

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2017

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

For the transition period From _____ to _____ .

Commission file number: **000-52613**

FIRST TRINITY FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

Oklahoma

(State or other jurisdiction of incorporation or organization)

34-1991436

(I.R.S. Employer Identification Number)

7633 East 63rd Place, Suite 230

Tulsa, Oklahoma 74133-1246

(Address of principal executive offices)

(918) 249-2438

(Registrant's telephone number, including area code)

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

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

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

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

If an emerging growth company, indicate by check mark if registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date:
Common stock .01 par value as of May 8, 2017: 7,802,593 shares

**FIRST TRINITY FINANCIAL CORPORATION
QUARTERLY REPORT ON FORM 10-Q
FOR QUARTERLY PERIOD ENDED MARCH 31, 2017**

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PART I – FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

First Trinity Financial Corporation and Subsidiaries
Consolidated Statements of Financial Position

	(Unaudited)	
	<u>March 31, 2017</u>	<u>December 31, 2016</u>
Assets		
Investments		
Available-for-sale fixed maturity securities at fair value (amortized cost: \$149,863,882 and \$128,310,265 as of March 31, 2017 and December 31, 2016, respectively)	\$ 151,925,813	\$ 129,311,155
Available-for-sale equity securities at fair value (cost: \$600,529 and \$599,400 as of March 31, 2017 and December 31, 2016, respectively)	657,560	638,407
Mortgage loans on real estate	86,878,848	74,371,286
Investment real estate	2,365,621	2,506,673
Policy loans	1,576,307	1,598,116
Other long-term investments	49,515,018	46,788,873
Total investments	<u>292,919,167</u>	<u>255,214,510</u>
Cash and cash equivalents	25,962,536	34,223,945
Accrued investment income	2,542,754	2,176,770
Recoverable from reinsurers	1,211,881	1,258,938
Agents' balances and due premiums	1,505,643	1,419,250
Deferred policy acquisition costs	19,906,373	18,191,990
Value of insurance business acquired	5,806,667	5,908,835
Other assets	7,977,339	14,858,375
Total assets	<u><u>\$ 357,832,360</u></u>	<u><u>\$ 333,252,613</u></u>
Liabilities and Shareholders' Equity		
Policy liabilities		
Policyholders' account balances	\$ 267,911,869	\$ 245,346,489
Future policy benefits	45,222,673	44,266,227
Policy claims	938,779	997,814
Other policy liabilities	80,238	69,854
Total policy liabilities	<u>314,153,559</u>	<u>290,680,384</u>
Deferred federal income taxes	993,422	693,470
Other liabilities	5,295,974	5,598,484
Total liabilities	<u><u>320,442,955</u></u>	<u><u>296,972,338</u></u>
Shareholders' equity		
Common stock, par value \$.01 per share (20,000,000 shares authorized, 8,050,173 issued as of March 31, 2017 and December 31, 2016 and 7,802,593 outstanding as of March 31, 2017 and December 31, 2016)	80,502	80,502
Additional paid-in capital	28,684,598	28,684,598
Treasury stock, at cost (247,580 shares as of March 31, 2017 and December 31, 2016)	(893,947)	(893,947)
Accumulated other comprehensive income	1,666,328	818,676
Accumulated earnings	7,851,924	7,590,446
Total shareholders' equity	<u><u>37,389,405</u></u>	<u><u>36,280,275</u></u>
Total liabilities and shareholders' equity	<u><u>\$ 357,832,360</u></u>	<u><u>\$ 333,252,613</u></u>

See notes to consolidated financial statements (unaudited).

First Trinity Financial Corporation and Subsidiaries

Consolidated Statements of Operations

(Unaudited)

	Three Months Ended March 31,	
	2017	2016
Revenues		
Premiums	\$ 3,621,690	\$ 3,192,542
Net investment income	3,669,871	3,360,203
Net realized investment gains (losses)	166,506	(19,151)
Other income	49,892	7,313
Total revenues	7,507,959	6,540,907
Benefits, Claims and Expenses		
Benefits and claims		
Increase in future policy benefits	959,805	1,358,144
Death benefits	1,545,836	952,058
Surrenders	283,376	137,726
Interest credited to policyholders	2,035,054	1,653,720
Dividend, endowment and supplementary life contract benefits	66,973	66,058
Total benefits and claims	4,891,044	4,167,706
Policy acquisition costs deferred	(2,414,719)	(1,576,209)
Amortization of deferred policy acquisition costs	680,836	696,546
Amortization of value of insurance business acquired	102,168	90,132
Commissions	2,244,910	1,280,086
Other underwriting, insurance and acquisition expenses	1,654,203	1,534,440
Total expenses	2,267,398	2,024,995
Total benefits, claims and expenses	7,158,442	6,192,701
Income before total federal income tax expense	349,517	348,206
Current federal income tax expense	-	3,298
Deferred federal income tax expense	88,039	49,595
Total federal income tax expense	88,039	52,893
Net income	\$ 261,478	\$ 295,313
Net income per common share basic and diluted	\$ 0.03	\$ 0.04

See notes to consolidated financial statements (unaudited).

First Trinity Financial Corporation and Subsidiaries
Consolidated Statements of Comprehensive Income

(Unaudited)

	Three Months Ended March 31,	
	2017	2016
Net income	\$ 261,478	\$ 295,313
Other comprehensive income		
Total net unrealized gains arising during the period	1,243,084	3,779,522
Less net realized investment gains (losses)	164,019	(22,726)
Net unrealized gains	1,079,065	3,802,248
Less adjustment to deferred acquisition costs	19,500	60,130
Other comprehensive income before income tax expense	1,059,565	3,742,118
Income tax expense	211,913	748,423
Total other comprehensive income	847,652	2,993,695
Total comprehensive income	\$ 1,109,130	\$ 3,289,008

See notes to consolidated financial statements (unaudited).

First Trinity Financial Corporation and Subsidiaries
Consolidated Statements of Changes in Shareholders' Equity
Three Months Ended March 31, 2017 and 2016
(Unaudited)

	Common Stock \$.01 Par Value	Additional Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Income (loss)	Accumulated Earnings	Total Shareholders' Equity
Balance as of January 1, 2016	\$ 80,502	\$ 28,684,598	\$ (893,947)	\$ (2,655,817)	\$ 4,999,707	\$ 30,215,043
Comprehensive income:						
Net income	-	-	-	-	295,313	295,313
Other comprehensive income	-	-	-	2,993,695	-	2,993,695
Balance as of March 31, 2016	<u>\$ 80,502</u>	<u>\$ 28,684,598</u>	<u>\$ (893,947)</u>	<u>\$ 337,878</u>	<u>\$ 5,295,020</u>	<u>\$ 33,504,051</u>
Balance as of January 1, 2017	\$ 80,502	\$ 28,684,598	\$ (893,947)	\$ 818,676	\$ 7,590,446	\$ 36,280,275
Comprehensive income:						
Net income	-	-	-	-	261,478	261,478
Other comprehensive income	-	-	-	847,652	-	847,652
Balance as of March 31, 2017	<u>\$ 80,502</u>	<u>\$ 28,684,598</u>	<u>\$ (893,947)</u>	<u>\$ 1,666,328</u>	<u>\$ 7,851,924</u>	<u>\$ 37,389,405</u>

See notes to consolidated financial statements (unaudited).

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

	Three Months Ended March 31,	
	2017	2016
Operating activities		
Net income	\$ 261,478	\$ 295,313
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for depreciation	36,531	36,530
Accretion of discount on investments	(685,817)	(375,081)
Net realized investment losses (gains)	(166,506)	19,151
Amortization of policy acquisition cost	680,836	696,546
Policy acquisition cost deferred	(2,414,719)	(1,576,209)
Amortization of loan origination fees	14,797	7,251
Amortization of value of insurance business acquired	102,168	90,132
Allowance for mortgage loan losses	42,054	6,369
Provision for deferred federal income tax expense	88,039	49,595
Interest credited to policyholders	2,035,054	1,653,720
Change in assets and liabilities:		
Accrued investment income	(365,984)	(68,967)
Policy loans	21,809	(8,261)
Short-term investments	-	549,795
Recoverable from reinsurers	47,057	(8,587)
Agents' balances and due premiums	(86,393)	(66,883)
Other assets (excludes depreciation of \$159 in 2017 and change in receivable for securities sold of \$6,288,274 and (\$1,904) in 2017 and 2016, respectively.	592,603	(1,441,577)
Future policy benefits	956,446	1,362,476
Policy claims	(59,035)	90,501
Other policy liabilities	10,384	(2,972)
Other liabilities (exclude change in payable for securities purchased of (\$17,569) and \$40,907 in 2017 and 2016, respectively.	(284,941)	757,093
Net cash provided by operating activities	825,861	2,065,935
Investing activities		
Purchases of fixed maturity securities available-for-sale	(26,056,647)	(2,222,996)
Maturities of fixed maturity securities available-for-sale	2,770,000	1,138,000
Sales of fixed maturity securities available-for-sale	1,679,231	1,136,413
Purchases of equity securities available-for-sale	(1,129)	(4,552)
Sales of equity securities available-for-sale	-	108,800
Purchases of mortgage loans	(17,643,638)	(3,710,052)
Payments on mortgage loans	5,125,389	1,572,244
Purchases of other long-term investments	(3,648,817)	(2,024,317)
Payments on other long-term investments	1,780,143	1,141,454
Sale of real estate	107,167	-
Net change in receivable and payable for securities sold and purchased	6,270,705	39,003
Net cash used in investing activities	(29,617,596)	(2,826,003)
Financing activities		
Policyholders' account deposits	25,052,131	5,326,249
Policyholders' account withdrawals	(4,521,805)	(3,912,525)
Net cash provided by financing activities	20,530,326	1,413,724
Increase (decrease) in cash	(8,261,409)	653,656
Cash and cash equivalents, beginning of period	34,223,945	9,047,586
Cash and cash equivalents, end of period	<u>\$ 25,962,536</u>	<u>\$ 9,701,242</u>

See notes to consolidated financial statements (unaudited).

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
March 31, 2017
(Unaudited)

1. Organization and Significant Accounting Policies

Nature of Operations

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

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

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

Company Capitalization

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

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

Acquisitions

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

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

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

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
March 31, 2017
(Unaudited)

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

The results of operations for the three months ended March 31, 2017 are not necessarily indicative of the results to be expected for the year ended December 31, 2017 or for any other interim period or for any other future year. Certain financial information which is normally included in notes to consolidated financial statements prepared in accordance with U.S. GAAP, but which is not required for interim reporting purposes, has been condensed or omitted. The accompanying consolidated financial statements and notes thereto should be read in conjunction with the financial statements and notes thereto included in the Company's report on Form 10-K for the year ended December 31, 2016.

Principles of Consolidation

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

Reclassifications

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

Use of Estimates

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

Common Stock

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

Treasury Stock

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

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
March 31, 2017
(Unaudited)

1. Organization and Significant Accounting Policies (continued)

Subsequent Events

Management has evaluated all events subsequent to March 31, 2017 through the date that these financial statements have been issued.

Recent Accounting Pronouncements

Revenue from Contracts with Customers

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

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

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 did 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.

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.

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
March 31, 2017
(Unaudited)

1. Organization and Significant Accounting Policies (continued)

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, the existence of a deferred tax asset related to available-for-sale securities in future periods and the economic conditions at the time of that future adoption.

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 did not 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
March 31, 2017
(Unaudited)

1. Organization and Significant Accounting Policies (continued)

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 did not 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 amounts recoverable) and requires an entity to estimate the credit losses expected over the life of an exposure or pool of exposures. The estimate of expected credit losses should consider historical information, current information, as well as reasonable and supportable forecasts, including estimates of prepayments. The expected credit losses, and subsequent adjustments to such losses, will be recorded through an allowance account that is deducted from the amortized cost basis of the financial asset, with the net carrying value of the financial asset presented on the consolidated balance sheet at the amount expected to be collected.

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

The updated guidance is effective for reporting periods beginning after December 15, 2019. Early adoption is permitted for reporting periods beginning after December 15, 2018. Based on the financial instruments currently held by the Company, 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 did not 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
March 31, 2017
(Unaudited)

1. Organization and Significant Accounting Policies (continued)

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.

Compensation — Retirement Benefits: Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost

In March 2017, the FASB issued updated guidance to improve the presentation of net periodic pension cost and net periodic post retirement cost (net benefit costs). Net benefit costs comprise several components that reflect different aspects of an employer's financial arrangements as well as the cost of benefits provided to employees. The update requires that the employer service cost component be reported in the same lines as other employee compensation cost and that the other components (non-service costs) be presented separately from the service cost and outside of a subtotal of income from operations if one is presented. The update also allows only the service cost component to be eligible for capitalization in assets when applicable.

The updated guidance is effective for reporting periods beginning after December 15, 2017. The update is to be applied retrospectively with respect to the presentation of service cost and non-service cost and prospectively with respect to applying the service cost only eligible for capitalization in assets guidance. Early adoption is permitted as of the first interim period of an annual period if an entity issues interim financial statements. This pronouncement will not impact the Company since it does not have any pension or postretirement benefit plans and has no intention to adopt such plans.

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Notes to Consolidated Financial Statements
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(Unaudited)

2. Investments

Fixed Maturity and Equity Securities Available-For-Sale

Investments in fixed maturity and equity securities available-for-sale as of March 31, 2017 and December 31, 2016 are summarized as follows:

	Amortized Cost or Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2017 (Unaudited)				
Fixed maturity securities				
U.S. government and U.S. government agencies	\$ 3,375,460	\$ 88,510	\$ 68,402	\$ 3,395,568
States and political subdivisions	9,602,066	167,836	50,211	9,719,691
Residential mortgage-backed securities	33,938	36,689	-	70,627
Corporate bonds	116,778,608	2,713,348	1,202,824	118,289,132
Foreign bonds	20,073,810	544,739	167,754	20,450,795
Total fixed maturity securities	149,863,882	3,551,122	1,489,191	151,925,813
Equity securities				
Mutual funds	345,607	805	-	346,412
Corporate preferred stock	99,945	2,015	-	101,960
Corporate common stock	154,977	54,211	-	209,188
Total equity securities	600,529	57,031	-	657,560
Total fixed maturity and equity securities	<u>\$ 150,464,411</u>	<u>\$ 3,608,153</u>	<u>\$ 1,489,191</u>	<u>\$ 152,583,373</u>
December 31, 2016				
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	128,310,265	3,000,244	1,999,354	129,311,155
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	599,400	45,461	6,454	638,407
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>

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
March 31, 2017
(Unaudited)

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 March 31, 2017 and December 31, 2016 are summarized as follows:

	Fair Value	Unrealized Loss	Number of Securities
March 31, 2017 (Unaudited)			
Fixed maturity securities			
Less than 12 months			
U.S. government and U.S. government agencies	\$ 2,086,562	\$ 68,402	7
States and political subdivisions	2,518,618	50,211	13
Corporate bonds	26,306,196	480,601	85
Foreign bonds	3,271,284	105,406	12
Total less than 12 months	34,182,660	704,620	117
More than 12 months			
Corporate bonds	7,317,575	722,223	36
Foreign bonds	1,021,479	62,348	6
Total more than 12 months	8,339,054	784,571	42
Total fixed maturity securities	\$ 42,521,714	\$ 1,489,191	159
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

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

As of March 31, 2017, the Company held 159 available-for-sale fixed maturity securities with an unrealized loss of \$1,489,191, fair value of \$42,521,714 and amortized cost of \$44,010,905. These unrealized losses were primarily due to market interest rate movements in the bond market as of March 31, 2017. The ratio of the fair value to the amortized cost of these 159 securities is 97%.

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%.

As of March 31, 2017, the Company had no available-for-sale equity securities with unrealized losses.

As of December 31, 2016, the Company had 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%.

Fixed maturity securities were 93% and 92% investment grade as rated by Standard & Poor's as of March 31, 2017 and December 31, 2016, respectively.

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

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

There were no impairments during the three months ended March 31, 2017 and 2016.

The Company recorded one other-than-temporary impairment during fourth quarter 2016. During fourth quarter 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 experienced no additional other-than-temporary impairments on fixed maturity available-for-sale securities during 2016.

Management believes that the Company will fully recover its cost basis in the securities held as of March 31, 2017, 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.

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
March 31, 2017
(Unaudited)

2. Investments (continued)

Net unrealized gains included in other comprehensive income for investments classified as available-for-sale, net of the effect of deferred income taxes and deferred acquisition costs assuming that the appreciation had been realized as of March 31, 2017 and December 31, 2016, are summarized as follows:

	(Unaudited)	
	March 31, 2017	December 31, 2016
Unrealized appreciation		
on available-for-sale securities	\$ 2,118,962	\$ 1,039,897
Adjustment to deferred acquisition costs	(36,053)	(16,553)
Deferred income taxes	(416,581)	(204,668)
Net unrealized appreciation		
on available-for-sale securities	\$ 1,666,328	\$ 818,676

The Company's investment in lottery prize cash flows categorized as other long-term investments in the statement of financial position was \$49,515,018 and \$46,788,873 as of March 31, 2017 and December 31, 2016, respectively. The lottery prize cash flows are assignments of the future rights from lottery winners purchased at a discounted price. Payments on these investments are made by state run lotteries.

The amortized cost and fair value of fixed maturity available-for-sale securities and other long-term investments as of March 31, 2017, by contractual maturity, are summarized as follows:

	March 31, 2017 (Unaudited)			
	Fixed Maturity Available-For-Sale Securities		Other Long-Term Investments	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	\$ 8,564,969	\$ 8,646,613	\$ 6,978,927	\$ 7,081,822
Due after one year through five years	31,765,292	32,499,328	19,501,912	21,055,897
Due after five years through ten years	42,243,357	43,132,728	13,854,164	16,558,746
Due after ten years	67,256,326	67,576,517	9,180,015	14,151,045
Due at multiple maturity dates	33,938	70,627	-	-
	\$ 149,863,882	\$ 151,925,813	\$ 49,515,018	\$ 58,847,510

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

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
March 31, 2017
(Unaudited)

2. Investments (continued)

Proceeds and gross realized gains (losses) from the sales, calls and maturities of fixed maturity securities available-for-sale, equity securities available-for-sale, mortgage loans on real estate and investment real estate for the three months ended March 31, 2017 and 2016 are summarized as follows:

	Three Months Ended March 31, (Unaudited)							
	Fixed Maturity Securities		Equity Securities		Mortgage Loans on Real Estate		Investment Real Estate	
	2017	2016	2017	2016	2017	2016	2017	2016
Proceeds	\$ 4,449,231	\$ 2,274,413	\$ -	\$ 108,800	\$ 5,125,389	\$ 1,572,244	\$ 107,167	\$ -
Gross realized gains	171,105	7,094	-	-	-	3,575	2,487	-
Gross realized losses	(7,086)	(28,352)	-	(1,468)	-	-	-	-

The accumulated change in unrealized investment gains (losses) for fixed maturity and equity securities available-for-sale for the three months ended March 31, 2017 and 2016 and the amount of net realized investment gains (losses) on fixed maturity securities available-for-sale, equity securities available-for-sale, mortgage loans on real estate and investment real estate for the three months ended March 31, 2017 and 2016 are summarized as follows:

	Three Months Ended March 31, (Unaudited)	
	2017	2016
Change in unrealized investment gains (losses):		
Available-for-sale securities:		
Fixed maturity securities	\$ 1,061,041	\$ 3,807,398
Equity securities	18,024	(5,150)
Net realized investment gains (losses):		
Available-for-sale securities:		
Fixed maturity securities	164,019	(21,258)
Equity securities	-	(1,468)
Mortgage loans on real estate	-	3,575
Investment real estate	2,487	-

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
March 31, 2017
(Unaudited)

2. Investments (continued)

Major categories of net investment income for the three months ended March 31, 2017 and 2016 are summarized as follows:

	Three Months Ended March 31, (Unaudited)	
	2017	2016
Fixed maturity securities	\$ 1,490,370	\$ 1,567,218
Equity securities	5,072	7,182
Other long-term investments	857,470	547,822
Mortgage loans	1,667,394	1,353,071
Policy loans	27,564	26,098
Real estate	93,711	91,968
Short-term and other investments	110,286	72,270
Gross investment income	4,251,867	3,665,629
Investment expenses	(581,996)	(305,426)
Net investment income	<u>\$ 3,669,871</u>	<u>\$ 3,360,203</u>

TLIC and FBLIC are required to hold assets on deposit with various state insurance departments for the benefit of policyholders and other special deposits in accordance with statutory rules and regulations. As of March 31, 2017 and December 31, 2016, these required deposits, included in investment assets, had amortized costs that totaled \$4,107,553 and \$4,099,405, respectively. As of March 31, 2017 and December 31, 2016, these required deposits had fair values that totaled \$4,132,879 and \$4,125,116, respectively.

The Company's mortgage loans by property type as of March 31, 2017 and December 31, 2016 are summarized as follows:

	(Unaudited)	
	<u>March 31, 2017</u>	<u>December 31, 2016</u>
Commercial mortgage loans		
Retail stores	\$ 1,055,651	\$ 1,075,324
Office buildings	177,494	179,484
Total commercial mortgage loans	1,233,145	1,254,808
Residential mortgage loans	85,645,703	73,116,478
Total mortgage loans	<u>\$ 86,878,848</u>	<u>\$ 74,371,286</u>

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
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(Unaudited)

2. Investments (continued)

The Company's investment real estate as of March 31, 2017 and December 31, 2016 is summarized as follows:

	(Unaudited)	
	March 31, 2017	December 31, 2016
Land - held for the production of income	\$ 213,160	\$ 213,160
Land - held for investment	745,155	745,155
Total land	958,315	958,315
Building - held for the production of income	2,267,557	2,267,557
Less - accumulated depreciation	(1,086,067)	(1,049,695)
Buildings net of accumulated depreciation	1,181,490	1,217,862
Residential real estate - held for sale	225,816	330,496
Total residential real estate	225,816	330,496
Investment real estate, net of accumulated depreciation	\$ 2,365,621	\$ 2,506,673

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 fourth quarter 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.

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.

During 2017, the Company sold investment real estate property with an aggregate carrying value of \$104,680. The Company recorded a gross realized investment gain on sale of \$2,487 based on an aggregate sales price of \$107,167.

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.

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3. Fair Value Measurements (continued)

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.

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
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(Unaudited)

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 March 31, 2017 and December 31, 2016 is summarized as follows:

	Level 1	Level 2	Level 3	Total
<u>March 31, 2017 (Unaudited)</u>				
Fixed maturity securities, available-for-sale				
U.S. government and U.S. government agencies	\$ -	\$ 3,395,568	\$ -	\$ 3,395,568
States and political subdivisions	-	9,719,691	-	9,719,691
Residential mortgage-backed securities	-	70,627	-	70,627
Corporate bonds	-	118,289,132	-	118,289,132
Foreign bonds	-	20,450,795	-	20,450,795
Total fixed maturity securities	<u>\$ -</u>	<u>\$ 151,925,813</u>	<u>\$ -</u>	<u>\$ 151,925,813</u>
Equity securities, available-for-sale				
Mutual funds	\$ -	\$ 346,412	\$ -	\$ 346,412
Corporate preferred stock	101,960	-	-	101,960
Corporate common stock	147,688	-	61,500	209,188
Total equity securities	<u>\$ 249,648</u>	<u>\$ 346,412</u>	<u>\$ 61,500</u>	<u>\$ 657,560</u>
<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>

As of March 31, 2017 and December 31, 2016, Level 3 financial instruments consisted of two private placement common stocks that have no active trading.

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

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
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(Unaudited)

3. Fair Value Measurements (continued)

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

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

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
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3. Fair Value Measurements (continued)

The carrying amount and fair value of the Company's financial assets and financial liabilities disclosed, but not carried, at fair value as of March 31, 2017 and December 31, 2016, and the level within the fair value hierarchy at which such assets and liabilities are measured on a recurring basis are summarized as follows:

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

	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
March 31, 2017 (Unaudited)					
Financial assets					
Mortgage loans on real estate					
Commercial	\$ 1,233,145	\$ 1,245,615	\$ -	\$ -	\$ 1,245,615
Residential	85,645,703	86,519,153	-	-	86,519,153
Policy loans	1,576,307	1,576,307	-	-	1,576,307
Other long-term investments	49,515,018	58,847,510	-	-	58,847,510
Cash and cash equivalents	25,962,536	25,962,536	25,962,536	-	-
Accrued investment income	2,542,754	2,542,754	-	-	2,542,754
Total financial assets	<u>\$ 166,475,463</u>	<u>\$ 176,693,875</u>	<u>\$ 25,962,536</u>	<u>\$ -</u>	<u>\$ 150,731,339</u>
Financial liabilities					
Policyholders' account balances	\$ 267,911,869	\$ 226,181,661	\$ -	\$ -	\$ 226,181,661
Policy claims	938,779	938,779	-	-	938,779
Total financial liabilities	<u>\$ 268,850,648</u>	<u>\$ 227,120,440</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 227,120,440</u>
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>

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
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(Unaudited)

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, Accrued Investment Income and Policy Loans

The carrying value of these financial instruments approximates their fair values. Cash and cash equivalents 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.

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
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4. Segment Data

The Company has a life insurance segment, consisting of the life insurance operations of TLIC and FBLIC, an annuity segment, consisting of the annuity operations of TLIC and FBLIC and a corporate segment. Results for the parent company and the operations of FTCC, after elimination of intercompany amounts, are allocated to the corporate segment. These segments as of March 31, 2017 and December 31, 2016 and for the three months ended March 31, 2017 and 2016 are summarized as follows:

	Three Months Ended March 31, (Unaudited)	
	2017	2016
Revenues:		
Life insurance operations	\$ 4,184,653	\$ 3,745,244
Annuity operations	3,188,969	2,637,424
Corporate operations	134,337	158,239
Total	\$ 7,507,959	\$ 6,540,907
Income before income taxes:		
Life insurance operations	\$ 117,848	\$ 29,953
Annuity operations	160,414	228,256
Corporate operations	71,255	89,997
Total	\$ 349,517	\$ 348,206
Depreciation and amortization expense:		
Life insurance operations	\$ 414,284	\$ 674,547
Annuity operations	420,048	155,912
Corporate operations	-	-
Total	\$ 834,332	\$ 830,459
	(Unaudited)	
	March 31, 2017	December 31, 2016
Assets:		
Life insurance operations	\$ 51,429,483	\$ 50,577,282
Annuity operations	299,630,314	275,745,766
Corporate operations	6,772,563	6,929,565
Total	\$ 357,832,360	\$ 333,252,613

5. Federal Income Taxes

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

The Company has no known uncertain tax benefits within its provision for income taxes. In addition, the Company does not believe it would be subject to any penalties or interest relative to any open tax years and, therefore, has not accrued any such amounts. The Company files U.S. federal income tax returns and income tax returns in various state jurisdictions. The 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.

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
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(Unaudited)

6. Legal Matters and Contingent Liabilities

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

The jury concluded that Mr. Pettigrew, while still a member of the Company's Board of Directors, did, in fact, make untrue statements regarding the Company and Mr. Zahn and committed breaches of his fiduciary duties to the Company and 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 can 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.

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
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(Unaudited)

6. Legal Matters and Contingent Liabilities (continued)

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

On August 1, 2016, FBLIC filed a Petition for Leave to Appeal with the Missouri Court of Appeals, Southern District asking for permission to appeal the Court's class certification. The Petition for Leave to Appeal was denied. FBLIC intends to defend vigorously against the class and individual allegations. The Company is unable to determine the potential magnitude of the claims in the event of a final certification and the plaintiffs prevailing on this substantive action.

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

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

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

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
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(Unaudited)

7. Other Comprehensive Income and Accumulated Other Comprehensive Income

The changes in the components of the Company's accumulated other comprehensive income for the three months ended March 31, 2017 and 2016 are summarized as follows:

	Three Months Ended March 31, 2017 and 2016 (Unaudited)		
	Unrealized Appreciation (Depreciation) on Available-For-Sale Securities	Adjustment to Deferred Acquisition Costs	Accumulated Other Comprehensive Income (Loss)
Balance as of January 1, 2017	\$ 831,917	\$ (13,241)	\$ 818,676
Other comprehensive income before reclassifications, net of tax	994,467	(15,600)	978,867
Less amounts reclassified from accumulated other comprehensive income, net of tax	131,215	-	131,215
Other comprehensive income	863,252	(15,600)	847,652
Balance as of March 31, 2017	<u>\$ 1,695,169</u>	<u>\$ (28,841)</u>	<u>\$ 1,666,328</u>
Balance as of January 1, 2016	\$ (2,695,876)	\$ 40,059	\$ (2,655,817)
Other comprehensive income before reclassifications, net of tax	3,023,618	(48,104)	2,975,514
Less amounts reclassified from accumulated other comprehensive income, net of tax	(18,181)	-	(18,181)
Other comprehensive income	3,041,799	(48,104)	2,993,695
Balance as of March 31, 2016	<u>\$ 345,923</u>	<u>\$ (8,045)</u>	<u>\$ 337,878</u>

The pretax components of the Company's other comprehensive income and the related income tax expense for each component for the three months ended March 31, 2017 and 2016 are summarized as follows:

	Pretax	Income Tax Expense	Net of Tax
	Three Months Ended March 31, 2017 (Unaudited)		
Other comprehensive income:			
Change in net unrealized gains on available-for-sale securities:			
Unrealized holding gains arising during the period	\$ 1,243,084	\$ 248,617	\$ 994,467
Reclassification adjustment for net gains included in operations	164,019	32,804	131,215
Net unrealized gains on investments	1,079,065	215,813	863,252
Adjustment to deferred acquisition costs	(19,500)	(3,900)	(15,600)
Total other comprehensive income	<u>\$ 1,059,565</u>	<u>\$ 211,913</u>	<u>\$ 847,652</u>
	Three Months Ended March 31, 2016 (Unaudited)		
Other comprehensive income:			
Change in net unrealized gains on available-for-sale securities:			
Unrealized holding gains arising during the period	\$ 3,779,522	\$ 755,904	\$ 3,023,618
Reclassification adjustment for net losses included in operations	(22,726)	(4,545)	(18,181)
Net unrealized gains on investments	3,802,248	760,449	3,041,799
Adjustment to deferred acquisition costs	(60,130)	(12,026)	(48,104)
Total other comprehensive income	<u>\$ 3,742,118</u>	<u>\$ 748,423</u>	<u>\$ 2,993,695</u>

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

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
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(Unaudited)

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

The pretax and the related income tax components of the amounts reclassified from the Company's accumulated other comprehensive income to the Company's consolidated statement of operations for the three months ended March 31, 2017 and 2016 are summarized as follows:

Reclassification Adjustments	Three Months Ended March 31, (Unaudited)	
	2017	2016
Unrealized gains on available-for-sale securities:		
Realized gains (losses) on sales of securities (a)	\$ 164,019	\$ (22,726)
Income tax expense (benefit) (b)	32,804	(4,545)
Total reclassification adjustments	<u>\$ 131,215</u>	<u>\$ (18,181)</u>

(a) These items appear within net realized investment gains (losses) in the consolidated statement of operations.

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

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

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

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

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

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

As of March 31, 2017, \$544,016 of independent residential mortgage loans on real estate are held in escrow by a third party for the benefit of the Company. As of March 31, 2017, \$148,387 of that escrow amount is available to the Company for possible losses on its investment of \$29,677,438 in residential mortgage loans on real estate with one loan originator.

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
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(Unaudited)

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

In addition, the Company has an additional \$286,481 allowance for possible loan losses in the remaining \$57,201,410 of investments in mortgage loans on real estate as of March 31, 2017.

As of December 31, 2016, \$525,063 of independent mortgage loan balances were 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 had 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.

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. As of December 31, 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 three months ended March 31, 2017 and 2016 are summarized as follows (excluding \$29,677,438 and \$22,649,615 of mortgage loans on real estate as of March 31, 2017 and 2016, respectively, with one loan originator where independent mortgage loan balances are held in escrow by a third party for the benefit of the Company):

	As of and for the Three Months Ended March 31, (Unaudited)							
	Residential Mortgage Loans		Commercial Mortgage Loans		Premium Finance Loans		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
Allowance, beginning	\$ 238,121	\$ 175,988	\$ 6,306	\$ 7,360	\$ -	\$ 197,172	\$ 244,427	\$ 380,520
Charge offs	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-	-
Provision	42,163	6,484	(109)	(115)	-	(4,482)	42,054	1,887
Allowance, ending	<u>\$ 280,284</u>	<u>\$ 182,472</u>	<u>\$ 6,197</u>	<u>\$ 7,245</u>	<u>\$ -</u>	<u>\$ 192,690</u>	<u>\$ 286,481</u>	<u>\$ 382,407</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>\$ 280,284</u>	<u>\$ 182,472</u>	<u>\$ 6,197</u>	<u>\$ 7,245</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 286,481</u>	<u>\$ 189,717</u>
Carrying Values:								
Individually evaluated								
for impairment	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 347,885</u>	<u>\$ -</u>	<u>\$ 347,885</u>
Collectively evaluated								
for impairment	<u>\$ 55,968,265</u>	<u>\$ 36,840,353</u>	<u>\$ 1,233,145</u>	<u>\$ 1,441,814</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 57,201,410</u>	<u>\$ 38,282,167</u>

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
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8. Allowance for Loan Losses from Mortgage Loans on Real Estate and Loans from Premium Financing
(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 March 31, 2017 and December 31, 2016 are summarized as follows:

Loan-To-Value Ratio	Residential Mortgage Loans		Commercial Mortgage Loans		Total Mortgage Loans	
	(Unaudited)		(Unaudited)		(Unaudited)	
	March 31, 2017	December 31, 2016	March 31, 2017	December 31, 2016	March 31, 2017	December 31, 2016
Over 70% to 80%	\$ 15,380,587	\$ 14,559,541	\$ -	\$ -	\$ 15,380,587	\$ 14,559,541
Over 60% to 70%	32,049,451	29,738,887	-	-	32,049,451	29,738,887
Over 50% to 60%	21,712,187	15,440,364	1,040,222	1,051,155	22,752,409	16,491,519
Over 40% to 50%	12,345,596	10,399,031	-	-	12,345,596	10,399,031
Over 30% to 40%	2,276,132	2,184,351	192,923	203,653	2,469,055	2,388,004
Over 20% to 30%	1,544,076	467,410	-	-	1,544,076	467,410
Over 10% to 20%	333,013	317,936	-	-	333,013	317,936
10% or less	4,661	8,958	-	-	4,661	8,958
Total	<u>\$ 85,645,703</u>	<u>\$ 73,116,478</u>	<u>\$ 1,233,145</u>	<u>\$ 1,254,808</u>	<u>\$ 86,878,848</u>	<u>\$ 74,371,286</u>

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

Overview

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

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

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

Acquisitions

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

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

On April 28, 2015, the Company acquired a block of life insurance policies and annuity contracts according to the terms of an assumption reinsurance agreement and assumed liabilities of \$3,055,916.

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

Critical Accounting Policies and Estimates

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

For a description of the Company's critical accounting policies and estimates, please refer to "Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies and Estimates" in the Company's Annual Report on Form 10-K for the year ended December 31, 2016. The Company considers its most critical accounting estimates to be those applied to investments in fixed maturity and equity securities, mortgage loans on real estate, deferred policy acquisition costs, value of insurance business acquired and future policy benefits. There have been no material changes to the Company's critical accounting policies and estimates since December 31, 2016.

Recent Accounting Pronouncements

Revenue from Contracts with Customers

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

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

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 did 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.

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, the existence of a deferred tax asset related to available-for-sale securities in future periods and the economic conditions at the time of that future adoption.

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 did not 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 did not 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 amounts recoverable) and requires an entity to estimate the credit losses expected over the life of an exposure or pool of exposures. The estimate of expected credit losses should consider historical information, current information, as well as reasonable and supportable forecasts, including estimates of prepayments. The expected credit losses, and subsequent adjustments to such losses, will be recorded through an allowance account that is deducted from the amortized cost basis of the financial asset, with the net carrying value of the financial asset presented on the consolidated balance sheet at the amount expected to be collected.

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

The updated guidance is effective for reporting periods beginning after December 15, 2019. Early adoption is permitted for reporting periods beginning after December 15, 2018. Based on the financial instruments currently held by the Company, 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 did not 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.

Compensation — Retirement Benefits: Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost

In March 2017, the FASB issued updated guidance to improve the presentation of net periodic pension cost and net periodic post retirement cost (net benefit costs). Net benefit costs comprise several components that reflect different aspects of an employer's financial arrangements as well as the cost of benefits provided to employees.

The update requires that the employer service cost component be reported in the same lines as other employee compensation cost and that the other components (non-service costs) be presented separately from the service cost and outside of a subtotal of income from operations if one is presented. The update also allows only the service cost component to be eligible for capitalization in assets when applicable.

The updated guidance is effective for reporting periods beginning after December 15, 2017. The update is to be applied retrospectively with respect to the presentation of service cost and non-service cost and prospectively with respect to applying the service cost only eligible for capitalization in assets guidance. Early adoption is permitted as of the first interim period of an annual period if an entity issues interim financial statements. This pronouncement will not impact the Company since it does not have any pension or postretirement benefit plans and has no intention to adopt such plans.

Business Segments

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

Our business segments are as follows:

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

Please see below and Note 4 to the Consolidated Financial Statements for the three months ended March 31, 2017 and 2016 and as of March 31, 2017 and December 31, 2016 for additional information regarding segment information.

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

FINANCIAL HIGHLIGHTS

Consolidated Condensed Results of Operations for the Three Months Ended March 31, 2017 and 2016

	(Unaudited)		Amount Change 2017 less 2016
	Three Months Ended March 31,		
	2017	2016	
Premiums	\$ 3,621,690	\$ 3,192,542	\$ 429,148
Net investment income	3,669,871	3,360,203	309,668
Net realized investment gains (losses)	166,506	(19,151)	185,657
Other income	49,892	7,313	42,579
Total revenues	<u>7,507,959</u>	<u>6,540,907</u>	<u>967,052</u>
Benefits and claims	4,891,044	4,167,706	723,338
Expenses	<u>2,267,398</u>	<u>2,024,995</u>	<u>242,403</u>
Total benefits, claims and expenses	<u>7,158,442</u>	<u>6,192,701</u>	<u>965,741</u>
Income before federal income tax expense	349,517	348,206	1,311
Federal income tax expense	<u>88,039</u>	<u>52,893</u>	<u>35,146</u>
Net income	<u>\$ 261,478</u>	<u>\$ 295,313</u>	<u>\$ (33,835)</u>
Net income per common share			
basic and diluted	<u>\$ 0.03</u>	<u>\$ 0.04</u>	<u>\$ (0.01)</u>

Consolidated Condensed Financial Position as of March 31, 2017 and December 31, 2016

	(Unaudited)		Amount Change 2017 to 2016
	March 31, 2017	December 31, 2016	
Investment assets	\$ 292,919,167	\$ 255,214,510	\$ 37,704,657
Other assets	<u>64,913,193</u>	<u>78,038,103</u>	<u>(13,124,910)</u>
Total assets	<u>\$ 357,832,360</u>	<u>\$ 333,252,613</u>	<u>\$ 24,579,747</u>
Policy liabilities	\$ 314,153,559	\$ 290,680,384	\$ 23,473,175
Deferred federal income taxes	993,422	693,470	299,952
Other liabilities	<u>5,295,974</u>	<u>5,598,484</u>	<u>(302,510)</u>
Total liabilities	320,442,955	296,972,338	23,470,617
Shareholders' equity	<u>37,389,405</u>	<u>36,280,275</u>	<u>1,109,130</u>
Total liabilities and shareholders' equity	<u>\$ 357,832,360</u>	<u>\$ 333,252,613</u>	<u>\$ 24,579,747</u>
Shareholders' equity per common share	<u>\$ 4.79</u>	<u>\$ 4.65</u>	<u>\$ 0.14</u>

Results of Operations – Three Months Ended March 31, 2017 and 2016

Revenues

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

Our revenues for the three months ended March 31, 2017 and 2016 are summarized as follows:

	(Unaudited)		Amount Change 2017 less 2016
	Three Months Ended March 31,		
	2017	2016	
Premiums	\$ 3,621,690	\$ 3,192,542	\$ 429,148
Net investment income	3,669,871	3,360,203	309,668
Net realized investment gains (losses)	166,506	(19,151)	185,657
Other income	49,892	7,313	42,579
Total revenues	<u>\$ 7,507,959</u>	<u>\$ 6,540,907</u>	<u>\$ 967,052</u>

The \$967,052 increase in total revenues for the three months ended March 31, 2017 is discussed below.

Premiums

Our premiums for the three months ended March 31, 2017 and 2016 are summarized as follows:

	(Unaudited)		Amount Change 2017 less 2016
	Three Months Ended March 31,		
	2017	2016	
Whole life and term first year	\$ 39,624	\$ 28,133	\$ 11,491
Whole life and term renewal	596,440	671,342	(74,902)
Final expense first year	1,075,980	756,204	319,776
Final expense renewal	1,903,076	1,358,289	544,787
Supplementary contracts with life contingencies	6,570	378,574	(372,004)
Total premiums	<u>\$ 3,621,690</u>	<u>\$ 3,192,542</u>	<u>\$ 429,148</u>

The \$429,148 increase in premiums for the three months ended March 31, 2017 is primarily due to a \$544,787 increase in final expense renewal premiums, \$319,776 increase in final expense first year premiums and a \$372,004 decrease in 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.

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

Net Investment Income

The major components of our net investment income for the three months ended March 31, 2017 and 2016 are summarized as follows:

	(Unaudited)		Amount Change 2017 less 2016
	Three Months Ended March 31,		
	2017	2016	
Fixed maturity securities	\$ 1,490,370	\$ 1,567,218	\$ (76,848)
Equity securities	5,072	7,182	(2,110)
Other long-term investments	857,470	547,822	309,648
Mortgage loans	1,667,394	1,353,071	314,323
Policy loans	27,564	26,098	1,466
Real Estate	93,711	91,968	1,743
Short-term and other investments	110,286	72,270	38,016
Gross investment income	4,251,867	3,665,629	586,238
Investment expenses	(581,996)	(305,426)	276,570
Net investment income	<u>\$ 3,669,871</u>	<u>\$ 3,360,203</u>	<u>\$ 309,668</u>

The \$586,238 increase in gross investment income for the three months ended March 31, 2017 is primarily due to the 2016 increase in investments in mortgage loans and other long-term investments. In the twelve months since March 31, 2016, we had increased investment in mortgage loans of \$25.9 million and other long term investments of \$16.5 million. The decrease in gross investment income from fixed maturity securities is primarily due to securities that have been called or matured and replaced with securities with lower yields.

The \$276,570 increase in investment expenses for the three months ended March 31, 2017 is primarily related to increased production of investments in mortgage loans on real estate including the costs of the Company's mortgage loan department that are fully assigned to investment expenses in 2017.

Net Realized Investment Gains (Losses)

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

Our net realized investment gains (losses) for the three months ended March 31, 2017 and 2016 are summarized as follows:

	(Unaudited)		Amount Change 2017 less 2016
	Three Months Ended March 31,		
	2017	2016	
Fixed maturity securities available-for-sale:			
Sale proceeds	\$ 4,449,231	\$ 2,274,413	\$ 2,174,818
Amortized cost at sale date	4,285,212	2,295,671	1,989,541
Net realized gains (losses)	<u>\$ 164,019</u>	<u>\$ (21,258)</u>	<u>\$ 185,277</u>
Equity securities available-for-sale:			
Sale proceeds	\$ -	\$ 108,800	\$ (108,800)
Cost at sale date	-	110,268	(110,268)
Net realized losses	<u>\$ -</u>	<u>\$ (1,468)</u>	<u>\$ 1,468</u>
Mortgage loans on real estate:			
Payments and early payoffs of mortgage loans	\$ 5,125,389	\$ 1,572,244	\$ 3,553,145
Principal collections	5,125,389	1,568,669	3,556,720
Net realized gains	<u>\$ -</u>	<u>\$ 3,575</u>	<u>\$ (3,575)</u>
Investment real estate:			
Sale proceeds	\$ 107,167	\$ -	\$ 107,167
Carrying value at sale date	104,680	-	104,680
Net realized gains	<u>\$ 2,487</u>	<u>\$ -</u>	<u>\$ 2,487</u>
Net realized investment gains (losses)	<u>\$ 166,506</u>	<u>\$ (19,151)</u>	<u>\$ 185,657</u>

Total Benefits, Claims and Expenses

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

Our benefits, claims and expenses for the three months ended March 31, 2017 and 2016 are summarized as follows:

	(Unaudited)		Amount Change 2017 less 2016
	Three Months Ended March 31,		
	2017	2016	
Benefits and claims			
Increase in future policy benefits	\$ 959,805	\$ 1,358,144	\$ (398,339)
Death benefits	1,545,836	952,058	593,778
Surrenders	283,376	137,726	145,650
Interest credited to policyholders	2,035,054	1,653,720	381,334
Dividend, endowment and supplementary life contract benefits	66,973	66,058	915
Total benefits and claims	4,891,044	4,167,706	723,338
Expenses			
Policy acquisition costs deferred	(2,414,719)	(1,576,209)	(838,510)
Amortization of deferred policy acquisition costs	680,836	696,546	(15,710)
Amortization of value of insurance business acquired	102,168	90,132	12,036
Commissions	2,244,910	1,280,086	964,824
Other underwriting, insurance and acquisition expenses	1,654,203	1,534,440	119,763
Total expenses	2,267,398	2,024,995	242,403
Total benefits, claims and expenses	\$ 7,158,442	\$ 6,192,701	\$ 965,741

The \$965,741 increase in total benefits, claims and expenses for the three months ended March 31, 2017 is discussed below.

Benefits and Claims

The \$723,338 increase in benefits and claims for the three months ended March 31, 2017 is primarily due to the following:

- \$593,778 increase in death benefits primarily related to the settlement of seven additional whole life and term policy claims averaging \$45,000, 32 additional final expense claims averaging \$6,000 with the remaining increase attributed to an actuarial estimate of incurred but not reported claims.
- \$381,334 increase in interest credited to policyholders is primarily due to an increase of approximately \$67.2 million in the amount of policyholders' account balances in the consolidated statement of financial position (increased deposits and interest credited in excess of withdrawals) since March 31, 2016.
- \$145,650 increase in surrenders primarily corresponding to lapsation decisions of whole life and term policyholders.
- \$398,339 decrease in future policy benefits primarily related to decreases in the number and amount of in force insurance related to the following products: modified premium whole life, traditional whole life and renewable and convertible term with either fully guaranteed or limited guaranteed premiums.

Deferral and Amortization of Deferred Acquisition Costs

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

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

For the three months ended March 31, 2017 and 2016, capitalized costs were \$2,414,719 and \$1,576,209, respectively. Amortization of deferred policy acquisition costs for the three months ended March 31, 2017 and 2016 were \$680,836 and \$696,546, respectively.

The \$838,510 increase in the 2017 acquisition costs deferred primarily relates to increased final expense and annuity production by appointed agents based upon expansion into additional states and recruiting of additional agents. There was a \$15,710 decrease in the 2017 amortization of deferred acquisition costs.

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 \$102,168 and \$90,132 for the three months ended March 31, 2017 and 2016, respectively, resulting in a minimal increase of \$12,036.

Commissions

Our commissions for the three months ended March, 2017 and 2016 are summarized as follows:

	(Unaudited)		
	Three Months Ended March 31,		Amount Change
	2017	2016	2017 less 2016
Annuity	\$ 718,911	\$ 211,649	\$ 507,262
Whole life and term first year	35,826	24,453	11,373
Whole life and term renewal	23,984	28,319	(4,335)
Final expense first year	1,287,695	898,008	389,687
Final expense renewal	178,494	117,657	60,837
Total commissions	<u>\$ 2,244,910</u>	<u>\$ 1,280,086</u>	<u>\$ 964,824</u>

The \$964,824 increase in commissions for the three months ended March 31, 2017 is primarily due to a \$507,262 increase in annuity commissions that corresponds to a \$19,725,882 increase in policyholders' account deposits and a \$389,687 increase in final expense first year commissions that correspond to the \$319,776 increase in final expense first year premiums.

Other Underwriting, Insurance and Acquisition Expenses

The \$119,763 increase in other underwriting, insurance and acquisition expenses for the three months ended March 31, 2017 was primarily related to increased acquisition and maintenance costs associated with increased final expense and annuity production, increased third party administration fees primarily related to the increased number of policies in force and increased service requests, increased salaries and benefits due to increased staffing levels and increased salary and bonus levels that exceeded the costs of the Company's mortgage loan department that are fully assigned to investment expenses in 2017.

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. We continue to file consolidated life insurance company federal tax returns for TLIC and FBLIC. Certain items included in income reported for financial statement purposes are not included in taxable income for the current period, resulting in deferred income taxes.

For the three months ended March 31, 2016, current income tax expense was \$3,298. Deferred federal income tax expense was \$88,039 and \$49,595 for the three months ended March 31, 2017 and 2016, respectively.

Net Income Per Common Share Basic and Diluted

Net income was \$261,478 (\$0.03 per common share basic and diluted) and \$295,313 (\$0.04 per common share basic and diluted) for the three months ended March 31, 2017 and 2016, respectively. Net income per common share basic and diluted is calculated using the weighted average number of common shares outstanding during the year. The weighted average outstanding and subscribed common shares basic and diluted for the three months ended March 31, 2017 and 2016 were 7,802,593.

Business Segments

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

The revenues and income before federal income taxes from our business segments for the three months ended March 31, 2017 and 2016 are summarized as follows:

	(Unaudited)		
	Three Months Ended March 31,		Amount Change
	2017	2016	2017 less 2016
Revenues:			
Life insurance operations	\$ 4,184,653	\$ 3,745,244	\$ 439,409
Annuity operations	3,188,969	2,637,424	551,545
Corporate operations	134,337	158,239	(23,902)
Total	<u>\$ 7,507,959</u>	<u>\$ 6,540,907</u>	<u>\$ 967,052</u>
Income before federal income taxes:			
Life insurance operations	\$ 117,848	\$ 29,953	\$ 87,895
Annuity operations	160,414	228,256	(67,842)
Corporate operations	71,255	89,997	(18,742)
Total	<u>\$ 349,517</u>	<u>\$ 348,206</u>	<u>\$ 1,311</u>

Life Insurance Operations

The \$439,409 increase in revenues from Life Insurance Operations for the three months ended March 31, 2017 is primarily due to the following:

- \$429,148 increase in premiums
- \$29,314 increase in net realized investment gains
- \$6,918 increase in other income
- \$25,971 decrease in net investment income

The \$87,895 increased profitability from Life Insurance Operations for the three months ended March 31, 2017 is primarily due to the following:

- \$429,148 increase in premiums
- \$411,224 increase in policy acquisition costs deferred net of amortization
- \$398,339 decrease in future policy benefits
- \$42,846 decrease in other underwriting, insurance and acquisition expenses
- \$29,314 increase in net realized investment gains
- \$6,918 increase in other income
- \$915 increase in dividend, endowment and supplementary life contract benefits
- \$6,018 increase in amortization of value of insurance business acquired
- \$25,971 decrease in net investment income
- \$145,650 increase in surrenders
- \$457,562 increase in commissions
- \$593,778 increase in death benefits

Annuity Operations

The \$551,545 increase in revenues from Annuity Operations for the three months ended March 31, 2017 is due to the following:

- \$395,202 increase in net investment income
- \$156,343 increase in net realized investment gains

The \$67,842 decreased profitability from Annuity Operations for the three months ended March 31, 2017 is due to the following:

- \$507,262 increase in commissions
- \$381,334 increase in interest credited to policyholders

- \$167,769 increase in other underwriting, insurance and acquisition expenses
- \$6,018 increase in amortization of value of insurance business acquired
- \$156,343 increase in net realized investment gains
- \$395,202 increase in net investment income
- \$442,996 increase in policy acquisition costs deferred net of amortization

Corporate Operations

The \$23,902 decrease in revenues from Corporate Operations for the three months ended March 31, 2017 is due to \$59,563 of decreased net investment income that exceeded \$35,661 of increased other income from service fees.

The \$18,742 decrease in Corporate Operations profitability for the three months ended March 31, 2017 is primarily due to \$59,563 of decreased net investment income that exceeded \$35,661 of increased other income and \$5,160 of decreased operating expenses.

Consolidated Financial Condition

Our invested assets as of March 31, 2017 and December 31, 2016 are summarized as follows:

	(Unaudited) March 31, 2017	December 31, 2016	Amount Change 2017 less 2016
Assets			
Investments			
Available-for-sale fixed maturity securities at fair value (amortized cost: \$149,863,882 and \$128,310,625 as of March 31, 2017 and December 31, 2016, respectively)	\$ 151,925,813	\$ 129,311,155	\$ 22,614,658
Available-for-sale equity securities at fair value (cost: \$600,529 and \$599,400 as of March 31, 2017 and December 31, 2016, respectively)	657,560	638,407	19,153
Mortgage loans on real estate	86,878,848	74,371,286	12,507,562
Investment real estate	2,365,621	2,506,673	(141,052)
Policy loans	1,576,307	1,598,116	(21,809)
Other long-term investments	49,515,018	46,788,873	2,726,145
Total investments	<u>\$ 292,919,167</u>	<u>\$ 255,214,510</u>	<u>\$ 37,704,657</u>

The \$22,614,658 and \$3,529,825 increases in fixed maturity available-for-sale securities for the three months ended March 31, 2017 and 2016, respectively, are summarized as follows:

	(Unaudited)	
	Three Months Ended March 31,	
	2017	2016
	Amount	Amount
Fixed maturity securities, available-for-sale, beginning	\$ 129,311,155	\$ 134,556,027
Purchases	26,056,647	2,222,996
Unrealized appreciation	1,061,041	3,807,398
Net realized investment gains (losses)	164,019	(21,258)
Sales proceeds	(1,679,231)	(1,136,413)
Maturities	(2,770,000)	(1,138,000)
Premium amortization	(217,818)	(204,898)
Increase	<u>22,614,658</u>	<u>3,529,825</u>
Fixed maturity securities, available-for-sale, ending	<u>\$ 151,925,813</u>	<u>\$ 138,085,852</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 \$19,153 increase and \$110,866 decrease in equity securities available-for-sale for the three months ended March 31, 2017 and 2016, respectively, are summarized as follows:

	(Unaudited)	
	Three Months Ended March 31,	
	2017	2016
	Amount	Amount
Equity securities, available-for-sale, beginning	\$ 638,407	\$ 892,800
Purchases	1,129	4,552
Sales proceeds	-	(108,800)
Unrealized appreciation (depreciation)	18,024	(5,150)
Net realized investment losses	-	(1,468)
Increase (decrease)	<u>19,153</u>	<u>(110,866)</u>
Equity securities, available-for-sale, ending	<u>\$ 657,560</u>	<u>\$ 781,934</u>

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

The \$12,507,562 and \$2,156,864 increases in mortgage loans on real estate for the three months ended March 31, 2017 and 2016, respectively, are summarized as follows:

	(Unaudited)	
	Three Months Ended March 31,	
	2017	2016
	Amount	Amount
Mortgage loans on real estate, beginning	\$ 74,371,286	\$ 58,774,918
Purchases	17,643,638	3,710,052
Discount accretion	46,164	29,101
Net realized investment gains	-	3,575
Payments	(5,125,389)	(1,572,244)
Increase in allowance for bad debts	(42,054)	(6,369)
Amortization of loan origination fees	(14,797)	(7,251)
Increase	<u>12,507,562</u>	<u>2,156,864</u>
Mortgage loans on real estate, ending	<u>\$ 86,878,848</u>	<u>\$ 60,931,782</u>

The \$141,052 and \$36,372 decreases in investment real estate for the three months ended March 31, 2017 and 2016, respectively, are summarized as follows:

	(Unaudited)	
	Three Months Ended March 31,	
	2017	2016
	Amount	Amount
Investment real estate, beginning	\$ 2,506,673	\$ 2,326,558
Sales proceeds	(107,167)	-
Depreciation of building	(36,372)	(36,372)
Net realized investment gains	2,487	-
Decrease	<u>(141,052)</u>	<u>(36,372)</u>
Investment real estate, ending	<u>\$ 2,365,621</u>	<u>\$ 2,290,186</u>

The \$2,726,145 and \$1,433,741 increases in other long-term investments (composed of lottery receivables) for the three months ended March 31, 2017 and 2016, respectively, are summarized as follows:

	(Unaudited)	
	Three Months Ended March 31,	
	2017	2016
	Amount	Amount
Other long-term investments, beginning	\$ 46,788,873	\$ 31,566,927
Purchases	3,648,817	2,024,317
Accretion of discount	857,471	550,878
Payments	(1,780,143)	(1,141,454)
Increase	<u>2,726,145</u>	<u>1,433,741</u>
Other long-term investments, ending	<u>\$ 49,515,018</u>	<u>\$ 33,000,668</u>

Our assets other than invested assets as of March 31, 2017 and December 31, 2016 are summarized as follows:

	(Unaudited)		Amount Change
	March 31, 2017	December 31, 2016	2017 less 2016
Cash and cash equivalents	\$ 25,962,536	\$ 34,223,945	\$ (8,261,409)
Accrued investment income	2,542,754	2,176,770	365,984
Recoverable from reinsurers	1,211,881	1,258,938	(47,057)
Agents' balances and due premiums	1,505,643	1,419,250	86,393
Deferred policy acquisition costs	19,906,373	18,191,990	1,714,383
Value of insurance business acquired	5,806,667	5,908,835	(102,168)
Other assets	7,977,339	14,858,375	(6,881,036)
Assets other than investment assets	<u>\$ 64,913,193</u>	<u>\$ 78,038,103</u>	<u>\$ (13,124,910)</u>

The \$8,261,409 decrease in cash and cash equivalents is discussed below in the “Liquidity and Capital Resources” section where cash flows are addressed.

The \$365,984 increase in accrued investment income is due to the \$37,704,657 increase in invested assets during the first three months of 2017.

The \$86,393 increase in 2017 agents’ balances and due premiums is due to a \$120,760 increase in agents’ balances and \$34,367 decrease in due premiums. The increase in agents’ balances 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 March 31, 2017 and December 31, 2016 are summarized as follows:

	(Unaudited)		Amount Change
	March 31, 2017	December 31, 2016	2017 less 2016
Advances to mortgage loan originator	\$ 3,730,157	\$ 5,207,380	\$ (1,477,223)
Federal and state income taxes recoverable	1,973,302	2,220,566	(247,264)
Notes receivable	449,002	464,366	(15,364)
Accrual of mortgage loan and long-term investment payments due	1,685,925	511,585	1,174,340
Receivable for securities sold	-	6,288,274	(6,288,274)
Guaranty funds	70,860	78,711	(7,851)
Other receivables, prepaid assets and deposits	68,093	87,493	(19,400)
Total other assets	<u>\$ 7,977,339</u>	<u>\$ 14,858,375</u>	<u>\$ (6,881,036)</u>

As of March 31, 2017, the Company had no security sales where the trade date and settlement date were in different financial reporting periods compared to \$6,288,274 of security sales overlapping financial reporting periods as of December 31, 2016.

There was a \$1,477,223 decrease in advances from one mortgage loan originator who acquires residential mortgage loans for our life companies.

There was a \$1,174,340 increase in the accrual of mortgage loans and long-term investment payments due based upon the scheduled timing of investment payments remitted by the third party servicers. Those cash payments were received in April 2017.

On April 15, 2017, 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 March 31, 2017 and December 31, 2016 are summarized as follows:

	(Unaudited)		Amount Change 2017 less 2016
	March 31, 2017	December 31, 2016	
Policy liabilities			
Policyholders' account balances	\$ 267,911,869	\$ 245,346,489	\$ 22,565,380
Future policy benefits	45,222,673	44,266,227	956,446
Policy claims	938,779	997,814	(59,035)
Other policy liabilities	<u>80,238</u>	<u>69,854</u>	<u>10,384</u>
Total policy liabilities	314,153,559	290,680,384	23,473,175
Deferred federal income taxes	993,422	693,470	299,952
Other liabilities	<u>5,295,974</u>	<u>5,598,484</u>	<u>(302,510)</u>
Total liabilities	<u>\$ 320,442,955</u>	<u>\$ 296,972,338</u>	<u>\$ 23,470,617</u>

The \$22,565,380 and \$3,067,444 increases in policyholders' account balances for the three months ended March 31, 2017 and 2016, respectively, are summarized as follows:

	(Unaudited)	
	Three Months Ended March 31,	
	2017	2016
	Amount	Amount
Policyholders' account balances, beginning	\$ 245,346,489	\$ 197,688,616
Deposits	25,052,131	5,326,249
Withdrawals	(4,521,805)	(3,912,525)
Interest credited	<u>2,035,054</u>	<u>1,653,720</u>
Increase	<u>22,565,380</u>	<u>3,067,444</u>
Policyholders' account balances, ending	<u>\$ 267,911,869</u>	<u>\$ 200,756,060</u>

Annuity deposits increased by \$19,725,882 from \$5,326,249 for the three months ended March 31, 2016 to \$25,052,131 for the three months ended March 31, 2017. This increase in annuity deposits is due to the annuity contract provisions that are sought by policyholders especially current interest rates paid to policyholders and the minimum guaranteed interest rates during the contractual period.

The \$956,446 increase in future policy benefits during the three months ended March 31, 2017 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 \$299,952 increase in deferred federal income taxes during the three months ended March 31, 2017 was due to \$211,913 of increased deferred federal income taxes on the unrealized appreciation of fixed maturity and equity securities available-for-sale and \$88,039 of operating deferred federal tax expense.

Our other liabilities as of March 31, 2017 and December 31, 2016 are summarized as follows:

	(Unaudited)		Amount Change
	March 31, 2017	December 31, 2016	2017 less 2016
Suspense accounts payable	\$ 4,434,220	\$ 4,684,726	\$ (250,506)
Accrued expenses payable	490,284	527,938	(37,654)
Payable for securities purchased	216,656	234,225	(17,569)
Guaranty fund assessments	60,000	60,000	-
Unearned investment income	70,183	48,466	21,717
Deferred revenue	37,906	29,632	8,274
Unclaimed funds	37,198	23,057	14,141
Other payables, withholdings and escrows	(50,473)	(9,560)	(40,913)
Total other liabilities	<u>\$ 5,295,974</u>	<u>\$ 5,598,484</u>	<u>\$ (302,510)</u>

The \$250,506 decrease in suspense accounts payable is primarily due to decreased 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 March 31, 2017, 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 March 31, 2017, we had cash and cash equivalents totaling \$25,962,536. As of March 31, 2017, cash and cash equivalents of \$16,414,642 and \$4,823,451, respectively, of the total \$25,962,536 were held by TLIC and FBLIC and may not be available for use by FTFC due to the required pre-approval by the OID and Missouri Department of Insurance of any dividend or intercompany transaction to transfer funds to FTFC. The maximum dividend, which may be paid in any twelve-month period without notification or approval, is limited to the greater of 10% of statutory surplus as of December 31 of the preceding year or the net gain from operations of the preceding calendar year.

Cash dividends may only be paid out of surplus derived from realized net profits. Based on these limitations, there is capacity for TLIC to pay a dividend up to \$1,852,287 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. 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 \$22,125,813 and \$22,117,921 as of March 31, 2017 and December 31, 2016, respectively. Other funds are invested in mutual funds that invest in U.S. government securities. We monitor the solvency of all financial institutions in which we have funds to minimize the exposure for loss. The Company has not experienced any losses in such accounts.

Our cash flows for the three months ended March 31, 2017 and 2016 are summarized as follows:

	(Unaudited)		
	Three Months Ended March 31,		Amount Change
	2017	2016	2017 less 2016
Net cash provided by operating activities	\$ 825,861	\$ 2,065,935	\$ (1,240,074)
Net cash used in investing activities	(29,617,596)	(2,826,003)	(26,791,593)
Net cash provided by financing activities	<u>20,530,326</u>	<u>1,413,724</u>	<u>19,116,602</u>
Increase (decrease) in cash and cash equivalents	(8,261,409)	653,656	(8,915,065)
Cash and cash equivalents, beginning of period	<u>34,223,945</u>	<u>9,047,586</u>	<u>25,176,359</u>
Cash and cash equivalents, end of period	<u>\$ 25,962,536</u>	<u>\$ 9,701,242</u>	<u>\$ 16,261,294</u>

The \$825,861 and \$2,065,935 of cash provided by operating activities for the three months ended March 31, 2017 and 2016, respectively, are summarized as follows:

	(Unaudited)		
	Three Months Ended March 31,		Amount Change
	2017	2016	2017 less 2016
Premiums collected	\$ 3,666,596	\$ 3,197,616	\$ 468,980
Net investment income collected	1,465,450	3,177,962	(1,712,512)
Other income collected	49,892	7,313	42,579
Death benefits paid	(1,557,814)	(870,144)	(687,670)
Surrenders paid	(283,376)	(135,744)	(147,632)
Dividends and endowments paid	(67,129)	(68,317)	1,188
Commissions paid	(2,365,670)	(1,360,858)	(1,004,812)
Other underwriting, insurance and acquisition expenses paid	(1,574,517)	(1,477,591)	(96,926)
Taxes (paid) recovered	247,264	(53,317)	300,581
(Advances to) payments from mortgage loan originator	1,477,223	(1,722,181)	3,199,404
Deposited policy applications unissued (issued)	(250,506)	823,422	(1,073,928)
Increase in short-term investments	-	549,794	(549,794)
Increase (decrease) in policy loans	21,809	(8,261)	30,070
Other	<u>(3,361)</u>	<u>6,241</u>	<u>(9,602)</u>
Increase in cash provided by operating activities	<u>\$ 825,861</u>	<u>\$ 2,065,935</u>	<u>\$ (1,240,074)</u>

Please see the statements of cash flows for the three months ended March 31, 2017 and 2016 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 March 31, 2017 and December 31, 2016 is summarized as follows:

	(Unaudited) March 31, 2017	December 31, 2016	Amount Change 2017 less 2016
Common stock, par value \$.01 per share (20,000,000 shares authorized, 8,050,173 issued as of March 31, 2017 and December 31, 2016 and 7,802,593 outstanding as of March 31, 2017 and December 31, 2016)	\$ 80,502	\$ 80,502	\$ -
Additional paid-in capital	28,684,598	28,684,598	-
Treasury stock, at cost (247,580 shares as of March 31, 2017 and December 31, 2016)	(893,947)	(893,947)	-
Accumulated other comprehensive income	1,666,328	818,676	847,652
Accumulated earnings	7,851,924	7,590,446	261,478
Total shareholders' equity	<u>\$ 37,389,405</u>	<u>\$ 36,280,275</u>	<u>\$ 1,109,130</u>

The increase in shareholders' equity of \$1,109,130 for the three months ended March 31, 2017 is due to \$847,652 of other comprehensive income and net income of \$261,478.

Equity per common share outstanding increased 3.0% from \$4.65 per share as of December 31, 2016 to \$4.79 per share as of March 31, 2017, based upon 7,802,593 common shares outstanding as of both March 31, 2017 and December 31, 2016.

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 2017 or 2016. Our investments include marketable debt securities that could be readily converted to cash for liquidity needs.

We are subject to various market risks. The quality of our investment portfolio and the current level of shareholders' equity continue to provide a sound financial base as we strive to expand our marketing to offer competitive products. Our investment portfolio had unrealized appreciation (depreciation) on available-for-sale securities of \$2,118,962 and \$1,039,897 as of March 31, 2017 and December 31, 2016, respectively, prior to the impact of income taxes and deferred acquisition cost adjustments. An increase of \$1,243,084 in unrealized gains arising for the three months ended March 31, 2017 has been offset by the 2017 net realized investment gains of \$164,019 originating from the sale and call activity for fixed maturity securities available-for-sale resulting in net unrealized gains on investments of \$1,079,065.

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 March 31, 2017, cash and cash equivalents, 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 13.3% 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.

Effective January 1, 2017, the Company entered into a revised advance agreement with one loan originator. As of March 31, 2017, the Company has outstanding advances to this loan originator totaling \$3,730,157. The advances are secured by \$4,437,934 of residential mortgage loans on real estate that are assigned to the Company. The Company has committed to fund up to an additional \$1,769,843 to the loan originator that would result in additional security in the form of residential mortgage loans on real estate to be assigned to the Company.

Effective January 1, 2017, the Company also entered into a revised escrow agreement with the same loan originator. According to the revised terms of the escrow agreement, as of March 31, 2017, \$544,016 of additional and secured residential mortgage loan balances on real estate are held in escrow by the Company. As of March 31, 2017, \$395,629 of that escrow amount is available to the Company as additional collateral on \$3,730,157 of advances to the loan originator. The remaining March 31, 2017 escrow amount of \$148,387 is available to the Company as additional collateral on its investment of \$29,677,438 in residential mortgage loans on real estate.

We are not aware of any commitments or unusual events that could materially affect our capital resources. We are not aware of any current recommendations by any regulatory authority which, if implemented, would have a material adverse effect on our liquidity, capital resources or operations. We believe that our existing cash and cash equivalents as of March 31, 2017 will be sufficient to fund our anticipated operating expenses.

Off-Balance Sheet Arrangements

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

SPECIAL NOTE CONCERNING FORWARD-LOOKING STATEMENTS

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

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

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

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

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Changes to Internal Control over Financial Reporting

There were no changes in the Company’s internal control over financial reporting during the three months ended March 31, 2017 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

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

The jury concluded that Mr. Pettigrew, while still a member of the Company’s Board of Directors, did, in fact, make untrue statements regarding the Company and Mr. Zahn and committed breaches of his fiduciary duties to the Company and 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 can 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 2. Unregistered Sales of Equity Securities and Use of Proceeds

None

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

None

Item 5. Other Information

None

Item 6. Exhibits

31.1 Rule 13a-14(a)/15d-14(a) Certification of Principal Executive Officer

31.2 Rule 13a-14(a)/15d-14(a) Certification of Principal Financial Officer

32.1 Section 1350 Certification of Principal Executive Officer

32.2 Section 1350 Certification of Principal Financial Officer

101.INS** XBRL Instance

101.SCH** XBRL Taxonomy Extension Schema

101.CAL** XBRL Taxonomy Extension Calculation

101.DEF** XBRL Taxonomy Extension Definition

101.LAB** XBRL Taxonomy Extension Labels

101.PRE** XBRL Taxonomy Extension Presentation

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

SIGNATURES

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

FIRST TRINITY FINANCIAL CORPORATION
an Oklahoma corporation

May 11, 2017

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

May 11, 2017

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

CERTIFICATION

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

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

Date: May 11, 2017

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

CERTIFICATION

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

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

Date: May 11, 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 Quarterly Report on Form 10-Q of the Company for the quarter ended March 31, 2017 (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: May 11, 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 Quarterly Report on Form 10-Q of the Company for the quarter ended March 31, 2017 (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: May 11, 2017

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