The acquisition of FBLIC was financed with the working capital of TLIC.

On April 28, 2015, the Company acquired a block of life insurance policies and annuity contracts according to the terms of an assumption reinsurance agreement. During the second quarter of 2015, the Company estimated and recorded assets of $550,000 and a gain of $550,000 on the reinsurance assumption transaction. The Company completed the reinsurance assumption transaction during the third quarter of 2015 and adjusted the gain to $588,923 and recorded assets of $3,644,839 (including cash) and assumed liabilities of $3,055,916.

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

Critical Accounting Policies and Estimates

The discussion and analysis of our financial condition, results of operations and liquidity and capital resources is based on our consolidated financial statements that have been prepared in accordance with U.S. GAAP. Preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses. We evaluate our estimates and assumptions continually, including those related to investments, deferred acquisition costs, allowance for loan losses from mortgages 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, 2015. 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, 2015.

Recent Accounting Pronouncements

Revenue from Contracts with Customers

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

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

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

Troubled Debt Restructurings by Creditors

In January 2015, 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 did not 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 did not 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 did not have a material effect on the Company's results of operations, financial position or liquidity.

Simplifying the Accounting for Measurement-Period Adjustments

In September 2015, the FASB issued updated guidance regarding business combinations that requires an acquirer to recognize post-close measurement adjustments for provisional amounts in the period the adjustment amounts are determined rather than retrospectively. The acquirer is also required to recognize, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the provisional amount, calculated as if the accounting had been completed at the acquisition date. The updated guidance is to be applied prospectively effective for annual and interim periods beginning after December 15, 2015. In connection with business combinations which have already been completed, the adoption of this guidance did not have a material effect on the Company's results of operations, financial position or liquidity.

Recognition and Measurement of Financial Assets and Financial Liabilities

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

This guidance is effective for fiscal years beginning after December 15, 2017. The recognition and measurement provisions of this guidance will be applied by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption and early adoption is not permitted. The Company is evaluating this guidance but expects the primary impact will be the recognition of unrealized gains and losses on available-for-sale equity securities in net income. Currently, all unrealized gains and losses on available-for-sale equity securities are recognized in other comprehensive income (loss).

The effect of the adoption of this guidance on the Company's results of operations, financial position and liquidity is primarily dependent on the fair value of the available-for-sale equity securities in future periods and the existence of a deferred tax asset related to available-for-sale securities in future periods that have not yet been fully assessed.

Leases

In February 2016, the FASB issued updated guidance to require lessees to recognize a right-to-use asset and a lease liability for leases with terms of more than 12 months. The updated guidance retains the two classifications of a lease as either an operating or finance lease (previously referred to as a capital lease). Both lease classifications require the lessee to record the right-to-use asset and the lease liability based upon the present value of cash flows. Finance leases will reflect the financial arrangement by recognizing interest expense on the lease liability separately from the amortization expense of the right-to-use asset. Operating leases will recognize lease expense (with no separate recognition of interest expense) on a straight-line basis over the term of the lease. The accounting by lessors is not significantly changed by the updated guidance. The updated guidance requires expanded qualitative and quantitative disclosures, including additional information about the amounts recorded in the financial statements.

The updated guidance is effective for reporting periods beginning after December 15, 2018, and will require that the earliest comparative period presented include the measurement and recognition of existing leases with an adjustment to equity as if the updated guidance had always been applied. 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.

Improvements to Employee Share-Based Payment Accounting

In March 2016, the FASB issued updated guidance to simplify several aspects of accounting for share-based payment transactions as follows:

<u>Accounting for Income Taxes</u>

Under current accounting guidance, if the deduction for a share-based payment award for tax purposes exceeds, or is less than, the compensation cost recognized for financial reporting purposes, the resulting excess tax benefit, or tax deficiency, is reported as part of additional paid-in capital. Under the updated guidance, these excess tax benefits, or tax deficiencies, are reported as part of income tax expense or benefit in the income statement. The updated guidance also removes the requirement to delay recognition of any excess tax benefit when there are no current taxes payable to which the benefit would be applied. The tax-related cash flows resulting from share-based payments are to be included with other income tax cash flows as an operating activity rather than being reported separately as a financing activity.

<u>Forfeitures</u>

The updated guidance permits an entity to make an accounting policy election to either account for forfeitures when they occur or continue to apply the current method of accruing the compensation cost based on the number of awards that are expected to vest.

<u>Minimum Statutory Tax Withholding Requirements</u>

The updated guidance changes the threshold amount an entity can withhold for taxes when settling an equity award and still qualify for equity classification. A company can withhold up to the maximum statutory tax rates in the employees' applicable jurisdiction rather than withholding up to the employers' minimum statutory withholding requirement. The update also clarifies that all cash payments made to taxing authorities on behalf of employees for withheld shares are to be presented in financing activities on the statement of cash flows.

<u>Transition</u>

The updated guidance is effective for reporting periods beginning after December 15, 2016. Early adoption is permitted in any interim period; if early adoption is elected, the entity must adopt all of the amendments in the same reporting period and reflect any adjustments as of the beginning of the fiscal year. The Company has not elected early adoption. 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 Transition to the Equity Method of Accounting

In March 2016, the FASB issued updated guidance that eliminates the requirement to retroactively apply the equity method of accounting when an investment that was previously accounted for using another method of accounting becomes qualified to apply the equity method due to an increase in the level of ownership interest or degree of influence. If the investment was previously accounted for as an available-for-sale security, any related unrealized gain or loss in accumulated other comprehensive income at the date the investment becomes qualified for the equity method is recognized through earnings. The updated guidance is effective for reporting periods beginning after December 15, 2016, and is to be applied prospectively. 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.

Contingent Put and Call Options in Debt Instruments

In March 2016, the FASB issued updated guidance clarifying that when a call (put) option in a debt instrument can accelerate the repayment of principal on the debt instrument, a reporting entity does not need to assess whether the contingent event that triggers the ability to exercise the call (put) option is related to interest rates or credit risk in determining whether the option should be accounted for separately. The updated guidance is effective for reporting periods beginning after December 15, 2016. 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.

Measurement of Credit Losses on Financial Instruments

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

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

The updated guidance is effective for reporting periods beginning after December 15, 2019. Early adoption is permitted for reporting periods beginning after December 15, 2018. The Company will not be able to determine the impact that the updated guidance will have on its results of operations, financial position or liquidity until the updated guidance is adopted.

Business Segments

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

Our business segments are as follows:

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

Please see below and Note 4 to the Consolidated Financial Statements for the three and six months ended June 30, 2016 and 2015 and as of June 30, 2016 and December 31, 2015 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, 2016 and 2015

	(Unaudited) Three Months Ended June 30, 2016	2015	Amount Change 2016 less 2015	Percentage Change 2016 less 2015
Premiums	$ 3,037,033	$ 2,325,124	$ 711,909	30.6%
Net investment income	3,258,634	2,504,762	753,872	30.1%
Net realized investment gains	166,093	82,087	84,006	102.3%
Loss on other-than-temporary impairment	-	(304,256)	304,256	-100.0%
Gain on reinsurance assumption	-	550,000	(550,000)	-100.0%
Other income	7,893	11,353	(3,460)	-30.5%
Total revenues	6,469,653	5,169,070	1,300,583	25.2%
Benefits and claims	4,261,702	3,341,636	920,066	27.5%
Expenses	1,805,364	1,530,471	274,893	18.0%
Total benefits, claims and expenses	6,067,066	4,872,107	1,194,959	24.5%
Income before federal income tax expense (benefit)	402,587	296,963	105,624	35.6%
Federal income tax expense (benefit)	64,488	(73,643)	138,131	-187.6%
Net income	$ 338,099	$ 370,606	$ (32,507)	-8.8%
Net income per common share basic and diluted	$ 0.04	$ 0.05	$ (0.01)	

Consolidated Condensed Results of Operations for the Six Months Ended June 30, 2016 and 2015

	(Unaudited) Six Months Ended June 30, 2016	2015	Amount Change 2016 less 2015	Percentage Change 2016 less 2015
Premiums	$ 6,229,575	$ 4,645,438	$ 1,584,137	34.1%
Net investment income	6,618,837	4,912,322	1,706,515	34.7%
Net realized investment gains	146,942	506,089	(359,147)	-71.0%
Loss on other-than-temporary impairment	-	(304,256)	304,256	-100.0%
Gain on reinsurance assumption	-	550,000	(550,000)	-100.0%
Other income	15,206	16,164	(958)	-5.9%
Total revenues	13,010,560	10,325,757	2,684,803	26.0%
Benefits and claims	8,429,408	6,495,455	1,933,953	29.8%
Expenses	3,830,359	3,154,000	676,359	21.4%
Total benefits, claims and expenses	12,259,767	9,649,455	2,610,312	27.1%
Income before federal income tax expense (benefit)	750,793	676,302	74,491	11.0%
Federal income tax expense (benefit)	117,381	(57,334)	174,715	-304.7%
Net income	$ 633,412	$ 733,636	$ (100,224)	-13.7%
Net income per common share basic and diluted	$ 0.08	$ 0.09	$ (0.01)	

Consolidated Condensed Financial Position as of June 30, 2016 and December 31, 2015

	(Unaudited) June 30, 2016	December 31, 2015	Amount Change 2016 less 2015	Percentage Change 2016 less 2015
Investment assets	$ 246,159,378	$ 230,203,402	$ 15,955,976	6.9%
Other assets	47,024,485	38,926,440	8,098,045	20.8%
Total assets	$ 293,183,863	$ 269,129,842	$ 24,054,021	8.9%
Policy liabilities	$ 251,001,903	$ 237,944,222	$ 13,057,681	5.5%
Deferred federal income taxes	1,738,321	33,210	1,705,111	5134.3%
Other liabilities	3,094,212	937,367	2,156,845	230.1%
Total liabilities	255,834,436	238,914,799	16,919,637	7.1%
Shareholders' equity	37,349,427	30,215,043	7,134,384	23.6%
Total liabilities and shareholders' equity	$ 293,183,863	$ 269,129,842	$ 24,054,021	8.9%
Shareholders' equity per common share	$ 4.79	$ 3.87	$ 0.92	

Results of Operations – Three Months Ended June 30, 2016 and 2015

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, 2016 and 2015 are summarized as follows:

	(Unaudited) Three Months Ended June 30,		Amount Change	Percentage Change
	2016	2015	2016 less 2015	2016 less 2015
Premiums	$ 3,037,033	$ 2,325,124	$ 711,909	30.6%
Net investment income	3,258,634	2,504,762	753,872	30.1%
Net realized investment gains	166,093	82,087	84,006	102.3%
Loss on other-than-temporary impairment	-	(304,256)	304,256	-100.0%
Gain on reinsurance assumption	-	550,000	(550,000)	-100.0%
Other income	7,893	11,353	(3,460)	-30.5%
Total revenues	$ 6,469,653	$ 5,169,070	$ 1,300,583	25.2%

The $1,300,583 increase in total revenues for the three months ended June 30, 2016 is discussed below.

Premiums

Our premiums for the three months ended June 30, 2016 and 2015 are summarized as follows:

	(Unaudited) Three Months Ended June 30, 2016	2015	Amount Change 2016 less 2015	Percentage Change 2016 less 2015
Whole life and term first year	$ 95,051	$ 22,691	$ 72,360	318.9%
Whole life and term renewal	597,658	609,445	(11,787)	-1.9%
Final expense first year	849,426	521,817	327,609	62.8%
Final expense renewal	1,494,898	1,171,171	323,727	27.6%
Total premiums	$ 3,037,033	$ 2,325,124	$ 711,909	30.6%

The $711,909 increase in premiums for the three months ended June 30, 2016 is primarily due to a $327,609 increase in final expense first year premiums due to increased production from the expansion of FBLIC into additional states. There was also a $323,727 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, 2016 and 2015 are summarized as follows:

	(Unaudited) Three Months Ended June 30, 2016	2015	Amount Change 2016 less 2015	Percentage Change 2016 less 2015
Fixed maturity securities	$ 1,533,301	$ 1,245,734	$ 287,567	23.1%
Equity securities	6,658	8,725	(2,067)	-23.7%
Other long-term investments	622,502	424,587	197,915	46.6%
Mortgage loans	1,328,427	980,728	347,699	35.5%
Policy loans	26,491	25,165	1,326	5.3%
Real estate	91,968	71,822	20,146	28.0%
Short-term and other investments	69,874	65,434	4,440	6.8%
Gross investment income	3,679,221	2,822,195	857,026	30.4%
Investment expenses	(420,587)	(317,433)	103,154	-32.5%
Net investment income	$ 3,258,634	$ 2,504,762	$ 753,872	30.1%

The $857,026 increase in gross investment income for the three months ended June 30, 2016 is due to additional investments in mortgage loans, fixed maturity securities and other long-term investments. In the twelve months since June 30, 2015, our investments in fixed maturity securities have increased approximately $16.5 million, mortgage loans have increased approximately $14.6 million and other long term investments have increased approximately $13.0 million.

The $103,154 increase in investment expenses for the three months ended June 30, 2016 is primarily related to fees and expenses associated with mortgage loan investments.

Net Realized Investment Gains

Our net realized investment gains result from sales of fixed maturity and equity securities available-for-sale and the early payoff of mortgage loans on real estate that the Company had acquired at a discount.

Our net realized investment gains for the three months ended June 30, 2016 and 2015 are summarized as follows:

	(Unaudited) Three Months Ended June 30, 2016	(Unaudited) Three Months Ended June 30, 2015	Amount Change 2016 less 2015	Percentage Change 2016 to 2015
Fixed maturity securities available-for-sale:				
Sale proceeds	$ 5,219,798	$ 1,399,932	$ 3,819,866	272.9%
Amortized cost at sale date	5,076,832	1,337,603	3,739,229	279.5%
Net realized gains	$ 142,966	$ 62,329	$ 80,637	129.4%
Equity securities available-for-sale:				
Sale proceeds	$ 19,210	$ 7,529	$ 11,681	155.1%
Cost at sale date	10,499	7,529	2,970	39.4%
Net realized gains	$ 8,711	$ -	$ 8,711	100.0%
Mortgage loans on real estate:				
Payments and early payoffs of mortgage loans	$ 2,089,278	$ 2,573,436	$ (484,158)	-18.8%
Principal collections	2,074,862	2,553,678	(478,816)	-18.8%
Net realized gains	$ 14,416	$ 19,758	$ (5,342)	-27.0%
Net realized investment gains	$ 166,093	$ 82,087	$ 84,006	102.3%

There was an $84,006 increase in net realized investment gains for the three months ended June 30, 2016.

There were no impairments during the six months ended June 30, 2016.

During second quarter and fourth quarter 2015, the Company impaired its bonds in a mining corporation with a total par value of $600,000 as a result of an analysis of the mining corporation's ability to fulfill its obligations. This impairment was considered fully credit-related, resulting in a charge to the statement of operations before tax of $304,256 and $502,013 for the six months ended June 30, 2015 and year ended December 31, 2015, respectively. This charge represents the credit-related portion of the difference between the amortized cost basis of the security and its fair value. The Company experienced no additional other-than-temporary impairments during 2015.

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. During the second quarter of 2015, the Company estimated and recorded assets of $550,000 and a gain of $550,000 on the reinsurance assumption transaction. The Company completed the reinsurance assumption transaction during the third quarter of 2015 and adjusted the gain to $588,923 and recorded assets of $3,644,839 (including cash) and assumed liabilities of $3,055,916.

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, 2016 and 2015 are summarized as follows:

	(Unaudited) Three Months Ended June 30, 2016	(Unaudited) Three Months Ended June 30, 2015	Amount Change 2016 less 2015	Percentage Change 2016 less 2015
Benefits and claims				
Increase in future policy benefits	$ 1,279,874	$ 904,650	$ 375,224	41.5%
Death benefits	1,034,230	851,418	182,812	21.5%
Surrenders	198,643	135,487	63,156	46.6%
Interest credited to policyholders	1,681,501	1,345,410	336,091	25.0%
Dividend, endowment and supplementary life contract benefits	67,454	104,671	(37,217)	-35.6%
Total benefits and claims	4,261,702	3,341,636	920,066	27.5%
Expenses				
Policy acquisition costs deferred	(1,542,926)	(1,251,016)	(291,910)	23.3%
Amortization of deferred policy acquisition costs	355,491	463,089	(107,598)	-23.2%
Amortization of value of insurance business acquired	99,078	99,399	(321)	-0.3%
Commissions	1,548,635	1,039,469	509,166	49.0%
Other underwriting, insurance and acquisition expenses	1,345,086	1,179,530	165,556	14.0%
Total expenses	1,805,364	1,530,471	274,893	18.0%
Total benefits, claims and expenses	$ 6,067,066	$ 4,872,107	$ 1,194,959	24.5%

The $1,194,959 increase in total benefits, claims and expenses for the three months ended June 30, 2016 is discussed below.

Benefits and Claims

The $920,066 increase in benefits and claims for the three months ended June 30, 2016 is primarily due to the following:

- $375,224 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.
- $336,091 increase in interest credited to policyholders is primarily due to an increase of approximately $44.4 million in the amount of policyholders' account balances in the consolidated statement of financial position (increased deposits and interest credited in excess of withdrawals) since June 30, 2015.
- $182,812 increase in death benefits is primarily due to 32 additional final expense incurred claims. The increase in additional final expense incurred claims is expected by the Company due to the continued growth in the number of final expense policies in force.

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, 2016 and 2015, capitalized costs were $1,542,926 and $1,251,016, respectively. Amortization of deferred policy acquisition costs for the three months ended June 30, 2016 and 2015 were $355,491 and $463,089, respectively.

During second quarter 2016, the Company finished its investigation of policy acquisition cost deferred and amortized and concluded that for the three months ended March 31, 2016 acquisition cost deferred and amortized were both overstated by approximately $200,000. The Company corrected the overstated acquisition cost deferred and amortized resulting in the understatement of both acquisition cost deferred and amortization by $200,000 during the second quarter of 2016. The correction of acquisition cost deferred and amortized will offset and has no impact on the Company's total expenses on the statement of operations for the three months ended June 30, 2016.

In addition to correcting the first quarter 2016 overstatement of $200,000 during the second quarter of 2016, the $291,910 increase in the acquisition costs deferred primarily relates to increased final expense production. As explained above, second quarter 2016 amortization of deferred acquisition costs was understated by approximately $200,000, therefore, amortization of deferred acquisition costs actually increased by approximately $100,000. The increase in amortization of deferred acquisition costs is primarily due to the growth in the number of final expense policies in force combined with policies not being retained by policyholders. In addition, the increase in the amortization of deferred acquisition costs was impacted by the increase in amortization of annuity products from increased policyholder withdrawals.

Amortization of Value of Insurance Business Acquired

The cost of acquiring insurance business is amortized over the emerging profit of the related policies using the same assumptions that were used in computing liabilities for future policy benefits. Amortization of the value of insurance business acquired was $99,078 and $99,399 for the three months ended June 30, 2016 and 2015, respectively.

Commissions

Our commissions for the three months ended June 30, 2016 and 2015 are summarized as follows:

	(Unaudited) Three Months Ended June 30,		Amount Change	Percentage Change
	2016	2015	2016 less 2015	2016 less 2015
Annuity	$ 345,091	$ 280,864	$ 64,227	22.9%
Whole life and term first year	34,612	13,897	20,715	149.1%
Whole life and term renewal	24,748	28,380	(3,632)	-12.8%
Final expense first year	1,010,569	617,140	393,429	63.8%
Final expense renewal	133,615	99,188	34,427	34.7%
Total commissions	$ 1,548,635	$ 1,039,469	$ 509,166	49.0%

The $509,166 increase in commissions for the three months ended June 30, 2016 is primarily due to:

- $393,429 increase in final expense first year commissions that correspond to the $327,609 increase in final expense first year premiums.

- $64,227 increase in annuity first year, single and renewal commissions is due to the Company now paying renewal commission on two annuity products amounting to $87,771.

Other Underwriting, Insurance and Acquisition Expenses

The $165,556 increase in other underwriting, insurance and acquisition expenses for the three months ended June 30, 2016 was primarily related to increased acquisition and maintenance costs associated with increased final expense production, increased legal fees from contested litigation, increased third party administrative fees and increased allowance for bad debt related to the premium finance business.

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, we filed consolidated life insurance company federal tax returns for TLIC and FBLIC for 2012, 2013 and 2014 and intend to also file a consolidated life insurance company federal tax return for TLIC and FBLIC for 2015 and 2016.

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, 2016 and 2015, current income tax expense was $34,212 and $24,413, respectively. Deferred federal income tax expense (benefit) was $30,276 and ($98,056) for the three months ended June 30, 2016 and 2015, respectively. The increase in deferred income taxes in second quarter 2016 is primarily due to faster growth in deferred policy acquisition costs on the U.S. GAAP statement of financial position compared to the tax-basis balance sheet.

Net Income Per Common Share Basic and Diluted

Net income was $338,099 ($0.04 per common share basic and diluted) and $370,606 ($0.05 per common share basic and diluted) for the three months ended June 30, 2016 and 2015, 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, 2016 and 2015 were 7,802,593 and 7,802,610, 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, 2016 and 2015 are summarized as follows:

	(Unaudited) Three Months Ended June 30,		Amount Change	Percentage Change
	2016	2015	2016 less 2015	2016 less 2015
Revenues:				
Life insurance operations	$ 3,602,546	$ 2,828,290	$ 774,256	27.4%
Annuity operations	2,718,287	2,221,647	496,640	22.4%
Corporate operations	148,820	119,133	29,687	24.9%
Total	$ 6,469,653	$ 5,169,070	$ 1,300,583	25.2%
Income (loss) before income taxes:				
Life insurance operations	$ 22,562	$ (99,996)	$ 122,558	122.6%
Annuity operations	350,169	353,586	(3,417)	-1.0%
Corporate operations	29,856	43,373	(13,517)	-31.2%
Total	$ 402,587	$ 296,963	$ 105,624	35.6%

Life Insurance Operations

The $774,256 increase in revenues from Life Insurance Operations for the three months ended June 30, 2016 is primarily due to the following:

- $711,909 increase in premiums
- $96,738 increase in net investment income
- $3,799 decrease in other income
- $30,592 decrease in net realized investment gains (that also includes a loss on other-than-temporary impairment and gain on reinsurance assumption)

The $122,558 increased profitability from Life Insurance Operations for the three months ended June 30, 2016 is primarily due to the following:

- $711,909 increase in premiums
- $364,283 increase in policy acquisition costs deferred net of amortization
- $96,738 increase in net investment income
- $37,217 decrease in dividend, endowment and supplementary life contract benefits
- $12,772 decrease in other underwriting, insurance and acquisition expenses
- $161 decrease in amortization of value of insurance business acquired
- $3,799 decrease in other income
- $30,592 decrease in net realized investment gains (that also includes a loss on other-than-temporary impairment and gain on reinsurance assumption)

- $63,156 increase in surrenders
- $182,812 increase in death benefits
- $375,224 increase in future policy benefits
- $444,939 increase in commissions

Annuity Operations

The $496,640 increase in revenues from Annuity Operations for the three months ended June 30, 2016 is due to the following:

- $627,786 increase in net investment income
- $131,146 decrease in net realized investment gains (that also includes a loss on other-than-temporary impairment and gain on reinsurance assumption)

The $3,417 decreased profitability from Annuity Operations for the three months ended June 30, 2016 is due to the following:

- $336,091 increase in interest credited to policyholders
- $135,124 increase in other underwriting, insurance and acquisition expenses
- $131,146 decrease in net realized investment gains (that also includes a loss on other-than-temporary impairment and gain on reinsurance assumption)
- $64,227 increase in commissions
- $160 decrease in amortization of value of insurance business acquired
- $35,225 increase in policy acquisition costs deferred net of amortization
- $627,786 increase in net investment income

Corporate Operations

The $29,687 increase in revenues from Corporate Operations for the three months ended June 30, 2016 is primarily due to $29,348 of increased net investment income and $339 of increased other income.

The $13,517 decreased Corporate Operations profitability for the three months ended June 30, 2016 is primarily due to $43,204 of increased operating expenses that exceeded $29,348 of increased net investment income and $339 of increased other income.

Results of Operations – Six Months Ended June 30, 2016 and 2015

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, 2016 and 2015 are summarized as follows:

	(Unaudited)			
	Six Months Ended June 30,		Amount Change	Percentage Change
	2016	2015	2016 less 2015	2016 less 2015
Premiums	$ 6,229,575	$ 4,645,438	$ 1,584,137	34.1%
Net investment income	6,618,837	4,912,322	1,706,515	34.7%
Net realized investment gains	146,942	506,089	(359,147)	-71.0%
Loss on other-than-temporary impairment	-	(304,256)	304,256	-100.0%
Gain on reinsurance assumption	-	550,000	(550,000)	-100.0%
Other income	15,206	16,164	(958)	-5.9%
Total revenues	$ 13,010,560	$ 10,325,757	$ 2,684,803	26.0%

The $2,684,803 increase in total revenues for the six months ended June 30, 2016 is discussed below.

Premiums

Our premiums for the six months ended June 30, 2016 and 2015 are summarized as follows:

	Six Months Ended June 30,		Amount Change	Percentage Change
	2016	2015	2016 less 2015	2016 less 2015
Whole life and term first year	$ 123,184	$ 43,932	$ 79,252	180.4%
Whole life and term renewal	1,269,002	1,306,284	(37,282)	-2.9%
Final expense first year	1,605,631	913,639	691,992	75.7%
Final expense renewal	2,853,184	2,315,587	537,597	23.2%
Supplementary contracts with life contingencies	378,574	65,996	312,578	473.6%
Total premiums	$ 6,229,575	$ 4,645,438	$ 1,584,137	34.1%

The $1,584,137 increase in premiums for the six months ended June 30, 2016 is primarily due to the following: $691,992 increase in final expense first year premiums, $537,597 increase in final expense renewal premiums and $312,578 increase in supplementary contracts with life contingencies premiums.

The increase in final expense first year premiums represents management's focus on expanding final expense production by contracting new, independent agents in expanded locations. The increase in final expense renewal premiums reflects the persistency of prior years' final expense production. Our marketing efforts are focused on final expense and annuity production and we have not been focused on whole life and term production the past few years.

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

Net Investment Income

The major components of our net investment income for the six months ended June 30, 2016 and 2015 are summarized as follows:

	(Unaudited) Six Months Ended June 30,		Amount Change	Percentage Change
	2016	2015	2016 less 2015	2016 less 2015
Fixed maturity securities	$ 3,100,519	$ 2,419,515	$ 681,004	28.1%
Equity securities	13,840	20,254	(6,414)	-31.7%
Other long-term investments	1,170,324	838,829	331,495	39.5%
Mortgage loans	2,681,498	1,936,872	744,626	38.4%
Policy loans	52,589	50,306	2,283	4.5%
Real estate	183,936	259,410	(75,474)	-29.1%
Short-term and other investments	142,144	113,626	28,518	25.1%
Gross investment income	7,344,850	5,638,812	1,706,038	30.3%
Investment expenses	(726,013)	(726,490)	(477)	0.1%
Net investment income	$ 6,618,837	$ 4,912,322	$ 1,706,515	34.7%

The $1,706,038 increase in gross investment income for the six months ended June 30, 2016 is primarily due to the increases in investment in mortgage loans, fixed maturity securities and other long-term investments. In the twelve months since June 30, 2015, our investments in fixed maturity securities have increased approximately $16.5 million, mortgage loans have increased approximately $14.6 million and other long term investments have increased approximately $13.0 million. The $75,474 decrease in real estate investment income is related to the loss of rental income from the sale of $6,693,044 of real estate held for sale in March 2015.

Net Realized Investment Gains

Our net realized investment gains result from sales of fixed maturity and equity securities available-for-sale, the sale of buildings and land and the early payoff of mortgage loans on real estate that the Company had acquired at a discount.

Our net realized investment gains for the six months ended June 30, 2016 and 2015 are summarized as follows:

	(Unaudited) Six Months Ended June 30, 2016	(Unaudited) Six Months Ended June 30, 2015	Amount Change 2016 less 2015	Percentage Change 2016 to 2015
Fixed maturity securities available-for-sale:				
Sale proceeds	$ 7,494,211	$ 2,588,161	$ 4,906,050	189.6%
Amortized cost at sale date	7,372,503	2,501,183	4,871,320	194.8%
Net realized gains	$ 121,708	$ 86,978	$ 34,730	39.9%
Equity securities available-for-sale:				
Sale proceeds	$ 128,010	$ 533,813	$ (405,803)	-76.0%
Cost at sale date	120,767	535,713	(414,946)	-77.5%
Net realized gains (losses)	$ 7,243	$ (1,900)	$ 9,143	-481.2%
Mortgage loans on real estate:				
Payments and early payoffs of mortgage loans	$ 3,661,522	$ 4,124,035	$ (462,513)	-11.2%
Principal collections	3,643,531	4,093,226	(449,695)	-11.0%
Net realized gains	$ 17,991	$ 30,809	$ (12,818)	-41.6%
Investment real estate:				
Sale proceeds	$ -	$ 7,083,246	$ (7,083,246)	-100.0%
Carrying value at sale date	-	6,693,044	(6,693,044)	-100.0%
Net realized gains	$ -	$ 390,202	$ (390,202)	-100.0%
Net realized investment gains	$ 146,942	$ 506,089	$ (359,147)	-71.0%

There was a $359,147 decrease in net realized investment gains for the six months ended June 30, 2016.

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 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.

During second quarter and fourth quarter 2015, the Company impaired its bonds in a mining corporation with a total par value of $600,000 as a result of an analysis of the mining corporation's ability to fulfill its obligations. This impairment was considered fully credit-related, resulting in a charge to the statement of operations before tax of $304,256 and $502,013 for the six months ended June 30, 2015 and year ended December 31, 2015, respectively. This charge represents the credit-related portion of the difference between the amortized cost basis of the security and its fair value. The Company experienced no additional other-than-temporary impairments during 2015.

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. During the second quarter of 2015, the Company estimated and recorded assets of $550,000 and a gain of $550,000 on the reinsurance assumption transaction. The Company completed the reinsurance assumption transaction during the third quarter of 2015 and adjusted the gain to $588,923 and recorded assets of $3,644,839 (including cash) and assumed liabilities of $3,055,916.

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, 2016 and 2015 are summarized as follows:

	(Unaudited) Six Months Ended June 30,		Amount Change	Percentage Change
	2016	2015	2016 less 2015	2016 less 2015
Benefits and claims				
Increase in future policy benefits	$ 2,638,018	$ 1,695,961	$ 942,057	55.5%
Death benefits	1,986,288	1,770,209	216,079	12.2%
Surrenders	336,369	277,881	58,488	21.0%
Interest credited to policyholders	3,335,221	2,593,300	741,921	28.6%
Dividend, endowment and supplementary life contract benefits	133,512	158,104	(24,592)	-15.6%
Total benefits and claims	8,429,408	6,495,455	1,933,953	29.8%
Expenses				
Policy acquisition costs deferred	(3,119,135)	(2,222,967)	(896,168)	40.3%
Amortization of deferred policy acquisition costs	1,052,037	857,549	194,488	22.7%
Amortization of value of insurance business acquired	189,210	199,357	(10,147)	-5.1%
Commissions	2,828,721	1,909,615	919,106	48.1%
Other underwriting, insurance and acquisition expenses	2,879,526	2,410,446	469,080	19.5%
Total expenses	3,830,359	3,154,000	676,359	21.4%
Total benefits, claims and expenses	$ 12,259,767	$ 9,649,455	$ 2,610,312	27.1%

The $2,610,312 increase in total benefits, claims and expenses for the six months ended June 30, 2016 is discussed below.

Benefits and Claims

The $1,933,953 increase in benefits and claims for the six months ended June 30, 2016 is primarily due to the following:

- $942,057 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.

- $741,921 increase in interest credited to policyholders is primarily due to an increase of approximately $44.4 million in the amount of policyholders' account balances in the consolidated statement of financial position (deposits and interest credited in excess of withdrawals) since June 30, 2015.

- $216,079 increase in death benefits is primarily due to 29 additional final expense claims incurred. The increase in additional final expense incurred claims is expected by the Company due to the continued growth in the number of final expense policies in force.

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, 2016 and 2015, capitalized costs were $3,119,135 and $2,222,967, respectively. Amortization of deferred policy acquisition costs for the six months ended June 30, 2016 and 2015 were $1,052,037 and $857,549, respectively.

The $896,168 increase in the 2016 acquisition costs deferred primarily relates to increased final expense production. The $194,488 increase in the 2016 amortization of deferred acquisition costs is primarily due to the growth in the number of final expense policies in force combined with policies not being retained by policyholders. In addition, the increase in the 2016 amortization of deferred acquisition costs was impacted by the acceleration of amortization on annuity products from increased withdrawals.

Amortization of Value of Insurance Business Acquired

The cost of acquiring insurance business is amortized over the emerging profit of the related policies using the same assumptions that were used in computing liabilities for future policy benefits. Amortization of the value of insurance business acquired was $189,210 and $199,357 for the six months ended June 30, 2016 and 2015, respectively.

Commissions

Our commissions for the six months ended June 30, 2016 and 2015 are summarized as follows:

	(Unaudited) Six Months Ended June 30, 2016	(Unaudited) Six Months Ended June 30, 2015	Amount Change 2016 less 2015	Percentage Change 2016 less 2015
Annuity	$ 556,741	$ 538,664	$ 18,077	3.4%
Whole life and term first year	59,064	36,734	22,330	60.8%
Whole life and term renewal	53,066	59,400	(6,334)	-10.7%
Final expense first year	1,908,577	1,078,316	830,261	77.0%
Final expense renewal	251,273	196,501	54,772	27.9%
Total commissions	$ 2,828,721	$ 1,909,615	$ 919,106	48.1%

The $919,106 increase in commissions for the six months ended June 30, 2016 is primarily due to an $830,261 increase in final expense first year commissions that correspond to the $691,992 increase in final expense first year premiums.

Other Underwriting, Insurance and Acquisition Expenses

The $469,080 increase in other underwriting, insurance and acquisition expenses for the six months ended June 30, 2016 was primarily related to increased acquisition and maintenance costs associated with increased final expense production, increased legal fees from contested litigation, increased salaries and benefits due to increased staffing levels, profit bonus paid to the Company’s executive officers, increased third party administrative fees and increased allowance for bad debt related to the premium finance business.

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, we filed consolidated life insurance company federal tax returns for TLIC and FBLIC for 2012, 2013 and 2014 and intend to also file a consolidated life insurance company federal tax return for TLIC and FBLIC for 2015 and 2016.

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, 2016 and 2015, current income tax expense was $37,510 and $99,378, respectively. Deferred federal income tax expense (benefit) was $79,871 and ($156,712) for the six months ended June 30, 2016 and 2015, respectively. The increase in deferred income taxes is primarily due to faster growth in deferred policy acquisition costs on the U.S. GAAP statement of financial position compared to the tax-basis balance sheet.

Net Income Per Common Share Basic and Diluted

Net income was $633,412 ($0.08 per common share basic and diluted) and $733,636 ($0.09 per common share basic and diluted) for the six months ended June 30, 2016 and 2015, 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, 2016 and 2015 were 7,802,593 and 7,806,538, 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 before federal income taxes from our business segments for the six months ended June 30, 2016 and 2015 are summarized as follows:

	(Unaudited) Six Months Ended June 30,		Amount Change	Percentage Change
	2016	2015	2016 less 2015	2016 less 2015
Revenues:				
Life insurance operations	$ 7,347,790	$ 5,691,976	$ 1,655,814	29.1%
Annuity operations	5,355,711	4,405,722	949,989	21.6%
Corporate operations	307,059	228,059	79,000	34.6%
Total	$ 13,010,560	$ 10,325,757	$ 2,684,803	26.0%
Income before income taxes:				
Life insurance operations	$ 52,515	$ 2,190	$ 50,325	2297.9%
Annuity operations	578,425	469,091	109,334	23.3%
Corporate operations	119,853	205,021	(85,168)	-41.5%
Total	$ 750,793	$ 676,302	$ 74,491	11.0%

Life Insurance Operations

The $1,655,814 increase in revenues from Life Insurance Operations for the six months ended June 30, 2016 is primarily due to the following:

- $1,584,137 increase in premiums
- $190,210 increase in net investment income
- $4,187 decrease in other income
- $114,346 decrease in net realized investment gains (that also includes a loss on other-than-temporary impairment and gain on reinsurance assumption)

The $50,325 increased profitability from Life Insurance Operations for the six months ended June 30, 2016 is primarily due to the following:

- $1,584,137 increase in premiums
- $758,265 increase in policy acquisition costs deferred net of amortization
- $190,210 increase in net investment income
- $24,592 decrease in dividend, endowment and supplementary life contract benefits
- $5,073 decrease in amortization of value of insurance business acquired
- $4,187 decrease in other income
- $58,488 increase in surrenders
- $114,346 decrease in net realized investment gains (that also includes a loss on other-than-temporary impairment and gain on reinsurance assumption)
- $216,079 increase in death benefits
- $275,766 increase in other underwriting, insurance and acquisition expenses
- $901,029 increase in commissions
- $942,057 increase in future policy benefits

Annuity Operations

The $949,989 increase in revenues from Annuity Operations for the six months ended June 30, 2016 is due to the following:

- $1,440,534 increase in net investment income
- $490,545 decrease in net realized investment gains (that also includes a loss on other-than-temporary impairment and gain on reinsurance assumption)

The $109,334 increased profitability from Annuity Operations for the six months ended June 30, 2016 is due to the following:

- $1,440,534 increase in net investment income
- $5,074 decrease in amortization of value of insurance business acquired
- $18,077 increase in commissions
- $29,146 increase in other underwriting, insurance and acquisition expenses
- $56,585 decrease in policy acquisition costs deferred net of amortization
- $490,545 decrease in net realized investment gains (that also includes a loss on other-than-temporary impairment and gain on reinsurance assumption)
- $741,921 increase in interest credited to policyholders

Corporate Operations

The $79,000 increase in revenues from Corporate Operations for the six months ended June 30, 2016 is primarily due to $75,771 of increased net investment income and $3,229 of increased other income.

The $85,168 decreased Corporate Operations profitability for the six months ended June 30, 2016 is primarily due to $164,168 of increased operating expenses that exceeded $75,771 of increased net investment income and $3,229 of increased other income.

Consolidated Financial Condition

Our invested assets as of June 30, 2016 and December 31, 2015 are summarized as follows:

	(Unaudited) June 30, 2016	December 31, 2015	Amount Change 2016 less 2015	Percentage Change 2016 less 2015
Assets				
Investments				
Available-for-sale fixed maturity securities at fair value (amortized cost: $134,151,115 and $138,028,455 as of June 30, 2016 and December 31, 2015, respectively)	$ 138,938,866	$ 134,556,027	$ 4,382,839	3.3%
Available-for-sale equity securities at fair value (cost: $678,438 and $790,215 as of June 30, 2016 and December 31, 2015, respectively)	774,269	892,800	(118,531)	-13.3%
Mortgage loans on real estate	64,524,791	58,774,918	5,749,873	9.8%
Investment real estate	2,452,436	2,326,558	125,878	5.4%
Policy loans	1,522,192	1,486,317	35,875	2.4%
Short-term investments	50,033	599,855	(549,822)	-91.7%
Other long-term investments	37,896,791	31,566,927	6,329,864	20.1%
Total investments	$ 246,159,378	$ 230,203,402	$ 15,955,976	6.9%

The $4,382,839 and $11,763,598 increases in fixed maturity available-for-sale securities for the six months ended June 30, 2016 and 2015, respectively, are summarized as follows:

	Six Months Ended June 30, (Unaudited)			
	2016		2015	
	Amount	Percentage	Amount	Percentage
Fixed maturity securities, available-for-sale, beginning	$ 134,556,027	96.85%	$ 110,651,429	90.39%
Purchases	3,936,924	2.83%	16,654,068	13.61%
Unrealized appreciation	8,260,179	5.95%	(1,655,536)	-1.35%
Net realized investment gains (losses)	121,708	0.09%	(217,278)	-0.18%
Sales proceeds	(3,940,211)	-2.84%	(1,183,161)	-0.97%
Maturities	(3,554,000)	-2.56%	(1,405,000)	-1.15%
Premium amortization	(441,761)	-0.32%	(429,495)	-0.35%
Increase	4,382,839	3.15%	11,763,598	9.62%
Fixed maturity securities, available-for-sale, ending	$ 138,938,866	100.00%	$ 122,415,027	100.00%

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

The $118,531 and $28,203 decreases in equity securities available-for-sale for the six months ended June 30, 2016 and 2015, respectively, are summarized as follows:

	Six Months Ended June 30, (Unaudited)			
	2016		2015	
	Amount	Percentage	Amount	Percentage
Equity securities, available-for-sale, beginning	$ 892,800	115.31%	$ 671,357	104.39%
Purchases	8,990	1.16%	544,835	84.71%
Sales proceeds	(128,010)	-16.54%	(533,813)	-83.00%
Unrealized depreciation	(6,754)	-0.87%	(37,129)	-5.77%
Net realized investment gains (losses)	7,243	0.94%	(1,900)	-0.30%
Premium amortization	-	0.00%	(196)	-0.03%
Decrease	(118,531)	-15.32%	(28,203)	-4.39%
Equity securities, available-for-sale, ending	$ 774,269	100.00%	$ 643,154	100.00%

Equity securities available-for-sale are also reported at fair value with unrealized gains and losses, net of applicable income taxes, reflected as a separate component in shareholders' equity within "Accumulated Other Comprehensive Income (Loss)." The available-for-sale equity securities portfolio is invested in a variety of companies.

The $5,749,873 and $11,252,312 increases in mortgage loans on real estate for the six months ended June 30, 2016 and 2015, respectively, are summarized as follows:

	Six Months Ended June 30, (Unaudited)			
	2016		2015	
	Amount	Percentage	Amount	Percentage
Mortgage loans on real estate, beginning	$ 58,774,918	91.09%	$ 38,649,733	77.45%
Purchases	9,362,778	14.50%	15,299,124	30.66%
Capitalization of loan origination fees	4,531	0.01%	50,000	0.10%
Discount accretion	63,395	0.10%	67,600	0.14%
Net realized investment gains	17,991	0.03%	30,809	0.06%
Payments	(3,661,522)	-5.67%	(4,124,035)	-8.26%
Increase in allowance for bad debts	(14,516)	-0.02%	(37,992)	-0.08%
Amortization of loan origination fees	(22,784)	-0.04%	(33,194)	-0.07%
Increase	5,749,873	8.91%	11,252,312	22.55%
Mortgage loans on real estate, ending	$ 64,524,791	100.00%	$ 49,902,045	100.00%

The $125,878 increase and $6,765,788 decrease in investment real estate for the six months ended June 30, 2016 and 2015, respectively, are summarized as follows:

	Six Months Ended June 30, (Unaudited)			
	2016		2015	
	Amount	Percentage	Amount	Percentage
Investment real estate, beginning	$ 2,326,558	94.87%	$ 9,165,090	381.99%
Purchases	198,622	8.10%	-	0.00%
Sales proceeds	-	0.00%	(7,083,246)	-295.22%
Depreciation of building	(72,744)	-2.97%	(72,744)	-3.03%
Net realized investment gains	-	0.00%	390,202	16.26%
Increase (decrease)	125,878	5.13%	(6,765,788)	-281.99%
Investment real estate, ending	$ 2,452,436	100.00%	$ 2,399,302	100.00%

The $6,329,864 and $3,126,138 increases in other long-term investments (composed of lottery receivables) for the six months ended June 30, 2016 and 2015, respectively, are summarized as follows:

	Six Months Ended June 30, (Unaudited)			
	2016		2015	
	Amount	Percentage	Amount	Percentage
Other long-term investments, beginning	$ 31,566,927	83.30%	$21,781,925	87.45%
Purchases	7,101,665	18.74%	4,368,725	17.54%
Accretion of discount	1,176,272	3.10%	839,826	3.37%
Payments	(1,948,073)	-5.14%	(2,082,413)	-8.36%
Increase	6,329,864	16.70%	3,126,138	12.55%
Other long-term investments, ending	$ 37,896,791	100.00%	$24,908,063	100.00%

The $549,822 decrease in short-term investments is due to management's decision to decrease our investment in funds that have a maturity of more than 90 days but less than one year at the date of purchase.

Our assets other than invested assets as of June 30, 2016 and December 31, 2015 are summarized as follows:

	(Unaudited) June 30, 2016	December 31, 2015	Amount Change 2016 less 2015	Percentage Change 2016 less 2015
Cash and cash equivalents	$ 10,806,505	$ 9,047,586	$ 1,758,919	19.4%
Accrued investment income	2,181,988	2,205,469	(23,481)	-1.1%
Recoverable from reinsurers	1,261,836	1,243,618	18,218	1.5%
Agents' balances and due premiums	1,263,929	1,070,050	193,879	18.1%
Deferred policy acquisition costs	14,955,564	13,015,679	1,939,885	14.9%
Value of insurance business acquired	6,098,990	6,288,200	(189,210)	-3.0%
Property and equipment, net	633	949	(316)	-33.3%
Other assets	10,455,040	6,054,889	4,400,151	72.7%
Assets other than investment assets	$ 47,024,485	$ 38,926,440	$ 8,098,045	20.8%

The $193,879 increase in 2016 agents' balances and due premiums is primarily due to a $219,486 increase in agents' balances. This increase is due to increased production of final expense policies resulting in increased advances of commissions to agents. The Company closely monitors commission advances and has not historically experienced nor expects to experience future collection problems.

Our other assets as of June 30, 2016 and December 31, 2015 are summarized as follows:

	(Unaudited) June 30, 2016	December 31, 2015	Amount Change 2016 less 2015	Percentage Change 2016 to 2015
Advances to mortgage loan originator	$ 5,075,406	$ 3,095,064	$ 1,980,342	64.0%
Federal and state income taxes recoverable	1,489,639	1,265,453	224,186	17.7%
Notes receivable	550,940	627,503	(76,563)	-12.2%
Accrual of mortgage loan and long-term investment payments due	451,250	662,354	(211,104)	-31.9%
Guaranty funds	189,911	197,812	(7,901)	-4.0%
Loans from premium financing, net	68,223	123,824	(55,601)	-44.9%
Other receivables, prepaid assets and deposits	2,629,671	82,879	2,546,792	3072.9%
Total other assets	$ 10,455,040	$ 6,054,889	$ 4,400,151	72.7%

There was a $211,104 decrease in the accrual of mortgage loans and long-term investment payments based upon the scheduled timing of investment payments remitted by the third party servicers.

During the six months ended June 30, 2016, the Company increased its advances to one mortgage loan originator who acquires residential mortgage loans for our life companies by $1,980,342.

The $2,546,792 increase in other receivables, prepaid assets and deposits is primarily due to an increase in receivable for securities sold of $2,588,281 as of June 30, 2016.

The $224,186 increase in federal and state income taxes recoverable is primarily due to federal and state tax withholdings on lottery receivables.

On April 15, 2016, the Company loaned $400,000 to its former Chairman. The loan has a term of one year and has a contractual interest rate of 5.00%. The loan is collateralized by 100,000 shares of the Company's Class A Common stock owned by the former Chairman.

Our liabilities as of June 30, 2016 and December 31, 2015 are summarized as follows:

	(Unaudited) June 30, 2016	December 31, 2015	Amount Change 2016 less 2015	Percentage Change 2016 less 2015
Policy liabilities				
Policyholders' account balances	$ 207,963,636	$ 197,688,616	$ 10,275,020	5.2%
Future policy benefits	42,109,842	39,464,124	2,645,718	6.7%
Policy claims	859,740	714,928	144,812	20.3%
Other policy liabilities	68,685	76,554	(7,869)	-10.3%
Total policy liabilities	251,001,903	237,944,222	13,057,681	5.5%
Deferred federal income taxes	1,738,321	33,210	1,705,111	5134.3%
Other liabilities	3,094,212	937,367	2,156,845	230.1%
Total liabilities	$ 255,834,436	$ 238,914,799	$ 16,919,637	7.1%

The $10,275,020 and $22,994,193 increases in policyholders' account balances for the six months ended June 30, 2016 and 2015, respectively, are summarized as follows:

	Six Months Ended June 30, (Unaudited)			
	2016		2015	
	Amount	Percentage	Amount	Percentage
Policyholders' account balances, beginning	$ 197,688,616	95.06%	$ 140,554,973	85.94%
Deposits	14,145,326	6.80%	25,903,955	15.83%
Withdrawals	(7,205,527)	-3.46%	(5,503,062)	-3.36%
Interest credited	3,335,221	1.60%	2,593,300	1.59%
Increase	10,275,020	4.94%	22,994,193	14.06%
Policyholders' account balances, ending	$ 207,963,636	100.00%	$ 163,549,166	100.00%

During 2016, management made a conscious decision to decrease the production of new annuity contracts by decreasing the interest rate paid to policyholders and the minimum guaranteed interest rate during the contractual period. This intentional reduction in new annuity production is demonstrated by the $11,758,629 decrease in annuity deposits from $25,903,955 to $14,145,326 for the six months ended June 30, 2015 and 2016, respectively. This decision was made so that FTFC's two life insurance companies, TLIC and FBLIC, can improve their statutory solvency by increasing the ratio of the total statutory adjusted capital to the statutory authorized control level risk-based capital in both TLIC and FBLIC.

The $2,645,718 increase in future policy benefits during the six months ended June 30, 2016 is primarily related to the production of new life insurance policies, initial sales of policies to older age bands (resulting in increased mortality reserve charges) and the aging of existing policies.

The $1,705,111 increase in deferred federal income taxes during the six months ended June 30, 2016 was due to $1,625,240 of increased deferred federal income taxes on the unrealized appreciation of fixed maturity and equity securities available-for-sale and $79,871 of operating deferred federal tax expense.

Our other liabilities as of June 30, 2016 and December 31, 2015 are summarized as follows:

	(Unaudited) June 30, 2016	December 31, 2015	Amount Change 2016 less 2015	Percentage Change 2016 to 2015
Suspense accounts payable	$ 2,401,769	$ 175,134	$ 2,226,635	1271.4%
Accrued expenses payable	367,909	405,726	(37,817)	-9.3%
Guaranty fund assessments	172,000	172,000	-	0.0%
Unclaimed funds	58,011	45,504	12,507	27.5%
Unearned investment income	49,963	53,945	(3,982)	-7.4%
Deferred revenue	33,583	34,949	(1,366)	-3.9%
Withholdings payable	16,269	31,015	(14,746)	-47.5%
Other payables	(5,292)	19,094	(24,386)	-127.7%
Total other liabilities	$ 3,094,212	$ 937,367	$ 2,156,845	230.1%

The $2,226,635 increase in suspense accounts payable is primarily due to increased deposits on policy applications that had not been issued as of the financial reporting date.

Liquidity and Capital Resources

Our operations have been financed primarily through the private placement of equity securities and intrastate public stock offerings. Through June 30, 2016, we have received $27,119,480 from the sale of our shares.

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

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

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

As of June 30, 2016, we had cash and cash equivalents totaling $10,806,505. As of June 30, 2016, cash and cash equivalents of $3,495,922 and $5,586,921, respectively, were held by FBLIC and TLIC 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 $2,266,305 in 2016 without prior approval. In addition, based on those limitations, there is the capacity for FBLIC to pay a dividend up to $915,147 in 2016 without prior approval. FBLIC paid dividends of $1,000,000 in 2015. FBLIC has paid no dividends in 2016. The 2015 dividend is 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 $8,356,419 and $5,957,248 as of June 30, 2016 and December 31, 2015, respectively. The increase in uninsured balances of $2,399,171 between June 30, 2016 and December 31, 2015 is primarily due to increased deposits on policy applications that had not been issued as of the financial reporting date. 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, 2016 and 2015 are summarized as follows:

	(Unaudited) Six Months Ended June 30, 2016	(Unaudited) Six Months Ended June 30, 2015	Amount Change 2016 less 2015	Percentage Change 2016 less 2015
Net cash provided by operating activities	$ 2,196,283	$ 2,828,086	$ (631,803)	-22.3%
Net cash used in investing activities	(7,377,163)	(20,455,084)	13,077,921	-63.9%
Net cash provided by financing activities	6,939,799	16,285,777	(9,345,978)	-57.4%
Increase (decrease) in cash	1,758,919	(1,341,221)	3,100,140	-231.1%
Cash and cash equivalents, beginning of period	9,047,586	10,158,386	(1,110,800)	-10.9%
Cash and cash equivalents, end of period	$ 10,806,505	$ 8,817,165	$ 1,989,340	22.6%

The $2,196,283 and $2,828,086 of cash provided by operating activities for the six months ended June 30, 2016 and 2015, respectively, are summarized as follows:

	(Unaudited) Six Months Ended June 30, 2016	2015	Amount Change 2016 less 2015	Percentage Change 2016 to 2015
Premiums collected	$ 6,248,309	$ 4,656,957	1,591,352	34.2%
Net investment income collected	6,051,536	4,619,391	1,432,145	31.0%
Death benefits paid	(1,859,694)	(1,655,339)	(204,355)	12.3%
Surrenders paid	(336,369)	(277,881)	(58,488)	21.0%
Commissions paid	(3,048,658)	(2,295,177)	(753,481)	32.8%
Other underwriting, insurance and acquisition expenses paid	(2,656,545)	(3,086,479)	429,934	-13.9%
(Receivable) payable for securities	(2,589,686)	80,167	(2,669,853)	-3330.4%
Taxes recovered (paid)	(261,696)	47,216	(308,912)	-654.3%
Advances to mortgage loan originator	(1,980,343)	(983,710)	(996,633)	101.3%
Deposited policy applications unissued	2,226,635	1,781,697	444,938	25.0%
Decrease (increase) in short-term investment	549,822	(511)	550,333	-107697.3%
Other	(147,028)	(58,245)	(88,783)	152.4%
Increase in cash provided by operating activities	$ 2,196,283	$ 2,828,086	$ (631,803)	-22.3%

Please see the statements of cash flows for the six months ended June 30, 2016 and 2015 for a summary of the components of net cash used in investing activities and provided by financing activities.

Our shareholders' equity as of June 30, 2016 and December 31, 2015 is summarized as follows:

	(Unaudited) June 30, 2016	December 31, 2015	Amount Change 2016 less 2015	Percentage Change 2016 to 2015
Common stock, par value $.01 per share (20,000,000 shares authorized, 8,050,173 issued as of June 30, 2016 and December 31, 2015 and 7,802,593 outstanding as of June 30, 2016 and December 31, 2015)	$ 80,502	$ 80,502	$ -	0.0%
Additional paid-in capital	28,684,598	28,684,598	-	0.0%
Treasury stock, at cost (247,580 shares as of June 30, 2016 and December 31, 2015)	(893,947)	(893,947)	-	0.0%
Accumulated other comprehensive income (loss)	3,845,155	(2,655,817)	6,500,972	-244.8%
Accumulated earnings	5,633,119	4,999,707	633,412	12.7%
Total shareholders' equity	$ 37,349,427	$ 30,215,043	$ 7,134,384	23.6%

The increase in shareholders' equity of $7,134,384 for the six months ended June 30, 2016 is due to $6,500,972 of other comprehensive income and net income of $633,412.

Equity per common share outstanding increased 23.8% from $3.87 per share as of December 31, 2015 to $4.79 per share as of June 30, 2016, based upon 7,802,593 common shares outstanding as of both June 30, 2016 and December 31, 2015.

The liquidity requirements of our life insurance companies are met primarily by funds provided from operations. Premium and annuity consideration deposits, investment income and investment maturities are the primary sources of funds, while investment purchases, policy benefits, and operating expenses are the primary uses of funds. There were no liquidity issues in 2016 or 2015. 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 (depreciation) on available-for-sale securities of $4,883,582 and ($3,369,843) as of June 30, 2016 and December 31, 2015, respectively, prior to the impact of income taxes and deferred acquisition cost adjustments. An increase of $8,382,376 in unrealized gains arising for the six months ended June 30, 2016 includes 2016 net realized investment gains of $128,951 originating from the sale and call activity for fixed maturity and equity securities available-for-sale resulting in a net increase in net unrealized appreciation for the six months ended June 30, 2016 of $8,253,425.

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

One of our significant risks relates to the fluctuations in interest rates. Regarding interest rates, the value of our available-for-sale fixed maturity securities investment portfolio will increase or decrease in an inverse relationship with fluctuations in interest rates, while net investment income earned on newly acquired available-for-sale fixed maturity securities increases or decreases in direct relationship with interest rate changes. From an income perspective, we are exposed to rising interest rates which could be a significant risk, as TLIC's and FBLIC's annuity business is impacted by changes in interest rates. Life insurance company policy liabilities bear fixed rates. From a liquidity perspective, our fixed rate policy liabilities are relatively insensitive to interest rate fluctuations.

We believe gradual increases in interest rates do not present a significant liquidity exposure for the life insurance policies and annuity contracts. We maintain conservative durations in our fixed maturity portfolio. As of June 30, 2016, cash and cash equivalents, short-term investments, the fair value of fixed maturity available-for-sale securities with maturities of less than one year and the fair value of lottery receivables with maturities of less than one year equaled 8.9% of total policy liabilities. If interest rates rise significantly in a short time frame, there can be no assurance that the life insurance industry, including the Company, would not experience increased levels of surrenders and reduced sales, and thereby be materially adversely affected.

In addition to the measures described above, TLIC and FBLIC must comply with the National Association of Insurance Commissioners promulgated Standard Valuation Law ("SVL") which specifies minimum reserve levels and prescribes methods for determining them, with the intent of enhancing solvency. Upon meeting certain tests, which TLIC and FBLIC met during 2015, 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, 2016 will be sufficient to fund our anticipated operating expenses.

Off-Balance Sheet Arrangements

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

SPECIAL NOTE CONCERNING FORWARD-LOOKING STATEMENTS

Certain statements contained herein are forward-looking statements. The forward-looking statements are made pursuant to the “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995, and include estimates and assumptions related to economic, competitive and legislative developments. Forward-looking statements may be identified by words such as “expects,” “intends,” “anticipates,” “plans,” “believes,” “estimates,” “will” or words of similar meaning; and include, but are not limited to, statements regarding the outlook of our business and financial performance. These forward-looking statements are subject to change and uncertainty, which are, in many instances, beyond our control and have been made based upon our expectations and beliefs concerning future developments and their potential effect upon us. There can be no assurance that future developments will be in accordance with our expectations, or that the effect of future developments on us will be as anticipated. These forward-looking statements are not a guarantee of future performance and involve risks and uncertainties. There are certain important factors that could cause actual results to differ, possibly materially, from expectations or estimates reflected in such forward-looking statements. These factors include among others:

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

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

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Changes to Internal Control over Financial Reporting

There were no changes in the Company's internal control over financial reporting during the three months ended June 30, 2016 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 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.

On June 18, 2015, plaintiffs filed an amended petition. Like the original Petition, the amended 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. It also 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 main difference between the original Petition and the amended Petition is that the amended Petition also seeks equitable relief based on two new theories: that the Decreasing Term to 95 policies should be reformed so that they will provide a level death benefit for a level premium payment until the policyholder reaches 95 years of age; and alternatively, Count VIII of the amended Petition asks the Court to (1) find that the dividend provisions in the Decreasing Term to 95 policies violate Missouri law, specifically, § 376.360 RSMo.; (2) order that the policies are *void* ab initio; and (3) order that FBLIC return all premiums collected under these policies. In addition, as part of the MMPA claim, plaintiffs are now alleging that FBLIC undertook a fraudulent scheme to sell the Decreasing Term to 95 policies as a level premium for level benefit even though FBLIC never intended to pay dividends for the life of the policies and that part of this alleged fraudulent scheme included having a dividend option which is not allowed under Missouri law.

FBLIC denies the allegations in the amended Petition and will continue to defend against them.

On February 1, 2016, the plaintiffs asked that the Court certify the case as a class action. With their motion, Plaintiffs filed an affidavit from an actuary stating the opinion that FBLIC has collected at least $2,548,939 in premiums on the Decreasing Term to 95 policies. This presumably is the amount that Plaintiffs will seek to be refunded to policyholders if the policies are declared void. FBLIC opposed the request for class certification. On July 21, 2016, the Court certified three classes to maintain the claims for breach of contract, anticipatory breach of contract, violation of the MMPA, reformation, and to void the Decreasing Term to 95 policies. On August 1, 2016, FBLIC filed a Petition for Leave to Appeal with the Missouri Court of Appeals, Southern District asking for permission to appeal the Court's class certification. The Petition for Leave to Appeal was denied.

FBLIC intends to defend vigorously against the class and individual allegations. 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.

On May 13, 2015, FBLIC filed a Counterclaim against Doyle Nimmo seeking indemnity and seeking damages for breach of fiduciary duty in the event FBLIC is liable under Plaintiffs' underlying claims. In addition, on April 29, 2015, TLIC filed a lawsuit against Doyle Nimmo and Michael Teel alleging that they were liable for violations of federal and state securities laws for failing to disclose information relating to the Decreasing Term to 95 policies. This lawsuit is currently pending in the District Court for the Western District of Missouri (hereinafter the "Federal Lawsuit"). No claims have been made against TLIC in the Federal Lawsuit. The Federal Lawsuit has been stayed pending resolution of the lawsuit against FBLIC in the Circuit Court of Greene County, Missouri.

On September 28, 2015, Doyle Nimmo filed a Third-Party Petition for Declaratory Judgment (and Other Relief) against FBLIC. In this Third-Party Petition, Doyle Nimmo, a former director for FBLIC, seeks a declaratory judgment that the corporate by-laws of FBLIC require FBLIC to indemnify him for attorney's fees, judgments, costs, fines, and amounts paid in defense of both the Counterclaim and the Federal Lawsuit and seeks a monetary judgment for the amounts expended by Doyle Nimmo in such defense. Prior to Doyle Nimmo's filing of the Third-Party Petition, FBLIC's Board of Directors executed a Unanimous Written Consent in Lieu of a Special Meeting in which it denied Doyle Nimmo's tender of defense and request for indemnification finding Mr. Nimmo did not meet the applicable standard of conduct for indemnification under Missouri law. FBLIC intends to vigorously defend the Third-Party Petition on these grounds. The Company is unable to determine the potential magnitude of the claims in the event Doyle Nimmo prevails on his Third-Party Petition.

As stated above, FBLIC filed a Counterclaim and TLIC filed the Federal Lawsuit against Doyle Nimmo. Doyle Nimmo submitted a claim and tendered the defense of these claims to Utica Mutual Insurance Company under a policy providing Insurance Agents and Brokers Errors and Omissions Liability coverage. On November 4, 2015, Utica Mutual Insurance Company filed a lawsuit against Doyle Nimmo and other interested parties, including FBLIC and TLIC. The lawsuit is pending in the District Court for the Western District of Missouri and asks the Court to determine whether the Errors and Omissions policy provides coverage for the lawsuits filed against Doyle Nimmo. Utica Mutual Insurance Company does not seek a monetary judgment against FBLIC or TLIC.

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 11, 2016

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

August 11, 2016

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

EXHIBIT NO. 31.1

CERTIFICATION

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

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

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

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

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

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

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

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

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

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

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

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

Date: August 11, 2016

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

EXHIBIT NO. 31.2

CERTIFICATION

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

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

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

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

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

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

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

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

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

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

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

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

Date: August 11, 2016

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, 2016 (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 11, 2016

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, 2016 (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 11, 2016

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