

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

**FORM 10-K**

(Mark One)

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 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 small business issuer as specified in its charter)

Oklahoma	34-1991436	
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer number)	
7633 East 63rd Place, Suite 230	Tulsa, Oklahoma	74133-1246
(Address of principal executive offices)		

(918) 249-2438

(Issuer's telephone number)

Securities registered pursuant to Section 12(b) of the Exchange Act:

Title of Each Class

None

Securities registered pursuant to section 12(g) of the Exchange Act:

Title of Each Class

Common Stock, \$.01 Par Value

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such 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 Website, 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a 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.

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 aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant’s most recently completed second fiscal quarter.

Because of the absence of an established trading market for the common stock, the registrant is unable to calculate the aggregate market value of the voting stock held by non-affiliates as of the last business day of the registrant’s most recently completed second fiscal quarter.

Indicate the number of shares outstanding of each of the registrant’s classes of common stock, as of the latest practicable date. Common stock \$.01 par value as of March 6, 2017: 7,802,593 shares

#### **DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant’s definitive Proxy Statement to be used in connection with its 2017 Annual Meeting of Shareholders, which is expected to be filed with the Securities and Exchange Commission within 120 days after the close of the fiscal year covered by this Form 10-K, are incorporated by reference into Part III of this report.

# FIRST TRINITY FINANCIAL CORPORATION

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## **PART I**

### **Item 1. Business**

#### **Business Development**

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 products and annuity contracts 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 policies and annuity contracts. The term products are both renewable and convertible and issued for 10, 15, 20 and 30 years. They can be issued with premiums fully guaranteed for the entire term period or with a limited premium guarantee. The final expense is issued as either a simplified issue or as a graded benefit, determined by underwriting. The TLIC and FBLIC products are sold through independent agents.

TLIC is licensed in the states of Illinois, Kansas, Kentucky, Nebraska, North Dakota, Ohio, Oklahoma and Texas. FBLIC is licensed in the states of Alabama, Arizona, Arkansas, Colorado, Georgia, Illinois, Indiana, Kansas, Kentucky, Louisiana, Michigan, Mississippi, Missouri, Nebraska, New Mexico, North Carolina, North Dakota, Ohio, Oklahoma, Pennsylvania, South Dakota, Tennessee, Texas, Utah, Virginia and West Virginia.

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

#### **Company Capitalization**

Our operations have been financed primarily through the private placement of equity securities and intrastate public stock offerings. Through December 31, 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.

Our operations have been profitable and have generated \$12,860,584 of net income from operations since we were incorporated in 2004. The Company also issued 702,685 shares of its common stock in connection with two stock dividends paid to shareholders in 2011 and 2012 that resulted in accumulated earnings being charged \$5,270,138 with an offsetting credit of \$5,270,138 to common stock and additional paid-in capital.

The historic impact of these two stock dividend charges of \$5,270,138 decreased during 2011 and 2012 the balance of accumulated earnings and resulted in a reported balance as of December 31, 2016 of \$7,590,446, as shown in the accumulated earnings caption in the December 31, 2016 consolidated statement of financial position.

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

## Acquisitions

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

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

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

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

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

## Financial Information about Segments

The Financial Accounting Standards Board ("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 11 to the Consolidated Financial Statements for the years ended December 31, 2016 and 2015 and as of December 31, 2016 and 2015 for additional information regarding segment information.

## Life Insurance and Annuity Operations

Our Life Insurance and Annuity Operations consists of issuing ordinary whole life insurance, modified premium whole life with an annuity rider, term, final expense and accidental death and dismemberment policies and annuity contracts. The policies 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.

TLIC renewed its administrative services agreement with Investors Heritage Life Insurance Company ("IHLIC") on August 28, 2012. Under the terms of this agreement, the services provided by IHLIC include underwriting, actuarial, policy issue, accounting, claims processing and other services incidental to the operations of TLIC. The agreement is effective for a period of five (5) years from September 1, 2012 through August 31, 2017 and includes a provision that the agreement may be terminated at any time by either party with a 180 day prior notice.

FBLIC entered into an administrative services agreement with IHLIC on November 28, 2012. Under the terms of this agreement, the services provided by IHLIC include underwriting, actuarial, policy issue, accounting, claims processing and other services incidental to the operations of FBLIC. The agreement is effective for a period of five (5) years from November 1, 2012 through October 31, 2017 and includes a provision that the agreement may be terminated at any time by either party with a 180 day prior notice.

FTFC entered into an administrative services agreement with IHLIC on January 7, 2011. Under the terms of this agreement, IHLIC provided services incidental to the operation of FTFC as a financial services holding company. The agreement would have been effective for a period of five (5) years from January 1, 2011 through December 31, 2015 and included a provision that the agreement could be terminated at any time by either party with a 180 day prior notice. This agreement was cancelled during 2015 and FTFC began administering its own operations on October 1, 2015.

TLIC continues to seek to serve middle income households in the states of Illinois, Kansas, Kentucky, Nebraska, North Dakota, Ohio, Oklahoma and Texas. TLIC markets its products through independent agents. With the acquisition of FBLIC in late 2011, we expanded into Arizona, Colorado, Missouri and New Mexico. FBLIC also had initial licenses in Kansas, Nebraska and Oklahoma where TLIC was also licensed. In late 2012, FBLIC was licensed in Arkansas, Indiana, Kentucky, North Dakota, South Dakota, Texas and West Virginia. In 2013, FBLIC was licensed in Illinois and Pennsylvania. In 2014, FBLIC was licensed in Georgia, Louisiana, Michigan, Mississippi, North Carolina, Ohio, Tennessee and Virginia. In 2015, FBLIC was licensed in Alabama and Utah.

The following tables sets forth our direct collected life insurance premiums and annuity considerations by the policyholder's state of residence at the time of premium collection and annuity consideration, for the most significant states in which we are licensed, for the years ended December 31, 2016 and 2015, in accordance with statutory accounting practices prescribed by the states of domicile of TLIC and FBLIC.

State	Year Ended December 31, 2016			
	Life		Annuity	
	Premiums	Percentage	Considerations	Percentage
Arizona	\$ 22,587	0.18%	\$ 301,465	0.56%
Arkansas	161,096	1.26%	259,162	0.49%
Colorado	267,553	2.09%	376,154	0.70%
Georgia	288,856	2.26%	794,230	1.49%
Illinois	1,300,813	10.16%	1,280,438	2.40%
Indiana	338,717	2.65%	381,349	0.71%
Kansas	2,253,534	17.59%	1,933,441	3.62%
Kentucky	439,721	3.43%	244,864	0.46%
Louisiana	286,694	2.24%	100,000	0.19%
Michigan	153,541	1.20%	1,244,644	2.33%
Missouri	715,992	5.59%	580,712	1.09%
Nebraska	216,880	1.69%	827,130	1.55%
North Carolina	498,876	3.90%	366,841	0.69%
North Dakota	119,710	0.94%	17,972,674	33.64%
Ohio	1,514,308	11.83%	382,893	0.72%
Oklahoma	1,613,573	12.60%	1,641,576	3.07%
Pennsylvania	282,608	2.21%	2,510,524	4.70%
Tennessee	141,227	1.10%	1,103,240	2.07%
Texas	1,756,722	13.72%	19,525,059	36.55%
Virginia	94,680	0.74%	466,108	0.87%
All other states	335,044	2.62%	1,121,001	2.10%
Total direct collected premiums and considerations	\$ 12,802,732	100.00%	\$ 53,413,505	100.00%

Year Ended December 31, 2015

State	Life		Annuity	
	Premiums	Percentage	Considerations	Percentage
Arizona	\$ 15,401	0.15%	\$ 376,712	0.64%
Arkansas	81,063	0.80%	869,953	1.48%
Colorado	131,861	1.31%	224,384	0.38%
Georgia	114,781	1.14%	1,091,781	1.85%
Illinois	1,124,646	11.15%	1,525,359	2.59%
Indiana	182,467	1.81%	81,574	0.14%
Kansas	2,248,638	22.29%	3,407,140	5.79%
Kentucky	341,346	3.38%	351,958	0.60%
Louisiana	136,478	1.35%	525,000	0.89%
Michigan	41,124	0.41%	2,064,385	3.51%
Missouri	655,319	6.50%	879,334	1.49%
Nebraska	219,382	2.18%	1,654,405	2.81%
North Carolina	138,893	1.38%	1,006,279	1.71%
North Dakota	124,044	1.23%	6,820,804	11.59%
Ohio	1,181,502	11.71%	1,916,371	3.26%
Oklahoma	1,576,249	15.63%	2,136,831	3.63%
Pennsylvania	102,603	1.02%	3,939,130	6.69%
Tennessee	53,683	0.53%	1,663,465	2.83%
Texas	1,430,665	14.19%	27,346,008	46.45%
Virginia	26,018	0.26%	309,342	0.53%
All other states	159,534	1.58%	673,051	1.14%
Total direct collected premiums and considerations	<u>\$ 10,085,697</u>	<u>100.00%</u>	<u>\$ 58,863,266</u>	<u>100.00%</u>

### Reinsurance

TLIC cedes reinsurance under various agreements allowing management to control exposure to potential losses arising from large risks and providing additional capacity for growth and risk diversification. TLIC reinsures all amounts of risk on any one life in excess of \$75,000 for individual life insurance with IHLIC, Optimum Re Insurance Company (“Optimum Re”) and Wilton Reassurance Company (“Wilton Re”).

TLIC is a party to an Automatic Retrocession Pool Agreement (the “Reinsurance Pool”) with Optimum Re, Catholic Order of Foresters, American Home Life Insurance Company and Woodmen of the World. The agreement provides for automatic retrocession of coverage in excess of Optimum Re’s retention on business ceded to Optimum Re by the other parties to the Reinsurance Pool. TLIC’s maximum exposure on any one insured under the Reinsurance Pool is \$75,000. As of January 1, 2008, the Reinsurance Pool stopped accepting new cessions.

Effective September 29, 2005, FLAC and Wilton Re executed a binding letter of intent whereby both parties agreed that FLAC would cede the simplified issue version of its Golden Eagle Whole Life (Final Expense) product to Wilton Re on a 50/50 quota share original term coinsurance basis. The letter of intent was executed on a retroactive basis to cover all applicable business issued by FLAC subsequent to January 1, 2005. Wilton Re agreed to provide various commission and expense allowances to FLAC in exchange for FLAC ceding 50% of the applicable premiums to Wilton Re as they were collected. As of June 24, 2006, Wilton Re terminated the reinsurance agreement for new business issued after the termination date.

FBLIC also participates in reinsurance in order to provide risk diversification, additional capacity for future growth and limit the maximum net loss potential arising from large amounts of risk. FBLIC reinsures initial amounts of risk on any one life in excess of \$75,000 for individual life insurance with Optimum Re. TLIC and FBLIC also reinsure its accidental death benefit portion of their life policies under a bulk agreement with Optimum Re.

To the extent that the reinsurance companies are unable to meet their obligations under the reinsurance agreements, TLIC and FBLIC remain primarily liable for the entire amount at risk.

## **Competition**

The U.S. life insurance industry is a mature industry that, in recent years, has experienced little to no growth. Competition is intense because the life insurance industry is consolidating, with larger, more efficient and more effective organizations emerging from consolidation. In addition, legislation became effective in the United States that permits commercial banks, insurance companies and investment banks to combine. These factors have increased competitive pressures in general.

Many domestic life insurance companies have significantly greater financial, marketing and other resources, longer business histories and more diversified lines of insurance products than we do. We also face competition from companies marketing in person as well as with direct mail and internet sales campaigns. Although we may be at a competitive disadvantage to these entities, we believe that our premium rates, policy features, marketing approaches and policyholder services are generally competitive with those of other life insurance companies selling similar types of products and provide us with niche marketing opportunities not actively pursued by other life insurance companies.

## **Governmental Regulation**

TLIC and FBLIC, respectively, are subject to regulation and supervision by the OID and the Missouri Department of Insurance (“MDOI”). The insurance laws of Oklahoma and Missouri give the OID and MDOI broad regulatory authority, including powers to: (i) grant and revoke licenses to transact business; (ii) regulate and supervise trade practices and market conduct; (iii) establish guaranty associations; (iv) license agents; (v) approve policy forms; (vi) approve premium rates for some lines of business; (vii) establish reserve requirements; (viii) prescribe the form and content of required financial statements and reports; (ix) determine the reasonableness and adequacy of statutory capital and surplus and (x) regulate the type and amount of permitted investments.

TLIC and FBLIC can be required, under the solvency or guaranty laws of most states in which they do business, to pay assessments (up to prescribed limits) to fund policyholder losses or liabilities of other insurance companies that become insolvent. These assessments may be deferred or foregone under most guaranty laws if they would threaten an insurer's financial strength and, in certain instances, may be offset against future premium taxes.

TLIC is subject to Oklahoma laws and FBLIC is subject to Missouri laws that limit the amount of dividends insurance companies can pay to stockholders without approval of the respective Departments of Insurance. The maximum dividend, which may be paid in any twelve-month period without notification or approval, is limited to the greater of 10% of statutory surplus as of December 31 of the preceding year or the net gain from operations of the preceding calendar year. Cash dividends may only be paid out of surplus derived from realized net profits. Based on these limitations, there is capacity for TLIC to pay a dividend up to \$1,852,287 in 2017 without prior approval. In addition, based on those limitations, there is the capacity for FBLIC to pay a dividend up to \$914,179 in 2017 without prior approval. FBLIC paid dividends of \$1,000,000 to TLIC in 2016 and 2015. Dividends paid by FBLIC are eliminated in consolidation. TLIC has paid no dividends to FTFC.

There are certain factors particular to the life insurance business which may have an adverse effect on the statutory operating results of TLIC and FBLIC. One such factor is that the costs associated with issuing a new policy in force is usually greater than the first year's policy premium. Accordingly, in the early years of a new life insurance company, these initial costs and the required provisions for reserves often have an adverse effect on statutory operating results.

## **Premium Finance Operations**

FTCC was incorporated in 2006 and provided financing for casualty insurance premiums for individuals and companies and was licensed to conduct premium financing business in the states of Alabama, Arkansas, Louisiana, Mississippi and Oklahoma. FTCC has made no premium financing loans since June 30, 2012.

## **Employees**

As of March 6, 2017, the Company had ten full-time employees and two part-time employees.



## Item 2. Properties

The Company leases 6,769 square feet of office space pursuant to an original five-year lease that began October 1, 2010 and was amended on October 1, 2015 for another five-year term. Under the terms of the original home office lease, the monthly rent was \$7,897 from October 1, 2010 through September 30, 2015. Under the terms of the amended home office lease, the monthly rent is \$8,461 from October 1, 2015 through September 30, 2016 and \$8,630 from October 1, 2016 through September 30, 2017 with increases of two percent each twelve month period from October 1, 2017 through September 30, 2020. The Company incurred rent expense (including charges for the lessor's building operating expenses above those specified in the lease agreement less monthly amortization of the leasehold improvement allowance received from the lessor) of \$93,415 and \$67,961 for the years ended December 31, 2016 and 2015, respectively, under this lease.

On January 1, 2011, the Company received a \$120,000 leasehold improvement allowance from the lessor related to the original lease that was fully amortized by September 30, 2015 and reduced rent expense by \$18,947 for the nine months ended September 30, 2015. In accordance with the amended lease on October 1, 2015, the Company was provided an allowance of \$54,152 for leasehold improvements. As of December 31, 2016, the Company received \$39,509 from the lessor and in 2017 will receive the remaining \$14,643 upon the completion and certification of additional leasehold improvements. The leasehold improvement allowance is amortized over the remaining amended non-cancellable lease term and reduced rent expense by \$8,627 for the year ended December 31, 2016 and \$1,250 for the three months ended December 31, 2015. The future minimum lease payments to be paid under the amended non-cancellable lease agreement are \$104,090, \$106,189, \$108,304 and \$82,446 for the years 2017 through 2020, respectively.

TLIC owns approximately six and one-half acres of land located in Topeka, Kansas. A 20,000 square foot office building has been constructed on approximately one-fourth of this land.

TLIC executed a two year lease agreement effective January 1, 2015, for 7,500 square feet of its building in Topeka, Kansas. Effective January 1, 2017, this lease was renewed for two years. The terms of the lease leave TLIC responsible for paying real estate taxes, building insurance and building and ground maintenance. The monthly lease payments are \$8,696 for 2015, 2016, 2017 and 2018.

TLIC renewed a five year lease agreement effective June 1, 2011, for 10,000 square feet in the Topeka, Kansas office building. Beginning June 1, 2014, the lessee can terminate the lease with a 180 day written notice. The terms of the lease leave TLIC responsible for paying real estate taxes, building insurance and building and ground maintenance with partial reimbursement from the lessee. The lease agreement calls for minimum monthly base lease payments of \$17,750.

This 10,000 square feet lease was renewed for five years to be effective from June 1, 2016 through May 31, 2021, with an option for an additional five years from June 1, 2021 through May 31, 2026. Beginning June 1, 2021, the lessee can terminate the lease with a 120 day written notice. The terms of the lease leave TLIC responsible for paying real estate taxes, building insurance and building and ground maintenance with partial reimbursement from the lessee. The lease agreement calls for a monthly lease payment of \$16,598 from June 1, 2016 through June 30, 2016 quantified as follows: \$12,275 for base rent and \$4,323 for reimbursement of operating cost. Starting July 1, 2016, the lease agreement includes an \$88,833 tenant improvement allowance that is amortized over 59 months with interest at 5.00%. The monthly lease payment is \$18,299 from July 1, 2016 through May 31, 2021 quantified as follows: \$12,275 for base rent, \$4,323 for reimbursement of operating costs and \$1,701 for tenant improvements. If the lease continues after the first five years, the lease agreement calls for monthly payments of \$17,850 quantified as follows: \$13,527 for base rent and \$4,323 for reimbursement of operating costs.

A five year lease agreement effective September 1, 2010 automatically renewed on 2,500 square feet of the Topeka, Kansas office building with a 90 day notice by the lessee to terminate the lease. This lease was renewed on September 1, 2015 to run through August 31, 2017 with an option for an additional three years through August 31, 2020. Beginning September 1, 2017, the lessee can terminate the lease with a 120 day written notice. The terms of the lease leave TLIC responsible for paying real estate taxes, building insurance and building and ground maintenance with partial reimbursement from the lessee. The lease agreement called for monthly lease payments of \$3,100 from January 1, 2015 through August 31, 2015. The lease payments are \$4,236 per month from September 1, 2015 through August 31, 2016 and \$4,249 from September 1, 2016 through August 31, 2017.

The future minimum lease payments to be received under the non-cancellable lease agreement are \$357,932, \$323,938, \$219,592, \$219,592 and \$91,497 for the years 2017 through 2021, respectively.

On March 11, 2015, TLIC 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. TLIC recorded a gross realized investment gain 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, TLIC settled its two notes payable with an aggregate payment to Grand Bank (the creditor) of \$4,076,473.

FBLIC owns approximately one-half acre of undeveloped land located in Jefferson City, Missouri with a carrying value of \$131,000.

During 2016 the Company foreclosed on seven residential mortgage loans of real estate totaling \$394,427 and transferred those properties to investment real estate that are now held for sale. The Company reduced the carrying value of this residential real estate obtained through foreclosure to the lower of acquisition cost or net realizable value. On November 30, 2016, the Company sold one investment real estate property with an aggregate carrying value of \$63,931. The Company recorded a gross realized investment loss on sale of \$20,662 based on an aggregate sales price of \$43,269.

### **Item 3. Legal Proceedings**

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

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

Mr. Pettigrew has thirty days to appeal this decision by the jury that will require him to post a bond in the amount of the total judgment of \$4,300,000. Should Mr. Pettigrew fail to post such a bond, the Company and Mr. Zahn will be permitted to execute on Mr. Pettigrew's assets.

In addition to the damages awarded by the jury, the Company and Mr. Zahn have initiated steps to aggressively communicate the correction of the untrue statements to outside parties.

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. All parties to the lawsuit pending in the Circuit Court of Greene County, Missouri agreed to waive their right to a trial by jury and have all claims submitted to the Judge for decision. The trial in that case is scheduled to begin on November 27, 2017.

#### **Item 4. Mine Safety Disclosures**

None

## PART II

### Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Small Business Issuer Purchases of Equity Securities

#### (a) Market Information

Trading of the Company's common stock is limited and an established public market does not exist.

#### (i) Holders

As of March 6, 2017, there were approximately 4,500 shareholders of the Company's outstanding common stock.

#### (ii) Dividends

The Company has not paid any cash dividends since inception (April 19, 2004). The Board of Directors of the Company has not adopted a dividend payment policy; however, dividends must necessarily depend upon the Company's earnings and financial condition, applicable legal restrictions, and other factors relevant at the time the Board of Directors considers a dividend policy. Cash available for dividends to shareholders of the Company must initially come from income and capital gains earned on its investment portfolio and dividends paid by the Company's subsidiaries.

Provisions of the Oklahoma Insurance Code relating to insurance holding companies subject transactions between the Company and TLIC and the Company and FBLIC, including dividend payments, to certain standards generally intended to prevent such transactions from adversely affecting the adequacy of life insurance subsidiaries' capital and surplus available to support policyholder obligations. In addition, under the Oklahoma General Corporation Act, the Company may not pay dividends if, after giving effect to a dividend, it would not be able to pay its debts as they become due in the usual course of business or if its total liabilities would exceed its total assets.

On January 10, 2011, the Company's Board of Directors approved a 5% share dividend by which shareholders received a share of common stock for each 20 shares of common stock of the Company they hold. The dividend was payable to the holders of shares of the Corporation as of March 10, 2011. Fractional shares were rounded to the nearest whole number of shares. The Company issued 323,777 shares in connection with the stock dividend that resulted in accumulated deficit being charged \$2,428,328 with an offsetting credit of \$2,428,328 to common stock and additional paid-in capital.

On January 11, 2012, the Company's Board of Directors approved another 5% share dividend by which shareholders received a share of common stock for each 20 shares of common stock of the Company they hold. The dividend was payable to the holders of shares of the Corporation as of March 10, 2012. Fractional shares were rounded to the nearest whole number of shares. The Company issued 378,908 shares in connection with the stock dividend that resulted in accumulated deficit being charged \$2,841,810 with an offsetting credit of \$2,841,810 to common stock and additional paid-in capital.

#### (iii) Securities Authorized for Issuance Under Equity Compensation Plans

There are no plans under which equity securities are authorized for issuance.

#### (b) None

#### (c) Purchases of Equity Securities by Issuer

The Company repurchased 185,313 shares of its common stock at a cost of \$648,595 during 2012 from former members of the Board of Directors; repurchased 12,896 shares of its common stock at a cost of \$45,136 from a former member of the Board of Directors and a charitable organization for which that former Director had donated 10,250 shares of the Company's common stock during 2013, repurchased 39,946 shares of its common stock at a cost of \$161,573 from a former agent, the former spouse of the Company's Chairman, Chief Executive Officer and the former Chairman of the Board of Directors during 2014 and repurchased 9,425 shares of its common stock at a cost of \$38,643 from the former Chairman of the Board of Directors during 2015.

## **Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

### **Overview**

First Trinity Financial Corporation (“we” “us”, “our”, “FTFC” or the “Company”) conducts operations as an insurance holding company emphasizing ordinary life insurance products and annuity contracts in niche markets. We are no longer operating a premium finance company, financing casualty insurance premiums. As an insurance provider, we collect premiums and annuity considerations in the current period to pay future benefits to our policy and contract holders. Our core TLIC operations include issuing modified premium whole life insurance with a flexible premium deferred annuity, ordinary whole life, final expense and term products and annuity contracts to predominately middle income households in the states of Illinois, Kansas, Kentucky, Nebraska, North Dakota, Ohio, Oklahoma and Texas through independent agents.

With the acquisition of FBLIC in late 2011, we expanded into Arizona, Colorado, Missouri and New Mexico. FBLIC also had initial licenses in Kansas, Nebraska and Oklahoma where TLIC was also licensed. In late 2012, FBLIC was licensed in Arkansas, Indiana, Kentucky, North Dakota, South Dakota, Texas and West Virginia. In 2013, FBLIC was licensed in Illinois and Pennsylvania. In 2014, FBLIC was licensed in Georgia, Louisiana, Michigan, Mississippi, North Carolina, Ohio, Tennessee and Virginia. In 2015, FBLIC was licensed in Alabama and Utah.

We also realize revenues from our investment portfolio, which is a key component of our operations. The revenues and funds we collect as premiums and annuity considerations 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 and annuity considerations paid to the insurer between the time of receipt and the time benefits are paid out under our policies and contracts. 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.

Prior to June 30, 2012, we provided financing for casualty insurance premiums for individuals and companies through independent property and casualty insurance agents through our wholly owned subsidiary FTCC. FTCC was licensed to conduct premium financing business in the states of Alabama, Arkansas, Louisiana, Mississippi and Oklahoma. FTCC has made no premium financing loans since June 30, 2012.

### **Acquisitions**

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

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

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

### **Critical Accounting Policies and Estimates**

The discussion and analysis of our financial condition, results of operations and liquidity and capital resources is based on our consolidated financial statements that have been prepared in accordance with accounting principles generally accepted in the United States (“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, value of insurance business acquired and policy liabilities. 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. We believe the following accounting policies, judgments and estimates are the most critical to the preparation of our consolidated financial statements.

### ***Investments in Fixed Maturities and Equity Securities***

We hold fixed maturities and equity interests in a variety of companies. We continuously evaluate all of our investments based on current economic conditions, credit loss experience and other developments. We evaluate the difference between the cost/amortized cost and estimated fair value of our investments to determine whether any decline in fair value is other-than-temporary in nature. This determination involves a degree of uncertainty. If a decline in the fair value of a security is determined to be temporary, the decline is recognized in other comprehensive income (loss) within shareholders' equity. If a decline in a security's fair value is considered to be other-than-temporary, we then determine the proper treatment for the other-than-temporary impairment.

For fixed maturities, the amount of any other-than-temporary impairment related to a credit loss is recognized in earnings and reflected as a reduction in the cost basis of the security. The amount of any other-than-temporary impairment related to other factors is recognized in other comprehensive income (loss) with no change to the cost basis of the security. For equity securities, the amount of any other-than-temporary impairment is recognized in earnings and reflected as a reduction in the cost basis of the security.

The assessment of whether a decline in fair value is considered temporary or other-than-temporary includes management's judgment as to the financial position and future prospects of the entity issuing the security. It is not possible to accurately predict when it may be determined that a specific security will become impaired. Future adverse changes in market conditions, poor operating results of underlying investments and defaults on interest and principal payments could result in losses or an inability to recover the current carrying value of the investments, thereby possibly requiring an impairment charge in the future.

In addition, if a change occurs in our intent to sell temporarily impaired securities prior to maturity or recovery in value, or if it becomes more likely than not that we will be required to sell such securities prior to recovery in value or maturity, a future impairment charge could result. If an other-than-temporary impairment related to a credit loss occurs with respect to a bond, we amortize the reduced book value back to the security's expected recovery value over the remaining term of the bond. We continue to review the security for further impairment that would prompt another write-down in the book value.

### ***Mortgage Loans on Real Estate***

We carry mortgage loans on real estate at unpaid balances, net of unamortized premium or discounts. Interest income and the amortization of premiums or discounts are included in net investment income. Mortgage loan fees, certain direct loan origination costs and purchase premiums and discounts on loans are recognized as an adjustment of yield by the interest method based on the contractual terms of the loan. In certain circumstances, prepayments may be anticipated. We have established a valuation allowance for mortgage loans on real estate that are not supported by funds held in escrow.

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

While we utilize our best judgment and information available, the ultimate adequacy of this allowance is dependent upon a variety of factors beyond our control, including the performance of the residential and commercial mortgage loan portfolio, the economy and changes in interest rates. Our allowance for possible mortgage 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.

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

We determine 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 on real estate 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.

### ***Deferred Policy Acquisition Costs***

Commissions and other acquisition costs which vary with and are primarily related to the successful production of new and renewal insurance contracts are deferred and amortized in a systematic manner based on the related contract revenues or gross profits as appropriate. The recovery of deferred acquisition costs is dependent on the future profitability of the underlying business for which acquisition costs were incurred. Each reporting period, we evaluate the recoverability of the unamortized balance of deferred acquisition costs. We consider estimated future gross profits or future premiums; expected mortality or morbidity; interest earned and credited rates; persistency and expenses in determining whether the balance is recoverable.

If we determine a portion of the unamortized balance is not recoverable, it is immediately charged to amortization expense. The assumptions we use to amortize and evaluate the recoverability of the deferred acquisition costs involve significant judgment. A revision to these assumptions may impact future financial results. Deferred acquisition costs related to the successful production of new and renewal insurance business for traditional life insurance contracts are deferred to the extent deemed recoverable and amortized over the premium paying period of the related policies using assumptions consistent with those used in computing future policy benefit liabilities.

Deferred acquisition costs related to the successful production of new and renewal insurance and annuity products 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 deferred to the extent deemed recoverable and amortized in relation to the present value of actual and expected gross profits on the policies. To the extent that realized gains and losses on securities result in adjustments to deferred acquisition costs related to insurance and annuity products, such adjustments are reflected as a component of the amortization of deferred acquisition costs.

Deferred acquisition costs related to limited-payment long-duration insurance and annuity contracts are also adjusted, net of tax, for the change in amortization that would have been recorded if the unrealized gains (losses) from securities had actually been realized. This adjustment is included in the change in net unrealized appreciation (depreciation) on available-for-sale securities, a component of "Accumulated Other Comprehensive Income (Loss)" in the shareholders' equity section of the statement of financial position.

### ***Value of Insurance Business Acquired***

As a result of our purchases of FLAC and FBLIC, an asset was recorded in the application of purchase accounting to recognize the value of acquired insurance in force. The Company's value of acquired insurance in force is an intangible asset with a definite life and is amortized under FASB guidance.

The value of acquired insurance in force is amortized primarily over the emerging profit of the related policies using the same assumptions that were used in computing liabilities for future policy benefits. The recovery of the value of insurance business acquired is dependent on the future profitability of the underlying business that was initially recorded in the purchases of FLAC and FBLIC. Each reporting period, we evaluate the recoverability of the unamortized balance of the value of insurance business acquired.

For the amortization of the value of acquired insurance in force, the Company reviews its estimates of gross profits each reporting period. The most significant assumptions involved in the estimation of gross profits include interest rate spreads; future financial market performance; business surrender and lapse rates; mortality and morbidity; expenses and the impact of realized investment gains and losses. In the event actual experience differs significantly from assumptions or assumptions are significantly revised, the Company is required to record a charge or credit to amortization expense for the period in which an adjustment is made.

As of December 31, 2016 and 2015, there was \$2,831,043 and \$2,451,678, respectively, of accumulated amortization of the value of insurance business acquired due to the purchases of FLAC and FBLIC. The Company expects to amortize the value of insurance business acquired by the following amounts over the next five years: \$339,942 in 2017, \$331,886 in 2018, \$308,179 in 2019, \$283,088 in 2020 and \$262,097 in 2021.

### ***Future Policy Benefits***

Our liability for future policy benefits is primarily comprised of the present value of estimated future payments to or on behalf of policyholders, where the timing and amount of payment depends on policyholder mortality or morbidity, less the present value of future net premiums. For life insurance and annuity products, expected mortality and morbidity is generally based on the Company's historical experience or standard industry tables including a provision for the risk of adverse deviation.

Interest rate assumptions are based on factors such as market conditions and expected investment returns. Although mortality and morbidity and interest rate assumptions are "locked-in" upon the issuance of new insurance with fixed and guaranteed terms, significant changes in experience or assumptions may require the Company to provide for expected future losses on a product by establishing premium deficiency reserves.

Estimating liabilities for our long-duration insurance contracts requires management to make various assumptions, including policyholder persistency; mortality rates; investment yields; discretionary benefit increases; new business pricing and operating expense levels. We evaluate historical experience for these factors when assessing the need for changing current assumptions.

Since many of these factors are interdependent and subject to short-term volatility during the long-duration contract period, however, substantial judgment is required. Actual experience may emerge differently from that originally estimated. Any such difference would be recognized in the current year's consolidated statement of operations.

### ***Recent Accounting Pronouncements***

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

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

The revised guidance only allows disposals of components of an entity that represent a strategic shift (e.g., disposal of a major geographical area, a major line of business, a major equity method investment or other major parts of an entity) and that have a major effect on a reporting entity's operations and financial results to be reported as discontinued operations. The revised guidance also requires expanded disclosure in the financial statements for discontinued operations as well as for disposals of significant components of an entity that do not qualify for discontinued operations presentation. The updated guidance was effective for the quarter ending March 31, 2015. The adoption of this guidance did not have a material effect on the Company's results of operations, financial position or liquidity.

#### ***Revenue from Contracts with Customers***

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

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



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. The adoption of this guidance will not have a material effect on the Company's results of operations, financial position or liquidity since there are no uncertainties about the Company's ability to continue as a going concern.

*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.

#### *Receivables – 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 regarding leases that generally requires the lessee and lessor to recognize lease assets and lease liabilities on the statement of financial position. A lessee should recognize on the statement of financial position a liability to make lease payments and an asset representing its right-to-use the underlying assets for the lease term. Optional payments to extend the lease or purchase the underlying leased asset should be included in the measurement of lease assets and lease liabilities only if the lessee is reasonably certain to exercise the option(s). If the lease has a term of 12 months or less, a lessee can make an election to recognize lease expenses for such leases on a straight-line basis over the lease term. There is a differentiation between finance leases and operating leases for the lessee in the statements of operations and cash flows. Finance leases recognize interest on the lease liability separately from the right-to-use the asset whereas an operating lease recognizes a single lease cost allocated over the lease term on a generally straight-line basis. All cash payments are within operating activities in the statement of cash flows except finance leases classify repayments of the principal portion of the lease liability within financing activities.

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

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

#### *Investments — Equity Method and Joint Ventures: 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.

#### *Derivatives and Hedging: 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 is contingently exercisable, the event that triggers the ability to exercise the option is considered to be clearly and closely related to the debt instrument (i.e., the economic characteristics and risks of the option are related to interest rates or credit risks) and the entity does not have to assess 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.

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

In June 2016, the FASB issued updated guidance for the accounting for credit losses for financial instruments. The updated guidance applies a new credit loss model (current expected credit losses or CECL) for determining credit-related impairments for financial instruments measured at amortized cost (e.g. 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. Based on the financial instruments currently held by the Company, there would not be a material effect on the Company's results of operations, financial position or liquidity if the new guidance were able to be adopted in the current accounting period. The impact on the Company's results of operations, financial position or liquidity at the date of adoption of the updated guidance will be determined by the financial instruments held by the Company and the economic conditions at that time.

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

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

### *Consolidation – Interests Held through Related Parties that Are Under Common Control*

In October 2016, the FASB issued further guidance that makes targeted amendments to consolidation accounting. This update changes how a reporting entity that is the primary beneficiary of a variable interest entity treats indirect interests in the entity held through related parties that are under common control with the reporting entity. The updated guidance is effective for annual and interim periods beginning after December 15, 2016, and is to be applied retrospectively. 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.

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

In November 2016, the FASB issued specific guidance on the cash flow classification and presentation of changes in restricted cash or restricted cash equivalents when there are transfers between cash, cash equivalents and restricted cash or restricted cash equivalents and when there are direct cash receipts into restricted cash or restricted cash equivalents or direct cash payments made from restricted cash or restricted cash equivalents. The updated guidance is effective for annual and interim periods beginning after December 15, 2017, and is to be applied retrospectively. Early adoption is permitted. The adoption of this guidance is not expected to have a material effect on the Company's results of operations, financial position or liquidity.

### *Business Combinations – Clarifying the Definition of a Business*

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

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

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

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

#### **Business Segments**

The 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 11 to the Consolidated Financial Statements for the years ended December 31, 2016 and 2015 and as of December 31, 2016 and 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 Years Ended December 31, 2016 and 2015

	Years Ended December 31,		Amount Change 2016 less 2015	Percentage Change 2016 to 2015
	2016	2015		
Premiums	\$ 12,870,483	\$ 9,822,009	\$ 3,048,474	31.0%
Net investment income	13,190,643	11,235,342	1,955,301	17.4%
Net realized investment gains	729,739	684,668	45,071	6.6%
Loss on other-than-temporary impairments	(212,342)	(525,750)	313,408	-59.6%
Gain on reinsurance assumption	-	588,923	(588,923)	-100.0%
Other income	139,967	95,462	44,505	46.6%
Total revenues	26,718,490	21,900,654	4,817,836	22.0%
Benefits and claims	16,602,839	13,427,029	3,175,810	23.7%
Expenses	7,695,869	6,516,075	1,179,794	18.1%
Total benefits, claims and expenses	24,298,708	19,943,104	4,355,604	21.8%
Income before federal income tax benefit	2,419,782	1,957,550	462,232	23.6%
Federal income tax benefit	(170,957)	(425,158)	254,201	-59.8%
Net income	\$ 2,590,739	\$ 2,382,708	\$ 208,031	8.7%
Net income per common share basic and diluted	\$ 0.33	\$ 0.31	\$ 0.02	5.5%

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

	December 31, 2016	December 31, 2015	Amount Change 2016 less 2015	Percentage Change 2016 to 2015
Other assets	78,038,103	38,926,440	39,111,663	100.5%
Total assets	\$ 333,252,613	\$ 269,129,842	\$ 64,122,771	23.8%
Policy liabilities	\$ 290,680,384	\$ 237,944,222	\$ 52,736,162	22.2%
Deferred federal income taxes	693,470	33,210	660,260	1988.1%
Other liabilities	5,598,484	937,367	4,661,117	497.3%
Total liabilities	296,972,338	238,914,799	58,057,539	24.3%
Shareholders' equity	36,280,275	30,215,043	6,065,232	20.1%
Total liabilities and shareholders' equity	\$ 333,252,613	\$ 269,129,842	\$ 64,122,771	23.8%
Shareholders' equity per common share	\$ 4.65	\$ 3.87	\$ 0.78	20.1%

## Results of Operations – Years Ended December 31, 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 years ended December 31, 2016 and 2015 are summarized as follows:

	Years Ended December 31,		Amount Change	Percentage Change
	2016	2015	2016 less 2015	2016 to 2015
Premiums	\$ 12,870,483	\$ 9,822,009	\$ 3,048,474	31.0%
Net investment income	13,190,643	11,235,342	1,955,301	17.4%
Net realized investment gains	729,739	684,668	45,071	6.6%
Loss on other-than-temporary impairments	(212,342)	(525,750)	313,408	-59.6%
Gain on reinsurance assumption	-	588,923	(588,923)	-100.0%
Other income	139,967	95,462	44,505	46.6%
Total revenues	<u>\$ 26,718,490</u>	<u>\$ 21,900,654</u>	<u>\$ 4,817,836</u>	22.0%

The \$4,817,836 increase in total revenues for the year ended December 31, 2016 is discussed below.

### Premiums

Our premiums for the years ended December 31, 2016 and 2015 are summarized as follows:

	Years Ended December 31,		Amount Change	Percentage Change
	2016	2015	2016 less 2015	2016 to 2015
Whole life and term first year	\$ 224,607	\$ 98,287	\$ 126,320	128.5%
Whole life and term renewal	2,478,252	2,528,372	(50,120)	-2.0%
Final expense first year	3,521,136	2,291,696	1,229,440	53.6%
Final expense renewal	6,267,914	4,842,970	1,424,944	29.4%
Supplementary contracts with life contingencies	378,574	60,684	317,890	523.8%
Total premiums	<u>\$ 12,870,483</u>	<u>\$ 9,822,009</u>	<u>\$ 3,048,474</u>	31.0%

The \$3,048,474 increase in premiums for the year ended December 31, 2016 is primarily due to the following: \$1,229,440 increase in final expense first year premiums, \$1,424,944 increase in final expense renewal premiums and \$317,890 increase in consideration received for supplementary contracts with life contingencies.

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 for the past few years.

The increase in consideration received for 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 years ended December 31, 2016 and 2015 are summarized as follows:

	Years Ended December 31,		Amount Change	Percentage Change
	2016	2015	2016 less 2015	2016 to 2015
Fixed maturity securities	\$ 5,970,940	\$ 5,542,312	\$ 428,628	7.7%
Equity securities	27,364	39,329	(11,965)	-30.4%
Other long-term investments	2,685,639	1,877,725	807,914	43.0%
Mortgage loans	5,774,229	4,492,150	1,282,079	28.5%
Policy loans	107,541	101,344	6,197	6.1%
Real estate	340,032	449,034	(109,002)	-24.3%
Short-term and other investments	44,013	12,278	31,735	258.5%
Gross investment income	14,949,758	12,514,172	2,435,586	19.5%
Investment expenses	(1,759,115)	(1,278,830)	480,285	37.6%
Net investment income	<u>\$ 13,190,643</u>	<u>\$ 11,235,342</u>	<u>\$ 1,955,301</u>	17.4%

The \$2,435,586 increase in gross investment income for the year ended December 31, 2016 is primarily due to increases in investment holdings in mortgage loans and other long-term investments.

In the twelve months since December 31, 2015, our investments in mortgage loans have increased approximately \$15.6 million and other long term investments have increased approximately \$15.2 million.

Although investments in fixed maturity securities decreased by \$5.2 million for the twelve months ended December 31, 2016, we benefited from the late 2015 purchase of fixed maturity securities and held those securities throughout 2016 resulting in increased investment income from fixed maturity securities.

The \$109,002 decrease in real estate investment income is related to the loss of rental income from the sale of \$6,693,044 of investment real estate held in March 2015.

The \$480,285 increase in investment expenses for the year ended December 31, 2016 is primarily related to increased fees and expenses associated with the 2016 acquisition of mortgage loan investments including the 2016 establishment of an internal mortgage loan department.



### ***Net Realized Investment Gains and Gain on Reinsurance Assumption***

Our net realized investment gains result from sales of fixed maturity and equity securities available-for-sale, sale and early payoff gain (loss) of mortgage loans on real estate that the Company previously acquired and sales of investment real estate.

Our net realized investment gains (losses) for the years ended December 31, 2016 and 2015 and the \$45,071 increase in net realized investment gains for the year ended December 31, 2016 are summarized as follows:

	Years Ended December 31,		Amount Change 2016 less 2015	Percentage Change 2016 to 2015
	2016	2015		
Fixed maturity securities available-for-sale:				
Sale proceeds	\$ 20,532,968	\$ 8,799,624	\$ 11,733,344	133.3%
Amortized cost at sale date	19,954,481	8,615,793	11,338,688	131.6%
Net realized gains	<u>\$ 578,487</u>	<u>\$ 183,831</u>	<u>\$ 394,656</u>	214.7%
Equity securities available-for-sale:				
Sale proceeds	\$ 324,556	\$ 533,817	\$ (209,261)	-39.2%
Cost at sale date	225,155	535,719	(310,564)	-58.0%
Net realized gains (losses)	<u>\$ 99,401</u>	<u>\$ (1,902)</u>	<u>\$ 101,303</u>	-5326.1%
Mortgage loans on real estate:				
Payments and sale proceeds on mortgage loans	\$ 17,550,870	\$ 9,882,604	\$ 7,668,266	77.6%
Principal collections	17,478,357	9,770,067	7,708,290	78.9%
Net realized gains	<u>\$ 72,513</u>	<u>\$ 112,537</u>	<u>\$ (40,024)</u>	-35.6%
Investment real estate:				
Sale proceeds	\$ 43,269	\$ 7,083,246	\$ (7,039,977)	-99.4%
Carrying value at sale date	63,931	6,693,044	(6,629,113)	-99.0%
Net realized gains (losses)	<u>\$ (20,662)</u>	<u>\$ 390,202</u>	<u>\$ (410,864)</u>	-105.3%
Net realized investment gains	<u>\$ 729,739</u>	<u>\$ 684,668</u>	<u>\$ 45,071</u>	6.6%

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 2016 the Company foreclosed on seven residential mortgage loans of real estate totaling \$394,427 and transferred those properties to investment real estate that are now held for sale. The Company reduced the carrying value of this residential real estate obtained through foreclosure to the lower of acquisition cost or net realizable value. On November 30, 2016, the Company sold one investment real estate property with an aggregate carrying value of \$63,931. The Company recorded a gross realized investment loss on this sale of \$20,662 based on an aggregate sales price of \$43,269.

### ***Loss on Other-Than-Temporary Impairments and Gain on Reinsurance***

During 2016, the Company impaired its bonds in an energy corporation with a total par value of \$650,000 as a result of continuing unrealized losses. This impairment was considered fully credit-related, resulting in a charge to the statement of operations before tax of \$207,450 for the year ended December 31, 2016. This charge represents the credit-related portion of the difference between the amortized cost basis of the security and its fair value. The Company has experienced no additional other-than-temporary impairments on fixed maturity available-for-sale securities during 2016.

During 2016 management also impaired FB LIC's one-half acre of undeveloped land located in Jefferson City, Missouri by \$4,892 from its carrying value to its net realizable value expected at the time of ultimate resale.

During 2015, the Company impaired its bonds in a mining corporation with a total par value of \$600,000 as a result of continuing unrealized losses. This impairment was considered fully credit-related, resulting in a charge to the statement of operations before tax of \$502,013 for the year ended December 31, 2015. This charge represents the credit-related portion of the difference between the amortized cost basis of the security and its fair value.

In 2015, management also impaired one mortgage loan on real estate investment that was in foreclosure and reduced that investment by \$23,737 from its carrying value to its net realizable value expected at the time of ultimate resale.

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

### 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 years ended December 31, 2016 and 2015 are summarized as follows:

	Years Ended December 31,		Amount Change	Percentage Change
	2016	2015	2016 less 2015	2016 to 2015
<b>Benefits and claims</b>				
Increase in future policy benefits	\$ 4,786,377	\$ 3,429,019	\$ 1,357,358	39.6%
Death benefits	3,814,049	3,424,098	389,951	11.4%
Surrenders	728,122	574,739	153,383	26.7%
Interest credited to policyholders	6,977,306	5,675,873	1,301,433	22.9%
Dividend, endowment and supplementary life contract benefits	296,985	323,300	(26,315)	-8.1%
Total benefits and claims	16,602,839	13,427,029	3,175,810	23.7%
<b>Expenses</b>				
Policy acquisition costs deferred	(7,445,304)	(5,204,940)	(2,240,364)	43.0%
Amortization of deferred policy acquisition costs	2,202,367	1,563,625	638,742	40.9%
Amortization of value of insurance business acquired	379,365	386,214	(6,849)	-1.8%
Commissions	6,882,311	4,774,196	2,108,115	44.2%
Other underwriting, insurance and acquisition expenses	5,677,130	4,996,980	680,150	13.6%
Total expenses	7,695,869	6,516,075	1,179,794	18.1%
Total benefits, claims and expenses	\$ 24,298,708	\$ 19,943,104	\$ 4,355,604	21.8%

The \$4,355,604 increase in total benefits, claims and expenses for the year ended December 31, 2016 is discussed below.

### Benefits and Claims

The \$3,175,810 increase in total benefits and claims for the year ended December 31, 2016 is primarily due to the following:

- \$1,357,358 increase in future policy benefits is primarily related to the production of new policies, initial sales of policies to older age bands resulting in increased mortality reserve charges and the aging of existing policies.

- \$1,301,433 increase in interest credited to policyholders is primarily due to an increase of approximately \$47.7 million in the amount of policyholders' account balances in the consolidated statement of financial position (deposits and interest credited in excess of withdrawals) since December 31, 2015.
- \$389,951 increase in death benefits is primarily due to 24 additional final expense claims in 2016 compared to 2015, at an average claim amount of \$15,000. We expect final expense incurred claims to increase in the future as the volume of final expense policies grows. The protective measures surrounding our underwriting of final expense products, however, should keep our mortality exposure at or below current levels.
- \$153,383 increase in surrenders is as we expected and corresponds to growth in our number of policies in force and amount of insurance in force that is annually growing at 15% to 22%.

#### ***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 years ended December 31, 2016 and 2015, capitalized costs were \$7,445,304 and \$5,204,940, respectively. Amortization of deferred policy acquisition costs for the years ended December 31, 2016 and 2015 were \$2,202,367 and \$1,563,625, respectively.

The \$2,240,364 increase in the 2016 acquisition costs deferred primarily relates to increased final expense and annuity production. During 2016, more annuity contracts were issued but at a lower average amount. During third quarter 2016, we conducted an actuarial study that resulted in approximately a \$100,000 decrease in the 2016 acquisition expenses to be capitalized and deferred.

The \$638,742 increase in the 2016 amortization of deferred acquisition costs is primarily due to the growth in the volume of final expense policies and annuity contracts. With these increases in final expense policies and annuity contracts, we experienced increased mortality, annuity withdrawals and life insurance policy surrenders causing an immediate amortization of the remaining acquisition costs deferred associated with a specific policy or contract. We expect this trend to continue as we grow.

#### ***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 \$379,365 and \$386,214 for the years ended December 31, 2016 and 2015, respectively.

## Commissions

Our commissions for the years ended December 31, 2016 and 2015 are summarized as follows:

	Years Ended December 31,		Amount Change	Percentage Change
	2016	2015	2016 less 2015	2016 to 2015
Annuity	\$ 1,896,150	\$ 1,455,566	\$ 440,584	30.3%
Whole life and term first year	125,467	89,761	35,706	39.8%
Whole life and term renewal	100,247	101,553	(1,306)	-1.3%
Final expense first year	4,195,896	2,714,342	1,481,554	54.6%
Final expense renewal	564,551	412,974	151,577	36.7%
Total commissions	<u>\$ 6,882,311</u>	<u>\$ 4,774,196</u>	<u>\$ 2,108,115</u>	44.2%

The \$2,108,115 increase in commissions for the year ended December 31, 2016 is primarily due to:

- \$1,481,554 increase in final expense first year commissions that correspond to the \$1,229,440 increase in final expense first year premiums.
- \$440,584 increase in annuity first year, single and renewal commissions is due to the Company now paying renewal commission on two annuity products amounting to \$383,072. These renewal commissions are half of the first year commissions and are paid if the annuity contract is still in force in the second year.
- \$151,577 increase in final expense renewal commissions that correspond to the \$1,424,944 increase in final expense renewal premiums.

## Other Underwriting, Insurance and Acquisition Expenses

The \$680,150 increase in other underwriting, insurance and acquisition expenses for the year ended December 31, 2016 was primarily related to increased acquisition and maintenance costs associated with increased final expense production, increased salaries and benefits due to increased staffing levels and increased salary and bonus levels, increased legal fees from contested litigation, write-off and recording of bad debt expense on uncollectible receivables of the premium finance business and tenant improvements on the Topeka, Kansas office building.

## 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 2013, 2014 and 2015 and intend to also file a consolidated life insurance company federal tax return for TLIC and FBLIC for 2016 during 2017.

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 years ended December 31, 2016 and 2015, current income tax expense was \$37,404 and \$405,546, respectively. Deferred federal income tax benefit was \$208,361 and \$830,704 for the years ended December 31, 2016 and 2015, respectively.

## Net Income Per Common Share Basic and Diluted

Net income was \$2,590,739 (\$0.33 per common share basic and diluted) and \$2,382,708 (\$0.31 per common share basic and diluted) for the years ended December 31, 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 years ended December 31, 2016 and 2015 were 7,802,593 and 7,804,566, 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 years ended December 31, 2016 and 2015 are summarized as follows:

	Years Ended December 31,		Amount Change	Percentage Change
	2016	2015	2016 less 2015	2016 to 2015
<b>Revenues:</b>				
Life insurance operations	\$ 14,996,543	\$ 11,847,640	\$ 3,148,903	26.6%
Annuity operations	11,135,950	9,647,120	1,488,830	15.4%
Corporate operations	585,997	405,894	180,103	44.4%
Total	<u>\$ 26,718,490</u>	<u>\$ 21,900,654</u>	<u>\$ 4,817,836</u>	22.0%
<b>Income before federal income taxes:</b>				
Life insurance operations	\$ 866,648	\$ 852,489	\$ 14,159	1.7%
Annuity operations	1,271,600	935,945	335,655	35.9%
Corporate operations	281,534	169,116	112,418	66.5%
Total	<u>\$ 2,419,782</u>	<u>\$ 1,957,550</u>	<u>\$ 462,232</u>	23.6%

### Life Insurance Operations

The \$3,148,903 increase in revenues from Life Insurance Operations for the year ended December 31, 2016 is primarily due to the following:

- \$3,048,474 increase in premiums
- \$162,901 increase in net investment income
- \$11,940 decrease in other income
- \$50,532 decrease in net realized investment gains

The \$14,159 increased profitability from Life Insurance Operations for the year ended December 31, 2016 is primarily due to the following:

- \$1,357,358 increase in future policy benefits
- \$1,667,531 increase in commissions
- \$897,653 increase in other underwriting, insurance and acquisition expenses
- \$389,951 increase in death benefits
- \$153,383 increase in surrenders
- \$50,532 decrease in net realized investment gains

- \$11,940 decrease in other income
- \$3,425 decrease in amortization of value of insurance business acquired
- \$26,315 decrease in dividend, endowment and supplementary life contract benefits
- \$162,901 increase in net investment income
- \$1,301,392 increase in policy acquisition costs deferred net of amortization
- \$3,048,474 increase in premiums

### ***Annuity Operations***

The \$1,488,830 increase in revenues from Annuity Operations for the year ended December 31, 2016 is due to the following:

- \$1,685,700 increase in net investment income
- \$196,870 decrease in net realized investment gains

The \$335,655 increased profitability from Annuity Operations for the year ended December 31, 2016 is due to the following:

- \$1,685,700 increase in net investment income
- \$300,230 increase in policy acquisition costs deferred net of amortization
- \$285,188 decrease in other underwriting, insurance and acquisition expenses
- \$3,424 decrease in amortization of value of insurance business acquired
- \$196,870 decrease in net realized investment gains
- \$440,584 increase in commissions
- \$1,301,433 increase in interest credited to policyholders

### ***Corporate Operations***

The \$180,103 increase in revenues from Corporate Operations for the year ended December 31, 2016 is primarily due to \$106,700 of increased net investment income, \$56,445 of increased other income and \$16,958 of decreased realized losses.

The \$112,418 increase in Corporate Operations profitability for the year ended December 31, 2016 is primarily due to \$106,700 of increased net investment income, \$56,445 of increased other income, \$16,958 of decreased realized losses and \$67,685 of increased operating expenses.

## Consolidated Financial Condition

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

	December 31, 2016	December 31, 2015	Amount Change 2016 less 2015	Percentage Change 2016 to 2015
<b>Assets</b>				
Investments				
Available-for-sale fixed maturity securities at fair value (amortized cost: \$128,310,625 and \$138,028,455 as of December 31, 2016 and 2015, respectively)	\$ 129,311,155	\$ 134,556,027	\$ (5,244,872)	-3.9%
Available-for-sale equity securities at fair value (cost: \$599,400 and \$790,215 as of December 31, 2016 and 2015, respectively)	638,407	892,800	(254,393)	-28.5%
Mortgage loans on real estate	74,371,286	58,774,918	15,596,368	26.5%
Investment real estate	2,506,673	2,326,558	180,115	7.7%
Policy loans	1,598,116	1,486,317	111,799	7.5%
Short-term investments	-	599,855	(599,855)	-100.0%
Other long-term investments	46,788,873	31,566,927	15,221,946	48.2%
Total investments	<u>\$ 255,214,510</u>	<u>\$ 230,203,402</u>	<u>\$ 25,011,108</u>	10.9%

The \$5,244,872 decrease and \$23,904,598 increase in fixed maturity available-for-sale securities for the years ended December 31, 2016 and 2015, respectively, are summarized as follows:

	Years Ended December 31,			
	2016		2015	
	Amount	Percentage	Amount	Percentage
Fixed maturity securities, available-for-sale, beginning	\$ 134,556,027	104.06%	\$ 110,651,429	82.23%
Purchases	11,338,377	8.77%	37,123,963	27.60%
Assumption reinsurance	-	0.00%	3,534,093	2.63%
Unrealized appreciation (depreciation)	4,473,318	3.46%	(6,711,535)	-4.99%
Net realized investment gains (losses)	371,037	0.29%	(318,182)	-0.24%
Sales proceeds	(14,933,968)	-11.56%	(6,685,624)	-4.97%
Maturities	(5,599,000)	-4.33%	(2,114,000)	-1.57%
Premium amortization	(894,636)	-0.69%	(924,117)	-0.69%
Increase (decrease)	<u>(5,244,872)</u>	<u>-4.06%</u>	<u>23,904,598</u>	<u>17.77%</u>
Fixed maturity securities, available-for-sale, ending	<u>\$ 129,311,155</u>	<u>100.00%</u>	<u>\$ 134,556,027</u>	<u>100.00%</u>

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 \$254,393 decrease and \$221,443 increase in equity securities available-for-sale for the years ended December 31, 2016 and 2015, respectively, are summarized as follows:

	Years Ended December 31,			
	2016		2015	
	Amount	Percentage	Amount	Percentage
Equity securities, available-for-sale, beginning	\$ 892,800	139.85%	\$ 671,357	75.20%
Purchases	34,340	5.38%	806,537	90.33%
Sales proceeds	(324,556)	-50.84%	(533,817)	-59.79%
Unrealized depreciation	(63,578)	-9.96%	(49,177)	-5.51%
Net realized investment gains (losses)	99,401	15.57%	(1,902)	-0.21%
Premium amortization	-	0.00%	(198)	-0.02%
Increase (decrease)	(254,393)	-39.85%	221,443	24.80%
Equity securities, available-for-sale, ending	\$ 638,407	100.00%	\$ 892,800	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 small number of companies.

The \$15,596,368 and \$20,125,185 increase in mortgage loans on real estate for the years ended December 31, 2016 and 2015, respectively, are summarized as follows:

	Years Ended December 31,			
	2016		2015	
	Amount	Percentage	Amount	Percentage
Mortgage loans on real estate, beginning	\$ 58,774,918	79.03%	\$ 38,649,733	65.76%
Purchases	33,480,579	45.01%	29,780,501	50.67%
Capitalization of loan origination fees	4,531	0.01%	90,000	0.15%
Discount accretion	157,424	0.21%	167,772	0.29%
Net realized investment gains	72,513	0.10%	88,800	0.15%
Payments	(17,550,870)	-23.60%	(9,882,604)	-16.81%
Foreclosed - transferred to real estate	(394,427)	-0.53%	-	0.00%
Increase in allowance for bad debts	(61,079)	-0.08%	(56,882)	-0.10%
Amortization of loan origination fees	(112,303)	-0.15%	(62,402)	-0.11%
Increase	15,596,368	20.97%	20,125,185	34.24%
Mortgage loans on real estate, ending	\$ 74,371,286	100.00%	\$ 58,774,918	100.00%



The \$180,115 increase and \$6,838,532 decrease in investment real estate for the years ended December 31, 2016 and 2015, respectively, are summarized as follows:

	Years Ended December 31,			
	2016		2015	
	Amount	Percentage	Amount	Percentage
Investment real estate, beginning	\$ 2,326,558	92.81%	\$ 9,165,090	393.93%
Real estate acquired through mortgage loan foreclosure	394,427	15.74%	-	0.00%
Sales proceeds	(43,269)	-1.73%	(7,083,246)	-304.45%
Depreciation of building	(145,489)	-5.80%	(145,488)	-6.25%
Net realized investment gains (losses)	(25,554)	-1.02%	390,202	16.77%
Increase (decrease)	180,115	7.19%	(6,838,532)	-293.93%
Investment real estate, ending	\$ 2,506,673	100.00%	\$ 2,326,558	100.00%

The \$15,221,946 and \$9,785,002 increases in other long-term investments (comprised of lottery receivables) for the years ended December 31, 2016 and 2015, respectively, are summarized as follows:

	Years Ended December 31,			
	2016		2015	
	Amount	Percentage	Amount	Percentage
Other long-term investments, beginning	\$ 31,566,927	67.47%	\$ 21,781,925	69.00%
Purchases	17,973,300	38.41%	12,476,814	39.53%
Accretion of discount	2,685,635	5.74%	1,878,019	5.95%
Payments	(5,436,989)	-11.62%	(4,569,831)	-14.48%
Increase	15,221,946	32.53%	9,785,002	31.00%
Other long-term investments, ending	\$ 46,788,873	100.00%	\$ 31,566,927	100.00%

The \$599,855 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 December 31, 2016 and 2015 are summarized as follows:

	December 31, 2016	December 31, 2015	Amount Change	Percentage Change
			2016 to 2015	2016 to 2015
Cash and cash equivalents	\$ 34,223,945	\$ 9,047,586	\$ 25,176,359	278.3%
Accrued investment income	2,176,770	2,205,469	(28,699)	-1.3%
Recoverable from reinsurers	1,258,938	1,243,618	15,320	1.2%
Agents' balances and due premiums	1,419,250	1,070,050	349,200	32.6%
Deferred policy acquisition costs	18,191,990	13,015,679	5,176,311	39.8%
Value of insurance business acquired	5,908,835	6,288,200	(379,365)	-6.0%
Other assets	14,858,375	6,055,838	8,802,537	145.4%
Assets other than investment assets	\$ 78,038,103	\$ 38,926,440	\$ 39,111,663	100.5%

The \$25,176,359 increase in cash and cash equivalents for the year ended December 31, 2016 and the corresponding amount for the year ended December 31, 2015 are summarized in the Company's consolidated statements of cash flows.

The increase in deferred policy acquisition costs for the years ended December 31, 2016 and 2015, respectively, are summarized as follows:

	<u>2016</u>	<u>2015</u>
Balance, beginning of year	\$ 13,015,679	\$ 9,287,851
Capitalization of commissions, sales and issue expenses	7,445,304	5,204,940
Amortization	(2,202,367)	(1,563,625)
Deferred acquisition costs allocated to investments	<u>(66,626)</u>	<u>86,513</u>
Balance, end of year	<u>\$ 18,191,990</u>	<u>\$ 13,015,679</u>

The \$349,200 increase in 2016 agents' balances and due premiums is primarily due to a \$337,409 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 December 31, 2016 and December 31, 2015 are summarized as follows:

	December 31, 2016	December 31, 2015	Amount Change 2016 less 2015	Percentage Change 2016 to 2015
Advances to mortgage loan originator	\$ 5,207,380	\$ 3,095,064	\$ 2,112,316	68.2%
Federal and state income taxes recoverable	2,220,566	1,265,453	955,113	75.5%
Notes receivable	464,366	627,503	(163,137)	-26.0%
Accrual of mortgage loan and long-term investment payments due	511,585	660,450	(148,865)	-22.5%
Receivable for securities sold	6,288,274	1,904	6,286,370	330166.5%
Guaranty funds	78,711	197,812	(119,101)	-60.2%
Loans from premium financing, net	-	123,824	(123,824)	-100.0%
Other receivables, prepaid assets and deposits	87,493	83,828	3,665	4.4%
Total other assets	<u>\$ 14,858,375</u>	<u>\$ 6,055,838</u>	<u>\$ 8,802,537</u>	145.4%

There was a \$6,286,370 increase in the receivable for securities sold which represents the timing of unsettled trades for fixed maturity and equity securities available-for-sale as of December 31, 2016.

During the year ended December 31, 2016, the Company increased its advances to one mortgage loan originator who acquires residential mortgage loans for our life insurance companies by \$2,112,316.

The \$955,113 increase in federal and state income taxes recoverable is primarily due to federal and state tax withholdings on lottery receivables and the 2015 federal tax refund of \$615,975 not received until January 2017.

The decrease in notes receivable of \$163,137 is due to the write-off of \$128,888 related to the Company's premium finance business conducted in FTCC and the repayment of \$34,249 on FTFC notes receivable.

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

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

	<u>December 31, 2016</u>	<u>December 31, 2015</u>	<u>Amount Change 2016 less 2015</u>	<u>Percentage Change 2016 to 2015</u>
Policy liabilities				
Policyholders' account balances	\$ 245,346,489	\$ 197,688,616	\$ 47,657,873	24.1%
Future policy benefits	44,266,227	39,464,124	4,802,103	12.2%
Policy claims	997,814	714,928	282,886	39.6%
Other policy liabilities	<u>69,854</u>	<u>76,554</u>	<u>(6,700)</u>	-8.8%
Total policy liabilities	290,680,384	237,944,222	52,736,162	22.2%
Deferred federal income taxes	693,470	33,210	660,260	1988.1%
Other liabilities	<u>5,598,484</u>	<u>937,367</u>	<u>4,661,117</u>	497.3%
Total liabilities	<u>\$ 296,972,338</u>	<u>\$ 238,914,799</u>	<u>\$ 58,057,539</u>	24.3%

The \$47,657,873 and \$57,133,643 increases in policyholders' account balances for the years ended December 31, 2016 and 2015, respectively, are summarized as follows:

	<u>Years Ended December 31,</u>			
	<u>2016</u>		<u>2015</u>	
	<u>Amount</u>	<u>Percentage</u>	<u>Amount</u>	<u>Percentage</u>
Policyholders' account balances, beginning	\$ 197,688,616	80.58%	\$ 140,554,973	71.10%
Deposits	53,989,462	22.00%	59,274,275	29.98%
Assumption reinsurance	-	0.00%	2,966,827	1.50%
Withdrawals	(13,308,895)	-5.42%	(10,783,332)	-5.45%
Interest credited	<u>6,977,306</u>	<u>2.84%</u>	<u>5,675,873</u>	<u>2.87%</u>
Increase	47,657,873	19.42%	57,133,643	28.90%
Policyholders' account balances, ending	<u>\$ 245,346,489</u>	<u>100.00%</u>	<u>\$ 197,688,616</u>	<u>100.00%</u>

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 \$5,284,813 decrease in annuity deposits from \$59,274,275 to \$53,989,462 for the years ended December 31, 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 \$4,802,103 increase in future policy benefits during the year ended December 31, 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 \$660,260 increase in deferred federal income taxes during the year ended December 31, 2016 was due to \$868,621 of increased deferred federal income taxes on the unrealized appreciation of fixed maturity and equity securities available-for-sale and \$208,361 of operating deferred federal tax benefit.

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

			Amount Change	Percentage Change
	December 31, 2016	December 31, 2015	2016 less 2015	2016 to 2015
Suspense accounts payable	\$ 4,684,726	\$ 175,134	\$ 4,509,592	2574.9%
Accrued expenses payable	527,938	405,726	122,212	30.1%
Payable for securities purchased	234,225	3	234,222	7807400.0%
Guaranty fund assessments	60,000	172,000	(112,000)	-65.1%
Unearned investment income	48,466	53,945	(5,479)	-10.2%
Deferred revenue	29,632	34,949	(5,317)	-15.2%
Unclaimed funds	23,057	45,504	(22,447)	-49.3%
Other payables, withholdings and escrows	(9,560)	50,106	(59,666)	-119.1%
Total other liabilities	<u>\$ 5,598,484</u>	<u>\$ 937,367</u>	<u>\$ 4,661,117</u>	497.3%

The \$4,509,592 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 December 31, 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 December 31, 2016, we had cash and cash equivalents totaling \$34,223,945. As of December 31, 2016, cash and cash equivalents of \$18,069,762 and \$14,094,515, 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 \$1,852,287 in 2017 without prior approval. In addition, based on those limitations, there is the capacity for FBLIC to pay a dividend up to \$914,179 in 2017 without prior approval. FBLIC paid dividends of \$1,000,000 to TLIC in 2016 and 2015. Dividends paid by FBLIC are 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 \$22,117,921 and \$5,957,248 as of December 31, 2016 and December 31, 2015, respectively. The increase in uninsured balances of \$16,160,673 between December 31, 2016 and December 31, 2015 is primarily due to annuity production in the last half of 2016 that has not been invested.

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

	Years Ended December 31,		Amount Change 2016 less 2015	Percentage Change 2016 less 2015
	2016	2015		
Net cash provided by operating activities	\$ 9,485,884	\$ 3,465,542	\$ 6,020,342	173.7%
Net cash used in investing activities	(24,990,092)	(48,952,169)	23,962,077	-48.9%
Net cash provided by financing activities	40,680,567	44,375,827	(3,695,260)	-8.3%
Increase (decrease) in cash	25,176,359	(1,110,800)	26,287,159	-2366.5%
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	\$ 34,223,945	\$ 9,047,586	\$ 25,176,359	278.3%

The \$9,485,884 and \$3,465,542 of cash provided by operating activities for the years ended December 31, 2016 and 2015, respectively, are summarized as follows:

	Years Ended December 31,		Amount Change 2016 less 2015	Percentage Change 2016 to 2015
	2016	2015		
Premiums collected	\$ 12,854,146	\$ 9,805,374	\$ 3,048,772	31.1%
Net investment income collected	11,414,304	10,213,579	1,200,725	11.8%
Death benefits paid	(3,546,483)	(3,332,812)	(213,671)	6.4%
Surrenders paid	(728,122)	(574,739)	(153,383)	26.7%
Commissions paid	(7,219,722)	(5,268,523)	(1,951,199)	37.0%
Other underwriting, insurance and acquisition expenses paid	(5,037,607)	(4,714,827)	(322,780)	6.8%
Taxes (paid) recovered	(992,518)	86,394	(1,078,912)	-1248.8%
Advances to mortgage loan originator	(2,112,317)	(1,458,299)	(654,018)	44.8%
Deposits of pending policy applications	4,509,592	(1,674,397)	6,183,989	-369.3%
Decrease in short-term investment	599,855	541,344	58,511	10.8%
Other	(255,244)	(157,552)	(97,692)	62.0%
Increase in cash provided by operating activities	\$ 9,485,884	\$ 3,465,542	\$ 6,020,342	173.7%

Please see the statements of cash flows for the years ended December 31, 2016 and 2015 for a summary of the components of net cash used in investing activities and net cash provided by financing activities.

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

	December 31, 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 December 31, 2016 and 2015 and 7,802,593 outstanding as of December 31, 2016 and 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 December 31, 2016 and 2015)	(893,947)	(893,947)	-	0.0%
Accumulated other comprehensive income (loss)	818,676	(2,655,817)	3,474,493	-130.8%
Accumulated earnings	7,590,446	4,999,707	2,590,739	51.8%
Total shareholders' equity	\$ 36,280,275	\$ 30,215,043	\$ 6,065,232	20.1%

The increase in shareholders' equity of \$6,065,232 for the year ended December 31, 2016 is due to \$3,474,493 of other comprehensive income and net income of \$2,590,739.

Equity per common share outstanding increased 20.1% from \$3.87 per share as of December 31, 2015 to \$4.65 per share as of December 31, 2016, based upon 7,802,593 common shares outstanding as of December 31, 2016 and 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. Fixed maturity securities amounting to \$129,311,155 as of December 31, 2016 are approximately 51% of our total invested assets and, if needed, could be converted to cash for liquidity needs.

We are subject to various market risks. The quality of our investment portfolio and the current level of shareholders' equity continue to provide a sound financial base as we strive to expand our marketing to offer competitive products.

Our investment portfolio had unrealized appreciation (depreciation) on available-for-sale securities of \$1,039,897 and (\$3,369,843) as of December 31, 2016 and 2015, respectively, prior to the impact of income taxes and deferred acquisition cost adjustments. An increase of \$4,880,178 in unrealized gains arising for the year ended December 31, 2016 includes 2016 net realized investment gains of \$470,438 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 year ended December 31, 2016 of \$4,409,740.

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 December 31, 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 17.0% 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 2016, 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 December 31, 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.



**FIRST TRINITY FINANCIAL CORPORATION AND SUBSIDIARIES**  
**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and  
Shareholders of First Trinity Financial Corporation

We have audited the accompanying consolidated statements of financial position of First Trinity Financial Corporation and Subsidiaries (the Company) as of December 31, 2016 and 2015, and the related consolidated statements of operations, comprehensive income (loss), changes in shareholders' equity, and cash flows for the years then ended. The Company's management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of First Trinity Financial Corporation and Subsidiaries as of December 31, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ Kerber, Eck & Braeckel LLP

Springfield, Illinois  
March 7, 2017

First Trinity Financial Corporation and Subsidiaries  
Consolidated Statements of Financial Position

	December 31, 2016	December 31, 2015
<b>Assets</b>		
Investments		
Available-for-sale fixed maturity securities at fair value (amortized cost: \$128,310,265 and \$138,028,455 as of December 31, 2016 and 2015, respectively)	\$ 129,311,155	\$ 134,556,027
Available-for-sale equity securities at fair value (cost: \$599,400 and \$790,215 as of December 31, 2016 and 2015, respectively)	638,407	892,800
Mortgage loans on real estate	74,371,286	58,774,918
Investment real estate	2,506,673	2,326,558
Policy loans	1,598,116	1,486,317
Short-term investments	-	599,855
Other long-term investments	46,788,873	31,566,927
Total investments	255,214,510	230,203,402
Cash and cash equivalents	34,223,945	9,047,586
Accrued investment income	2,176,770	2,205,469
Recoverable from reinsurers	1,258,938	1,243,618
Agents' balances and due premiums	1,419,250	1,070,050
Deferred policy acquisition costs	18,191,990	13,015,679
Value of insurance business acquired	5,908,835	6,288,200
Other assets	14,858,375	6,055,838
<b>Total assets</b>	<b>\$ 333,252,613</b>	<b>\$ 269,129,842</b>
<b>Liabilities and Shareholders' Equity</b>		
Policy liabilities		
Policyholders' account balances	\$ 245,346,489	\$ 197,688,616
Future policy benefits	44,266,227	39,464,124
Policy claims	997,814	714,928
Other policy liabilities	69,854	76,554
Total policy liabilities	290,680,384	237,944,222
Deferred federal income taxes	693,470	33,210
Other liabilities	5,598,484	937,367
<b>Total liabilities</b>	<b>296,972,338</b>	<b>238,914,799</b>
<b>Shareholders' equity</b>		
Common stock, par value \$.01 per share (20,000,000 shares authorized, 8,050,173 issued as of December 31, 2016 and 2015, respectively, and 7,802,593 outstanding as of December 31, 2016 and 2015, respectively)	80,502	80,502
Additional paid-in capital	28,684,598	28,684,598
Treasury stock, at cost (247,580 shares as of December 31, 2016 and 2015)	(893,947)	(893,947)
Accumulated other comprehensive income (loss)	818,676	(2,655,817)
Accumulated earnings	7,590,446	4,999,707
<b>Total shareholders' equity</b>	<b>36,280,275</b>	<b>30,215,043</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 333,252,613</b>	<b>\$ 269,129,842</b>

*See notes to consolidated financial statements.*

First Trinity Financial Corporation and Subsidiaries  
Consolidated Statements of Operations

	Years Ended December 31,	
	2016	2015
<b>Revenues</b>		
Premiums	\$ 12,870,483	\$ 9,822,009
Net investment income	13,190,643	11,235,342
Net realized investment gains	729,739	684,668
Loss on other-than-temporary impairments	(212,342)	(525,750)
Gain on reinsurance assumption	-	588,923
Other income	139,967	95,462
<b>Total revenues</b>	<b>26,718,490</b>	<b>21,900,654</b>
<b>Benefits, Claims and Expenses</b>		
Benefits and claims		
Increase in future policy benefits	4,786,377	3,429,019
Death benefits	3,814,049	3,424,098
Surrenders	728,122	574,739
Interest credited to policyholders	6,977,306	5,675,873
Dividend, endowment and supplementary life contract benefits	296,985	323,300
Total benefits and claims	16,602,839	13,427,029
Policy acquisition costs deferred	(7,445,304)	(5,204,940)
Amortization of deferred policy acquisition costs	2,202,367	1,563,625
Amortization of value of insurance business acquired	379,365	386,214
Commissions	6,882,311	4,774,196
Other underwriting, insurance and acquisition expenses	5,677,130	4,996,980
Total expenses	7,695,869	6,516,075
<b>Total benefits, claims and expenses</b>	<b>24,298,708</b>	<b>19,943,104</b>
<b>Income before total federal income tax benefit</b>	<b>2,419,782</b>	<b>1,957,550</b>
Current federal income tax expense	37,404	405,546
Deferred federal income tax benefit	(208,361)	(830,704)
<b>Total federal income tax benefit</b>	<b>(170,957)</b>	<b>(425,158)</b>
<b>Net income</b>	<b>\$ 2,590,739</b>	<b>\$ 2,382,708</b>
<b>Net income per common share basic and diluted</b>	<b>\$ 0.33</b>	<b>\$ 0.31</b>

See notes to consolidated financial statements.

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

	Years Ended December 31,	
	2016	2015
<b>Net income</b>	\$ 2,590,739	\$ 2,382,708
<b>Other comprehensive income (loss)</b>		
Total net unrealized gains (losses) arising during the period	4,880,178	(7,080,796)
Less net realized investment gains (losses)	470,438	(320,084)
Net unrealized gains (losses)	4,409,740	(6,760,712)
Less adjustment to deferred acquisition costs	66,626	(86,513)
Other comprehensive income (loss) before income tax expense (benefit)	4,343,114	(6,674,199)
Income tax expense (benefit)	868,621	(1,334,839)
<b>Total other comprehensive income (loss)</b>	3,474,493	(5,339,360)
<b>Total comprehensive income (loss)</b>	\$ 6,065,232	\$ (2,956,652)

*See notes to consolidated financial statements.*

First Trinity Financial Corporation and Subsidiaries  
Consolidated Statements of Changes in Shareholders' Equity  
Years Ended December 31, 2016 and 2015

	Common Stock \$.01 Par Value	Additional Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Accumulated Earnings	Total Shareholders' Equity
<b>Balance as of January 1, 2015</b>	\$ 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	-	-	-	-	2,382,708	2,382,708
Other comprehensive loss	-	-	-	(5,339,360)	-	(5,339,360)
<b>Balance as of December 31, 2015</b>	<u>\$ 80,502</u>	<u>\$ 28,684,598</u>	<u>\$ (893,947)</u>	<u>\$ (2,655,817)</u>	<u>\$ 4,999,707</u>	<u>\$ 30,215,043</u>
Comprehensive income:						
Net income	-	-	-	-	2,590,739	2,590,739
Other comprehensive income	-	-	-	3,474,493	-	3,474,493
<b>Balance as of December 31, 2016</b>	<u>\$ 80,502</u>	<u>\$ 28,684,598</u>	<u>\$ (893,947)</u>	<u>\$ 818,676</u>	<u>\$ 7,590,446</u>	<u>\$ 36,280,275</u>

*See notes to consolidated financial statements.*

First Trinity Financial Corporation and Subsidiaries  
Consolidated Statements of Cash Flows

	Years Ended December 31,	
	2016	2015
<b>Operating activities</b>		
Net income	\$ 2,590,739	\$ 2,382,708
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for depreciation	146,122	228,540
Accretion of discount on investments	(1,948,423)	(1,121,476)
Net realized investment gains	(729,739)	(684,668)
Loss on other-than-temporary impairments	212,342	525,750
Gain on reinsurance assumption	-	(588,923)
Amortization of policy acquisition cost	2,202,367	1,563,625
Policy acquisition cost deferred	(7,445,304)	(5,204,940)
Mortgage loan origination fees deferred	(4,531)	(90,000)
Amortization of loan origination fees	112,303	62,402
Amortization of value of insurance business acquired	379,365	386,214
Allowance for mortgage loan losses	61,079	56,882
Provision for deferred federal income tax benefit	(208,361)	(830,704)
Interest credited to policyholders	6,977,306	5,675,873
Change in assets and liabilities:		
Accrued investment income	28,699	(484,696)
Policy loans	(111,799)	40,097
Short-term investments	599,855	541,344
Recoverable from reinsurers	(15,320)	(21,373)
Agents' balances and due premiums	(349,200)	(505,754)
Other assets (excludes depreciation of \$633 in 2016 and change in receivable for securities sold of \$6,286,370 and (\$301,525) in 2016 and 2015, respectively)	(2,516,800)	(608,612)
Future policy benefits	4,802,103	3,461,305
Policy claims	282,886	112,659
Other policy liabilities	(6,700)	(10,594)
Other liabilities (excludes change in payable of securities purchased of \$234,222 and \$3 in 2016 and 2015, respectively)	4,426,895	(1,420,117)
<b>Net cash provided by operating activities</b>	<u>9,485,884</u>	<u>3,465,542</u>
<b>Investing activities</b>		
Purchases of fixed maturity securities	(11,338,377)	(37,123,963)
Maturities of fixed maturity securities	5,599,000	2,114,000
Sales of fixed maturity securities	14,933,968	6,685,624
Purchases of equity securities	(34,340)	(806,537)
Sales of equity securities	324,556	533,817
Reinsurance assumption	-	64,935
Purchases of mortgage loans	(33,480,579)	(29,780,501)
Payments on mortgage loans	17,550,870	9,882,604
Purchases of other long-term investments	(17,973,300)	(12,476,814)
Collections on other long-term investments	5,436,989	4,569,831
Sales of real estate	43,269	7,083,246
Net change in receivable and payable for securities sold and purchased	(6,052,148)	301,528
Loans repaid for premiums financed	-	61
<b>Net cash used in investing activities</b>	<u>(24,990,092)</u>	<u>(48,952,169)</u>
<b>Financing activities</b>		
Policyholders' account deposits	53,989,462	59,274,275
Policyholders' account withdrawals	(13,308,895)	(10,783,332)
Purchases of treasury stock	-	(38,643)
Repayment of notes payable	-	(4,076,473)
<b>Net cash provided by financing activities</b>	<u>40,680,567</u>	<u>44,375,827</u>
<b>Increase (decrease) in cash and cash equivalents</b>	25,176,359	(1,110,800)
Cash and cash equivalents, beginning of period	9,047,586	10,158,386
Cash and cash equivalents, end of period	<u>\$ 34,223,945</u>	<u>\$ 9,047,586</u>

See notes to consolidated financial statements.

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

During 2016 the Company foreclosed on seven residential mortgage loans of real estate totaling \$394,427 and transferred those properties to investment real estate that are now held for sale. The Company reduced the carrying value of this residential real estate obtained through foreclosure to the lower of acquisition cost or net realizable value.

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

	Year Ended December 31, 2016
Reductions in mortgage loans due to foreclosure	\$ 394,427
Investment real estate held-for-sale acquired through foreclosure	(394,427)
Net cash provided (used) in investing activities	\$ -

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

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

	Year Ended December 31, 2015
Cash used in reinsurance assumption	\$ -
Cash provided in reinsurance assumption	64,935
Increase in cash from reinsurance assumption	64,935
Fair value of assets acquired in reinsurance assumption (excluding cash)	
Available-for-sale fixed maturity securities	3,534,093
Policy loans	5,869
Accrued investment income	37,792
Due premiums	2,150
Total fair value of assets acquired (excluding cash)	3,579,904
Fair value of liabilities assumed in reinsurance assumption	
Policyholders' account balances	2,966,827
Future policy benefits	89,089
Total fair value of liabilities assumed	3,055,916
Fair value of net assets acquired in reinsurance assumption (excluding cash)	523,988
Fair value of net assets acquired in reinsurance assumption (including cash)	\$ 588,923

*See notes to consolidated financial statements.*



First Trinity Financial Corporation and Subsidiaries  
Notes to Consolidated Financial Statements  
December 31, 2016 and 2015

## **1. Organization and Significant Accounting Policies**

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

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

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

### ***Company Capitalization***

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

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

### ***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 \$2,695,234 including direct cost associated with the acquisition of \$195,234. The acquisition of FLAC was financed with the working capital of FTFC.

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

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

## **1. Organization and Significant Accounting Policies (continued)**

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

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

### ***Basis of Presentation***

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

### ***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 financial statements to conform to current year 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.

### ***Investments***

Fixed maturity securities are comprised of bonds that are classified as available-for-sale and are carried at fair value with unrealized gains and losses, net of applicable income taxes, reported in accumulated other comprehensive income. The amortized cost of fixed maturity securities available-for-sale is adjusted for amortization of premium and accretion of discount to maturity.

Interest income, as well as the related amortization of premium and accretion of discount, is included in net investment income under the effective yield method. The amortized cost of fixed maturity securities available-for-sale is written down to fair value when a decline in value is considered to be other-than-temporary.

Equity securities available-for-sale is comprised of mutual funds, common stocks and preferred stocks that are carried at fair value. The associated unrealized gains and losses, net of applicable income taxes, are included in accumulated other comprehensive income. The cost of equity securities available-for-sale is written down to fair value when a decline in value is considered to be other-than-temporary. Dividends from these investments are recognized in net investment income when declared.

The Company evaluates the difference between the cost or amortized cost and estimated fair value of its investments to determine whether any decline in value is other-than-temporary in nature. This determination involves a degree of uncertainty. If a decline in the fair value of a security is determined to be temporary, the decline is recorded as an unrealized loss in stockholders' equity. If a decline in a security's fair value is considered to be other-than-temporary, the Company then determines the proper treatment for the other-than-temporary impairment.

## **1. Organization and Significant Accounting Policies (continued)**

For fixed maturity securities available-for-sale, the amount of any other-than-temporary impairment related to a credit loss is recognized in earnings and reflected as a reduction in the cost basis of the security; and the amount of any other-than-temporary impairment related to other factors is recognized in other comprehensive income (loss) with no change to the cost basis of the security. For equity securities available-for-sale, the amount of any other-than-temporary impairment is recognized in earnings and reflected as a reduction in the cost basis of the security.

The assessment of whether a decline in fair value is considered temporary or other-than-temporary includes management's judgment as to the financial position and future prospects of the entity issuing the security. It is not possible to accurately predict when it may be determined that a specific security will become impaired. Future adverse changes in market conditions, poor operating results of underlying investments and defaults on mortgage loan payments could result in losses or an inability to recover the current carrying value of the investments, thereby possibly requiring an impairment charge in the future.

Likewise, if a change occurs in the Company's intent to sell temporarily impaired securities prior to maturity or recovery in value, or if it becomes more likely than not that the Company will be required to sell such securities prior to recovery in value or maturity, a future impairment charge could result.

If an other-than-temporary impairment related to a credit loss occurs with respect to a bond, the Company amortizes the reduced book value back to the security's expected recovery value over the remaining term of the bond. The Company continues to review the security for further impairment that would prompt another write-down in the value.

Mortgage loans are carried at unpaid balances, net of unamortized premium or discounts. Interest income and the amortization of premiums or discounts are included in net investment income. Mortgage loan fees, certain direct loan origination costs, and purchase premiums and discounts on loans are recognized as an adjustment of yield by the interest method based on the contractual terms of the loan. In certain circumstances, prepayments may be anticipated. The Company has established a valuation allowance for mortgage loans on real estate that are not supported by funds held in escrow.

Investment real estate in buildings held for the production of income is carried at cost less accumulated depreciation. Depreciation on investment real estate in buildings held for the production of income is calculated over an estimated useful life of 19 years. Investment real estate in land held for both the production of income and for sale is carried at cost.

Policy loans are carried at unpaid principal balances. Interest income on policy loans is recognized in net investment income at the contract interest rate when earned.

Other long term investments are comprised of lottery prize receivables and are carried at amortized cost, net of unamortized discount. Interest income and the accretion of discount are included in net investment income.

### ***Cash and Cash Equivalents***

Cash and cash equivalents include cash on hand, amounts due from banks and money market instruments.

### ***Short-term investments***

Short-term investments include funds that have a maturity of more than 90 days but less than one year at the date of purchase.

### ***Investment Income and Realized Gains and Losses on Sales of Investments***

Interest and dividends earned on investments are included in net investment income. Realized gains and losses on sales of investments are recognized in operations on the specific identification basis.

## **1. Organization and Significant Accounting Policies (continued)**

### ***Deferred Policy Acquisition Costs***

Commissions and other acquisition costs which vary with and are primarily related to the successful production of new business are deferred and amortized in a systematic manner based on the related contract revenues or gross profits as appropriate. Recoverability of deferred acquisition costs is evaluated periodically by comparing the current estimate of the present value of expected pretax future profits to the unamortized asset balance. If this current estimate is less than the existing balance, the difference is charged to expense.

Deferred acquisition costs for the successful production of traditional life insurance contracts are deferred to the extent deemed recoverable and amortized over the premium paying period of the related policies using assumptions consistent with those used in computing future policy benefit liabilities. Deferred acquisition costs related to the successful production of insurance and annuity products that subject the Company 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 deferred to the extent deemed recoverable and amortized in relation to the present value of actual and expected gross profits on the policies.

To the extent that realized gains and losses on fixed income securities result in adjustments to deferred acquisition costs related to insurance and annuity products, such adjustments are reflected as a component of the amortization of deferred acquisition costs. Deferred acquisition costs related to limited-payment long-duration insurance and annuity contracts are also adjusted, net of tax, for the change in amortization that would have been recorded if the unrealized gains (losses) from available-for-sale securities had actually been realized. This adjustment is included in the change in net unrealized appreciation (depreciation) on available-for-sale securities, a component of "Accumulated Other Comprehensive Income (Loss)" in the shareholders' equity section of the statement of financial position.

### ***Allowance for Loan Losses from Mortgage Loans and 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 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.

## **1. Organization and Significant Accounting Policies (continued)**

### ***Property and Equipment***

Property and equipment are carried at cost less accumulated depreciation or amortization. Office furniture, equipment and computer software is recorded at cost or fair value at acquisition less accumulated depreciation or amortization using the straight-line method over the estimated useful life of the respective assets of three to ten years. Leasehold improvements are recorded at cost and depreciated over the remaining non-cancellable lease term.

### ***Reinsurance***

The Company cedes reinsurance under various agreements allowing management to control exposure to potential losses arising from large risks and providing additional capacity for growth. Estimated reinsurance recoverable balances are reported as assets and are recognized in a manner consistent with the liabilities related to the underlying reinsured contracts.

### ***Value of Insurance Business Acquired***

As a result of the Company's purchases of FLAC and FBLIC, an asset was recorded in the application of purchase accounting to recognize the value of acquired insurance in force. The Company's value of acquired insurance in force is an intangible asset with a definite life and is amortized under Financial Accounting Standards Board ("FASB") guidance. The value of acquired insurance in force is amortized primarily over the emerging profit of the related policies using the same assumptions that were used in computing liabilities for future policy benefits.

For the amortization of the value of acquired insurance in force, the Company periodically reviews its estimates of gross profits. The most significant assumptions involved in the estimation of gross profits include interest rate spreads, future financial market performance, business surrender/lapse rates, mortality and morbidity, expenses and the impact of realized investment gains and losses. In the event actual experience differs significantly from assumptions or assumptions are significantly revised, the Company is required to record a charge or credit to amortization expense for the period in which an adjustment is made.

As of December 31, 2016 and 2015, there was \$2,831,043 and \$2,451,678, respectively, of accumulated amortization of the value of insurance business acquired due to the purchases of FLAC and FBLIC. The Company expects to amortize the value of insurance business acquired by the following amounts over the next five years: \$339,942 in 2017, \$331,886 in 2018, \$308,179 in 2019, \$283,088 in 2020 and \$262,097 in 2021.

### ***Other Assets and Other Liabilities***

Other assets consist primarily of receivable for securities sold, recoverable federal and state income taxes, receivables from mortgage loans and other long-term assets (lottery receivables), guaranty funds, notes receivable, customer account balances receivable, prepaid expenses, other receivables, property and equipment and loans from premium financing.

Other liabilities consist primarily of accrued expenses, accounts payable, deposits on pending policy applications, payable for securities purchased and unearned investment income.

### ***Policyholders' Account Balances***

The Company's liability for policyholders' account balances represents the contract value that has accrued to the benefit of the policyholder as of the financial statement date. This liability is generally equal to the accumulated account deposits plus interest credited less policyholders' withdrawals and other charges assessed against the account balance. Interest crediting rates for individual annuities range from 2.25% to 4.50%. Interest crediting rates for deposit-type liabilities range from 2.50% to 4.00%.

## **1. Organization and Significant Accounting Policies (continued)**

### ***Future Policy Benefits***

The Company's liability for future policy benefits is primarily comprised of the present value of estimated future payments to or on behalf of policyholders, where the timing and amount of payment depends on policyholder mortality or morbidity, less the present value of future net premiums. For life insurance and annuity products, expected mortality and morbidity is generally based on the Company's historical experience or standard industry tables including a provision for the risk of adverse deviation. Interest rate assumptions are based on factors such as market conditions and expected investment returns. Although mortality, morbidity and interest rate assumptions are "locked-in" upon the issuance of new insurance with fixed and guaranteed terms, significant changes in experience or assumptions may require the Company to provide for expected future losses on a product by establishing premium deficiency reserves.

### ***Policy Claims***

Policy claim liabilities represent the estimated liabilities for claims reported plus estimated incurred but not yet reported claims developed from trends of historical market data applied to current exposure.

### ***Federal Income Taxes***

The Company uses the asset and liability method of accounting for income taxes. Deferred income taxes are provided for cumulative temporary differences between balances of assets and liabilities determined under U.S. GAAP and balances determined using tax bases. A valuation allowance is established for the amount of the deferred tax asset that exceeds the amount of the estimated future taxable income needed to utilize the future tax benefits.

### ***Common Stock***

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

### ***Treasury Stock***

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

### ***Accumulated Other Comprehensive Income (Loss)***

FASB guidance requires the inclusion of unrealized gains or losses on available-for-sale securities, net of tax, as a component of other comprehensive income (loss). Unrealized gains and losses recognized in accumulated other comprehensive income (loss) that are later recognized in net income through a reclassification adjustment are identified on the specific identification method. In addition, deferred acquisition costs related to limited-payment long-duration insurance and annuity contracts are also adjusted, net of tax, for the change in amortization that would have been recorded if the unrealized gains (losses) from available-for-sale securities had actually been realized. This adjustment is included in the change in net unrealized appreciation (depreciation) on available-for-sale securities, a component of "Accumulated Other Comprehensive Income (loss)" in the shareholders' equity section of the statement of financial position.

### ***Revenues and Expenses***

Revenues on traditional life insurance products consist of direct premiums reported as earned when due. Liabilities for future policy benefits are provided and acquisition costs are amortized in a systematic manner based on the related contract revenues or gross profits as appropriate.

## **1. Organization and Significant Accounting Policies (continued)**

Acquisition costs for traditional life insurance contracts are deferred to the extent deemed recoverable and are amortized over the premium paying period of the related policies using assumptions consistent with those used in computing future policy benefit liabilities. Traditional life insurance products are treated as long-duration contracts since they are ordinary whole life insurance products, which generally remain in force for the lifetime of the insured.

Deferred acquisition costs related to insurance and annuity products that subject the Company 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 are deferred to the extent deemed recoverable and amortized in relation to the present value of actual and expected gross profits on the policies. These insurance and annuity contracts are treated as long-duration insurance contracts since the Company is subject to risk from policyholder mortality and morbidity over an extended period.

### ***Net Income per Common Share***

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 years ended December 31, 2016 and 2015 were 7,802,593 and 7,804,566 respectively.

### ***Subsequent Events***

Management has evaluated all events subsequent to December 31, 2016 through the date that these financial statements have been issued.

### ***Recent Accounting Pronouncements***

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

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

The revised guidance only allows disposals of components of an entity that represent a strategic shift (e.g., disposal of a major geographical area, a major line of business, a major equity method investment or other major parts of an entity) and that have a major effect on a reporting entity's operations and financial results to be reported as discontinued operations. The revised guidance also requires expanded disclosure in the financial statements for discontinued operations as well as for disposals of significant components of an entity that do not qualify for discontinued operations presentation. The updated guidance was effective for the quarter ending March 31, 2015. The adoption of this guidance did not have a material effect on the Company's results of operations, financial position or liquidity.

#### ***Revenue from Contracts with Customers***

In May 2014, the FASB issued updated guidance to clarify the principles for recognizing revenue. While insurance contracts are not within the scope of this updated guidance, the Company's fee income related to providing services will be subject to this updated guidance. The updated guidance requires an entity to recognize revenue as performance obligations are met, in order to reflect the transfer of promised goods or services to customers in an amount that reflects the consideration the entity is entitled to receive for those goods or services. The following steps are applied in the updated guidance: (1) identify the contract(s) with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract and (5) recognize revenue when, or as, the entity satisfies a performance obligation.

## 1. Organization and Significant Accounting Policies (continued)

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. The adoption of this guidance will not have a material effect on the Company's results of operations, financial position or liquidity since there are no uncertainties about the Company's ability to continue as a going concern.



## 1. Organization and Significant Accounting Policies (continued)

### *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.

### *Receivables – 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.

## 1. Organization and Significant Accounting Policies (continued)

### *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 regarding leases that generally requires the lessee and lessor to recognize lease assets and lease liabilities on the statement of financial position. A lessee should recognize on the statement of financial position a liability to make lease payments and an asset representing its right-to-use the underlying assets for the lease term. Optional payments to extend the lease or purchase the underlying leased asset should be included in the measurement of lease assets and lease liabilities only if the lessee is reasonably certain to exercise the option(s). If the lease has a term of 12 months or less, a lessee can make an election to recognize lease expenses for such leases on a straight-line basis over the lease term. There is a differentiation between finance leases and operating leases for the lessee in the statements of operations and cash flows. Finance leases recognize interest on the lease liability separately from the right-to-use the asset whereas an operating lease recognizes a single lease cost allocated over the lease term on a generally straight-line basis. All cash payments are within operating activities in the statement of cash flows except finance leases classify repayments of the principal portion of the lease liability within financing activities.

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

## 1. Organization and Significant Accounting Policies (continued)

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

### *Investments — Equity Method and Joint Ventures: 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.

### *Derivatives and Hedging: 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 is contingently exercisable, the event that triggers the ability to exercise the option is considered to be clearly and closely related to the debt instrument (i.e., the economic characteristics and risks of the option are related to interest rates or credit risks) and the entity does not have to assess 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.

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

In June 2016, the FASB issued updated guidance for the accounting for credit losses for financial instruments. The updated guidance applies a new credit loss model (current expected credit losses or CECL) for determining credit-related impairments for financial instruments measured at amortized cost (e.g. 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. Based on the financial instruments currently held by the Company, there would not be a material effect on the Company's results of operations, financial position or liquidity if the new guidance were able to be adopted in the current accounting period. The impact on the Company's results of operations, financial position or liquidity at the date of adoption of the updated guidance will be determined by the financial instruments held by the Company and the economic conditions at that time.

## **1. Organization and Significant Accounting Policies (continued)**

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

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

### *Consolidation – Interests Held through Related Parties that Are Under Common Control*

In October 2016, the FASB issued further guidance that makes targeted amendments to consolidation accounting. This update changes how a reporting entity that is the primary beneficiary of a variable interest entity treats indirect interests in the entity held through related parties that are under common control with the reporting entity. The updated guidance is effective for annual and interim periods beginning after December 15, 2016, and is to be applied retrospectively. 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.

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

In November 2016, the FASB issued specific guidance on the cash flow classification and presentation of changes in restricted cash or restricted cash equivalents when there are transfers between cash, cash equivalents and restricted cash or restricted cash equivalents and when there are direct cash receipts into restricted cash or restricted cash equivalents or direct cash payments made from restricted cash or restricted cash equivalents. The updated guidance is effective for annual and interim periods beginning after December 15, 2017, and is to be applied retrospectively. Early adoption is permitted. The adoption of this guidance is not expected to have a material effect on the Company's results of operations, financial position or liquidity.

### *Business Combinations – Clarifying the Definition of a Business*

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

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

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

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

First Trinity Financial Corporation and Subsidiaries  
Notes to Consolidated Financial Statements  
December 31, 2016 and 2015

**2. Investments**

***Fixed Maturity and Equity Securities Available-For-Sale***

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

	Amortized Cost or Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>December 31, 2016</b>				
Fixed maturity securities				
U.S. government and U.S. government agencies	\$ 3,157,889	\$ 99,086	\$ 71,592	\$ 3,185,383
States and political subdivisions	9,172,533	144,947	66,584	9,250,896
Residential mortgage-backed securities	33,970	36,757	-	70,727
Corporate bonds	100,268,424	2,324,712	1,613,095	100,980,041
Foreign bonds	15,677,449	394,742	248,083	15,824,108
Total fixed maturity securities	<u>128,310,265</u>	<u>3,000,244</u>	<u>1,999,354</u>	<u>129,311,155</u>
Equity securities				
Mutual funds	344,783	-	2,869	341,914
Corporate preferred stock	99,945	-	3,585	96,360
Corporate common stock	154,672	45,461	-	200,133
Total equity securities	<u>599,400</u>	<u>45,461</u>	<u>6,454</u>	<u>638,407</u>
Total fixed maturity and equity securities	<u>\$ 128,909,665</u>	<u>\$ 3,045,705</u>	<u>\$ 2,005,808</u>	<u>\$ 129,949,562</u>
<b>December 31, 2015</b>				
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	<u>138,028,455</u>	<u>2,247,747</u>	<u>5,720,175</u>	<u>134,556,027</u>
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	<u>790,215</u>	<u>123,231</u>	<u>20,646</u>	<u>892,800</u>
Total fixed maturity and equity securities	<u>\$ 138,818,670</u>	<u>\$ 2,370,978</u>	<u>\$ 5,740,821</u>	<u>\$ 135,448,827</u>

First Trinity Financial Corporation and Subsidiaries  
Notes to Consolidated Financial Statements  
December 31, 2016 and 2015

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

	Fair Value	Unrealized Loss	Number of Securities
December 31, 2016			
Fixed maturity securities			
Less than 12 months			
U.S. government and U.S. government agencies	\$ 1,878,308	\$ 71,592	6
States and political subdivisions	2,532,653	66,584	14
Corporate bonds	23,721,217	696,066	92
Foreign bonds	5,087,133	155,833	16
Total less than 12 months	33,219,311	990,075	128
More than 12 months			
Corporate bonds	8,004,923	917,029	36
Foreign bonds	1,024,548	92,250	6
Total more than 12 months	9,029,471	1,009,279	42
Total fixed maturity securities	42,248,782	1,999,354	170
Equity securities			
Less than 12 months			
Corporate preferred stock	96,360	3,585	2
Total less than 12 months	96,360	3,585	2
More than 12 months			
Mutual funds	89,113	2,869	1
Total more than 12 months	89,113	2,869	1
Total equity securities	185,473	6,454	3
Total fixed maturity and equity securities	\$ 42,434,255	\$ 2,005,808	\$ 173
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

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**2. Investments** (continued)

As of December 31, 2016, the Company held 170 available-for-sale fixed maturity securities with an unrealized loss of \$1,999,354, fair value of \$42,248,782 and amortized cost of \$44,248,136. These unrealized losses were primarily due to market interest rate movements in the bond market as of December 31, 2016. The ratio of the fair value to the amortized cost of these 170 securities is 95%.

The Company recorded one other-than-temporary impairment during 2016. During 2016, the Company impaired its bonds in an energy corporation with a total par value of \$650,000 as a result of continuing unrealized losses. This impairment was considered fully credit-related, resulting in a charge to the statement of operations before tax of \$207,450 for the year ended December 31, 2016. This charge represents the credit-related portion of the difference between the amortized cost basis of the security and its fair value. The Company has experienced no additional other-than-temporary impairments on fixed maturity available-for-sale securities during 2016.

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%.

The Company also recorded one other-than-temporary impairment during 2015. During 2015, the Company impaired its bonds in a mining corporation with a total par value of \$600,000 as a result of continuing unrealized losses. This impairment was considered fully credit-related, resulting in a charge to the statement of operations before tax of \$502,013 for the year ended December 31, 2015. This charge represents the credit-related portion of the difference between the amortized cost basis of the security and its fair value.

As of December 31, 2016, the Company has three available-for-sale equity securities with an unrealized loss of \$6,454, fair value of \$185,473 and cost of \$191,927. The ratio of fair value to cost of these securities is 97%.

As of December 31, 2015, the Company has 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 92% and 94% investment grade as rated by Standard & Poor's as of December 31, 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.

First Trinity Financial Corporation and Subsidiaries  
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**2. Investments** (continued)

Based on management's review, the Company experienced one other-than-temporary impairment during the year ended December 31, 2016 and one other-than-temporary impairment during the year ended December 31, 2015. Except for one other-than-temporary impairment recorded during 2016 and the one other-than-temporary impairment recorded during 2015, management believes that the Company will fully recover its cost basis in the securities held as of December 31, 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.

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

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Unrealized appreciation (depreciation)		
on available-for-sale securities	\$ 1,039,897	\$ (3,369,843)
Adjustment to deferred acquisition costs	(16,553)	50,073
Deferred income (taxes) benefit	<u>(204,668)</u>	<u>663,953</u>
Net unrealized appreciation (depreciation)		
on available-for-sale securities	<u>\$ 818,676</u>	<u>\$ (2,655,817)</u>

The amortized cost and fair value of fixed maturity available-for-sale securities as of December 31, 2016, by contractual maturity, are summarized as follows:

	<u>December 31, 2016</u>	
	<u>Amortized Cost</u>	<u>Fair Value</u>
Due in one year or less	\$ 8,590,830	\$ 8,657,318
Due in one year through five years	30,254,568	30,912,175
Due after five years through ten years	43,556,384	44,016,351
Due after ten years	45,874,513	45,654,584
Due at multiple maturity dates	<u>33,970</u>	<u>70,727</u>
	<u>\$ 128,310,265</u>	<u>\$ 129,311,155</u>

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.



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Notes to Consolidated Financial Statements  
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**2. Investments (continued)**

Proceeds and gross realized gains (losses) from the sales, calls and maturities of fixed maturity and equity securities available-for-sale, mortgage loans on real estate and investment real estate for the years ended December 31, 2016 and 2015 are summarized as follows:

	Years Ended December 31,							
	Fixed Maturity Securities		Equity Securities		Mortgage Loans on Real Estate		Investment Real Estate	
	2016	2015	2016	2015	2016	2015	2016	2015
Proceeds	\$ 20,532,968	\$ 8,799,624	\$ 324,556	\$ 533,817	\$ 17,550,870	\$ 9,882,604	\$ 43,269	\$ 7,083,246
Gross realized gains	643,041	262,209	100,869	996	101,104	112,537	-	390,202
Gross realized losses	(64,554)	(78,378)	(1,468)	(2,898)	(28,591)	-	(20,662)	-
Loss on other-than-temporary impairment	(207,450)	(502,013)	-	-	-	(23,737)	(4,892)	-

The accumulated change in net unrealized investment gains for fixed maturity and equity securities available-for-sale for the years ended December 31, 2016 and 2015 and the amount of realized investment gains (losses) on fixed maturity and equity securities available-for-sale, mortgage loans on real estate and investment real estate for the years ended December 31, 2016 and 2015 are summarized as follows:

	Years Ended December 31,	
	2016	2015
Change in unrealized investment gains (losses):		
Available-for-sale securities:		
Fixed maturity securities	\$ 4,473,318	\$ (6,711,535)
Equity securities	(63,578)	(49,177)
Net realized investment gains (losses):		
Available-for-sale securities:		
Fixed maturity securities	578,487	183,831
Equity securities	99,401	(1,902)
Mortgage loans on real estate	72,513	112,537
Investment real estate	(20,662)	390,202

***Mortgage Loans on Real Estate***

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

	December 31, 2016		December 31, 2015	
	Amount	Percentage	Amount	Percentage
Commercial mortgage loans				
Retail stores	\$ 1,075,324	1.46%	\$ 1,272,881	2.17%
Office buildings	179,484	0.24%	191,774	0.32%
Total commercial mortgage loans	1,254,808	1.69%	1,464,655	2.49%
Residential mortgage loans	73,116,478	98.31%	57,310,263	97.51%
Total mortgage loans	\$ 74,371,286	100.00%	\$ 58,774,918	100.00%

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

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 December 31, 2016 and 2015 are summarized as follows:

Loan-To-Value Ratio	As of December 31,					
	Residential Mortgage Loans		Commercial Mortgage Loans		Total Mortgage Loans	
	2016	2015	2016	2015	2016	2015
Over 70% to 80%	\$ 14,559,541	\$ 15,058,997	\$ -	\$ -	\$ 14,559,541	\$ 15,058,997
Over 60% to 70%	29,738,887	21,749,312	-	439,250	29,738,887	22,188,562
Over 50% to 60%	15,440,364	9,700,752	1,051,155	658,693	16,491,519	10,359,445
Over 40% to 50%	10,399,031	8,553,256	-	-	10,399,031	8,553,256
Over 30% to 40%	2,184,351	1,430,835	203,653	366,712	2,388,004	1,797,547
Over 20% to 30%	467,410	159,930	-	-	467,410	159,930
Over 10% to 20%	317,936	650,688	-	-	317,936	650,688
10% or less	8,958	6,493	-	-	8,958	6,493
<b>Total</b>	<b>\$ 73,116,478</b>	<b>\$ 57,310,263</b>	<b>\$ 1,254,808</b>	<b>\$ 1,464,655</b>	<b>\$ 74,371,286</b>	<b>\$ 58,774,918</b>

The outstanding principal balance of mortgage loans, by the most significant states, as of December 31, 2016 and 2015 are summarized as follows:

	December 31, 2016		December 31, 2015	
	Amount	Percentage	Amount	Percentage
Arizona	\$ 735,704	0.99%	\$ 977,946	1.66%
California	3,516,796	4.73%	4,164,249	7.09%
Colorado	846,964	1.14%	914,802	1.56%
Connecticut	245,547	0.33%	273,369	0.47%
Florida	14,157,109	19.04%	7,014,486	11.93%
Georgia	6,761,450	9.09%	8,238,987	14.02%
Illinois	10,984,320	14.77%	6,765,802	11.51%
Indiana	548,783	0.74%	451,539	0.77%
Kentucky	104,490	0.14%	207,133	0.35%
Louisiana	256,971	0.35%	336,896	0.57%
Michigan	491,692	0.66%	500,148	0.85%
Minnesota	216,640	0.29%	222,271	0.38%
Mississippi	213,286	0.29%	139,970	0.24%
Missouri	2,466,872	3.32%	2,890,674	4.92%
Nevada	554,223	0.75%	-	0.00%
New York	419,620	0.56%	484,202	0.82%
North Carolina	1,048,442	1.41%	1,011,167	1.72%
Ohio	1,737,406	2.34%	386,740	0.66%
Oklahoma	354,890	0.48%	227,526	0.39%
Pennsylvania	224,879	0.30%	237,978	0.40%
South Carolina	345,682	0.46%	1,334,346	2.27%
Tennessee	1,190,701	1.60%	1,360,719	2.32%
Texas	26,141,950	35.14%	19,001,668	32.33%
Utah	-	0.00%	277,440	0.47%
Washington	247,125	0.33%	699,963	1.19%
Wisconsin	286,319	0.38%	124,787	0.21%
All other states	273,425	0.37%	530,110	0.90%
<b>Total</b>	<b>\$ 74,371,286</b>	<b>100.00%</b>	<b>\$ 58,774,918</b>	<b>100.00%</b>

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

There were 11 loans with a remaining principal balance of \$1,208,379 that were more than 90 days past due as of December 31, 2016. There were five loans with a remaining principal balance of \$531,026 that were more than 90 days past due as of December 31, 2015.

There were no mortgage loans in default or in the foreclosure process as of December 31, 2016. There were three mortgage loans in default and in the foreclosure process with a remaining principal balance of \$196,606 as of December 31, 2015.

During 2016 the Company foreclosed on seven residential mortgage loans of real estate totaling \$394,427 and transferred those properties to investment real estate that are now held for sale.

The principal balances of the 755 residential mortgage loans owned by the Company as of December 31, 2016 that aggregated to \$73,116,478 ranged from a low of \$2,148 to a high of \$864,562 and the interest rates ranged from 5.40% to 20.78%. The principal balances of the four commercial mortgage loans owned by the Company as of December 31, 2016 that aggregated to \$1,254,808 ranged from a low of \$180,386 to a high of \$451,554 and the interest rates ranged from 5.75% to 8.25%.

The principal balances of the 650 residential mortgage loans owned by the Company as of December 31, 2015 that aggregated to \$57,310,263 ranged from a low of \$6,251 to a high of \$876,540 and the interest rates ranged from 5.00% to 18.34%. The principal balances of the five commercial mortgage loans owned by the Company as of December 31, 2015 that aggregated to \$1,464,655 ranged from a low of \$122,449 to a high of \$469,265 and the interest rates ranged from 5.75% to 8.25%.

There are allowances for losses on mortgage loans of \$244,427 and \$183,348 as of December 31, 2016 and 2015, respectively. As of December 31, 2016, \$525,063 of independent mortgage loan balances are held in escrow by a third party for the benefit of the Company related to its investment in mortgage loans on real estate with one loan originator. As of December 31, 2015, \$534,330 of independent mortgage loan balances are held in escrow by a third party for the benefit of the Company related to its investment in mortgage loans on real estate with one loan originator.

In 2016 the Company did not experience any impairment on mortgage loan investments. In 2015 management impaired one mortgage loan on real estate investment that was in foreclosure and reduced that investment by \$23,737 from its carrying value to its net realizable value expected at the time of ultimate resale.

***Investment real estate***

As introduced above, during 2016 the Company foreclosed on seven residential mortgage loans of real estate totaling \$394,427 and transferred those properties to investment real estate that are now held for sale. The Company reduced the carrying value of this residential real estate obtained through foreclosure to the lower of acquisition cost or net realizable value. On November 30, 2016, the Company sold one investment real estate property with an aggregate carrying value of \$63,931. The Company recorded a gross realized investment loss on sale of \$20,662 based on an aggregate sales price of \$43,269.

TLIC owns approximately six and one-half acres of land located in Topeka, Kansas that includes a 20,000 square foot office building on approximately one-fourth of this land. This building and land on one of the four lots is held for the production of income. The other three lots of land owned in Topeka, Kansas are held for investment. In addition, FBLIC owns one-half acre of undeveloped land located in Jefferson City, Missouri. During 2016 management impaired the undeveloped land by \$4,892 from its carrying value to its net realizable value expected at the time of ultimate resale.

First Trinity Financial Corporation and Subsidiaries  
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**2. Investments** (continued)

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. The Company recorded a gross realized investment gain on these sales of \$390,202 based on an aggregate sales price of \$7,083,246 less closing costs and expenses of \$20,119.

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

	December 31,	
	2016	2015
Land - held for the production of income	\$ 213,160	\$ 213,160
Land - held for investment	745,155	750,047
Total land	958,315	963,207
Building - held for the production of income	2,267,557	2,267,557
Less - accumulated depreciation	(1,049,695)	(904,206)
Buildings net of accumulated depreciation	1,217,862	1,363,351
Residential real estate - held for sale	330,496	-
Total residential real estate	330,496	-
Investment real estate, net of accumulated depreciation	<u>\$ 2,506,673</u>	<u>\$ 2,326,558</u>

***Other Long-Term Investments***

The Company's investment in lottery prize cash flows was \$46,788,873 and \$31,566,927 as of December 31, 2016 and 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 estimated fair value of lottery prize cash flows, by contractual maturity, as of December 31, 2016 are summarized as follows:

	December 31, 2016	
	Amortized Cost	Fair Value
Due in one year or less	\$ 6,348,537	\$ 6,450,263
Due in one year through five years	18,336,787	19,821,696
Due after five years through ten years	13,016,677	15,570,507
Due after ten years	9,086,872	14,047,963
	<u>\$ 46,788,873</u>	<u>\$ 55,890,429</u>

First Trinity Financial Corporation and Subsidiaries  
Notes to Consolidated Financial Statements  
December 31, 2016 and 2015

**2. Investments** (continued)

The outstanding balance of lottery prize cash flows, by state lottery, as of December 31, 2016 and 2015 are summarized as follows:

	December 31, 2016		December 31, 2015	
	Amount	Percentage	Amount	Percentage
Arizona	\$ 67,009	0.14%	\$ 79,461	0.25%
California	3,725,329	7.96%	4,133,665	13.09%
Connecticut	1,554,844	3.32%	908,327	2.88%
Florida	92,721	0.20%	135,379	0.43%
Georgia	1,179,442	2.52%	984,152	3.12%
Illinois	565,667	1.21%	614,640	1.95%
Indiana	1,303,314	2.79%	918,855	2.91%
Kentucky	28,411	0.06%	54,412	0.17%
Maine	239,011	0.51%	270,767	0.86%
Massachusetts	10,262,521	21.93%	5,188,885	16.44%
Michigan	307,892	0.66%	320,497	1.02%
Missouri	122,945	0.26%	-	0.00%
New Jersey	61,823	0.13%	-	0.00%
New York	19,633,916	41.97%	14,213,676	45.02%
Ohio	3,476,857	7.43%	260,406	0.82%
Pennsylvania	1,027,361	2.20%	437,920	1.39%
Texas	2,540,038	5.43%	2,734,028	8.66%
Vermont	293,573	0.63%	-	0.00%
Washington	306,199	0.65%	311,857	0.99%
	\$ 46,788,873	100.00%	\$ 31,566,927	100.00%

Major categories of net investment income for the years ended December 31, 2016 and 2015 are summarized as follows:

	Years Ended December 31,	
	2016	2015
Fixed maturity securities	\$ 5,970,940	\$ 5,542,312
Equity securities	27,364	39,329
Other long-term investments	2,685,639	1,877,725
Mortgage loans	5,774,229	4,492,150
Policy loans	107,541	101,344
Real estate	340,032	449,034
Short-term and other investments	44,013	12,278
	14,949,758	12,514,172
Gross investment income		
Investment expenses	(1,759,115)	(1,278,830)
Net investment income	\$ 13,190,643	\$ 11,235,342

### 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:

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, state and political subdivision securities, corporate debt securities and foreign debt securities.

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

The Company has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into the three-level fair value hierarchy. If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument. A review of fair value hierarchy classifications is conducted on a quarterly basis. Changes in the valuation inputs, or their ability to be observed, may result in a reclassification for certain financial assets or liabilities. Reclassifications impacting Level 3 of the fair value hierarchy are reported as transfers in and out of the Level 3 category as of the beginning of the period in which the reclassifications occur.

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**3. Fair Value Measurements (continued)**

The Company's fair value hierarchy for those financial instruments measured at fair value on a recurring basis as of December 31, 2016 and 2015 is summarized as follows:

	Level 1	Level 2	Level 3	Total
<u>December 31, 2016</u>				
Fixed maturity securities, available-for-sale				
U.S. government and U.S. government agencies	\$ -	\$ 3,185,383	\$ -	\$ 3,185,383
States and political subdivisions	-	9,250,896	-	9,250,896
Residential mortgage-backed securities	-	70,727	-	70,727
Corporate bonds	-	100,980,041	-	100,980,041
Foreign bonds	-	15,824,108	-	15,824,108
Total fixed maturity securities	<u>\$ -</u>	<u>\$ 129,311,155</u>	<u>\$ -</u>	<u>\$ 129,311,155</u>
Equity securities, available-for-sale				
Mutual funds	\$ -	\$ 341,914	\$ -	\$ 341,914
Corporate preferred stock	96,360	-	-	96,360
Corporate common stock	138,633	-	61,500	200,133
Total equity securities	<u>\$ 234,993</u>	<u>\$ 341,914</u>	<u>\$ 61,500</u>	<u>\$ 638,407</u>
<u>December 31, 2015</u>				
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	<u>\$ -</u>	<u>\$ 134,556,027</u>	<u>\$ -</u>	<u>\$ 134,556,027</u>
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	<u>\$ 467,599</u>	<u>\$ 378,701</u>	<u>\$ 46,500</u>	<u>\$ 892,800</u>

As of December 31, 2016 and 2015, Level 3 financial instruments consisted of two private placement common stocks that have no active trading. During 2016, additional investments in one of the private placement common stocks were purchased.

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

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**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, state 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.

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.

The change in the fair value of the Company's Level 3 equity securities available-for-sale for the years ended December 31, 2016 and 2015 is summarized as follows:

	Year Ended December 31,	
	2016	2015
Beginning balance	\$ 46,500	\$ 46,500
Purchases	15,000	-
Sales	-	-
Impairment	-	-
Ending balance	<u>\$ 61,500</u>	<u>\$ 46,500</u>



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**3. Fair Value Measurements (continued)**

***Fair Value of Financial Instruments***

The carrying amount and fair value of the Company's financial assets and financial liabilities disclosed, but not carried, at fair value as of December 31, 2016 and 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:

	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
December 31, 2016					
Financial assets					
Mortgage loans on real estate					
Commercial	\$ 1,254,808	\$ 1,268,140	\$ -	\$ -	\$ 1,268,140
Residential	73,116,478	70,383,661	-	-	70,383,661
Policy loans	1,598,116	1,598,116	-	-	1,598,116
Other long-term investments	46,788,873	55,890,429	-	-	55,890,429
Cash and cash equivalents	34,223,945	34,223,945	34,223,945	-	-
Accrued investment income	2,176,770	2,176,770	-	-	2,176,770
Total financial assets	<u>\$ 159,158,990</u>	<u>\$ 165,541,061</u>	<u>\$ 34,223,945</u>	<u>\$ -</u>	<u>\$ 131,317,116</u>
Financial liabilities					
Policyholders' account balances	\$ 245,346,489	\$ 206,541,702	\$ -	\$ -	\$ 206,541,702
Policy claims	997,814	997,814	-	-	997,814
Total financial liabilities	<u>\$ 246,344,303</u>	<u>\$ 207,539,516</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 207,539,516</u>
December 31, 2015					
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	<u>\$ 103,804,896</u>	<u>\$ 110,062,187</u>	<u>\$ 9,647,441</u>	<u>\$ -</u>	<u>\$ 100,414,746</u>
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	<u>\$ 198,403,544</u>	<u>\$ 179,948,080</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 179,948,080</u>

### **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. Special Deposits**

TLIC and FBLIC are required to hold assets on deposit for the benefit of policyholders and other special deposits in accordance with statutory rules and regulations. As of December 31, 2016 and 2015, these required deposits had amortized costs that totaled \$4,099,405 and \$3,989,742, respectively. As of December 31, 2016 and 2015, these required deposits had fair values that totaled \$4,125,116 and \$4,034,042, respectively.

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

As of December 31, 2016, \$525,063 of independent mortgage loan balances are held in escrow by a third party for the benefit of the Company related to its investment in \$25,523,757 of mortgage loans on real estate with one loan originator. In addition, the Company has an additional \$244,427 allowance for possible loan losses in the remaining \$48,847,529 of investments in mortgage loans on real estate as of December 31, 2016.

As of December 31, 2015, \$534,330 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 \$320,996 as of December 31, 2015 are carried net of estimated loan losses of \$197,172 as of December 31, 2015. In 2016 the Company established a full allowance for uncollectible receivables against the premium financing asset. In late December of 2016, the Company wrote off the asset by netting the allowance for uncollectible receivables against the premium financing asset. The Company has made no premium financing loans since June 30, 2012.

The balances of and changes in the Company's credit losses related to mortgage loans on real estate and loans from premium financing as of and for the years ended December 31, 2016 and 2015 are summarized as follows (excluding \$25,523,757 and \$21,755,620 of mortgage loans on real estate as of December 31, 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):

	Years Ended December 31,							
	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	-	-	-	-	(347,885)	-	(347,885)	-
Recoveries	-	-	-	-	-	(186)	-	(186)
Provision	62,133	59,384	(1,054)	(2,502)	150,713	-	211,792	56,882
Allowance, ending	<u>\$ 238,121</u>	<u>\$ 175,988</u>	<u>\$ 6,306</u>	<u>\$ 7,360</u>	<u>\$ -</u>	<u>\$ 197,172</u>	<u>\$ 244,427</u>	<u>\$ 380,520</u>
Allowance, ending:								
Individually evaluated for impairment	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 192,690</u>	<u>\$ -</u>	<u>\$ 192,690</u>
Collectively evaluated for impairment	<u>\$ 238,121</u>	<u>\$ 175,988</u>	<u>\$ 6,306</u>	<u>\$ 7,360</u>	<u>\$ -</u>	<u>\$ 4,482</u>	<u>\$ 244,427</u>	<u>\$ 187,830</u>
Carrying Values:								
Individually evaluated for impairment	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 316,514</u>	<u>\$ -</u>	<u>\$ 316,514</u>
Collectively evaluated for impairment	<u>\$ 47,592,721</u>	<u>\$ 35,554,643</u>	<u>\$ 1,254,808</u>	<u>\$ 1,464,655</u>	<u>\$ -</u>	<u>\$ 4,482</u>	<u>\$ 48,847,529</u>	<u>\$ 37,023,780</u>

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**6. Deferred Policy Acquisition Costs**

The balances of and changes in deferred acquisition costs as of and for the years ended December 31, 2016 and 2015 are summarized as follows:

	2016	2015
Balance, beginning of year	\$ 13,015,679	\$ 9,287,851
Capitalization of commissions, sales and issue expenses	7,445,304	5,204,940
Amortization	(2,202,367)	(1,563,625)
Deferred acquisition costs allocated to investments	(66,626)	86,513
Balance, end of year	\$ 18,191,990	\$ 13,015,679

**7. Federal Income Taxes**

FTFC files a consolidated federal income tax return with FTCC but does not file a consolidated tax return with TLIC or FBLIC. TLIC and FBLIC are taxed as life insurance companies under the provisions of the Internal Revenue Code. Life insurance companies must file separate tax returns until they have been a member of the consolidated filing group for five years. However, in 2016 and 2015, TLIC and FBLIC filed combined life insurance company 2015 and 2014 federal tax returns and intend to also file a combined life insurance company 2016 federal tax return for TLIC and FBLIC in 2017.

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.

A reconciliation of federal income tax benefit computed by applying the federal income tax rate of 34% to income before federal income tax expense for the years ended December 31, 2016 and 2015 is summarized as follows:

	Years Ended December 31,	
	2016	2015
Expected tax expense	\$ 822,726	\$ 665,567
Net operating losses	(690,905)	(692,856)
Deferred policy acquisition costs	(651,873)	(431,020)
Accrual of discount	(183,393)	(90,611)
Small life insurance company deduction	(62,303)	(481,855)
Adjustment of prior years' taxes	(15,075)	2,970
Value of life insurance business acquired	53,111	54,069
Capital gain taxes	72,249	266,528
Difference in book versus tax basis of available-for-sale fixed maturity securities	159,763	10,681
Future policy benefits	282,062	282,823
Other	42,681	(11,454)
Total income tax benefit	\$ (170,957)	\$ (425,158)

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**7. Federal Income Taxes** (continued)

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax liabilities and assets as of December 31, 2016 and 2015 are summarized as follows:

	December 31,	
	2016	2015
Deferred tax liabilities:		
Net unrealized investment gains	\$ 204,668	\$ -
Available-for-sale fixed maturity securities	232,889	315,195
Deferred policy acquisition costs	2,944,563	2,013,315
Reinsurance recoverable	251,788	246,318
Investment real estate	35,940	36,000
Value of insurance business acquired	1,181,767	1,257,640
Due premiums	25,914	23,556
Mortgage loans	-	21,444
Other assets	5,819	4,370
Other	3,798	5,936
Total deferred tax liabilities	4,887,146	3,923,774
Deferred tax assets:		
Net unrealized investment losses	-	663,953
Policyholders' account balances and future policy benefits	1,965,397	1,554,886
Policy claims	25,983	23,658
Unearned investment income	9,491	10,583
Available-for-sale equity securities	48,945	73,474
Mortgage loans	7,578	-
Alternative minimum tax carryforward	276,571	267,383
Net operating loss carryforward	1,843,238	1,957,917
Net capital loss carryforward	14,450	14,450
Dividend liability	10,652	11,083
Other	5,821	4,372
Total deferred tax assets	4,208,126	4,581,759
Valuation allowance	(14,450)	(691,195)
Net deferred tax assets	4,193,676	3,890,564
Net deferred tax liabilities	\$ 693,470	\$ 33,210

FTFC has net operating loss carryforwards of \$5,320,326 expiring in 2024 through 2033. FTFC has capital loss carryforwards of \$42,500 expiring in 2018 that are subject to a full valuation allowance as of December 31, 2016 and 2015 since it is not probable that the capital loss carryforwards will be utilized. During 2016, FTFC utilized \$299,347 of the net operating loss carryforward existing as of January 1, 2016 to offset 2016 federal taxable income. During 2015, FTFC utilized \$53,529 of the net operating loss carryforward existing as of January 1, 2015 to offset 2015 federal taxable income.

Due to FTFC's taxable income generated in 2016, 2015 and 2014 and FTFC's projected taxable income in future years, the valuation allowance on FTFC's net operating loss carryforward was reduced by \$1,699,953 during 2016 and \$2,000,000 during 2015 since it is probable the entire net operating loss carryforwards will be utilized.

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**7. Federal Income Taxes (continued)**

TLIC has net operating loss carry forwards of \$116,225, expiring in 2023 that remain from the acquisition of FLAC. The utilization of those losses is restricted by the tax laws and some or all of the losses may not be available for use. During 2016, TLIC utilized \$135,000 of the net operating loss carryforward existing as of January 1, 2016 to offset 2016 federal taxable income. During 2015, TLIC also utilized \$135,000 of the net operating loss carryforward existing as of January 1, 2015 to offset 2015 federal taxable income.

FBLIC has net operating loss carry forwards of \$55,409, generated in 2016 that expires in 2031. The utilization of those losses is restricted by the tax laws and some or all of the losses may not be available for use.

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, have not accrued any such amounts. The Company files U.S. federal income tax returns and income tax returns in various state jurisdictions. The 2013 through 2016 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.

**8. Reinsurance**

TLIC participates in reinsurance in order to provide risk diversification, additional capacity for future growth and limit the maximum net loss potential arising from large risk. TLIC reinsures all amounts of risk on any one life in excess of \$75,000 for individual life insurance with Investors Heritage Life Insurance Company, Optimum Re Insurance Company (“Optimum Re”) and Wilton Reassurance Company (“Wilton Re”).

TLIC is a party to an Automatic Retrocession Pool Agreement (the “Reinsurance Pool”) with Optimum Re, Catholic Order of Foresters, American Home Life Insurance Company and Woodmen of the World. The agreement provides for automatic retrocession of coverage in excess of Optimum Re’s retention on business ceded to Optimum Re by the other parties to the Reinsurance Pool. TLIC’s maximum exposure on any one insured under the Reinsurance Pool is \$75,000. As of January 1, 2008, the Reinsurance Pool stopped accepting new cessions.

Effective September 29, 2005, FLAC and Wilton Re executed a binding letter of intent whereby both parties agreed that FLAC would cede the simplified issue version of its Golden Eagle Whole Life (Final Expense) product to Wilton Re on a 50/50 quota share original term coinsurance basis. The letter of intent was executed on a retroactive basis to cover all applicable business issued by FLAC subsequent to January 1, 2005. Wilton Re agreed to provide various commission and expense allowances to FLAC in exchange for FLAC ceding 50% of the applicable premiums to Wilton Re as they were collected. As of June 24, 2006, Wilton Re terminated the reinsurance agreement for new business issued after the termination date.

FBLIC also participates in reinsurance in order to provide risk diversification, additional capacity for future growth and limit the maximum net loss potential arising from large risk. FBLIC reinsures initial amounts of risk on any one life in excess of \$75,000 for individual life insurance with Optimum Re. TLIC and FBLIC also reinsure the accidental death benefit portion of their life policies under a bulk agreement with Optimum Re.

To the extent that the reinsurance companies are unable to meet their obligations under the reinsurance agreements, TLIC and FBLIC remain primarily liable for the entire amount at risk.

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**8. Reinsurance** (continued)

Reinsurance assumed and ceded amounts for TLIC and FBLIC for 2016 and 2015 are summarized as follows:

	2016	2015
Premiums assumed	\$ 42,342	\$ 49,173
Commissions and expense allowances assumed	57	117
Benefits assumed	21,864	54,868
Reserve credits assumed	59,226	56,790
In force amount assumed	17,621,570	18,384,754
Premiums ceded	375,796	385,571
Commissions and expense allowances ceded	4,716	10,530
Benefits ceded	197,467	243,183
Reserve credits ceded	1,057,934	1,042,395
In force amount ceded	53,453,666	60,400,768

**9. Leases**

The Company leases 6,769 square feet of office space pursuant to an original five-year lease that began October 1, 2010 and was amended on October 1, 2015 for another five-year term. Under the terms of the original home office lease, the monthly rent was \$7,897 from October 1, 2010 through September 30, 2015. Under the terms of the amended home office lease, the monthly rent is \$8,461 from October 1, 2015 through September 30, 2016 and \$8,630 from October 1, 2016 through September 30, 2017 with increases of two percent each twelve month period from October 1, 2017 through September 30, 2020. The Company incurred rent expense (including charges for the lessor's building operating expenses above those specified in the lease agreement less monthly amortization of the leasehold improvement allowance received from the lessor) of \$93,415 and \$67,961 for the years ended December 31, 2016 and 2015, respectively, under this lease.

On January 1, 2011, the Company received a \$120,000 leasehold improvement allowance from the lessor related to the original lease that was fully amortized by September 30, 2015 and reduced rent expense by \$18,947 for the nine months ended September 30, 2015. In accordance with the amended lease on October 1, 2015, the Company was provided an allowance of \$54,152 for leasehold improvements. As of December 31, 2016, the Company received \$39,509 from the lessor. The leasehold improvement allowance is amortized over the remaining amended non-cancellable lease term and reduced rent expense by \$8,627 for the year ended December 31, 2016 and \$1,250 for the three months ended December 31, 2015. The future minimum lease payments to be paid under the amended non-cancellable lease agreement are \$104,090, \$106,189, \$108,304 and \$82,446 for the years 2017 through 2020, respectively.

TLIC owns approximately six and one-half acres of land located in Topeka, Kansas. A 20,000 square foot office building has been constructed on approximately one-fourth of this land.

TLIC executed a two year lease agreement effective January 1, 2015, for 7,500 square feet of its building in Topeka, Kansas. Effective January 1, 2017, this lease was renewed for two years. The terms of the lease leave TLIC responsible for paying real estate taxes, building insurance and building and ground maintenance. The monthly lease payments are \$8,696 for 2015, 2016, 2017 and 2018.

TLIC renewed a five year lease agreement effective June 1, 2011, for 10,000 square feet in the Topeka, Kansas office building. Beginning June 1, 2014, the lessee can terminate the lease with a 180 day written notice. The terms of the lease leave TLIC responsible for paying real estate taxes, building insurance and building and ground maintenance with partial reimbursement from the lessee. The lease agreement calls for minimum monthly base lease payments of \$17,750.

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**9. Leases (continued)**

This 10,000 square foot lease was renewed for five years to be effective from June 1, 2016 through May 31, 2021, with an option for an additional five years from June 1, 2021 through May 31, 2026. Beginning June 1, 2021, the lessee can terminate the lease with a 120 day written notice. The terms of the lease leave TLIC responsible for paying real estate taxes, building insurance and building and ground maintenance with partial reimbursement from the lessee. The lease agreement calls for a monthly lease payment of \$16,598 from June 1, 2016 through June 30, 2016 quantified as follows: \$12,275 for base rent and \$4,323 for reimbursement of operating cost. Starting July 1, 2016, the lease agreement includes an \$88,833 tenant improvement allowance that is amortized over 59 months with interest at 5.00%. The monthly lease payment is \$18,299 from July 1, 2016 through May 31, 2021 quantified as follows: \$12,275 for base rent, \$4,323 for reimbursement of operating costs and \$1,701 for tenant improvements. If the lease continues after the first five years, the lease agreement calls for monthly payments of \$17,850 quantified as follows: \$13,527 for base rent and \$4,323 for reimbursement of operating costs.

A five year lease agreement effective September 1, 2010 automatically renewed on 2,500 square feet of the Topeka, Kansas office building with a 90 day notice by the lessee to terminate the lease. This lease was renewed on September 1, 2015 to run through August 31, 2017 with an option for an additional three years through August 31, 2020. Beginning September 1, 2017, the lessee can terminate the lease with a 120 day written notice. The terms of the lease leave TLIC responsible for paying real estate taxes, building insurance and building and ground maintenance with partial reimbursement from the lessee. The lease agreement called for monthly lease payments of \$3,100 from January 1, 2015 through August 31, 2015. The lease payments are \$4,236 per month from September 1, 2015 through August 31, 2016 and \$4,249 from September 1, 2016 through August 31, 2017.

The future minimum lease payments to be received under the non-cancellable lease agreement are \$357,932, \$323,938, \$219,592, \$219,592 and \$91,497 for the years 2017 through 2021, respectively.

**10. Shareholders' Equity and Statutory Accounting Practices**

TLIC is domiciled in Oklahoma and prepares its statutory financial statements in accordance with statutory accounting practices prescribed or permitted by the Oklahoma Insurance Department. FBLIC is domiciled in Missouri and prepares its statutory financial statements in accordance with statutory accounting practices prescribed or permitted by the Missouri Department of Insurance. Prescribed statutory accounting practices include publications of the National Association of Insurance Commissioners, state laws, regulations, and general administrative rules. Permitted statutory accounting practices encompass all accounting practices not so prescribed. Statutory accounting practices primarily differ from U.S. GAAP by charging policy acquisition costs to expense as incurred, establishing future policy benefit liabilities using different actuarial assumptions and valuing investments, deferred taxes, and certain assets on a different basis.

The statutory net income for TLIC amounted to \$1,927,154 and \$2,191,094 for the years ended December 31, 2016 and 2015, respectively. The statutory capital and surplus of TLIC was \$11,129,493 and \$10,771,192 as of December 31, 2016 and 2015, respectively. The statutory net income for FBLIC amounted to \$6,645 and \$548,318 for the years ended December 31, 2016 and 2015, respectively. The statutory capital and surplus of FBLIC was \$9,141,799 and \$10,308,963 as of December 31, 2016 and 2015, respectively.

TLIC is subject to Oklahoma laws and FBLIC is subject to Missouri laws that limit the amount of dividends insurance companies can pay to stockholders without approval of the respective Departments of Insurance. The maximum dividend, which may be paid in any twelve-month period without notification or approval, is limited to the greater of 10% of statutory surplus as of December 31 of the preceding year or the net gain from operations of the preceding calendar year. Cash dividends may only be paid out of surplus derived from realized net profits. Based on these limitations, there is capacity for TLIC to pay a dividend up to \$1,852,287 in 2017 without prior approval. In addition, based on those limitations, there is the capacity for FBLIC to pay a dividend up to \$914,179 in 2017 without prior approval. FBLIC paid dividends of \$1,000,000 to TLIC in 2016 and 2015. These dividends are eliminated in consolidation. TLIC has paid no dividends to FTFC.



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## 11. 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 and for the years ended December 31, 2016 and 2015 are summarized as follows:

	Year Ended December 31,	
	2016	2015
Revenues:		
Life insurance operations	\$ 14,996,543	\$ 11,847,640
Annuity operations	11,135,950	9,647,120
Corporate operations	585,997	405,894
Total	<u>\$ 26,718,490</u>	<u>\$ 21,900,654</u>
Income before income taxes:		
Life insurance operations	\$ 866,648	\$ 852,489
Annuity operations	1,271,600	935,945
Corporate operations	281,534	169,116
Total	<u>\$ 2,419,782</u>	<u>\$ 1,957,550</u>
Depreciation and amortization expense:		
Life insurance operations	\$ 2,081,066	\$ 1,548,725
Annuity operations	759,091	609,732
Corporate operations	-	82,324
Total	<u>\$ 2,840,157</u>	<u>\$ 2,240,781</u>
	December 31,	
	2016	2015
Assets:		
Life insurance operations	\$ 50,577,282	\$ 44,151,860
Annuity operations	275,745,766	218,172,909
Corporate operations	6,929,565	6,805,073
Total	<u>\$ 333,252,613</u>	<u>\$ 269,129,842</u>

## 12. Concentrations of Credit Risk

Credit risk is limited by diversifying the Company's investments. The Company maintains cash and cash equivalents at multiple institutions. The Federal Deposit Insurance Corporation insures accounts up to \$250,000. Uninsured balances aggregate \$22,117,921 as of December 31, 2016. Other funds are invested in mutual funds that invest in U.S. government securities. The Company monitors the solvency of all financial institutions in which it has funds to minimize the exposure for loss. The Company has not experienced any losses in such accounts. The Company's lottery prize receivables due from various states and the geographical distribution of the Company's mortgage loans by state are summarized in Note 2.

### 13. Contingent Liabilities

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

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

Mr. Pettigrew has thirty days to appeal this decision by the jury that will require him to post a bond in the amount of the total judgment of \$4,300,000. Should Mr. Pettigrew fail to post such a bond, the Company and Mr. Zahn will be permitted to execute on Mr. Pettigrew's assets.

In addition to the damages awarded by the jury, the Company and Mr. Zahn have initiated steps to aggressively communicate the correction of the untrue statements to outside parties.

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.

### **13. Contingent Liabilities (continued)**

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. All parties to the lawsuit pending in the Circuit Court of Greene County, Missouri agreed to waive their right to a trial by jury and have all claims submitted to the Judge for decision. The trial in that case is scheduled to begin on November 27, 2017.

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

### **14. Related Party Transactions**

In 2015, the Company repurchased 9,425 shares of its common stock at a cost of \$38,643 from the former Chairman of the Board of Directors. These items are included as treasury stock transactions in the consolidated statements of financial position and in the consolidated statements of changes in shareholders' equity.

In April 2015, the Company loaned \$400,000 to the former Chairman of the Board of Directors replacing a previous \$203,750 loan through a cash disbursement of \$186,250 and \$10,000 representing interest from the previous \$200,000 loan. This loan was renewed in April 2016. The 2016 and 2015 loans both have terms of one year and contractual interest rates of 5.00%. The loans are collateralized by 100,000 shares of the Company's Class A common stock owned by the former Chairman. This loan is included in other assets in the consolidated statements of financial position.

First Trinity Financial Corporation and Subsidiaries  
Notes to Consolidated Financial Statements  
December 31, 2016 and 2015

**15. 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 years ended December 31, 2016 and 2015 are summarized as follows:

	Years Ended December 31, 2016 and 2015		
	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	3,904,143	(53,300)	3,850,843
Less amounts reclassified from accumulated other comprehensive income, net of tax	376,350	-	376,350
Other comprehensive income	3,527,793	(53,300)	3,474,493
Balance as of December 31, 2016	<u>\$ 831,917</u>	<u>\$ (13,241)</u>	<u>\$ 818,676</u>
Balance as of January 1, 2015	\$ 2,712,694	\$ (29,151)	\$ 2,683,543
Other comprehensive loss before reclassifications, net of tax	(5,664,636)	69,210	(5,595,426)
Less amounts reclassified from accumulated other comprehensive loss, net of tax	(256,066)	-	(256,066)
Other comprehensive loss	(5,408,570)	69,210	(5,339,360)
Balance as of December 31, 2015	<u>\$ (2,695,876)</u>	<u>\$ 40,059</u>	<u>\$ (2,655,817)</u>

The pretax components of the Company's other comprehensive income (loss) and the related income tax expense (benefit) for each component for the years ended December 31, 2016 and 2015 are summarized as follows:

	Year Ended December 31, 2016		
	Pretax	Income Tax Expense (Benefit)	Net of Tax
Other comprehensive income:			
Change in net unrealized gains on available-for-sale securities:			
Unrealized holding gains arising during the period	\$ 4,880,178	\$ 976,035	\$ 3,904,143
Less reclassification adjustment for net gains included in income	470,438	94,088	376,350
Net unrealized gains on investments	4,409,740	881,947	3,527,793
Adjustment to deferred acquisition costs	(66,626)	(13,326)	(53,300)
Total other comprehensive income	<u>\$ 4,343,114</u>	<u>\$ 868,621</u>	<u>\$ 3,474,493</u>
	Year Ended December 31, 2015		
	Pretax	Income Tax Expense (Benefit)	Net of Tax
Other comprehensive loss:			
Change in net unrealized losses on available-for-sale securities:			
Unrealized holding losses arising during the period	\$ (7,080,796)	\$ (1,416,160)	\$ (5,664,636)
Less reclassification adjustment for net losses included in income	(320,084)	(64,018)	(256,066)
Net unrealized losses on investments	(6,760,712)	(1,352,142)	(5,408,570)
Adjustment to deferred acquisition costs	86,513	17,303	69,210
Total other comprehensive loss	<u>\$ (6,674,199)</u>	<u>\$ (1,334,839)</u>	<u>\$ (5,339,360)</u>

First Trinity Financial Corporation and Subsidiaries  
Notes to Consolidated Financial Statements  
December 31, 2016 and 2015

**15. Other Comprehensive Income (Loss) and Accumulated Other Comprehensive Income (Loss)** (continued)

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

The pretax and the related income tax components of the amounts reclassified from the Company's accumulated other comprehensive income (loss) to the Company's consolidated statement of operations for the years ended December 31, 2016 and 2015 are summarized as follows:

Reclassification Adjustments	Years Ended December 31,	
	2016	2015
Unrealized gains (losses) on available-for-sale securities:		
Realized gains (losses) on sales of securities (a)	\$ 470,438	\$ (320,084)
Income tax expense (benefit) (b)	94,088	(64,018)
Total reclassification adjustments	<u>\$ 376,350</u>	<u>\$ (256,066)</u>

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

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

## **Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None

**Item 9A. Controls and Procedures.** (This report shall not be deemed to be filed for purposes of Section 18 of the Exchange Act or otherwise subject to the liabilities of that section).

### **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 Annual Report on Form 10-K. 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.

In designing and evaluating our disclosure controls and procedures, our management recognizes that any controls and procedures, no matter how well designed and operating, can provide only reasonable assurance of achieving the desired control objectives, and our management necessarily is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

### **Management’s Report on Internal Control over Financial Reporting**

The Company’s management is responsible for establishing and maintaining adequate internal control over financial reporting. As of the end of the period covered by this annual report, the Company carried out an evaluation, under the supervision and with the participation of the Company’s management, including the Certifying Officers, of the effectiveness of the design and operation of the Company’s internal controls over financial reporting as defined in Rule 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934. The standard measures adopted by management in making its evaluation are the measures in the *Internal-Control Integrated Framework (2013)* published by the Committee of Sponsoring Organizations of the Treadway Commission. Based upon such evaluation, management has determined that internal control over financial reporting was effective as of December 31, 2016.

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

### **Limitations on the Effectiveness of Controls**

The Company’s management, including the Certifying Officers, does not expect that the disclosure controls and internal controls will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs.

Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management or board override of the control.

The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

### **Changes to Internal Control over Financial Reporting**

There were no changes in the Company's internal control over financial reporting during the twelve months ended December 31, 2016 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

### **Item 9B. Other Information**

None

## **Part III**

### **Item 10. Directors, Executive Officers and Corporate Governance**

The information required by this Item is incorporated by reference from the Company's proxy statement for the 2017 annual meeting of shareholders to be filed pursuant to Regulation 14A under the Securities Exchange Act of 1934.

### **Item 11. Executive Compensation**

The information required by this Item is incorporated by reference from the Company's proxy statement for the 2017 annual meeting of shareholders to be filed pursuant to Regulation 14A under the Securities Exchange Act of 1934.

### **Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

The information required by this Item is incorporated by reference from the Company's proxy statement for the 2017 annual meeting of shareholders to be filed pursuant to Regulation 14A under the Securities Exchange Act of 1934.

### **Item 13. Certain Relationships and Related Transactions, and Director Independence**

The information required by this Item is incorporated by reference from the Company's proxy statement for the 2017 annual meeting of shareholders to be filed pursuant to Regulation 14A under the Securities Exchange Act of 1934.

### **Item 14. Principal Accounting Fees and Services**

The information required by this Item is incorporated by reference from the Company's proxy statement for the 2017 annual meeting of shareholders to be filed pursuant to Regulation 14A under the Securities Exchange Act of 1934.

### **Item 15. Exhibits**

The exhibits are listed in the Exhibit Index, which is incorporated herein by reference.

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

FIRST TRINITY FINANCIAL CORPORATION

Date March 9, 2017

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

In accordance with Section 13 or 15(d) of the Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

FIRST TRINITY FINANCIAL CORPORATION

Date March 9, 2017

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

SIGNATURES

In accordance with the requirements of the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By /s/ Gregg E. Zahn Date March 9, 2017  
Gregg E. Zahn  
Chairman of the Board, President, Chief Executive Officer and Director

By /s/ William S. Lay Date March 9, 2017  
William S. Lay  
Vice President, Chief Investment Officer and Director

By /s/ Bill H. Hill Date March 9, 2017  
Bill H. Hill, Director

By /s/ Will W. Klein Date March 9, 2017  
Will W. Klein, Director

By /s/ Gerald J. Kohout Date March 9, 2017  
Gerald J. Kohout, Director

By /s/ Charles W. Owens Date March 9, 2017  
Charles W. Owens, Director

By /s/ George E. Peintner Date March 9, 2017  
George E. Peintner, Director

By /s/ Gary L. Sherrer Date March 9, 2017  
Gary L. Sherrer, Director



## EXHIBIT INDEX

<u>Exhibit Number</u>	<u>Description of Exhibit</u>
3.1	Amended Certificate of Incorporation, incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed June 17, 2009.
3.2	By-laws, as amended and restated, incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed May 1, 2009.
4.1	Specimen Stock Certificate, incorporated by reference to Exhibit 4 to the Company's Registration Statement on Form 10SB12G filed April 30, 2007.
5.1	Opinion of Cooper & Newsome PLLP, incorporated from Pre-Effective Amendment No. 2 to the Registration Statement on Form S-1 filed June 23, 2010.
5.2	Opinion of Hall, Estill, Hardwick, Gable, Golden & Nelson, P.C., incorporated from Pre-Effective Amendment No. 3 to the Registration Statement on Form S-1 filed March 31, 2011.
5.3	Opinion of Hall, Estill, Hardwick, Gable, Golden & Nelson, P.C., incorporated from Pre-Effective Amendment No. 3 to the Registration Statement on Form S-1 filed March 30, 2012.
10.1	Administrative Service Agreement between TLIC (formerly FLAC) and Investors Heritage Life Insurance Company, incorporated by reference as Exhibit 10.1 to the Company's Current Report on Form 8-K filed June 17, 2009.
10.2	Lease Agreement, incorporated by reference as Exhibit 10.2 to the Company's Registration Statement on Form 10SB12G filed April 30, 2007.
10.3	Reinsurance Agreement with Investors Heritage Life Insurance Company is incorporated by reference as Exhibit 10.3 to the Company's Registration Statement on Form 10SB12G/A filed July 23, 2007.
10.4	Reinsurance Agreement with Munich American Reinsurance Company is incorporated by reference as Exhibit 10.4 to the Company's registration statement on Form 10SB12G/A filed July 23, 2007.
10.5	First Amendment to Lease Agreement between First Trinity Financial Corporation and Amejak Limited Partnership dated July 1, 2008, incorporated by reference as Exhibit 10.5 to the Company's Annual report on Form 10-K filed April 14, 2009.
10.6	Lease Agreement dated July 10, 2006 between First Life America Corporation and the United States of America, incorporated by reference as Exhibit 10.6 of the Company's Annual Report on Form 10-K filed April 14, 2009.
10.7	Lease Agreement dated August 2, 2006 between First Life America Corporation and the United States of America, incorporated by reference as Exhibit 10.7 of the Company's Annual Report on Form 10-K filed April 14, 2009.
10.8	Employment Agreement of William S. Lay, dated April 18, 2009, incorporated by reference as Exhibit 10.8 to the Company's Current Report on Form 8-K filed April 22, 2009.
10.9	Loan agreement between First Trinity Capital Corporation and First National Bank of Muskogee dated March 12, 2009, incorporated by reference as Exhibit 10.9 to the company's Quarterly Report on form 10-Q filed May 15, 2009.

EXHIBIT INDEX (continued)

<u>Exhibit Number</u>	<u>Description of Exhibit</u>
10.10	Loan guaranty agreement between First Trinity Capital Corporation and First National Bank of Muskogee dated March 12, 2009, incorporated by reference as Exhibit 10.10 to the company's Quarterly Report on form 10-Q filed May 15, 2009.
10.11	Administrative Services Agreement between First Life America Corporation and Investors Heritage Life Insurance Company dated June 16, 2009, incorporated by reference as Exhibit 10.11 to the Company's Current Report on Form 8-K filed June 17, 2009.
10.12	First Amendment to Administrative Services Agreement between Trinity Life Insurance Company and Investors Heritage Life Insurance Company incorporated by reference as Exhibit 10.12 to the Company's Current Report on Form 8-K filed June 17, 2009.
10.13	Amendment to Employment Agreement of William S. Lay dated April 23, 2010, incorporated by reference as Exhibit 10.13 of the Company's Current Report on Form 8-K filed April 28, 2010.
10.14	Employment Agreement of Gregg E. Zahn, President, dated June 7, 2010, incorporated by reference as Exhibit 10.14 of the Company's Current Report on Form 8-K filed June 11, 2010.
10.15	Second Amendment to Lease Agreement between First Trinity Financial Corporation and Amejak Limited Partnership dated June 16, 2010, incorporated by reference as Exhibit 10.15 to the Company's Current Report on Form 8-K filed June 22, 2010.
10.16	Amendment to Employment Agreement of Gregg E. Zahn, President, dated December 8, 2011, incorporated by reference as Exhibit 10.16 of the Company's Current Report on Form 8-K filed December 13, 2011.
10.17	Employment Agreement of William S. Lay, dated December 8, 2011, incorporated by reference as Exhibit 10.17 of the Company's Current Report on Form 8-K filed December 13, 2011.
10.18	Employment Agreement of Jeffrey J. Wood, dated December 8, 2011, incorporated by reference as Exhibit 10.18 of the Company's Current Report on Form 8-K filed December 13, 2011.
10.19	Amendment to Employment Agreement of Gregg E. Zahn, President, dated December 8, 2012, incorporated by reference as Exhibit 10.19 of the Company's Current Report on Form 8-K filed December 13, 2011.
10.20	Amendment to Employment Agreement of Gregg E. Zahn, President, dated April 9, 2013, incorporated by reference as Exhibit 10.20 of the Company's Current Report on Form 8-K filed April 11, 2013.
10.21	Employment Agreement of Jeffrey J. Wood, dated April 9, 2013, incorporated by reference as Exhibit 10.21 of the Company's Current Report on Form 8-K filed April 11, 2013.
10.22	Employment Agreement of William S. Lay, dated December 12, 2013, incorporated by reference as Exhibit 10.22 of the Company's Current Report on Form 8-K filed December 12, 2013.
10.23	Employment Agreement of William S. Lay, dated December 12, 2015, incorporated by reference as Exhibit 10.23 of the Company's Current Report on Form 8-K filed December 14, 2015.
10.24	Employment Agreement of Jeffrey J. Wood, dated December 23, 2015, incorporated by reference as Exhibit 10.24 of the Company's Current Report on Form 8-K filed December 28, 2015.

EXHIBIT INDEX (continued)

<u>Exhibit Number</u>	<u>Description of Exhibit</u>
10.25	Employment Agreement of Jeffrey J. Wood, dated February 26, 2016, incorporated by reference as Exhibit 10.25 of the Company's Current Report on Form 8-K filed February 29, 2016.
17.1	Resignation Letter of Board of Director Member Shannon B. Young dated August 5, 2012, incorporated by reference as Exhibit 17.1 of the Company's Current Report on Form 8-K filed August 9, 2012.
17.2	Addendum 1 dated August 9, 2012 to Resignation Letter of Board of Director Member Shannon B. Young dated August 4, 2012, incorporated by reference as Exhibit 17.2 of the Company's Current Report on Form 8-K/A filed August 10, 2012.
17.3	Addendum 2 dated August 10, 2012 to Resignation Letter of Board of Director Member Shannon B. Young dated August 5, 2012, incorporated by reference as Exhibit 17.3 of the Company's Current Report on Form 8-K/A filed August 10, 2012.
17.4	Resignation Letter of Board of Director Member G. Wayne Pettigrew dated April 8, 2013 (received by mail on April 10, 2013), incorporated by reference as Exhibit 17.4 of the Company's Current Report on Form 8-K filed April 15, 2013.
17.5	Addendum dated April 16, 2013 to Resignation Letter of Board of Director Member G. Wayne Pettigrew dated April 8, 2013 (received by mail on April 10, 2013), incorporated by reference as Exhibit 17.5 of the Company's Current Report on Form 8-K/A filed April 17, 2013.
21.1*	Subsidiaries of First Trinity Financial Corporation.
21.2	Letter to Jeffrey Reidler, Division of Corporate Finance, United States Securities and Exchange Commission, incorporated by reference as Exhibit 21.2 of the Company's Pre-Effective Amendment No. 4 to Registration Statement on Form S-1 filed March 30, 2012.
23.1	Consent of Cooper & Newsome PLLP (included as part of its opinion), incorporated from Pre-Effective Amendment No. 2 to the Registration Statement on Form S-1 filed June 23, 2010.
23.2	Consent of Kerber, Eck and Braeckel, LLP, incorporated by reference to Exhibit 23.2 of the Company's Pre-Effective Amendment No. 1 to Registration Statement on Form S-1 filed May 17, 2010.
23.3	Consent of Hall, Estill, Hardwick, Gable, Golden & Nelson, P.C., (included as part of its opinion), incorporated from Pre-Effective Amendment No. 3 to the Registration Statement on Form S-1 filed March 31, 2011.
23.4	Consent of Kerber, Eck and Braeckel, LLP, incorporated by reference to Exhibit 23.4 of the Company's Pre-Effective Amendment No. 3 to Registration Statement on Form S-1 filed March 31, 2011.
23.5	Consent of Seaver & Forck, CPAs, incorporated by reference to Exhibit 23.1 of the Company's Current Report on Form 8-K/A filed March 9, 2012.

\* Filed herewith

EXHIBIT INDEX (continued)

<u>Exhibit Number</u>	<u>Description of Exhibit</u>
23.6	Consent of Kerber, Eck and Braeckel, LLP, incorporated by reference to Exhibit 23.6 of the Company's Pre-Effective Amendment No. 4 to Registration Statement on Form S-1 filed March 30, 2012.
24.1*	Powers of Attorney (included in the signature pages hereto, and incorporated herein by reference).
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.
99.1	Oklahoma Insurance Holding Company Disclaimer of Control of Gregg Zahn, incorporated by reference to Exhibit 99.1 to the Company's Registration Statement on Form 10SB12G filed on April 20, 2007.
99.2	Form of Promotional Shares Escrow Agreement (six year restriction), is incorporated by reference to Exhibit 99.2 to the Company's Registration Statement on Form 10SB12G filed April 20, 2007.
99.3	Form of Promotional Shares Escrow Agreement (four year restriction), is incorporated by reference to Exhibit 99.3 to the Company's Registration Statement on Form 10SB12G filed on April 20, 2007.
99.4	Termination of Oklahoma Insurance Holding Company Disclaimer of Control between the Oklahoma Department of Insurance and Gregg Earl Zahn dated August 2, 2007 is incorporated by reference to Exhibit 99.4 to the Company's Form 10-K filed on March 31, 2008.
99.5	First Life America Corporation unaudited financial statements for the period ending September 30, 2008, incorporated by reference to the Company's Form 10-K filed on April 14, 2009.
99.6	First Life America Corporation audited financial statements for the years ended December 31, 2007 and 2006, incorporated by reference to the Company's Form 10-K filed on April 14, 2009.
99.7	Pro forma condensed financial information for the acquisition of First Life America Corporation on December 23, 2008, incorporated by reference to the Company's Form 10-K filed on April 14, 2009.
99.8	Form R Oklahoma Redomestication Application of First Life America Corporation, incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K filed June 17, 2009.
99.9	Completion of acquisition of First Life America Corporation, incorporated by reference to Exhibit 99.9 to the Company's Current Report on Form 8-K filed January 26, 2009.
99.10	Subscription Agreement, incorporated from Pre-Effective Amendment No. 2 to the Registration Statement on Form S-1 filed June 23, 2010.

\* Filed herewith

EXHIBIT INDEX (continued)

<u>Exhibit Number</u>	<u>Description of Exhibit</u>
99.11	Subscription Escrow Agreement, as amended on March 31, 2011, incorporated by reference to the Company's Form 10-K filed on April 14, 2009.
99.12	Form A Application Missouri Statement Regarding the Acquisition of Control or Merger of Domestic Insurer Family Benefit Life Insurance Company on August 25, 2011, incorporated by reference to the Company's Form 8-K filed on August 31, 2011.
99.13	Form A Approval Missouri Statement Regarding the Acquisition of Control or Merger of Domestic Insurer Family Benefit Life Insurance Company on October 14, 2011, incorporated by reference to the Company's Form 8-K filed on October 19, 2011.
99.14	Completion of acquisition of Family Benefit Life Insurance Company, incorporated by reference to Exhibit 99.18 to the Company's Current Report on Form 8-K filed December 28, 2011.
99.15	Family Benefit Life Insurance Company audited financial statements for the years ended December 31, 2010 and 2011, incorporated by reference to the Company's Form 8-K/A filed on March 9, 2012.
99.16	Unaudited Pro forma financial statements for the acquisition of Family Benefit Life Insurance Company as of and for the year ended December 31, 2011, incorporated by reference to the Company's Form 8-K/A filed on March 9, 2012.
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.

EXHIBIT NO. 21.1

**SUBSIDIARIES OF FIRST TRINITY FINANCIAL CORPORATION  
AN OKLAHOMA CORPORATION**

<u>Company Name</u>	<u>State of Incorporation</u>	<u>Ownership</u>
First Trinity Capital Corporation	Oklahoma	100% Direct
Trinity Life Insurance Company	Oklahoma	100% Direct
Family Benefit Life Insurance Company	Missouri	100% Indirect

CERTIFICATION

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

1. I have reviewed this annual report on Form 10-K, for the year ended December 31, 2016, 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 annual 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 annual 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: March 9, 2017

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

CERTIFICATION

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

1. I have reviewed this annual report on Form 10-K, for the year ended December 31, 2016, 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 annual 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 annual 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: March 9, 2017

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 Annual Report on Form 10-K of the Company for the year ended December 31, 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: March 9, 2017

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 Annual Report on Form 10-K of the Company for the year ended December 31, 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: March 9, 2017

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