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

FORM 10-Q

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

For the quarterly period ended June 30, 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	**34-1991436**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

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

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

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

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, 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 August 7, 2017: 7,802,593 shares

FIRST TRINITY FINANCIAL CORPORATION
QUARTERLY REPORT ON FORM 10-Q
FOR QUARTERLY PERIOD ENDED JUNE 30, 2017

TABLE OF CONTENTS

PART I – FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

First Trinity Financial Corporation and Subsidiaries
Consolidated Statements of Financial Position

	(Unaudited) June 30, 2017	December 31, 2016
Assets		
Investments		
Available-for-sale fixed maturity securities at fair value (amortized cost: $146,815,391 and $128,310,265 as of June 30, 2017 and December 31, 2016, respectively)	$ 151,551,123	$ 129,311,155
Available-for-sale equity securities at fair value (cost: $601,207 and $599,400 as of June 30, 2017 and December 31, 2016, respectively)	658,952	638,407
Mortgage loans on real estate	100,337,059	74,371,286
Investment real estate	2,248,228	2,506,673
Policy loans	1,604,260	1,598,116
Other long-term investments	57,895,580	46,788,873
Total investments	314,295,202	255,214,510
Cash and cash equivalents	17,541,778	34,223,945
Accrued investment income	2,517,930	2,176,770
Recoverable from reinsurers	1,230,910	1,258,938
Agents' balances and due premiums	1,643,690	1,419,250
Deferred policy acquisition costs	21,695,607	18,191,990
Value of insurance business acquired	5,699,371	5,908,835
Other assets	13,628,298	14,858,375
Total assets	$ 378,252,786	$ 333,252,613
Liabilities and Shareholders' Equity		
Policy liabilities		
Policyholders' account balances	$ 285,235,552	$ 245,346,489
Future policy benefits	46,708,192	44,266,227
Policy claims	915,170	997,814
Other policy liabilities	77,758	69,854
Total policy liabilities	332,936,672	290,680,384
Deferred federal income taxes	1,637,491	693,470
Other liabilities	3,639,385	5,598,484
Total liabilities	338,213,548	296,972,338
Shareholders' equity		
Common stock, par value $.01 per share (20,000,000 shares authorized, 8,050,173 issued as of June 30, 2017 and December 31, 2016 and 7,802,593 outstanding as of June 30, 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 June 30, 2017 and December 31, 2016)	(893,947)	(893,947)
Accumulated other comprehensive income	3,766,117	818,676
Accumulated earnings	8,401,968	7,590,446
Total shareholders' equity	40,039,238	36,280,275
Total liabilities and shareholders' equity	$ 378,252,786	$ 333,252,613

See notes to consolidated financial statements (unaudited).

First Trinity Financial Corporation and Subsidiaries

Consolidated Statements of Operations

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Revenues				
Premiums	$ 3,880,345	$ 3,037,033	$ 7,502,035	$ 6,229,575
Net investment income	3,995,064	3,258,634	7,664,935	6,618,837
Net realized investment gains	91,088	166,093	257,594	146,942
Loss on other-than-temporary impairments	(224,250)	-	(224,250)	-
Other income	17,235	7,893	67,127	15,206
Total revenues	7,759,482	6,469,653	15,267,441	13,010,560
Benefits, Claims and Expenses				
Benefits and claims				
Increase in future policy benefits	1,482,159	1,279,874	2,441,964	2,638,018
Death benefits	887,745	1,034,230	2,433,581	1,986,288
Surrenders	248,212	198,643	531,588	336,369
Interest credited to policyholders	2,201,930	1,681,501	4,236,984	3,335,221
Dividend, endowment and supplementary life contract benefits	64,795	67,454	131,768	133,512
Total benefits and claims	4,884,841	4,261,702	9,775,885	8,429,408
Policy acquisition costs deferred	(2,586,318)	(1,542,926)	(5,001,037)	(3,119,135)
Amortization of deferred policy acquisition costs	747,306	355,491	1,428,142	1,052,037
Amortization of value of insurance business acquired	107,296	99,078	209,464	189,210
Commissions	2,345,063	1,548,635	4,589,973	2,828,721
Other underwriting, insurance and acquisition expenses	1,572,220	1,345,086	3,226,423	2,879,526
Total expenses	2,185,567	1,805,364	4,452,965	3,830,359
Total benefits, claims and expenses	7,070,408	6,067,066	14,228,850	12,259,767
Income before total federal income tax expense	689,074	402,587	1,038,591	750,793
Current federal income tax expense	19,909	34,212	19,909	37,510
Deferred federal income tax expense	119,121	30,276	207,160	79,871
Total federal income tax expense	139,030	64,488	227,069	117,381
Net income	$ 550,044	$ 338,099	$ 811,522	$ 633,412
Net income per common share basic and diluted	$ 0.07	$ 0.04	$ 0.10	$ 0.08

See notes to consolidated financial statements (unaudited).

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net income	$ 550,044	$ 338,099	$ 811,522	$ 633,412
Other comprehensive income				
Total net unrealized investment gains arising during the period	2,477,183	4,602,854	3,720,267	8,382,376
Less net realized investment gains (losses)	(197,332)	151,677	(33,313)	128,951
Net unrealized investment gains	2,674,515	4,451,177	3,753,580	8,253,425
Less adjustment to deferred acquisition costs	49,778	67,083	69,278	127,213
Other comprehensive income before federal income tax expense	2,624,737	4,384,094	3,684,302	8,126,212
Federal income tax expense	524,948	876,817	736,861	1,625,240
Total other comprehensive income	2,099,789	3,507,277	2,947,441	6,500,972
Total comprehensive income	$ 2,649,833	$ 3,845,376	$ 3,758,963	$ 7,134,384

See notes to consolidated financial statements (unaudited).

First Trinity Financial Corporation and Subsidiaries

Consolidated Statements of Changes in Shareholders' Equity

Six Months Ended June 30, 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	-	-	-	-	633,412	633,412
Other comprehensive income	-	-	-	6,500,972	-	6,500,972
Balance as of June 30, 2016	$ 80,502	$ 28,684,598	$ (893,947)	$ 3,845,155	$ 5,633,119	$ 37,349,427
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	-	-	-	-	811,522	811,522
Other comprehensive income	-	-	-	2,947,441	-	2,947,441
Balance as of June 30, 2017	$ 80,502	$ 28,684,598	$ (893,947)	$ 3,766,117	$ 8,401,968	$ 40,039,238

See notes to consolidated financial statements (unaudited).

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

	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Operating activities		
Net income	$ 811,522	$ 633,412
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for depreciation	73,063	73,060
Accretion of discount on investments	(1,386,429)	(797,906)
Net realized investment gains	(257,594)	(146,942)
Loss on other-than-temporary impairment	224,250	-
Amortization of policy acquisition cost	1,428,142	1,052,037
Policy acquisition cost deferred	(5,001,037)	(3,119,135)
Mortgage loan origination fees deferred	-	(4,531)
Amortization of loan origination fees	23,408	22,784
Amortization of value of insurance business acquired	209,464	189,210
Allowance for mortgage loan losses	101,031	14,516
Provision for deferred federal income tax expense	207,160	79,871
Interest credited to policyholders	4,236,984	3,335,221
Change in assets and liabilities:		
Accrued investment income	(341,160)	23,481
Policy loans	(6,144)	(35,875)
Short-term investments	-	549,822
Recoverable from reinsurers	28,028	(18,218)
Agents' balances and due premiums	(224,440)	(193,879)
Other assets (excludes depreciation of $320 in 2017 and change in receivable for securities sold of $609,014 and ($2,588,281) in 2017 and 2016, respectively).	620,743	(1,811,870)
Future policy benefits	2,441,965	2,645,718
Policy claims	(82,644)	144,812
Other policy liabilities	7,904	(7,869)
Other liabilities (excludes change in payable for securities purchased of ($80,176) and $499 in 2017 and 2016, respectively).	(1,878,923)	2,156,346
Net cash provided by operating activities	1,235,293	4,784,065
Investing activities		
Purchases of fixed maturity securities	(32,301,685)	(3,936,924)
Maturities of fixed maturity securities	4,868,000	3,554,000
Sales of fixed maturity securities	7,735,249	3,940,211
Purchases of equity securities	(1,807)	(8,990)
Sales of equity securities	-	128,010
Purchases of mortgage loans	(36,741,329)	(9,362,778)
Payments on mortgage loans	10,724,113	3,661,522
Purchases of other long-term investments	(13,362,692)	(7,101,665)
Payments on other long-term investments	3,999,678	1,948,073
Sale on other long-term investments	792,012	-
Purchase of real estate	-	(198,622)
Sale of real estate	190,084	-
Net change in receivable and payable for securities sold and purchased	528,838	(2,587,782)
Net cash used in investing activities	(53,569,539)	(9,964,945)
Financing activities		
Policyholders' account deposits	45,682,170	14,145,326
Policyholders' account withdrawals	(10,030,091)	(7,205,527)
Net cash provided by financing activities	35,652,079	6,939,799
Increase (decrease) in cash	(16,682,167)	1,758,919
Cash and cash equivalents, beginning of period	34,223,945	9,047,586
Cash and cash equivalents, end of period	$ 17,541,778	$ 10,806,505

See notes to consolidated financial statements (unaudited).

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

During 2017 the Company reclassified an available-for-sale fixed maturity security totaling $729,737 to other long-term investments as recent third party information indicated the security does not qualify for available-for-sale treatment.

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

	Six Months Ended June 30, 2017
Reduction in available-for-securities fixed maturity securities	$ 729,737
Other long-term invesments	(729,737)
Net cash provided (used) in investing activities	$ -

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.

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 six months ended June 30, 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 consolidated 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.

1. Organization and Significant Accounting Policies (continued)

Subsequent Events

Management has evaluated all events subsequent to June 30, 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.

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 was permitted. The adoption of this guidance did not have a material effect on the Company's results of operations, financial position or liquidity.

1. Organization and Significant Accounting Policies (continued)

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 was 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 was permitted. The adoption of this guidance did not have a material effect on the Company's results of operations, financial position or liquidity.

1. Organization and Significant Accounting Policies (continued)

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.

2. Investments

Fixed Maturity and Equity Securities Available-For-Sale

Investments in fixed maturity and equity securities available-for-sale as of June 30, 2017 and December 31, 2016 are summarized as follows:

	Amortized Cost or Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	June 30, 2017 (Unaudited)			
Fixed maturity securities				
U.S. government and U.S. government agencies	$ 3,513,372	$ 76,996	$ 57,654	$ 3,532,714
States and political subdivisions	9,403,827	268,163	33,354	9,638,636
Residential mortgage-backed securities	32,278	39,442	-	71,720
Corporate bonds	112,783,805	4,279,059	712,679	116,350,185
Foreign bonds	21,082,109	986,298	110,539	21,957,868
Total fixed maturity securities	146,815,391	5,649,958	914,226	151,551,123
Equity securities				
Mutual funds	346,284	1,044	-	347,328
Corporate preferred stock	99,945	2,033	40	101,938
Corporate common stock	154,978	54,708	-	209,686
Total equity securities	601,207	57,785	40	658,952
Total fixed maturity and equity securities	$ 147,416,598	$ 5,707,743	$ 914,266	$ 152,210,075
	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	$ 128,909,665	$ 3,045,705	$ 2,005,808	$ 129,949,562

2. Investments (continued)

All securities in an unrealized loss position as of the financial statement dates, the estimated fair value, pre-tax gross unrealized loss and number of securities by length of time that those securities have been continuously in an unrealized loss position as of June 30, 2017 and December 31, 2016 are summarized as follows:

	Fair Value	Unrealized Loss	Number of Securities
	June 30, 2017 (Unaudited)		
Fixed maturity securities			
Less than 12 months			
U.S. government and U.S. government agencies	$ 1,887,412	$ 42,684	7
States and political subdivisions	1,970,827	33,354	11
Corporate bonds	6,613,829	104,812	22
Foreign bonds	1,104,060	34,248	5
Total less than 12 months	11,576,128	215,098	45
More than 12 months			
U.S. government and U.S. government agencies	335,031	14,970	1
Corporate bonds	5,925,592	607,867	27
Foreign bonds	502,375	76,291	3
Total more than 12 months	6,762,998	699,128	31
Total fixed maturity securities in an unrealized loss position	18,339,126	914,226	76
Equity securities			
Less than 12 months			
Corporate preferred stock	49,960	40	1
Total less than 12 months	49,960	40	1
Total equity securities in an unrealized loss position	49,960	40	1
Total fixed maturity and equity securities in an unrealized loss position	$ 18,389,086	$ 914,266	77
	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 in an unrealized loss position	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 in an unrealized loss position	185,473	6,454	3
Total fixed maturity and equity securities in an unrealized loss position	$ 42,434,255	$ 2,005,808	173

2. Investments (continued)

As of June 30, 2017, the Company held 76 available-for-sale fixed maturity securities with an unrealized loss of $914,226, fair value of $18,339,126 and amortized cost of $19,253,352. These unrealized losses were primarily due to market interest rate movements in the bond market as of June 30, 2017. The ratio of the fair value to the amortized cost of these 76 securities is 95%.

As of December 31, 2016, the Company held 170 available-for-sale fixed maturity security 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 June 30, 2017, the Company had one available-for-sale equity security with an unrealized loss of $40, fair value of $49,960 and cost of $50,000. The ratio of fair value to cost of this security is 99.9%.

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 June 30, 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.

The Company has recorded other-than-temporary impairments on its fixed maturity available-for-sale investment in an energy corporation with a total par value of $650,000 as a result of continuing unrealized losses. During fourth quarter 2016 this security was initially impaired by a $207,450 charge to the statement of operations. During second quarter 2017 this security was further impaired by a $224,250 charge to the statement of operations. These impairments were considered fully credit-related and represent 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 for the three and six months ended June 30, 2017 and the year ended December 31, 2016.

Management believes that the Company will fully recover its cost basis in the securities held as of June 30, 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.

2. Investments (continued)

Net unrealized gains included in other comprehensive income for investments classified as available-for-sale, net of the effect of deferred income taxes and deferred acquisition costs assuming that the appreciation had been realized as of June 30, 2017 and December 31, 2016, are summarized as follows:

	(Unaudited) June 30, 2017	December 31, 2016
Unrealized appreciation on available-for-sale securities	$ 4,793,477	$ 1,039,897
Adjustment to deferred acquisition costs	(85,831)	(16,553)
Deferred income taxes	(941,529)	(204,668)
Net unrealized appreciation on available-for-sale securities	$ 3,766,117	$ 818,676

The Company's investment in lottery prize cash flows categorized as other long-term investments in the statement of financial position was $57,895,580 and $46,788,873 as of June 30, 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 June 30, 2017, by contractual maturity, are summarized as follows:

	June 30, 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	$ 9,129,356	$ 9,228,487	$ 8,369,492	$ 8,501,590
Due after one year through five years	30,195,177	31,184,027	23,279,727	25,343,966
Due after five years through ten years	40,929,284	42,130,385	16,234,072	19,781,009
Due after ten years	66,529,296	68,936,504	10,012,289	15,992,575
Due at multiple maturity dates	32,278	71,720	-	-
	$ 146,815,391	$ 151,551,123	$ 57,895,580	$ 69,619,140

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

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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, investment real estate and other long-term investments for the three and six months ended June 30, 2017 and 2016 are summarized as follows:

	Three Months Ended June 30, (Unaudited)							
	Fixed Maturity Securities		Equity Securities		Mortgage Loans on Real Estate		Investment Real Estate	
	2017	2016	2017	2016	2017	2016	2017	2016
Proceeds	$ 8,154,018	$ 5,219,798	$ -	$ 19,210	$ 5,598,724	$ 2,089,278	$ 82,917	$ -
Gross realized gains	356,147	155,956	-	8,711	-	14,416	3,563	-
Gross realized losses	(329,229)	(12,990)	-	-	-	-	(1,668)	-
Loss on other-than-temporary impairment	(224,250)	-	-	-	-	-	-	-

	Three Months Ended June 30, (Unaudited)	
	Other Long-Term Investments	
	2017	2016
Proceeds	$ 792,012	$ -
Gross realized gains	62,275	-
Gross realized losses	-	-
Loss on other-than-temporary impairment	-	-

	Six Months Ended June 30, (Unaudited)							
	Fixed Maturity Securities		Equity Securities		Mortgage Loans on Real Estate		Investment Real Estate	
	2017	2016	2017	2016	2017	2016	2017	2016
Proceeds	$ 12,603,249	$ 7,494,211	$ -	$ 128,010	$ 10,724,113	$ 3,661,522	$ 190,084	$ -
Gross realized gains	527,252	163,050	-	8,711	-	17,991	6,050	-
Gross realized losses	(336,315)	(41,342)	-	(1,468)	-	-	(1,668)	-
Loss on other-than-temporary impairment	(224,250)	-	-	-	-	-	-	-

	Six Months Ended June 30, (Unaudited)	
	Other Long-Term Investments	
	2017	2016
Proceeds	$ 792,012	$ -
Gross realized gains	62,275	-
Gross realized losses	-	-
Loss on other-than-temporary impairment	-	-

2. Investments (continued)

The accumulated change in net unrealized investment gains (losses) for fixed maturity and equity securities available-for-sale for the three and six months ended June 30, 2017 and 2016 and the amount of realized investment gains on fixed maturity securities available-for-sale, equity securities available-for-sale, mortgage loans on real estate, investment real estate and other long-term investments for the three and six months ended June 30, 2017 and 2016 are summarized as follows:

	Three Months Ended June 30, (Unaudited)		Six Months Ended June 30, (Unaudited)	
	2017	2016	2017	2016
Change in unrealized investment gains (losses):				
Available-for-sale securities:				
Fixed maturity securities	$ 2,673,801	$ 4,452,781	$ 3,734,842	$ 8,260,179
Equity securities	714	(1,604)	18,738	(6,754)
Net realized investment gains:				
Available-for-sale securities:				
Fixed maturity securities	26,918	142,966	190,937	121,708
Equity securities	-	8,711	-	7,243
Mortgage loans on real estate	-	14,416	-	17,991
Investment real estate	1,895	-	4,382	-
Other long-term investments	62,275	-	62,275	-

Major categories of net investment income for the three and six months ended June 30, 2017 and 2016 are summarized as follows:

	Three Months Ended June 30, (Unaudited)		Six Months Ended June 30, (Unaudited)	
	2017	2016	2017	2016
Fixed maturity securities	$ 1,665,525	$ 1,533,301	$ 3,155,895	$ 3,100,519
Equity securities	5,086	6,658	10,158	13,840
Other long-term investments	882,009	622,502	1,739,479	1,170,324
Mortgage loans	1,876,637	1,328,427	3,544,031	2,681,498
Policy loans	28,453	26,491	56,017	52,589
Real estate	93,712	91,968	187,423	183,936
Short-term and other investments	112,798	69,874	223,084	142,144
Gross investment income	4,664,220	3,679,221	8,916,087	7,344,850
Investment expenses	(669,156)	(420,587)	(1,251,152)	(726,013)
Net investment income	$ 3,995,064	$ 3,258,634	$ 7,664,935	$ 6,618,837

TLIC and FBLIC are required to hold assets on deposit with various state insurance departments for the benefit of policyholders and other special deposits in accordance with statutory rules and regulations. As of June 30, 2017 and December 31, 2016, these required deposits, included in investment assets, had amortized costs that totaled $4,117,454 and $4,099,405, respectively. As of June 30, 2017 and December 31, 2016, these required deposits had fair values that totaled $4,155,323 and $4,125,116, respectively.

2. Investments (continued)

The Company's mortgage loans by property type as of June 30, 2017 and December 31, 2016 are summarized as follows:

	(Unaudited) June 30, 2017	December 31, 2016
Commercial and industrial mortgage loans		
Retail stores	$ 1,271,853	$ 1,075,324
Office buildings	139,198	179,484
Industrial	435,200	-
Total commercial and industrial mortgage loans	1,846,251	1,254,808
Residential mortgage loans	98,490,808	73,116,478
Total mortgage loans	$ 100,337,059	$ 74,371,286

The Company's investment real estate as of June 30, 2017 and December 31, 2016 is summarized as follows:

	(Unaudited) June 30, 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	(1,122,439)	(1,049,695)
Buildings net of accumulated depreciation	1,145,118	1,217,862
Residential real estate - held for sale	144,795	330,496
Total residential real estate	144,795	330,496
Investment real estate, net of accumulated depreciation	$ 2,248,228	$ 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 2017, the Company sold investment real estate property with an aggregate carrying value of $185,702. The Company recorded a gross realized investment gain on sale of $4,382 based on an aggregate sales price of $190,084.

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

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

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

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

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

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

3. Fair Value Measurements (continued)

The Company's fair value hierarchy for those financial instruments measured at fair value on a recurring basis as of June 30, 2017 and December 31, 2016 is summarized as follows:

	Level 1	Level 2	Level 3	Total
	June 30, 2017 (Unaudited)			
Fixed maturity securities, available-for-sale				
U.S. government and U.S. government agencies	$ -	$ 3,532,714	$ -	$ 3,532,714
States and political subdivisions	-	9,638,636	-	9,638,636
Residential mortgage-backed securities	-	71,720	-	71,720
Corporate bonds	-	116,350,185	-	116,350,185
Foreign bonds	-	21,957,868	-	21,957,868
Total fixed maturity securities	$ -	$ 151,551,123	$ -	$ 151,551,123
Equity securities, available-for-sale				
Mutual funds	$ -	$ 347,328	$ -	$ 347,328
Corporate preferred stock	101,938	-	-	101,938
Corporate common stock	148,186	-	61,500	209,686
Total equity securities	$ 250,124	$ 347,328	$ 61,500	$ 658,952
	December 31, 2016			
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	$ -	$ 129,311,155	$ -	$ 129,311,155
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	$ 234,993	$ 341,914	$ 61,500	$ 638,407

As of June 30, 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.

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.

3. Fair Value Measurements (continued)

The carrying amount and fair value of the Company's financial assets and financial liabilities disclosed, but not carried, at fair value as of June 30, 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
	June 30, 2017 (Unaudited)				
Financial assets					
Mortgage loans on real estate					
Commercial and industrial	$ 1,846,251	$ 1,850,988	$ -	$ -	$ 1,850,988
Residential	98,490,808	101,495,994	-	-	101,495,994
Policy loans	1,604,260	1,604,260	-	-	1,604,260
Other long-term investments	57,895,580	69,619,140	-	-	69,619,140
Cash and cash equivalents	17,541,778	17,541,778	17,541,778	-	-
Accrued investment income	2,517,930	2,517,930	-	-	2,517,930
Total financial assets	$ 179,896,607	$ 194,630,090	$ 17,541,778	$ -	$ 177,088,312
Financial liabilities					
Policyholders' account balances	$ 285,235,552	$ 245,080,798	$ -	$ -	$ 245,080,798
Policy claims	915,170	915,170	-	-	915,170
Total financial liabilities	$ 286,150,722	$ 245,995,968	$ -	$ -	$ 245,995,968
	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	$ 159,158,990	$ 165,541,061	$ 34,223,945	$ -	$ 131,317,116
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	$ 246,344,303	$ 207,539,516	$ -	$ -	$ 207,539,516

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.

4. Segment Data

The Company has a life insurance segment, consisting of the life insurance operations of TLIC and FBLIC, an annuity segment, consisting of the annuity operations of TLIC and FBLIC and a corporate segment. Results for the parent company and the operations of FTCC, after elimination of intercompany amounts, are allocated to the corporate segment. These segments as of June 30, 2017 and December 31, 2016 and for the three and six months ended June 30, 2017 and 2016 are summarized as follows:

	Three Months Ended June 30, (Unaudited)		Six Months Ended June 30, (Unaudited)	
	2017	2016	2017	2016
Revenues:				
Life insurance operations	$ 4,413,296	$ 3,602,546	$ 8,597,949	$ 7,347,790
Annuity operations	3,285,595	2,718,287	6,474,566	5,355,711
Corporate operations	60,591	148,820	194,926	307,059
Total	$ 7,759,482	$ 6,469,653	$ 15,267,441	$ 13,010,560
Income before income taxes:				
Life insurance operations	$ 436,176	$ 22,562	$ 554,026	$ 52,515
Annuity operations	186,941	350,169	347,356	578,425
Corporate operations	65,957	29,856	137,209	119,853
Total	$ 689,074	$ 402,587	$ 1,038,591	$ 750,793
Depreciation and amortization expense:				
Life insurance operations	$ 556,637	$ 324,040	$ 970,921	$ 998,587
Annuity operations	343,108	182,591	763,156	338,503
Corporate operations	-	-	-	-
Total	$ 899,745	$ 506,631	$ 1,734,077	$ 1,337,090

	(Unaudited) June 30, 2017	December 31, 2016
Assets:		
Life insurance operations	$ 52,871,600	$ 50,577,282
Annuity operations	318,272,021	275,745,766
Corporate operations	7,109,165	6,929,565
Total	$ 378,252,786	$ 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.

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.

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. To date, Mr. Pettigrew has failed to post this bond and, as a consequence, the Company and Mr. Zahn are in the process of executing on the judgments against Mr. Pettigrew's assets. While the Company and Mr. Zahn will continue to execute on the judgments, any money or property collected during the execution of the judgments would have to be returned to Mr. Pettigrew in the event the judgments are reversed by the appellate courts.

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.

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. The trial in this case will be before a judge and is scheduled to begin on November 27, 2017.

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.

Doyle Nimmo subsequently 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 was pending in the District Court for the Western District of Missouri and asked the Court to determine whether the Errors and Omissions policy provides coverage for the lawsuits filed against Doyle Nimmo. Utica Mutual Insurance Company did not seek a monetary judgment against FBLIC or TLIC.

On June 14, 2017, FBLIC and Doyle Nimmo executed a settlement to dismiss with prejudice all claims, causes of action and demands between them arising out of or in any way relating to the transactions and occurrences connected to the legal proceedings described above. The settlement proceeds included payments of $90,000 to FBLIC by Utica Mutual Insurance Company and $10,000 to FBLIC by Doyle Nimmo. The settlement also included an agreement whereby FBLIC and Doyle Nimmo bore exclusive liability for payment of their respective attorneys' fees, lawsuit expenses, expert consulting fees and taxable costs of court incurred in connection with prosecution and/or defense of the claims, causes of action and demands related to the legal proceedings described above.

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
June 30, 2017
(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 and six months ended June 30, 2017 and 2016 are summarized as follows:

	Three Months Ended June 30, 2017 and 2016 (Unaudited)		
	Unrealized Appreciation on Available-For-Sale Securities	Adjustment to Deferred Acquisition Costs	Accumulated Other Comprehensive Income
Balance as of April 1, 2017	$ 1,695,169	$ (28,841)	$ 1,666,328
Other comprehensive income before reclassifications, net of tax	1,981,747	(39,823)	1,941,924
Less amounts reclassified from accumulated other comprehensive income, net of tax	(157,865)	-	(157,865)
Other comprehensive income	2,139,612	(39,823)	2,099,789
Balance as of June 30, 2017	$ 3,834,781	$ (68,664)	$ 3,766,117
Balance as of April 1, 2016	$ 345,923	$ (8,045)	$ 337,878
Other comprehensive income before reclassifications, net of tax	3,682,284	(53,666)	3,628,618
Less amounts reclassified from accumulated other comprehensive income, net of tax	121,341	-	121,341
Other comprehensive income	3,560,943	(53,666)	3,507,277
Balance as of June 30, 2016	$ 3,906,866	$ (61,711)	$ 3,845,155

	Six Months Ended June 30, 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	2,976,214	(55,423)	2,920,791
Less amounts reclassified from accumulated other comprehensive income, net of tax	(26,650)	-	(26,650)
Other comprehensive income	3,002,864	(55,423)	2,947,441
Balance as of June 30, 2017	$ 3,834,781	$ (68,664)	$ 3,766,117
Balance as of January 1, 2016	$ (2,695,876)	$ 40,059	$ (2,655,817)
Other comprehensive income before reclassifications, net of tax	6,705,902	(101,770)	6,604,132
Less amounts reclassified from accumulated other comprehensive loss, net of tax	103,160	-	103,160
Other comprehensive income	6,602,742	(101,770)	6,500,972
Balance as of June 30, 2016	$ 3,906,866	$ (61,711)	$ 3,845,155

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

The pretax components of the Company's other comprehensive income and the related income tax expense (benefit) for each component for the three and six months ended June 30, 2017 and 2016 are summarized as follows:

	Three Months Ended June 30, 2017 (Unaudited)		
	Pretax	Income Tax Expense	Net of Tax
Other comprehensive income:			
Change in net unrealized gains on available-for-sale securities:			
Unrealized holding gains arising during the period	$ 2,477,183	$ 495,436	$ 1,981,747
Reclassification adjustment for net losses included in operations	(197,332)	(39,467)	(157,865)
Net unrealized gains on investments	2,674,515	534,903	2,139,612
Adjustment to deferred acquisition costs	(49,778)	(9,955)	(39,823)
Total other comprehensive income	$ 2,624,737	$ 524,948	$ 2,099,789

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

	Six Months Ended June 30, 2017 (Unaudited)		
	Pretax	Income Tax Expense	Net of Tax
Other comprehensive income:			
Change in net unrealized gains on available-for-sale securities:			
Unrealized holding gains arising during the period	$ 3,720,267	$ 744,053	$ 2,976,214
Reclassification adjustment for net losses included in operations	(33,313)	(6,663)	(26,650)
Net unrealized gains on investments	3,753,580	750,716	3,002,864
Adjustment to deferred acquisition costs	(69,278)	(13,855)	(55,423)
Total other comprehensive income	$ 3,684,302	$ 736,861	$ 2,947,441

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

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

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

The pretax and the related income tax components of the amounts reclassified from the Company's accumulated other comprehensive income to the Company's consolidated statement of operations for the three and six months ended June 30, 2017 and 2016 are summarized as follows:

	Three Months Ended June 30, (Unaudited)		Six Months Ended June 30, (Unaudited)	
Reclassification Adjustments	2017	2016	2017	2016
Unrealized gains on available-for-sale securities:				
Realized gains (losses) on sales of securities (a)	$ (197,332)	$ 151,677	$ (33,313)	$ 128,951
Income tax expense (benefit) (b)	(39,467)	30,336	(6,663)	25,791
Total reclassification adjustments	$ (157,865)	$ 121,341	$ (26,650)	$ 103,160

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

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

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

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

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

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

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

As of June 30, 2017, $557,042 of independent residential mortgage loans on real estate are held in escrow by a third party for the benefit of the Company. As of June 30, 2017, $157,039 of that escrow amount is available to the Company for possible losses on its investment of $31,407,826 in residential mortgage loans on real estate with one loan originator.

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

In addition, the Company has an additional $345,458 allowance for possible loan losses in the remaining $68,929,233 of investments in mortgage loans on real estate as of June 30, 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 and six months ended June 30, 2017 and 2016 are summarized as follows (excluding $31,407,826 and $24,629,791 of mortgage loans on real estate as of June 30, 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):

	(Unaudited) As of and for the Three Months Ended June 30,							
	Residential Mortgage Loans		Commercial Mortgage Loans		Premium Finance Loans		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
Allowance, beginning	$ 280,284	$ 182,472	$ 6,197	$ 7,245	$ -	$ 192,690	$ 286,481	$ 382,407
Charge offs	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-	-
Provision	55,896	8,860	3,081	(713)	-	86,972	58,977	95,119
Allowance, ending	$ 336,180	$ 191,332	$ 9,278	$ 6,532	$ -	$ 279,662	$ 345,458	$ 477,526
Allowance, ending:								
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ 279,662	$ -	$ 279,662
Collectively evaluated for impairment	$ 336,180	$ 191,332	$ 9,278	$ 6,532	$ -	$ -	$ 345,458	$ 197,864
Carrying Values:								
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ 347,885	$ -	$ 347,885
Collectively evaluated for impairment	$ 67,082,982	$ 38,594,991	$ 1,846,251	$ 1,300,009	$ -	$ -	$ 68,929,233	$ 39,895,000

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

	(Unaudited) As of and for the Six Months Ended June 30,							
	Residential Mortgage Loans		Commercial Mortgage Loans		Premium Finance Loans		Total	
	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	98,059	15,344	2,972	(828)	-	82,490	101,031	97,006
Allowance, ending	$ 336,180	$ 191,332	$ 9,278	$ 6,532	$ -	$ 279,662	$ 345,458	$ 477,526
Allowance, ending:								
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ 279,662	$ -	$ 279,662
Collectively evaluated for impairment	$ 336,180	$ 191,332	$ 9,278	$ 6,532	$ -	$ -	$ 345,458	$ 197,864
Carrying Values:								
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ 347,885	$ -	$ 347,885
Collectively evaluated for impairment	$ 67,082,982	$ 38,594,991	$ 1,846,251	$ 1,300,009	$ -	$ -	$ 68,929,233	$ 39,895,000

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 and industrial mortgage loans on real estate by credit quality using this ratio as of June 30, 2017 and December 31, 2016 are summarized as follows:

	Residential Mortgage Loans		Commercial and Industrial Mortgage Loans		Total Mortgage Loans	
	(Unaudited)		(Unaudited)		(Unaudited)	
Loan-To-Value Ratio	June 30, 2017	December 31, 2016	June 30, 2017	December 31, 2016	June 30, 2017	December 31, 2016
Over 70% to 80%	$ 19,892,112	$ 14,559,541	$ -	$ -	$ 19,892,112	$ 14,559,541
Over 60% to 70%	35,279,607	29,738,887	-	-	35,279,607	29,738,887
Over 50% to 60%	23,532,033	15,440,364	853,650	1,051,155	24,385,683	16,491,519
Over 40% to 50%	12,858,388	10,399,031	-	-	12,858,388	10,399,031
Over 30% to 40%	4,085,833	2,184,351	665,508	203,653	4,751,341	2,388,004
Over 20% to 30%	2,055,612	467,410	182,018	-	2,237,630	467,410
Over 10% to 20%	729,887	317,936	145,075	-	874,962	317,936
10% or less	57,336	8,958	-	-	57,336	8,958
Total	$ 98,490,808	$ 73,116,478	$ 1,846,251	$ 1,254,808	$ 100,337,059	$ 74,371,286

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 and annuity contracts 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 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.

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 was 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 was 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 was 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 and six months ended June 30, 2017 and 2016 and as of June 30, 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 June 30, 2017 and 2016

	(Unaudited) Three Months Ended June 30, 2017	(Unaudited) Three Months Ended June 30, 2016	Amount Change 2017 less 2016
Premiums	$ 3,880,345	$ 3,037,033	$ 843,312
Net investment income	3,995,064	3,258,634	736,430
Net realized investment gains	91,088	166,093	(75,005)
Loss on other-than-temporary impairment	(224,250)	-	(224,250)
Other income	17,235	7,893	9,342
Total revenues	7,759,482	6,469,653	1,289,829
Benefits and claims	4,884,841	4,261,702	623,139
Expenses	2,185,567	1,805,364	380,203
Total benefits, claims and expenses	7,070,408	6,067,066	1,003,342
Income before federal income tax expense	689,074	402,587	286,487
Federal income tax expense	139,030	64,488	74,542
Net income	$ 550,044	$ 338,099	$ 211,945
Net income per common share basic and diluted	$ 0.07	$ 0.04	$ 0.03

Consolidated Condensed Results of Operations for the Six Months Ended June 30, 2017 and 2016

	(Unaudited) Six Months Ended June 30, 2017	(Unaudited) Six Months Ended June 30, 2016	Amount Change 2017 less 2016
Premiums	$ 7,502,035	$ 6,229,575	$ 1,272,460
Net investment income	7,664,935	6,618,837	1,046,098
Net realized investment gains	257,594	146,942	110,652
Loss on other-than-temporary impairment	(224,250)	-	(224,250)
Other income	67,127	15,206	51,921
Total revenues	15,267,441	13,010,560	2,256,881
Benefits and claims	9,775,885	8,429,408	1,346,477
Expenses	4,452,965	3,830,359	622,606
Total benefits, claims and expenses	14,228,850	12,259,767	1,969,083
Income before federal income tax expense	1,038,591	750,793	287,798
Federal income tax expense	227,069	117,381	109,688
Net income	$ 811,522	$ 633,412	$ 178,110
Net income per common share basic and diluted	$ 0.10	$ 0.08	$ 0.02

Consolidated Condensed Financial Position as of June 30, 2017 and December 31, 2016

	(Unaudited) June 30, 2017	December 31, 2016	Amount Change 2017 less 2016
Investment assets	$ 314,295,202	$ 255,214,510	$ 59,080,692
Other assets	63,957,584	78,038,103	(14,080,519)
Total assets	$ 378,252,786	$ 333,252,613	$ 45,000,173
Policy liabilities	$ 332,936,672	$ 290,680,384	$ 42,256,288
Deferred federal income taxes	1,637,491	693,470	944,021
Other liabilities	3,639,385	5,598,484	(1,959,099)
Total liabilities	338,213,548	296,972,338	41,241,210
Shareholders' equity	40,039,238	36,280,275	3,758,963
Total liabilities and shareholders' equity	$ 378,252,786	$ 333,252,613	$ 45,000,173
Shareholders' equity per common share	$ 5.13	$ 4.65	$ 0.48

Results of Operations – Three Months Ended June 30, 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 June 30, 2017 and 2016 are summarized as follows:

	(Unaudited) Three Months Ended June 30, 2017	(Unaudited) Three Months Ended June 30, 2016	Amount Change 2017 less 2016
Premiums	$ 3,880,345	$ 3,037,033	$ 843,312
Net investment income	3,995,064	3,258,634	736,430
Net realized investment gains	91,088	166,093	(75,005)
Loss on other-than-temporary impairment	(224,250)	-	(224,250)
Other income	17,235	7,893	9,342
Total revenues	$ 7,759,482	$ 6,469,653	$ 1,289,829

The $1,289,829 increase in total revenues for the three months ended June 30, 2017 is discussed below.

Premiums

Our premiums for the three months ended June 30, 2017 and 2016 are summarized as follows:

	(Unaudited) Three Months Ended June 30, 2017	(Unaudited) Three Months Ended June 30, 2016	Amount Change 2017 less 2016
Whole life and term first year	$ 42,262	$ 95,051	$ (52,789)
Whole life and term renewal	564,525	597,658	(33,133)
Final expense first year	1,205,408	849,426	355,982
Final expense renewal	2,068,150	1,494,898	573,252
Total premiums	$ 3,880,345	$ 3,037,033	$ 843,312

The $843,312 increase in premiums for the three months ended June 30, 2017 is primarily due to a $573,252 increase in final expense renewal premiums and a $355,982 increase in final expense first year premiums. The increase in final expense first year premiums represents management's focus on expanding final expense production by contracting new, independent agents in expanded locations. The increase in final expense renewal premiums reflects the persistency of prior years' final expense production. Our marketing efforts are focused on final expense and annuity production.

Net Investment Income

The major components of our net investment income for the three months ended June 30, 2017 and 2016 are summarized as follows:

	(Unaudited) Three Months Ended June 30, 2017	(Unaudited) Three Months Ended June 30, 2016	Amount Change 2017 less 2016
Fixed maturity securities	$ 1,665,525	$ 1,533,301	$ 132,224
Equity securities	5,086	6,658	(1,572)
Other long-term investments	882,009	622,502	259,507
Mortgage loans	1,876,637	1,328,427	548,210
Policy loans	28,453	26,491	1,962
Real estate	93,712	91,968	1,744
Short-term and other investments	112,798	69,874	42,924
Gross investment income	4,664,220	3,679,221	984,999
Investment expenses	(669,156)	(420,587)	248,569
Net investment income	$ 3,995,064	$ 3,258,634	$ 736,430

The $984,999 increase in gross investment income for the three months ended June 30, 2017 is primarily due to increases in investments in mortgage loans, other long-term investments and fixed maturity securities. In the twelve months since June 30, 2016, we had increased investment in mortgage loans of $35.8 million, other long-term investments of $20.0 million and fixed maturity securities of $12.6 million.

The $248,569 increase in investment expenses for the three months ended June 30, 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

Our net realized investment gains result from sales of fixed maturity and equity securities available-for-sale, early payoff of acquired mortgage loans on real estate, sales of investment real estate and sales of other long-term investments.

Our net realized investment gains for the three months ended June 30, 2017 and 2016 are summarized as follows:

	(Unaudited) Three Months Ended June 30, 2017	(Unaudited) Three Months Ended June 30, 2016	Amount Change 2017 less 2016
Fixed maturity securities available-for-sale:			
Sale proceeds	$ 8,154,018	$ 5,219,798	$ 2,934,220
Amortized cost at sale date	8,127,100	5,076,832	3,050,268
Net realized gains	$ 26,918	$ 142,966	$ (116,048)
Equity securities available-for-sale:			
Sale proceeds	$ -	$ 19,210	$ (19,210)
Cost at sale date	-	10,499	(10,499)
Net realized gains	$ -	$ 8,711	$ (8,711)
Mortgage loans on real estate:			
Payments and early payoffs of mortgage loans	$ 5,598,724	$ 2,089,278	$ 3,509,446
Principal collections	5,598,724	2,074,862	3,523,862
Net realized gains	$ -	$ 14,416	$ (14,416)
Investment real estate:			
Sale proceeds	$ 82,917	$ -	$ 82,917
Carrying value at sale date	81,022	-	81,022
Net realized gains	$ 1,895	$ -	$ 1,895
Other long-term investments			
Sale proceeds	$ 792,012	$ -	$ 792,012
Carrying value at sale date	729,737	-	729,737
Net realized gains	$ 62,275	$ -	$ 62,275
Net realized investment gains	$ 91,088	$ 166,093	$ (75,005)

The Company has recorded other-than-temporary impairments on its fixed maturity available-for-sale investment in an energy corporation with a total par value of $650,000 as a result of continuing unrealized losses. During fourth quarter 2016 this security was initially impaired by a $207,450 charge to the statement of operations. During second quarter 2017 this security was further impaired by a $224,250 charge to the statement of operations. These impairments were considered fully credit-related and represent 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 for the three months ended June 30, 2017 and the year ended December 31, 2016.

Total Benefits, Claims and Expenses

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

Our benefits, claims and expenses for the three months ended June 30, 2017 and 2016 are summarized as follows:

	(Unaudited) Three Months Ended June 30, 2017	2016	Amount Change 2017 less 2016
Benefits and claims			
Increase in future policy benefits	$ 1,482,159	$ 1,279,874	$ 202,285
Death benefits	887,745	1,034,230	(146,485)
Surrenders	248,212	198,643	49,569
Interest credited to policyholders	2,201,930	1,681,501	520,429
Dividend, endowment and supplementary life contract benefits	64,795	67,454	(2,659)
Total benefits and claims	4,884,841	4,261,702	623,139
Expenses			
Policy acquisition costs deferred	(2,586,318)	(1,542,926)	(1,043,392)
Amortization of deferred policy acquisition costs	747,306	355,491	391,815
Amortization of value of insurance business acquired	107,296	99,078	8,218
Commissions	2,345,063	1,548,635	796,428
Other underwriting, insurance and acquisition expenses	1,572,220	1,345,086	227,134
Total expenses	2,185,567	1,805,364	380,203
Total benefits, claims and expenses	$ 7,070,408	$ 6,067,066	$ 1,003,342

The $1,003,342 increase in total benefits, claims and expenses for the three months ended June 30, 2017 is discussed below.

Benefits and Claims

The $623,139 increase in benefits and claims for the three months ended June 30, 2017 is primarily due to the following:

- $520,429 increase in interest credited to policyholders is primarily due to an increase of approximately $77,300,000 in the amount of policyholders' account balances in the consolidated statement of financial position (increased deposits and interest credited in excess of withdrawals) since June 30, 2016.

- $202,285 increase in future policy benefits primarily related to the production of new policies, initial sales of policies to older age bands resulting in an increased mortality reserve charge and the aging of existing policies.

- $146,485 decrease in death benefits is primarily related to a decline in the settlement of whole life and term policy claims of approximately $86,000 and final expense claims of approximately $41,000.

Deferral and Amortization of Deferred Acquisition Costs

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

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

For the three months ended June 30, 2017 and 2016, capitalized costs were $2,586,318 and $1,542,926, respectively. Amortization of deferred policy acquisition costs for the three months ended June 30, 2017 and 2016 were $747,306 and $355,491, respectively.

The $1,043,392 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. The $391,815 increase in the 2017 second quarter amortization of deferred acquisition costs is primarily due to increased surrenders of final expense policies as the number of policies in force continued to grow combined with more policies submitted but not issued due to a change in vendors performing underwriting services on final expense policies.

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 $107,296 and $99,078 for the three months ended June 30, 2017 and 2016, respectively.

Commissions

Our commissions for the three months ended June 30, 2017 and 2016 are summarized as follows:

	(Unaudited) Three Months Ended June 30, 2017	(Unaudited) Three Months Ended June 30, 2016	Amount Change 2017 less 2016
Annuity	$ 652,895	$ 345,091	$ 307,804
Whole life and term first year	36,963	34,612	2,351
Whole life and term renewal	17,886	24,748	(6,862)
Final expense first year	1,440,721	1,010,569	430,152
Final expense renewal	196,598	133,615	62,983
Total commissions	$ 2,345,063	$ 1,548,635	$ 796,428

The $796,428 increase in commissions for the three months ended June 30, 2017 is primarily due to a $430,152 increase in final expense first year commissions that correspond to the $355,982 increase in final expense first year premiums and a $307,804 increase in annuity commissions that corresponds to an $11,810,962 increase in policyholders' account deposits for the three months ended June 30, 2017 compared to the corresponding period in 2016.

Other Underwriting, Insurance and Acquisition Expenses

The $227,134 increase in other underwriting, insurance and acquisition expenses for the three months ended June 30, 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, decreased legal fees and no bad debts recorded in 2017 for FTCC.

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 June 30, 2017 and 2016, current income tax expense was $19,909 and $34,212, respectively. Deferred federal income tax expense was $119,121 and $30,276 for the three months ended June 30, 2017 and 2016, respectively. The increase in deferred income taxes in second quarter 2017 is primarily due to faster growth in deferred policy acquisition costs on the U.S. GAAP statement of financial position compared to the tax-basis balance sheet.

Net Income Per Common Share Basic and Diluted

Net income was $550,044 ($0.07 per common share basic and diluted) and $338,099 ($0.04 per common share basic and diluted) for the three months ended June 30, 2017 and 2016, respectively.

Net income per common share basic and diluted is calculated using the weighted average number of common shares outstanding and subscribed during the year. The weighted average outstanding and subscribed common shares basic and diluted for both the three months ended June 30, 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 (loss) before federal income taxes from our business segments for the three months ended June 30, 2017 and 2016 are summarized as follows:

	(Unaudited) Three Months Ended June 30,		Amount Change
	2017	2016	2017 less 2016
Revenues:			
Life insurance operations	$ 4,413,296	$ 3,602,546	$ 810,750
Annuity operations	3,285,595	2,718,287	567,308
Corporate operations	60,591	148,820	(88,229)
Total	$ 7,759,482	$ 6,469,653	$ 1,289,829
Income before income taxes:			
Life insurance operations	$ 436,176	$ 22,562	$ 413,614
Annuity operations	186,941	350,169	(163,228)
Corporate operations	65,957	29,856	36,101
Total	$ 689,074	$ 402,587	$ 286,487

Life Insurance Operations

The $810,750 increase in revenues from Life Insurance Operations for the three months ended June 30, 2017 is primarily due to the following:

- $843,312 increase in premiums
- $18,327 increase in net investment income
- $5,079 decrease in other income

- $45,810 decrease in net realized investment gains (that also includes a loss on other-than-temporary impairment)

The $413,614 increased profitability from Life Insurance Operations for the three months ended June 30, 2017 is primarily due to the following:

- $843,312 increase in premiums
- $417,909 increase in policy acquisition costs deferred net of amortization
- $146,485 decrease in death benefits
- $18,327 increase in net investment income
- $2,659 decrease in dividend, endowment and supplementary life contract benefits
- $4,109 increase in amortization of value of insurance business acquired
- $5,079 decrease in other income
- $45,810 decrease in net realized investment gains (that also includes a loss on other-than-temporary impairment)
- $49,569 increase in surrenders
- $202,285 increase in future policy benefits
- $219,602 increase in other underwriting, insurance and acquisition expenses
- $488,624 increase in commissions

Annuity Operations

The $567,308 increase in revenues from Annuity Operations for the three months ended June 30, 2017 is due to the following:

- $820,753 increase in net investment income
- $253,445 decrease in net realized investment gains (that also includes a loss on other-than-temporary impairment)

The $163,228 decreased profitability from Annuity Operations for the three months ended June 30, 2017 is due to the following:

- $520,429 increase in interest credited to policyholders
- $307,804 increase in commissions
- $253,445 decrease in net realized investment gains (that also includes a loss on other-than-temporary impairment)
- $131,862 increase in other underwriting, insurance and acquisition expenses
- $4,109 increase in amortization of value of insurance business acquired
- $233,668 increase in policy acquisition costs deferred net of amortization

- $820,753 increase in net investment income

Corporate Operations

The $88,229 decrease in revenues from Corporate Operations for the three months ended June 30, 2017 is primarily due to $102,650 of decreased net investment income that exceeded $14,421 of increased other income.

The $36,101 increased Corporate Operations profitability for the three months ended June 30, 2017 is primarily due to $124,330 of decreased operating expenses and $14,421 of increased other income that exceeded $102,650 of decreased net investment income.

Results of Operations – Six Months Ended June 30, 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 six months ended June 30, 2017 and 2016 are summarized as follows:

	(Unaudited) Six Months Ended June 30,		Amount Change
	2017	2016	2017 less 2016
Premiums	$ 7,502,035	$ 6,229,575	$ 1,272,460
Net investment income	7,664,935	6,618,837	1,046,098
Net realized investment gains	257,594	146,942	110,652
Loss on other-than-temporary impairment	(224,250)	-	(224,250)
Other income	67,127	15,206	51,921
Total revenues	$ 15,267,441	$ 13,010,560	$ 2,256,881

The $2,256,881 increase in total revenues for the six months ended June 30, 2017 is discussed below.

Premiums

Our premiums for the six months ended June 30, 2017 and 2016 are summarized as follows:

	(Unaudited) Six Months Ended June 30, 2017	2016	Amount Change 2017 less 2016
Whole life and term first year	$ 81,887	$ 123,184	$ (41,297)
Whole life and term renewal	1,160,967	1,269,002	(108,035)
Final expense first year	2,281,387	1,605,631	675,756
Final expense renewal	3,971,224	2,853,184	1,118,040
Supplementary contracts with life contingencies	6,570	378,574	(372,004)
Total premiums	$ 7,502,035	$ 6,229,575	$ 1,272,460

The $1,272,460 increase in premiums for the six months ended June 30, 2017 is primarily due to the following: $1,118,040 increase in final expense renewal premiums, $675,756 increase in final expense first year premiums and $372,004 decrease in supplementary contracts with life contingencies premiums.

The increase in final expense first year premiums represents management's focus on expanding final expense production by contracting new, independent agents in expanded locations. The increase in final expense renewal premiums reflects the persistency of prior years' final expense production. Our marketing efforts are focused on final expense and annuity production and we have not been focused on whole life and term production the past few years. The decrease in supplementary contracts with life contingencies reflects policyholder decisions to receive future payment streams during their remaining life instead of a lump sum payment.

Net Investment Income

The major components of our net investment income for the six months ended June 30, 2017 and 2016 are summarized as follows:

	(Unaudited) Six Months Ended June 30, 2017	2016	Amount Change 2017 less 2016
Fixed maturity securities	$ 3,155,895	$ 3,100,519	$ 55,376
Equity securities	10,158	13,840	(3,682)
Other long-term investments	1,739,479	1,170,324	569,155
Mortgage loans	3,544,031	2,681,498	862,533
Policy loans	56,017	52,589	3,428
Real estate	187,423	183,936	3,487
Short-term and other investments	223,084	142,144	80,940
Gross investment income	8,916,087	7,344,850	1,571,237
Investment expenses	(1,251,152)	(726,013)	525,139
Net investment income	$ 7,664,935	$ 6,618,837	$ 1,046,098

The $1,571,237 increase in gross investment income for the six months ended June 30, 2017 is primarily due to increases in investment in mortgage loans and other long-term investments. In the twelve months since June 30, 2016, our investments in mortgage loans have increased approximately $35.8 million and other long term investments have increased approximately $20.0 million.

The $525,139 increase in investment expense 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

Our net realized investment gains result from sales of fixed maturity and equity securities available-for-sale, early payoff of mortgage loans on real estate, sales of investment real estate and sales of other long-term investments.

Our net realized investment gains for the six months ended June 30, 2017 and 2016 are summarized as follows:

	(Unaudited) Six Months Ended June 30, 2017	(Unaudited) Six Months Ended June 30, 2016	Amount Change 2017 less 2016
Fixed maturity securities available-for-sale:			
Sale proceeds	$ 12,603,249	$ 7,494,211	$ 5,109,038
Amortized cost at sale date	12,412,312	7,372,503	5,039,809
Net realized gains	$ 190,937	$ 121,708	$ 69,229
Equity securities available-for-sale:			
Sale proceeds	$ -	$ 128,010	$ (128,010)
Cost at sale date	-	120,767	(120,767)
Net realized gains	$ -	$ 7,243	$ (7,243)
Mortgage loans on real estate:			
Payments and early payoffs of mortgage loans	$ 10,724,113	$ 3,661,522	$ 7,062,591
Principal collections	10,724,113	3,643,531	7,080,582
Net realized gains	$ -	$ 17,991	$ (17,991)
Investment real estate:			
Sale proceeds	$ 190,084	$ -	$ 190,084
Carrying value at sale date	185,702	-	185,702
Net realized gains	$ 4,382	$ -	$ 4,382
Other long-term investments			
Sale proceeds	$ 792,012	$ -	$ 792,012
Carrying value at sale date	729,737	-	729,737
Net realized gains	$ 62,275	$ -	$ 62,275
Net realized investment gains	$ 257,594	$ 146,942	$ 110,652

The Company has recorded other-than-temporary impairments on its fixed maturity available-for-sale investment in an energy corporation with a total par value of $650,000 as a result of continuing unrealized losses. During fourth quarter 2016 this security was initially impaired by a $207,450 charge to the statement of operations. During second quarter 2017 this security was further impaired by a $224,250 charge to the statement of operations. These impairments were considered fully credit-related and represent 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 for the six months ended June 30, 2017 and the year ended December 31, 2016.

Total Benefits, Claims and Expenses

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

Our benefits, claims and expenses for the six months ended June 30, 2017 and 2016 are summarized as follows:

	(Unaudited) Six Months Ended June 30,		Amount Change
	2017	2016	2017 less 2016
Benefits and claims			
Increase in future policy benefits	$ 2,441,964	$ 2,638,018	$ (196,054)
Death benefits	2,433,581	1,986,288	447,293
Surrenders	531,588	336,369	195,219
Interest credited to policyholders	4,236,984	3,335,221	901,763
Dividend, endowment and supplementary life contract benefits	131,768	133,512	(1,744)
Total benefits and claims	9,775,885	8,429,408	1,346,477
Expenses			
Policy acquisition costs deferred	(5,001,037)	(3,119,135)	(1,881,902)
Amortization of deferred policy acquisition costs	1,428,142	1,052,037	376,105
Amortization of value of insurance business acquired	209,464	189,210	20,254
Commissions	4,589,973	2,828,721	1,761,252
Other underwriting, insurance and acquisition expenses	3,226,423	2,879,526	346,897
Total expenses	4,452,965	3,830,359	622,606
Total benefits, claims and expenses	$ 14,228,850	$ 12,259,767	$ 1,969,083

The $1,969,083 increase in total benefits, claims and expenses for the six months ended June 30, 2017 is discussed below.

Benefits and Claims

The $1,346,477 increase in benefits and claims for the six months ended June 30, 2017 is primarily due to the following:

- $901,763 increase in interest credited to policyholders is primarily due to an increase of approximately $77,300,000 in the amount of policyholders' account balances in the consolidated statement of financial position (deposits and interest credited in excess of withdrawals) since June 30, 2016.

- $447,293 increase in death benefits is primarily due to a $220,000 increase in whole life and term settlements, $152,000 increase in final expense settlements and a $92,000 decrease in ceded claims on incurred but not reported claims. The increase in final expense incurred claims is expected by the Company due to the continued growth in the number of final expense policies in force.

- $195,219 increase in surrenders primarily corresponding to lapsation decisions on whole life and term and final expense policyholders.

- $196,054 decrease in future policy benefits is primarily related to decreases in the number and amount of in force insurance related to the following products: supplemental contracts with life contingencies, 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 life insurance, which vary with, and are primarily related to, the successful production of new and renewal insurance and annuity contracts.

For the six months ended June 30, 2017 and 2016, capitalized costs were $5,001,037 and $3,119,135, respectively. Amortization of deferred policy acquisition costs for the six months ended June 30, 2017 and 2016 were $1,428,142 and $1,052,037, respectively.

The $1,881,902 increase in the 2017 acquisition costs deferred primarily relates to increased final expense and annuity production. The $376,105 increase in the 2017 amortization of deferred acquisition costs is primarily due to increased surrenders of final expense policies as the number of policies in force continued to grow combined with more policies submitted but not issued due to a change in vendors performing underwriting services on final expense policies. In addition, the increase in the 2017 amortization of deferred acquisition costs was impacted by the acceleration of amortization on annuity products from increased withdrawals.

Amortization of Value of Insurance Business Acquired

The cost of acquiring insurance business is amortized over the emerging profit of the related policies using the same assumptions that were used in computing liabilities for future policy benefits. Amortization of the value of insurance business acquired was $209,464 and $189,210 for the six months ended June 30, 2017 and 2016, respectively.

Commissions

Our commissions for the six months ended June 30, 2017 and 2016 are summarized as follows:

	(Unaudited) Six Months Ended June 30,		Amount Change
	2017	2016	2017 less 2016
Annuity	$ 1,371,805	$ 556,741	$ 815,064
Whole life and term first year	72,789	59,064	13,725
Whole life and term renewal	41,872	53,066	(11,194)
Final expense first year	2,728,416	1,908,577	819,839
Final expense renewal	375,091	251,273	123,818
Total commissions	$ 4,589,973	$ 2,828,721	$ 1,761,252

The $1,761,252 increase in commissions for the six months ended June 30, 2017 is primarily due to an $819,839 increase in final expense first year commissions that correspond to the $675,756 increase in final expense first year premiums and an $815,064 increase in annuity commissions that corresponds to a $31,536,844 increase in policyholders' account deposits.

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Other Underwriting, Insurance and Acquisition Expenses

The $346,897 increase in other underwriting, insurance and acquisition expenses for the six months ended June 30, 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, decreased legal fees and no bad debts recorded in 2017 for FTCC.

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 six months ended June 30, 2017 and 2016, current income tax expense was $19,909 and $37,510, respectively. Deferred federal income tax expense was $207,160 and $79,871 for the six months ended June 30, 2017 and 2016, respectively. The increase in deferred income taxes is primarily due to faster growth in deferred policy acquisition costs on the U.S. GAAP statement of financial position compared to the tax-basis balance sheet.

Net Income Per Common Share Basic and Diluted

Net income was $811,522 ($0.10 per common share basic and diluted) and $633,412 ($0.08 per common share basic and diluted) for the six months ended June 30, 2017 and 2016, respectively.

Net income per common share basic and diluted is calculated using the weighted average number of common shares outstanding and subscribed during the year. The weighted average outstanding and subscribed common shares basic and diluted for both the six months ended June 30, 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 six months ended June 30, 2017 and 2016 are summarized as follows:

	(Unaudited) Six Months Ended June 30, 2017	(Unaudited) Six Months Ended June 30, 2016	Amount Change 2017 less 2016
Revenues:			
Life insurance operations	$ 8,597,949	$ 7,347,790	$ 1,250,159
Annuity operations	6,474,566	5,355,711	1,118,855
Corporate operations	194,926	307,059	(112,133)
Total	$ 15,267,441	$ 13,010,560	$ 2,256,881
Income before income taxes:			
Life insurance operations	$ 554,026	$ 52,515	$ 501,511
Annuity operations	347,356	578,425	(231,069)
Corporate operations	137,209	119,853	17,356
Total	$ 1,038,591	$ 750,793	$ 287,798

Life Insurance Operations

The $1,250,159 increase in revenues from Life Insurance Operations for the six months ended June 30, 2017 is primarily due to the following:

- $1,272,460 increase in premiums
- $1,840 increase in other income
- $7,643 decrease in net investment income
- $16,498 decrease in net realized investment gains (that also includes a loss on other-than-temporary impairment)

The $501,511 increased profitability from Life Insurance Operations for the six months ended June 30, 2017 is primarily due to the following:

- $1,272,460 increase in premiums
- $829,133 increase in policy acquisition costs deferred net of amortization
- $196,054 decrease in future policy benefits
- $1,840 increase in other income
- $1,744 decrease in dividend, endowment and supplementary life contract benefits
- $7,643 decrease in net investment income
- $10,127 increase in amortization of value of insurance business acquired

- $16,498 decrease in net realized investment gains (that also includes a loss on other-than-temporary impairment)

- $176,752 increase in other underwriting, insurance and acquisition expenses

- $195,219 increase in surrenders

- $447,293 increase in death benefits

- $946,188 increase in commissions

Annuity Operations

The $1,118,855 increase in revenues from Annuity Operations for the six months ended June 30, 2017 is due to the following:

- $1,215,955 increase in net investment income

- $97,100 decrease in net realized investment gains (that also includes a loss on other-than-temporary impairment)

The $231,069 decreased profitability from Annuity Operations for the six months ended June 30, 2017 is due to the following:

- $901,763 increase in interest credited to policyholders

- $815,064 increase in commissions

- $299,634 increase in other underwriting, insurance and acquisition expenses

- $97,100 decrease in net realized investment gains (that also includes a loss on other-than-temporary impairment)

- $10,127 increase in amortization of value of insurance business acquired

- $676,664 increase in policy acquisition costs deferred net of amortization

- $1,215,955 increase in net investment income

Corporate Operations

The $112,133 decrease in revenues from Corporate Operations for the six months ended June 30, 2017 is primarily due to $162,214 of decreased net investment income that exceeded $50,081 of increased other income.

The $17,356 increased Corporate Operations profitability for the six months ended June 30, 2017 is primarily due to $129,489 of decreased operating expenses and $50,081 of increased other income that exceeded $162,214 of decreased net investment income.

Consolidated Financial Condition

Our invested assets as of June 30, 2017 and December 31, 2016 are summarized as follows:

	(Unaudited) June 30, 2017	December 31, 2016	Amount Change 2017 less 2016
Assets			
Investments			
Available-for-sale fixed maturity securities at fair value (amortized cost: $146,815,391 and $128,310,625 as of June 30, 2017 and December 31, 2016, respectively)	$ 151,551,123	$ 129,311,155	$ 22,239,968
Available-for-sale equity securities at fair value (cost: $601,207 and $599,400 as of June 30, 2017 and December 31, 2016, respectively)	658,952	638,407	20,545
Mortgage loans on real estate	100,337,059	74,371,286	25,965,773
Investment real estate	2,248,228	2,506,673	(258,445)
Policy loans	1,604,260	1,598,116	6,144
Other long-term investments	57,895,580	46,788,873	11,106,707
Total investments	$ 314,295,202	$ 255,214,510	$ 59,080,692

The $22,239,968 and $4,382,839 increases in fixed maturity available-for-sale securities for the six months ended June 30, 2017 and 2016, respectively, are summarized as follows:

	Six Months Ended June 30, (Unaudited)	
	2017	2016
	Amount	Amount
Fixed maturity securities, available-for-sale, beginning	$ 129,311,155	$ 134,556,027
Purchases	32,301,685	3,936,924
Unrealized appreciation	3,734,842	8,260,179
Net realized investment gains (losses)	(33,313)	121,708
Sales proceeds	(7,735,249)	(3,940,211)
Maturities	(4,868,000)	(3,554,000)
Transfer to other long-term investments	(729,737)	-
Premium amortization	(430,260)	(441,761)
Increase	22,239,968	4,382,839
Fixed maturity securities, available-for-sale, ending	$ 151,551,123	$ 138,938,866

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 $20,545 increase and $118,531 decrease in equity securities available-for-sale for the six months ended June 30, 2017 and 2016, respectively, are summarized as follows:

	Six Months Ended June 30, (Unaudited)			
	2017		2016	
	Amount		Amount	
Equity securities, available-for-sale, beginning	$	638,407	$	892,800
Purchases		1,807		8,990
Sales proceeds		-		(128,010)
Unrealized appreciation (depreciation)		18,738		(6,754)
Net realized investment gains		-		7,243
Increase (decrease)		20,545		(118,531)
Equity securities, available-for-sale, ending	$	658,952	$	774,269

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 $25,965,773 and $5,749,873 increases in mortgage loans on real estate for the six months ended June 30, 2017 and 2016, respectively, are summarized as follows:

	Six Months Ended June 30, (Unaudited)			
	2017		2016	
	Amount		Amount	
Mortgage loans on real estate, beginning	$	74,371,286	$	58,774,918
Purchases		36,741,329		9,362,778
Capitalization of loan origination fees		-		4,531
Discount accretion		72,996		63,395
Net realized investment gains		-		17,991
Payments		(10,724,113)		(3,661,522)
Increase in allowance for bad debts		(101,031)		(14,516)
Amortization of loan origination fees		(23,408)		(22,784)
Increase		25,965,773		5,749,873
Mortgage loans on real estate, ending	$	100,337,059	$	64,524,791

The $258,445 decrease and $125,878 increase in investment real estate for the six months ended June 30, 2017 and 2016, respectively, are summarized as follows:

	(Unaudited) Six Months Ended March 31,			
	2017		2016	
	Amount		Amount	
Investment real estate, beginning	$	2,506,673	$	2,326,558
Purchases		-		198,621
Sales proceeds		(190,084)		-
Depreciation of building		(72,743)		(72,743)
Net realized investment gains		4,382		-
Increase (decrease)		(258,445)		125,878
Investment real estate, ending	$	2,248,228	$	2,452,436

The $11,106,707 and $6,329,864 increases in other long-term investments (composed primarily of lottery receivables) for the six months ended June 30, 2017 and 2016, respectively, are summarized as follows:

	Six Months Ended June 30, (Unaudited)	
	2017	2016
	Amount	Amount
Other long-term investments, beginning	$ 46,788,873	$ 31,566,927
Purchases	13,362,692	7,101,665
Transfer from fixed maturity available-for-sale securities	729,737	-
Accretion of discount	1,743,693	1,176,272
Net realized investment gains	62,275	-
Sales proceeds	(792,012)	-
Payments	(3,999,678)	(1,948,073)
Increase	11,106,707	6,329,864
Other long-term investments, ending	$ 57,895,580	$ 37,896,791

Our assets other than invested assets as of June 30, 2017 and December 31, 2016 are summarized as follows:

	(Unaudited) June 30, 2017	December 31, 2016	Amount Change 2017 less 2016
Cash and cash equivalents	$ 17,541,778	$ 34,223,945	$ (16,682,167)
Accrued investment income	2,517,930	2,176,770	341,160
Recoverable from reinsurers	1,230,910	1,258,938	(28,028)
Agents' balances and due premiums	1,643,690	1,419,250	224,440
Deferred policy acquisition costs	21,695,607	18,191,990	3,503,617
Value of insurance business acquired	5,699,371	5,908,835	(209,464)
Other assets	13,628,298	14,858,375	(1,230,077)
Assets other than investment assets	$ 63,957,584	$ 78,038,103	$ (14,080,519)

The $16,682,167 decrease in cash and cash equivalents is discussed below in the "Liquidity and Capital Resources" section where cash flows are addressed.

The $341,160 increase in accrued investment income is primarily due to the $59,080,692 increase in invested assets during the first six months of 2017.

The $224,440 increase in 2017 agents' balances and due premiums is due to a $232,469 increase in agents' balances and $8,029 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 June 30, 2017 and December 31, 2016 are summarized as follows:

	(Unaudited) June 30, 2017	December 31, 2016	Amount Change 2017 less 2016
Advances to mortgage loan originator	$ 3,569,904	$ 5,207,380	$ (1,637,476)
Federal and state income taxes recoverable	2,383,477	2,220,566	162,911
Notes receivable	448,508	464,366	(15,858)
Accrual of mortgage loan and long-term investment payments due	1,309,113	511,585	797,528
Receivable for securities sold	5,679,260	6,288,274	(609,014)
Guaranty funds	70,860	78,711	(7,851)
Other receivables, prepaid assets and deposits	167,176	87,493	79,683
Total other assets	$ 13,628,298	$ 14,858,375	$ (1,230,077)

There was a $1,637,476 decrease in advances to one mortgage loan originator who acquires residential mortgage loans for our life companies.

As of June 30, 2017, the Company had $5,679,260 in 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 $797,528 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 July 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 June 30, 2017 and December 31, 2016 are summarized as follows:

	(Unaudited) June 30, 2017	December 31, 2016	Amount Change 2017 less 2016
Policy liabilities			
Policyholders' account balances	$ 285,235,552	$ 245,346,489	$ 39,889,063
Future policy benefits	46,708,192	44,266,227	2,441,965
Policy claims	915,170	997,814	(82,644)
Other policy liabilities	77,758	69,854	7,904
Total policy liabilities	332,936,672	290,680,384	42,256,288
Deferred federal income taxes	1,637,491	693,470	944,021
Other liabilities	3,639,385	5,598,484	(1,959,099)
Total liabilities	$ 338,213,548	$ 296,972,338	$ 41,241,210

The $39,889,063 and $10,275,020 increases in policyholders' account balances for the six months ended June 30, 2017 and 2016, respectively, are summarized as follows:

	Six Months Ended June 30, (Unaudited)	
	2017	2016
	Amount	Amount
Policyholders' account balances, beginning	$ 245,346,489	$ 197,688,616
Deposits	45,682,170	14,145,326
Withdrawals	(10,030,091)	(7,205,527)
Interest credited	4,236,984	3,335,221
Increase	39,889,063	10,275,020
Policyholders' account balances, ending	$ 285,235,552	$ 207,963,636

Policyholders' account balances increased by $29,614,043 from $10,275,020 for the six months ended June 30, 2016 to $39,889,063 for the six months ended June 30, 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 $2,441,965 increase in future policy benefits during the six months ended June 30, 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 $944,021 increase in deferred federal income taxes during the six months ended June 30, 2017 was due to $736,861 of increased deferred federal income taxes on the unrealized appreciation of fixed maturity and equity securities available-for-sale and $207,160 of operating deferred federal tax expense.

Our other liabilities as of June 30, 2017 and December 31, 2016 are summarized as follows:

	(Unaudited) June 30, 2017	December 31, 2016	Amount Change 2017 less 2016
Suspense accounts payable	$ 2,839,859	$ 4,684,726	$ (1,844,867)
Accrued expenses payable	523,767	527,938	(4,171)
Payable for securities purchased	154,049	234,225	(80,176)
Guaranty fund assessments	60,000	60,000	-
Unearned investment income	59,763	48,466	11,297
Deferred revenue	35,199	29,632	5,567
Unclaimed funds	19,360	23,057	(3,697)
Other payables, withholdings and escrows	(52,612)	(9,560)	(43,052)
Total other liabilities	$ 3,639,385	$ 5,598,484	$ (1,959,099)

The $1,844,867 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 June 30, 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 June 30, 2017, we had cash and cash equivalents totaling $17,541,778. As of June 30, 2017, cash and cash equivalents of $2,679,775 and $9,601,690, respectively, were held by FBLIC and TLIC and may not be available for use by FTFC due to the required pre-approval by the Missouri Department of Insurance and OID 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 $16,569,413 and $22,117,921 as of June 30, 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 six months ended June 30, 2017 and 2016 are summarized as follows:

	(Unaudited) Six Months Ended June 30,		Amount Change
	2017	2016	2017 less 2016
Net cash provided by operating activities	$ 1,235,293	$ 4,784,065	$ (3,548,772)
Net cash used in investing activities	(53,569,539)	(9,964,945)	(43,604,594)
Net cash provided by financing activities	35,652,079	6,939,799	28,712,280
Increase (decrease) in cash	(16,682,167)	1,758,919	(18,441,086)
Cash and cash equivalents, beginning of period	34,223,945	9,047,586	25,176,359
Cash and cash equivalents, end of period	$ 17,541,778	$ 10,806,505	$ 6,735,273

The $1,235,293 and $4,784,065 of cash provided by operating activities for the six months ended June 30, 2017 and 2016, respectively, are summarized as follows:

	(Unaudited) Six Months Ended June 30, 2017	(Unaudited) Six Months Ended June 30, 2016	Amount Change 2017 less 2016
Premiums collected	$ 7,518,703	$ 6,248,309	1,270,394
Net investment income collected	5,151,116	6,051,536	(900,420)
Death benefits paid	(2,488,197)	(1,859,694)	(628,503)
Surrenders paid	(531,588)	(336,369)	(195,219)
Commissions paid	(4,822,442)	(3,048,658)	(1,773,784)
Other underwriting, insurance and acquisition expenses paid	(3,130,568)	(2,656,545)	(474,023)
Taxes paid	(182,819)	(261,696)	78,877
Advances to mortgage loan originator	1,637,477	(1,980,343)	3,617,820
Deposited policy applications unissued	(1,844,872)	2,226,635	(4,071,507)
Decrease in short-term investment	-	549,822	(549,822)
Other	(71,517)	(148,932)	77,415
Increase in cash provided by operating activities	$ 1,235,293	$ 4,784,065	$ (3,548,772)

Please see the statements of cash flows for the six months ended June 30, 2017 and 2016 for a summary of the components of net cash used in investing activities and provided by financing activities.

Our shareholders' equity as of June 30, 2017 and December 31, 2016 is summarized as follows:

	(Unaudited) June 30, 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 June 30, 2017 and December 31, 2016 and 7,802,593 outstanding as of June 30, 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 June 30, 2017 and December 31, 2016)	(893,947)	(893,947)	-
Accumulated other comprehensive income	3,766,117	818,676	2,947,441
Accumulated earnings	8,401,968	7,590,446	811,522
Total shareholders' equity	$ 40,039,238	$ 36,280,275	$ 3,758,963

The increase in shareholders' equity of $3,758,963 for the six months ended June 30, 2017 is due to $2,947,441 of other comprehensive income and net income of $811,522.

Equity per common share outstanding increased 10.3% from $4.65 per share as of December 31, 2016 to $5.13 per share as of June 30, 2017, based upon 7,802,593 common shares outstanding as of both June 30, 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 $4,793,477 and $1,039,897 as of June 30, 2017 and December 31, 2016, respectively, prior to the impact of income taxes and deferred acquisition cost adjustments. An increase of $3,720,267 in unrealized gains arising for the six months ended June 30, 2017 has been offset by the 2017 net realized investment losses of $33,313 originating from the sale and call activity for fixed maturity securities available-for-sale resulting in net unrealized gains on investments of $3,753,580.

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

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

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

We believe gradual increases in interest rates do not present a significant liquidity exposure for the life insurance policies and annuity contracts. We maintain conservative durations in our fixed maturity portfolio.

As of June 30, 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 10.6% 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 June 30, 2017, the Company has outstanding advances to this loan originator totaling $3,569,904. The advances are secured by $4,536,984 of residential mortgage loans on real estate that are assigned to the Company. The Company has committed to fund up to an additional $1,930,096 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 June 30, 2017, $557,042 of additional and secured residential mortgage loan balances on real estate are held in escrow by the Company. As of June 30, 2017, $400,003 of that escrow amount is available to the Company as additional collateral on $3,569,904 of advances to the loan originator. The remaining June 30, 2017 escrow amount of $157,039 is available to the Company as additional collateral on its investment of $31,407,826 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 June 30, 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 June 30, 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. 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.

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. To date, Mr. Pettigrew has failed to post this bond and, as a consequence, the Company and Mr. Zahn are in the process of executing on the judgments against Mr. Pettigrew's assets. While the Company and Mr. Zahn will continue to execute on the judgments, any money or property collected during the execution of the judgments would have to be returned to Mr. Pettigrew in the event the judgments are reversed by the appellate courts.

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. The trial in this case will be before a judge and is scheduled to begin on November 27, 2017.

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.

Doyle Nimmo subsequently 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 was pending in the District Court for the Western District of Missouri and asked the Court to determine whether the Errors and Omissions policy provides coverage for the lawsuits filed against Doyle Nimmo. Utica Mutual Insurance Company did not seek a monetary judgment against FBLIC or TLIC.

On June 14, 2017, FBLIC and Doyle Nimmo executed a settlement to dismiss with prejudice all claims, causes of action and demands between them arising out of or in any way relating to the transactions and occurrences connected to the legal proceedings described above. The settlement proceeds included payments of $90,000 to FBLIC by Utica Mutual Insurance Company and $10,000 to FBLIC by Doyle Nimmo. The settlement also included an agreement whereby FBLIC and Doyle Nimmo bore exclusive liability for payment of their respective attorneys' fees, lawsuit expenses, expert consulting fees and taxable costs of court incurred in connection with prosecution and/or defense of the claims, causes of action and demands related to the legal proceedings described above.

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

None

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

None

Item 5. Other Information

None

Item 6. Exhibits

31.1	Rule 13a-14(a)/15d-14(a) Certification of Principal Executive Officer
31.2	Rule 13a-14(a)/15d-14(a) Certification of Principal Financial Officer
32.1	Section 1350 Certification of Principal Executive Officer
32.2	Section 1350 Certification of Principal Financial Officer
101.INS**	XBRL Instance
101.SCH**	XBRL Taxonomy Extension Schema
101.CAL**	XBRL Taxonomy Extension Calculation
101.DEF**	XBRL Taxonomy Extension Definition
101.LAB**	XBRL Taxonomy Extension Labels
101.PRE**	XBRL Taxonomy Extension Presentation
**XBRL	Information is furnished and not filed as part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

SIGNATURES

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

FIRST TRINITY FINANCIAL CORPORATION
an Oklahoma corporation

August 10, 2017

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

August 10, 2017

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

EXHIBIT NO. 31.1

CERTIFICATION

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

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

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

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

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

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

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

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

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

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

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

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

Date: August 10, 2017

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

EXHIBIT NO. 31.2

CERTIFICATION

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

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

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

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

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

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

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

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

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

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

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

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

Date: August 10, 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 June 30, 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: August 10, 2017

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

EXHIBIT NO. 32.2

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

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

To my knowledge, the Quarterly Report on Form 10-Q of the Company for the quarter ended June 30, 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: August 10, 2017

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