

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2013

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

For the transition period From _____ to _____ .

Commission file number: **000-52613**

FIRST TRINITY FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

Oklahoma

(State or other jurisdiction of incorporation or organization)

34-1991436

(I.R.S. Employer Identification Number)

7633 East 63rd Place, Suite 230

Tulsa, Oklahoma 74133

(Address of principal executive offices)

(918) 249-2438

(Registrant's telephone number, including area code)

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

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

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

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

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

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date:
Common stock .01 par value as of August 12, 2013: 7,776,164 shares

**FIRST TRINITY FINANCIAL CORPORATION
QUARTERLY REPORT ON FORM 10-Q
FOR QUARTERLY PERIOD ENDED JUNE 30, 2013**

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PART I – FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

First Trinity Financial Corporation and Subsidiaries Consolidated Statements of Financial Position

| | June 30, 2013 (Unaudited) | December 31, 2012 |
|--|------------------------------|-----------------------|
| Assets | | |
| Investments | | |
| Available-for-sale fixed maturity securities at fair value (amortized cost: \$95,331,777 and \$91,543,308 as of June 30, 2013 and December 31, 2012, respectively) | \$ 100,144,385 | \$ 98,659,797 |
| Available-for-sale equity securities at fair value (cost: \$700,137 and \$695,846 as of June 30, 2013 and December 31, 2012, respectively) | 866,991 | 843,497 |
| Mortgage loans on real estate | 13,620,414 | 10,435,776 |
| Investment real estate | 2,873,478 | 2,858,765 |
| Policy loans | 1,519,286 | 1,488,035 |
| Other long-term investments | 22,103,010 | 19,560,794 |
| Total investments | 141,127,564 | 133,846,664 |
| Cash and cash equivalents | 11,094,179 | 10,947,474 |
| Accrued investment income | 1,502,190 | 1,417,218 |
| Recoverable from reinsurers | 1,421,315 | 1,188,371 |
| Agents' balances and due premiums | 343,185 | 358,729 |
| Loans from premium financing, net | 148,981 | 261,072 |
| Deferred policy acquisition costs | 7,809,386 | 7,028,820 |
| Value of insurance business acquired | 7,293,096 | 7,508,895 |
| Property and equipment, net | 147,247 | 124,558 |
| Other assets | 3,151,869 | 2,768,516 |
| Total assets | \$ 174,039,012 | \$ 165,450,317 |
| Liabilities and Shareholders' Equity | | |
| Policy liabilities | | |
| Policyholders' account balances | \$ 104,935,793 | \$ 95,043,370 |
| Future policy benefits | 32,260,828 | 31,065,560 |
| Policy claims | 675,630 | 717,521 |
| Other policy liabilities | 85,502 | 139,722 |
| Total policy liabilities | 137,957,753 | 126,966,173 |
| Deferred federal income taxes | 2,732,077 | 3,301,524 |
| Other liabilities | 1,070,291 | 1,460,508 |
| Total liabilities | 141,760,121 | 131,728,205 |
| Shareholders' equity | | |
| Common stock, par value \$.01 per share, 20,000,000 shares authorized, and 7,974,373 issued as of June 30, 2013 and December 31, 2012 and 7,776,164 and 7,789,060 outstanding as of June 30, 2013 and December 31, 2012, respectively, and 75,820 and 63,070 subscribed as of June 30, 2013 and December 31, 2012, respectively | 80,502 | 80,374 |
| Additional paid-in capital | 28,674,288 | 28,707,648 |
| Treasury stock, at cost (198,209 and 185,313 shares as of June 30, 2013 and December 31, 2012, respectively) | (693,731) | (648,595) |
| Accumulated other comprehensive income | 3,962,275 | 5,780,670 |
| Accumulated earnings (deficit) | 255,557 | (197,985) |
| Total shareholders' equity | 32,278,891 | 33,722,112 |
| Total liabilities and shareholders' equity | \$ 174,039,012 | \$ 165,450,317 |

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, | |
|--|-----------------------------|---------------------|---------------------------|--------------------|
| | 2013 | 2012 | 2013 | 2012 |
| Revenues | | | | |
| Premiums | \$ 1,921,494 | \$ 1,806,830 | \$ 3,849,044 | \$ 3,862,969 |
| Income from premium financing | 3,236 | 29,679 | 4,330 | 76,691 |
| Net investment income | 1,764,367 | 1,266,330 | 3,415,990 | 2,738,825 |
| Net realized investment gains | 126,932 | 24,271 | 276,201 | 92,811 |
| Other income | 1,503 | 3,986 | 3,428 | 11,810 |
| Total revenues | 3,817,532 | 3,131,096 | 7,548,993 | 6,783,106 |
| Benefits, Claims and Expenses | | | | |
| Benefits and claims | | | | |
| Increase in future policy benefits | 575,056 | 564,374 | 1,165,747 | 1,173,015 |
| Death benefits | 601,828 | 625,862 | 1,095,694 | 1,285,568 |
| Surrenders | 179,940 | 144,553 | 308,976 | 274,000 |
| Interest credited to policyholders | 892,263 | 845,504 | 1,795,303 | 1,632,136 |
| Dividend, endowment and supplementary life contract benefits | 69,108 | 83,895 | 121,938 | 181,098 |
| Total benefits and claims | 2,318,195 | 2,264,188 | 4,487,658 | 4,545,817 |
| Policy acquisition costs deferred | (511,059) | (478,514) | (1,152,594) | (1,425,925) |
| Amortization of deferred policy acquisition costs | 126,171 | 141,582 | 383,709 | 384,539 |
| Amortization of value of insurance business acquired | 120,956 | 108,011 | 215,800 | 215,666 |
| Commissions | 533,795 | 494,262 | 1,052,437 | 1,290,175 |
| Other underwriting, insurance and acquisition expenses | 1,137,657 | 969,585 | 2,120,038 | 1,814,395 |
| Total expenses | 1,407,520 | 1,234,926 | 2,619,390 | 2,278,850 |
| Total benefits, claims and expenses | 3,725,715 | 3,499,114 | 7,107,048 | 6,824,667 |
| Income (loss) before total federal income tax expense | 91,817 | (368,018) | 441,945 | (41,561) |
| Current federal income tax expense | 55,724 | 12,500 | 103,248 | 66,780 |
| Deferred federal income tax benefit | (36,457) | (10,939) | (114,845) | (56,014) |
| Total federal income tax expense | 19,267 | 1,561 | (11,597) | 10,766 |
| Net income (loss) | \$ 72,550 | \$ (369,579) | \$ 453,542 | \$ (52,327) |
| Net income (loss) per common share basic and diluted | \$ 0.01 | \$ (0.05) | \$ 0.06 | \$ (0.01) |

See notes to consolidated financial statements (unaudited).

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|-----------------------------|-------------------|---------------------------|---------------------|
| | 2013 | 2012 | 2013 | 2012 |
| Net income (loss) | \$ 72,550 | \$ (369,579) | \$ 453,542 | \$ (52,327) |
| Other comprehensive income (loss) | | | | |
| Total net unrealized gains (losses) arising during the period | (2,349,888) | 1,220,823 | (2,008,477) | 1,897,856 |
| Less net realized investment gains | 126,932 | 24,271 | 276,201 | 92,811 |
| Net unrealized gains (losses) | (2,476,820) | 1,196,552 | (2,284,678) | 1,805,045 |
| Adjustment to deferred acquisition costs | 12,197 | (876) | 11,681 | (7,851) |
| Other comprehensive income before income tax expense (benefit) | (2,464,623) | 1,195,676 | (2,272,997) | 1,797,194 |
| Income tax expense (benefit) | (492,927) | 254,235 | (454,602) | 391,115 |
| Total other comprehensive income (loss) | (1,971,696) | 941,441 | (1,818,395) | 1,406,079 |
| Total comprehensive income (loss) | <u>\$ (1,899,146)</u> | <u>\$ 571,862</u> | <u>\$ (1,364,853)</u> | <u>\$ 1,353,752</u> |

See notes to consolidated financial statements (unaudited).

First Trinity Financial Corporation and Subsidiaries
Consolidated Statements of Changes in Shareholders' Equity
Six Months Ended June 30, 2013 and 2012
(Unaudited)

| | Common Stock \$.01 Par Value | Additional Paid-in Capital | Treasury Stock | Accumulated Other Comprehensive Income | Accumulated Earnings (Deficit) | Total Shareholders' Equity |
|--------------------------------------|------------------------------------|----------------------------------|---------------------|---|--------------------------------------|----------------------------------|
| Balance as of January 1, 2012 | \$ 73,649 | \$ 24,086,146 | \$ - | \$ 2,696,224 | \$ 1,542,094 | \$ 28,398,113 |
| Stock dividend | 3,789 | 2,838,171 | - | - | (2,841,960) | - |
| Subscriptions of common stock | 2,306 | 1,438,663 | - | - | - | 1,440,969 |
| Comprehensive income (loss): | | | | | | |
| Net loss | - | - | - | - | (52,327) | (52,327) |
| Other comprehensive income | - | - | - | 1,406,079 | - | 1,406,079 |
| Balance as of June 30, 2012 | <u>\$ 79,744</u> | <u>\$ 28,362,980</u> | <u>\$ -</u> | <u>\$ 4,102,303</u> | <u>\$ (1,352,193)</u> | <u>\$ 31,192,834</u> |
| Balance as of January 1, 2013 | \$ 80,374 | \$ 28,707,648 | \$ (648,595) | \$ 5,780,670 | \$ (197,985) | \$ 33,722,112 |
| Subscriptions of common stock | 128 | (33,360) | - | - | - | (33,232) |
| Repurchase of common stock | - | - | (45,136) | - | - | (45,136) |
| Comprehensive income (loss): | | | | | | |
| Net income | - | - | - | - | 453,542 | 453,542 |
| Other comprehensive loss | - | - | - | (1,818,395) | - | (1,818,395) |
| Balance as of June 30, 2013 | <u>\$ 80,502</u> | <u>\$ 28,674,288</u> | <u>\$ (693,731)</u> | <u>\$ 3,962,275</u> | <u>\$ 255,557</u> | <u>\$ 32,278,891</u> |

See notes to consolidated financial statements (unaudited).

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

| | Six Months Ended June 30, | |
|---|---------------------------|----------------------|
| | 2013 | 2012 |
| Operating activities | | |
| Net income (loss) | \$ 453,542 | \$ (52,327) |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Provision for depreciation | 104,045 | 103,720 |
| Accretion of discount on investments | (436,232) | (58,700) |
| Net realized investment gains | (276,201) | (92,811) |
| Gain on sale of fixed asset | - | (2,934) |
| Loss on sale of real estate | 833 | - |
| Amortization of policy acquisition cost | 383,709 | 384,539 |
| Policy acquisition cost deferred | (1,152,594) | (1,425,925) |
| Mortgage loan origination fees deferred | (88,458) | (121,694) |
| Amortization of loan origination fees | 23,974 | - |
| Amortization of value of insurance business acquired | 215,800 | 215,666 |
| Provision for deferred federal income tax benefit | (114,845) | (56,014) |
| Interest credited to policyholders | 1,795,303 | 1,631,087 |
| Change in assets and liabilities: | | |
| Accrued investment income | (84,972) | (364,875) |
| Policy loans | (31,251) | 21,964 |
| Allowance for mortgage and premium finance loan losses | 40,787 | (5,869) |
| Recoverable from reinsurers | (232,944) | (70,439) |
| Agents' balances and due premiums | 15,544 | 21,026 |
| Other assets | (508,817) | (547,220) |
| Future policy benefits | 1,195,268 | 1,188,016 |
| Policy claims | (41,891) | (3,337) |
| Other policy liabilities | (54,220) | 16,258 |
| Other liabilities | (390,217) | (398,980) |
| Net cash provided by operating activities | 816,163 | 381,151 |
| Investing activities | | |
| Purchases of fixed maturity securities | (7,200,433) | (16,395,307) |
| Maturities of fixed maturity securities | 1,592,000 | 1,334,554 |
| Sales of fixed maturity securities | 1,451,743 | 2,401,656 |
| Purchases of equity securities | (4,291) | (502,553) |
| Sales of equity securities | - | 299,845 |
| Purchases of mortgage loans | (4,340,626) | (6,773,120) |
| Payments on mortgage loans | 1,440,236 | 343,619 |
| Purchases of other long-term investments | (3,831,065) | (6,952,500) |
| Payments on other long-term investments | 2,104,326 | 1,177,958 |
| Loans made for premiums financed | - | (868,497) |
| Loans repaid for premiums financed | 116,714 | 1,060,658 |
| Sales of real estate | 40,000 | - |
| Purchases of real estate | (10,656) | - |
| Sales of furniture and equipment | - | 5,000 |
| Purchases of furniture and equipment | (46,158) | (1,294) |
| Net cash used in investing activities | (8,688,210) | (24,869,981) |
| Financing activities | | |
| Policyholders' account deposits | 11,310,286 | 9,989,031 |
| Policyholders' account withdrawals | (3,213,166) | (2,167,318) |
| Purchases of treasury stock | (45,136) | - |
| Proceeds from (used in) public and private stock offerings | (33,232) | 1,440,969 |
| Net cash provided by financing activities | 8,018,752 | 9,262,682 |
| Increase (decrease) in cash | 146,705 | (15,226,148) |
| Cash and cash equivalents, beginning of period | 10,947,474 | 27,705,711 |
| Cash and cash equivalents, end of period | <u>\$ 11,094,179</u> | <u>\$ 12,479,563</u> |

See notes to consolidated financial statements (unaudited).

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

In 2013, the Company foreclosed on a delinquent note receivable and recovered the former office building of Southern Insurance Services, LLC. In conjunction with this 2013 transaction, the non-cash impact on investing and finance activities is summarized as follows:

| | Six Months Ended June 30, 2013 |
|--|--------------------------------|
| Reduction in notes receivable for recovery of investment real estate | \$ 125,464 |
| Recognition of investment real estate from foreclosure | \$ 125,464 |

In 2012, the Company issued 378,928 shares in connection with a 5% share dividend payable to the holders of shares of the Company as of March 10, 2012. In conjunction with the 2012 stock dividend, the non-cash impact on investing and financing activities is summarized as follows:

| | Six Months Ended June 30, 2012 |
|---|--------------------------------|
| Fair value of shares issued in connection with the stock dividend (378,928 share issued in 2012) | \$ 2,841,960 |
| Reduction in accumulated earnings (deficit) due to the stock dividend | (2,841,960) |
| Increase in common stock, par value \$.01 due to the stock dividend | 3,789 |
| Increase in additional paid-in-capital due to the stock dividend | 2,838,171 |
| Change in shareholders' equity due to the stock dividend | \$ - |

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2013
(Unaudited)

1. Organization and Significant Accounting Policies

Nature of Operations

First Trinity Financial Corporation (the “Company”) is the parent holding company of Trinity Life Insurance Company, Family Benefit Life Insurance Company, First Trinity Capital Corporation and Southern Insurance Services, LLC. The Company was incorporated in Oklahoma on April 19, 2004, for the primary purpose of organizing a life insurance subsidiary. The Company raised \$1,450,000 from two private placement stock offerings during 2004. On June 22, 2005, the Company’s intrastate public stock offering filed with the Oklahoma Department of Securities for \$12,750,000, which included a 10% “over-sale” provision (additional sales of \$1,275,000), was declared effective. The offering was completed February 23, 2007. The Company raised \$14,025,000 from this offering. On June 29, 2010, the Company commenced a public offering of its common stock registered with the U.S. Securities and Exchange Commission and the Oklahoma Department of Securities. The offering was completed April 30, 2012. The Company raised \$11,000,010 from this offering.

On August 15, 2012, the Company commenced a private placement of its common stock primarily in the states of Kansas, Missouri and South Dakota. The private placement was for 600,000 shares of the Company’s common stock for \$8.50 per share. If all shares were sold, the Company would have received \$4,335,000 after reduction for estimated offering expenses. This offering was suspended on March 8, 2013 and resulted in gross proceeds of \$644,470 from the subscription of 75,820 shares of its common stock and incurred \$374,529 in offering costs.

The Company purchased First Life America Corporation (“FLAC”) on December 23, 2008. 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 Trinity Life Insurance Company (“TLIC”). After the merger, the Company had two wholly owned subsidiaries, First Trinity Capital Corporation (“FTCC”) and TLIC, domiciled in Oklahoma.

TLIC is primarily engaged in the business of marketing, underwriting and distributing a broad range of individual life and annuity insurance products to individuals in eight states primarily in the Midwest. TLIC’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 products are sold through independent agents in the states of Illinois, Kansas, Kentucky, Nebraska, North Dakota, Ohio, Oklahoma and Texas.

TLIC purchased Family Benefit Life Insurance Company (“Family Benefit Life”) on December 28, 2011. Family Benefit Life is primarily engaged in the business of marketing, underwriting and distributing a broad range of individual life and annuity insurance products to individuals in sixteen states. Family Benefit Life’s current product portfolio consists of whole life, term, accidental death and dismemberment, annuity, endowment and group life insurance products. The products are sold through independent agents in the states of Arizona, Colorado, Kansas, Missouri, Nebraska, New Mexico and Oklahoma. Family Benefit Life has recently been licensed in Arkansas, Illinois, Indiana, Kentucky, North Dakota, Pennsylvania, South Dakota, Texas and West Virginia.

FTCC was incorporated in 2006, and began operations in January 2007. FTCC provides financing for casualty insurance premiums for individuals and companies and is licensed to conduct premium financing business in the states of Alabama, Arkansas, Louisiana, Mississippi and Oklahoma. The Company’s management has decided to focus on the Company’s core life and annuity insurance business and discontinue offering premium finance contracts. On May 16, 2012, the Company determined and then announced that FTCC would not accept new premium financing contracts after June 30, 2012. FTCC continued to process payments and service all existing premium financing contracts after June 30, 2012 through the duration that the property and casualty premium financing contracts were in force. The Company virtually completed processing and servicing its premium finance operations on June 30, 2013 subject to minor refunds, minor collections of past due accounts and legal matters. The Company incurred minimal costs related to exiting its premium financing operations since resources were redeployed into its growing life and annuity insurance operations.

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2013
(Unaudited)

1. Organization and Significant Accounting Policies (continued)

The Company also owns 100% of Southern Insurance Services, LLC, ("SIS"), a limited liability company acquired in 2010, that operated as a property and casualty insurance agency but currently has no operations.

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (consisting primarily of normal recurring accruals) considered necessary for a fair presentation of the results for the interim periods have been included. The results of operations for the three and six months ended June 30, 2013 are not necessarily indicative of the results to be expected for the year ended December 31, 2013 or for any other interim period or for any other future year. Certain financial information which is normally included in notes to consolidated financial statements prepared in accordance with U.S. GAAP, but which is not required for interim reporting purposes, has been condensed or omitted. The accompanying consolidated financial statements and notes thereto should be read in conjunction with the financial statements and notes thereto included in the Company's report on Form 10-K for the year ended December 31, 2012.

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.

On January 11, 2012, the Company's Board of Directors approved a 5% share dividend by which shareholders received a share of common stock for each 20 shares of common stock of the Company they held. The dividend was payable to the holders of shares of the Corporation as of March 10, 2012. Fractional shares were rounded to the nearest whole number of shares. The Company issued 378,928 shares in connection with the stock dividend that resulted in accumulated deficit being charged \$2,841,960 with an offsetting credit of \$2,841,960 to common stock and additional paid-in capital. This stock dividend was a non-cash investing and financing activity.

Subsequent Events

Management has evaluated all events subsequent to June 30, 2013 through the date that these financial statements have been issued.

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2013
(Unaudited)

1. Organization and Significant Accounting Policies (continued)

Recent Accounting Pronouncements

Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income

In February 2013, the Financial Accounting Standards Board (“FASB”) issued updated guidance to improve the reporting of reclassifications out of accumulated other comprehensive income. The guidance requires an entity to present, either on the face of the statement of income or in the notes, separately for each component of comprehensive income, the current period reclassifications out of accumulated other comprehensive income by the respective line items of net income affected by the reclassification.

The updated guidance is effective prospectively for reporting periods beginning after December 15, 2012. The Company adopted the updated guidance effective March 31, 2013, and such adoption did not have any effect on the Company’s results of operations, financial position or liquidity.

Testing Indefinite-Lived Intangible Assets for Impairment

In July 2012, the FASB issued updated guidance regarding the impairment test applicable to indefinite-lived intangible assets that is similar to the impairment guidance applicable to goodwill. Under the updated guidance, an entity may assess qualitative factors (such as changes in management, key personnel, strategy, key technology or customers) that may impact the fair value of the indefinite-lived intangible asset and lead to the determination that it is more likely than not that the fair value of the asset is less than its carrying value. If an entity determines that it is more likely than not that the fair value of the intangible asset is less than its carrying value, an impairment test must be performed. The impairment test requires an entity to calculate the estimated fair value of the indefinite-lived intangible asset. If the carrying value of the indefinite-lived intangible asset exceeds its estimated fair value, an impairment loss is recognized in an amount equal to the excess.

The updated guidance was effective for the quarter ended March 31, 2013, but early adoption was permitted. The Company adopted the updated guidance effective December 31, 2012, and such adoption did not have any effect on the Company’s results of operations, financial position or liquidity.

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2013
(Unaudited)

2. Investments

Investments in fixed maturity and equity securities available-for-sale as of June 30, 2013 and December 31, 2012 are summarized as follows:

| | Amortized | Gross | Gross | Fair |
|--|----------------------|---------------------|-------------------|-----------------------|
| | Cost | Unrealized | Unrealized | Value |
| | | Gains | Losses | |
| <u>June 30, 2013 (unaudited)</u> | | | | |
| Fixed maturity securities | | | | |
| U.S. government | \$ 3,145,185 | \$ 234,486 | \$ 125,939 | \$ 3,253,732 |
| States and political subdivisions | 262,068 | 3,517 | 3,303 | 262,282 |
| Residential mortgage-backed securities | 91,100 | 75,185 | - | 166,285 |
| Corporate bonds | 87,309,681 | 4,990,039 | 613,511 | 91,686,209 |
| Foreign bonds | 4,523,743 | 266,276 | 14,142 | 4,775,877 |
| Total fixed maturity securities | 95,331,777 | 5,569,503 | 756,895 | 100,144,385 |
| Equity securities | | | | |
| Mutual funds | 166,738 | 20,620 | - | 187,358 |
| Corporate preferred stock | 347,905 | 25,795 | - | 373,700 |
| Corporate common stock | 185,494 | 120,439 | - | 305,933 |
| Total equity securities | 700,137 | 166,854 | - | 866,991 |
| Total fixed maturity and equity securities | <u>\$ 96,031,914</u> | <u>\$ 5,736,357</u> | <u>\$ 756,895</u> | <u>\$ 101,011,376</u> |
| | | | | |
| | Amortized | Gross | Gross | Fair |
| | Cost | Unrealized | Unrealized | Value |
| | | Gains | Losses | |
| <u>December 31, 2012</u> | | | | |
| Fixed maturity securities | | | | |
| U.S. government | \$ 2,577,074 | \$ 256,628 | \$ 5,769 | \$ 2,827,933 |
| States and political subdivisions | 264,854 | 1,970 | 4,539 | 262,285 |
| Residential mortgage-backed securities | 107,229 | 67,890 | - | 175,119 |
| Corporate bonds | 84,325,622 | 6,578,982 | 83,812 | 90,820,792 |
| Foreign bonds | 4,268,529 | 344,630 | 39,491 | 4,573,668 |
| Total fixed maturity securities | 91,543,308 | 7,250,100 | 133,611 | 98,659,797 |
| Equity securities | | | | |
| Mutual funds | 162,447 | 40,795 | - | 203,242 |
| Corporate preferred stock | 347,905 | 24,415 | - | 372,320 |
| Corporate common stock | 185,494 | 82,441 | - | 267,935 |
| Total equity securities | 695,846 | 147,651 | - | 843,497 |
| Total fixed maturity and equity securities | <u>\$ 92,239,154</u> | <u>\$ 7,397,751</u> | <u>\$ 133,611</u> | <u>\$ 99,503,294</u> |

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2. Investments (continued)

All securities in an unrealized loss position as of the financial statement dates, the estimated fair value, pre-tax gross unrealized loss and number of securities by length of time that those securities have been continuously in an unrealized loss position as of June 30, 2013 and December 31, 2012 are summarized as follows:

| <u>June 30, 2013 (unaudited)</u> | <u>Fair Value</u> | <u>Unrealized Loss</u> | <u>Number of Securities</u> |
|-----------------------------------|-----------------------|--------------------------------|-------------------------------------|
| Fixed maturity securities | | | |
| Less than 12 months | | | |
| U.S. government | \$ 1,854,610 | \$ 125,939 | 4 |
| States and political subdivisions | 104,915 | 3,303 | 1 |
| Corporate bonds | 16,331,846 | 576,635 | 91 |
| Total less than 12 months | 18,291,371 | 705,877 | 96 |
| More than 12 months | | | |
| Corporate bonds | 380,313 | 36,876 | 3 |
| Foreign bonds | 591,360 | 14,142 | 4 |
| Total more than 12 months | 971,673 | 51,018 | 7 |
| Total fixed maturity securities | <u>\$ 19,263,044</u> | <u>\$ 756,895</u> | <u>103</u> |
| <u>December 31, 2012</u> | <u>Fair Value</u> | <u>Unrealized Loss</u> | <u>Number of Securities</u> |
| Fixed maturity securities | | | |
| Less than 12 months | | | |
| U.S. government | \$ 594,232 | \$ 5,769 | 1 |
| States and political subdivisions | 104,243 | 4,539 | 1 |
| Corporate bonds | 5,772,021 | 83,812 | 28 |
| Foreign bonds | 916,406 | 39,491 | 5 |
| Total fixed maturity securities | <u>\$ 7,386,902</u> | <u>\$ 133,611</u> | <u>35</u> |

As of June 30, 2013, all of the above fixed maturity securities had a fair value to cost ratio equal to or greater than 85%. As of December 31, 2012, all of the above fixed maturity securities had a fair value to cost ratio equal to or greater than 93%. Fixed maturity securities were 95% investment grade as rated by Standard & Poor's as of June 30, 2013 and December 31, 2012, respectively. There were no equity securities in an unrealized loss position as of June 30, 2013 and December 31, 2012.

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.

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Notes to Consolidated Financial Statements
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2. Investments (continued)

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

Based on management's review, the Company experienced no other-than-temporary impairments during the three and six months ended June 30, 2013 and the year ended December 31, 2012. Management believes that the Company will fully recover its cost basis in the securities held as of June 30, 2013, and management does not have the intent to sell nor is it more likely than not that the Company will be required to sell such securities until they recover or mature. The remaining temporary impairments shown herein are primarily the result of the current interest rate environment rather than credit factors that would imply other-than-temporary impairment.

Net unrealized gains included in other comprehensive income for investments classified as available-for-sale, net of the effect of deferred income taxes and deferred acquisition costs assuming that the appreciation had been realized as of June 30, 2013 and December 31, 2012, are summarized as follows:

| | (Unaudited) June 30, 2013 | December 31, 2012 |
|--|------------------------------|---------------------|
| Unrealized appreciation on | | |
| available-for-sale securities | \$ 4,979,462 | \$ 7,264,140 |
| Adjustment to deferred acquisition costs | (26,618) | (38,299) |
| Deferred income taxes | (990,569) | (1,445,171) |
| Net unrealized appreciation on | | |
| available-for-sale securities | <u>\$ 3,962,275</u> | <u>\$ 5,780,670</u> |

The amortized cost and fair value of fixed maturity available-for-sale securities and other long-term investments as of June 30, 2013, by contractual maturity, are summarized as follows:

| | June 30, 2013 (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 | \$ 5,326,144 | \$ 5,418,483 | \$ 3,652,738 | \$ 3,707,353 |
| Due in one year through five years | 37,654,456 | 40,418,192 | 9,551,372 | 10,263,151 |
| Due after five years through ten years | 41,009,218 | 42,756,245 | 6,128,213 | 7,383,830 |
| Due after ten years | 11,250,859 | 11,385,180 | 2,770,687 | 3,927,321 |
| Due at multiple maturity dates | 91,100 | 166,285 | - | - |
| | \$ 95,331,777 | \$ 100,144,385 | \$ 22,103,010 | \$ 25,281,655 |

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

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

Proceeds and gross realized gains (losses) from the sales, calls and maturities of fixed maturity and equity securities available-for-sale and mortgage loans on real estate for the three and six months ended June 30, 2013 and 2012 are summarized as follows:

| | Three Months Ended June 30, (Unaudited) | | | | Six Months Ended June 30, (Unaudited) | | | |
|-----------------------|---|--------------|-------------------------------|------|---------------------------------------|--------------|-------------------------------|------|
| | Fixed Maturity and Equity Securities | | Mortgage Loans on Real Estate | | Fixed Maturity and Equity Securities | | Mortgage Loans on Real Estate | |
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |
| Proceeds | \$ 1,256,225 | \$ 1,825,015 | \$ 749,432 | \$ - | \$ 3,043,743 | \$ 4,036,055 | \$ 1,440,236 | \$ - |
| Gross realized gains | 8,582 | 27,082 | 120,754 | - | 59,595 | 95,622 | 223,269 | - |
| Gross realized losses | (2,404) | (2,811) | - | - | (6,663) | (2,811) | - | - |

The accumulated change in net unrealized investment gains for fixed maturity and equity securities available-for-sale for the three and six months ended June 30, 2013 and 2012 and the amount of realized investment gains on fixed maturity securities available-for-sale and mortgage loans on real estate for the three and six months ended June 30, 2013 and 2012 are summarized as follows:

| | Three Months Ended June 30, (Unaudited) | | Six Months Ended June 30, (Unaudited) | |
|--|---|--------------|---------------------------------------|--------------|
| | 2013 | 2012 | 2013 | 2012 |
| Change in unrealized investment gains: | | | | |
| Available-for-sale securities: | | | | |
| Fixed maturity securities | \$ (2,483,725) | \$ 1,232,073 | \$ (2,303,881) | \$ 1,756,307 |
| Equity securities | 6,905 | (35,521) | 19,203 | 48,738 |
| Net realized investment gains: | | | | |
| Available-for-sale securities: | | | | |
| Fixed maturity securities | 6,178 | 20,955 | 52,932 | 89,495 |
| Equity securities | - | 3,316 | - | 3,316 |
| Mortgage loans on real estate | 120,754 | - | 223,269 | - |

Major categories of net investment income for the three and six months ended June 30, 2013 and 2012 are summarized as follows:

| | Three Months Ended June 30, (Unaudited) | | Six Months Ended June 30, (Unaudited) | |
|----------------------------------|---|--------------|---------------------------------------|--------------|
| | 2013 | 2012 | 2013 | 2012 |
| Fixed maturity securities | \$ 1,094,086 | \$ 862,769 | \$ 2,192,919 | \$ 2,064,475 |
| Equity securities | 7,371 | 15,605 | 14,686 | 28,166 |
| Other long-term investments | 419,843 | 275,209 | 815,478 | 494,580 |
| Mortgage loans | 266,145 | 113,705 | 476,167 | 152,026 |
| Policy loans | 24,961 | 23,837 | 49,065 | 48,830 |
| Real estate | 90,710 | 93,476 | 181,420 | 186,951 |
| Short-term and other investments | 17,536 | 5,583 | 27,964 | 14,628 |
| Gross investment income | 1,920,652 | 1,390,184 | 3,757,699 | 2,989,656 |
| Investment expenses | (156,285) | (123,854) | (341,709) | (250,831) |
| Net investment income | \$ 1,764,367 | \$ 1,266,330 | \$ 3,415,990 | \$ 2,738,825 |

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

Included in invested assets are securities and other assets having amortized cost values of \$3,216,497 and \$3,981,060 and fair values of \$3,305,423 and \$4,219,334 as of June 30, 2013 and December 31, 2012, respectively, which have been placed on deposit with various state insurance departments.

3. Fair Value Measurements

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

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

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

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

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

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

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

The Company's fair value hierarchy for those financial instruments measured at fair value on a recurring basis as of June 30, 2013 and December 31, 2012 is summarized as follows:

| <u>June 30, 2013 (Unaudited)</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|---|-------------------|-----------------------|------------------|-----------------------|
| Fixed maturity securities, available-for-sale | | | | |
| U.S. government | \$ - | \$ 3,253,732 | \$ - | \$ 3,253,732 |
| States and political subdivisions | - | 262,282 | - | 262,282 |
| Residential mortgage-backed securities | - | 166,285 | - | 166,285 |
| Corporate bonds | - | 91,686,209 | - | 91,686,209 |
| Foreign bonds | - | 4,775,877 | - | 4,775,877 |
| Total fixed maturity securities | <u>\$ -</u> | <u>\$ 100,144,385</u> | <u>\$ -</u> | <u>\$ 100,144,385</u> |
| Equity securities, available-for-sale | | | | |
| Mutual funds | \$ 99,330 | \$ 88,028 | \$ - | \$ 187,358 |
| Corporate preferred stock | 102,200 | 271,500 | - | 373,700 |
| Corporate common stock | 253,433 | - | 52,500 | 305,933 |
| Total equity securities | <u>\$ 454,963</u> | <u>\$ 359,528</u> | <u>\$ 52,500</u> | <u>\$ 866,991</u> |
| <u>December 31, 2012</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
| Fixed maturity securities, available-for-sale | | | | |
| U.S. government | \$ - | \$ 2,827,933 | \$ - | \$ 2,827,933 |
| States and political subdivisions | - | 262,285 | - | 262,285 |
| Residential mortgage-backed securities | - | 175,119 | - | 175,119 |
| Corporate bonds | - | 90,820,792 | - | 90,820,792 |
| Foreign bonds | - | 4,573,668 | - | 4,573,668 |
| Total fixed maturity securities | <u>\$ -</u> | <u>\$ 98,659,797</u> | <u>\$ -</u> | <u>\$ 98,659,797</u> |
| Equity securities, available-for-sale | | | | |
| Mutual funds | \$ - | \$ 203,242 | \$ - | \$ 203,242 |
| Corporate preferred stock | - | 372,320 | - | 372,320 |
| Corporate common stock | 215,435 | - | 52,500 | 267,935 |
| Total equity securities | <u>\$ 215,435</u> | <u>\$ 575,562</u> | <u>\$ 52,500</u> | <u>\$ 843,497</u> |

As of June 30, 2013, Level 3 financial instruments consisted of two private placement common stocks that have no active trading. During 2012, one private placement common stock was sold and another was purchased. These private placement stocks represent investments in small development stage insurance holding companies. The fair value for these securities was determined through the use of unobservable assumptions about market participants. The Company has assumed a willing market participant would purchase the securities for the same price as the Company paid until such time as the development stage company commences operations.

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.

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3. Fair Value Measurements (continued)

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 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 included in Level 3. Level 1 for those equity securities classified as such is appropriate since they trade on a daily basis, are based on quoted market prices in active markets and are based upon unadjusted prices. Level 2 for those equity securities classified as such is appropriate since they are not actively traded as of June 30, 2013.

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

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3. Fair Value Measurements (continued)

Fair Value of Financial Instruments

The carrying amount and fair value of the Company's financial assets and financial liabilities disclosed, but not carried, at fair value as of June 30, 2013 and December 31, 2012, and the level within the fair value hierarchy at which such assets and liabilities are measured on a recurring basis are summarized as follows:

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

| June 30, 2013 (Unaudited) | | | | | |
|---------------------------------|-----------------------|----------------------|----------------------|-------------|----------------------|
| | Carrying Amount | Fair Value | Level 1 | Level 2 | Level 3 |
| Financial assets | | | | | |
| Mortgage loans on real estate | | | | | |
| Commercial | \$ 2,191,904 | \$ 2,253,026 | \$ - | \$ - | \$ 2,253,026 |
| Residential | 11,428,510 | 11,474,625 | - | - | 11,474,625 |
| Policy loans | 1,519,286 | 1,519,286 | - | - | 1,519,286 |
| Other long-term investments | 22,103,010 | 25,281,655 | - | - | 25,281,655 |
| Cash and cash equivalents | 11,094,179 | 11,094,179 | 11,094,179 | - | - |
| Accrued investment income | 1,502,190 | 1,502,190 | - | - | 1,502,190 |
| Loans from premium financing | 148,981 | 148,981 | - | - | 148,981 |
| Total financial assets | <u>\$ 49,988,060</u> | <u>\$ 53,273,942</u> | <u>\$ 11,094,179</u> | <u>\$ -</u> | <u>\$ 42,179,763</u> |
| Financial liabilities | | | | | |
| Policyholders' account balances | \$ 104,935,793 | \$ 92,659,742 | \$ - | \$ - | \$ 92,659,742 |
| Policy claims | 675,630 | 675,630 | - | - | 675,630 |
| Total financial liabilities | <u>\$ 105,611,423</u> | <u>\$ 93,335,372</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 93,335,372</u> |
| December 31, 2012 | | | | | |
| | Carrying Amount | Fair Value | Level 1 | Level 2 | Level 3 |
| Financial assets | | | | | |
| Mortgage loans on real estate | | | | | |
| Commercial | \$ 2,267,560 | \$ 2,330,004 | \$ - | \$ - | \$ 2,330,004 |
| Residential | 8,168,216 | 8,177,697 | - | - | 8,177,697 |
| Policy loans | 1,488,035 | 1,488,035 | - | - | 1,488,035 |
| Other long-term investments | 19,560,794 | 23,168,994 | - | - | 23,168,994 |
| Cash and cash equivalents | 10,947,474 | 10,947,474 | 10,947,474 | - | - |
| Accrued investment income | 1,417,218 | 1,417,218 | - | - | 1,417,218 |
| Loans from premium financing | 261,072 | 261,072 | - | - | 261,072 |
| Total financial assets | <u>\$ 44,110,369</u> | <u>\$ 47,790,494</u> | <u>\$ 10,947,474</u> | <u>\$ -</u> | <u>\$ 36,843,020</u> |
| Financial liabilities | | | | | |
| Policyholders' account balances | \$ 95,043,370 | \$ 91,013,971 | \$ - | \$ - | \$ 91,013,971 |
| Policy claims | 717,521 | 717,521 | - | - | 717,521 |
| Total financial liabilities | <u>\$ 95,760,891</u> | <u>\$ 91,731,492</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 91,731,492</u> |

First Trinity Financial Corporation and Subsidiaries
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3. Fair Value Measurements (continued)

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

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

Fixed Maturity and Equity Securities

The fair value of fixed maturity 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, using the actual spot rate yield curve in effect at the end of the period, as determined by recent new loan activity.

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.

Loans from Premium Financing

The carrying value of loans from premium financing is net of unearned interest and any estimated loan losses and approximates fair value. Unearned interest was \$1,389 as of December 31, 2012. Estimated loan losses were \$224,377 and \$228,999 as of June 30, 2013 and December 31, 2012, respectively.

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.

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4. Segment Data

The Company has a life insurance segment, consisting of the operations of TLIC and Family Benefit Life, and a premium financing segment, consisting of the operations of FTCC and SIS. Results for the parent company, after elimination of intercompany amounts, are allocated to the corporate segment. These segments as of June 30, 2013 and December 31, 2012 and for the three and six months ended June 30, 2013 and 2012 are summarized as follows:

| | Three Months Ended June 30, (Unaudited) | | Six Months Ended June 30, (Unaudited) | |
|--|---|-----------------------|---------------------------------------|---------------------|
| | 2013 | 2012 | 2013 | 2012 |
| Revenues: | | | | |
| Life and annuity insurance operations | \$ 3,757,813 | \$ 3,084,028 | \$ 7,444,087 | \$ 6,667,631 |
| Premium finance operations | 2,403 | 29,752 | 3,497 | 76,808 |
| Corporate operations | 57,316 | 17,316 | 101,409 | 38,667 |
| Total | <u>\$ 3,817,532</u> | <u>\$ 3,131,096</u> | <u>\$ 7,548,993</u> | <u>\$ 6,783,106</u> |
| Income (loss) before income taxes: | | | | |
| Life and annuity insurance operations | \$ 235,316 | \$ (163,236) | \$ 798,170 | \$ 336,147 |
| Premium finance operations | (60,014) | (91,400) | (168,821) | (104,155) |
| Corporate operations | (83,485) | (113,382) | (187,404) | (273,553) |
| Total | <u>\$ 91,817</u> | <u>\$ (368,018)</u> | <u>\$ 441,945</u> | <u>\$ (41,561)</u> |
| Depreciation and amortization expense: | | | | |
| Life and annuity insurance operations | \$ 305,363 | \$ 283,796 | \$ 715,509 | \$ 681,274 |
| Premium finance operations | 942 | 927 | 1,869 | 1,854 |
| Corporate operations | 5,429 | 16,534 | 10,150 | 20,797 |
| Total | <u>\$ 311,734</u> | <u>\$ 301,257</u> | <u>\$ 727,528</u> | <u>\$ 703,925</u> |
| | (Unaudited) | | | |
| | June 30, 2013 | December 31, 2012 | | |
| Assets: | | | | |
| Life and annuity insurance operations | \$ 167,219,224 | \$ 158,151,031 | | |
| Premium finance operations | 608,545 | 979,390 | | |
| Corporate operations | 6,211,243 | 6,319,896 | | |
| Total | <u>\$ 174,039,012</u> | <u>\$ 165,450,317</u> | | |

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5. Allowance for Loss on Premium Finance Contracts

The progression of the Company's allowance for loss related to loans from premium financing for the three and six months ended June 30, 2013 and 2012 is summarized as follows:

| | Three Months Ended June 30, (Unaudited) | | Six Months Ended June 30, (Unaudited) | |
|----------------------------------|---|-------------------|---------------------------------------|-------------------|
| | 2013 | 2012 | 2013 | 2012 |
| Allowance at beginning of period | \$ 228,999 | \$ 221,520 | \$ 228,999 | \$ 229,004 |
| Additions (reductions) | (4,622) | 1,615 | (4,622) | (5,869) |
| Allowance at end of period | <u>\$ 224,377</u> | <u>\$ 223,135</u> | <u>\$ 224,377</u> | <u>\$ 223,135</u> |

6. Federal Income Taxes

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

The Company has no known uncertain tax benefits within its provision for income taxes. In addition, the Company does not believe it would be subject to any penalties or interest relative to any open tax years and, therefore, has not accrued any such amounts. The Company files U.S. federal income tax returns and income tax returns in various state jurisdictions. The 2009 through 2012 U.S. federal tax years are subject to income tax examination by tax authorities. The Company classifies any interest and penalties (if applicable) as income tax expense in the financial statements.

7. Contingent Liabilities

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

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2013
(Unaudited)

8. Other Comprehensive Income and Accumulated Other Comprehensive Income

The changes in the components of the Company's accumulated other comprehensive income (loss) for the three and six months ended June 30, 2013 and 2012 are summarized as follows:

| Three Months Ended June 30, 2013 and 2012 (Unaudited) | | | |
|---|---|--|---|
| | Unrealized Appreciation on Available-For-Sale Securities | Adjustment to Deferred Acquisition Costs | Accumulated Other Comprehensive Income |
| Balance as of April 1, 2013 | \$ 5,965,023 | \$ (31,052) | \$ 5,933,971 |
| Other comprehensive loss before reclassifications, net of tax | (1,879,909) | 9,759 | (1,870,150) |
| Less amounts reclassified from accumulated other comprehensive loss, net of tax | 101,546 | - | 101,546 |
| Other comprehensive loss | (1,981,455) | 9,759 | (1,971,696) |
| Balance as of June 30, 2013 | <u>\$ 3,983,568</u> | <u>\$ (21,293)</u> | <u>\$ 3,962,275</u> |
| Balance as of April 1, 2012 | \$ 3,188,911 | \$ (28,049) | \$ 3,160,862 |
| Other comprehensive income before reclassifications, net of tax | 961,241 | (690) | 960,551 |
| Less amounts reclassified from accumulated other comprehensive income, net of tax | 19,110 | - | 19,110 |
| Other comprehensive income | 942,131 | (690) | 941,441 |
| Balance as of June 30, 2012 | <u>\$ 4,131,042</u> | <u>\$ (28,739)</u> | <u>\$ 4,102,303</u> |

| Six Months Ended June 30, 2013 and 2012 (Unaudited) | | | |
|---|---|--|---|
| | Unrealized Appreciation on Available-For-Sale Securities | Adjustment to Deferred Acquisition Costs | Accumulated Other Comprehensive Income |
| Balance as of January 1, 2013 | \$ 5,811,309 | \$ (30,639) | \$ 5,780,670 |
| Other comprehensive loss before reclassifications, net of tax | (1,606,781) | 9,346 | (1,597,435) |
| Less amounts reclassified from accumulated other comprehensive loss, net of tax | 220,960 | - | 220,960 |
| Other comprehensive loss | (1,827,741) | 9,346 | (1,818,395) |
| Balance as of June 30, 2013 | <u>\$ 3,983,568</u> | <u>\$ (21,293)</u> | <u>\$ 3,962,275</u> |
| Balance as of January 1, 2012 | \$ 2,718,885 | \$ (22,661) | \$ 2,696,224 |
| Other comprehensive income before reclassifications, net of tax | 1,484,770 | (6,078) | 1,478,692 |
| Less amounts reclassified from accumulated other comprehensive income, net of tax | 72,613 | - | 72,613 |
| Other comprehensive income | 1,412,157 | (6,078) | 1,406,079 |
| Balance as of June 30, 2012 | <u>\$ 4,131,042</u> | <u>\$ (28,739)</u> | <u>\$ 4,102,303</u> |

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2013
(Unaudited)

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

The pretax components of the Company's other comprehensive income (loss) and the related income tax expense for each component for the three and six months ended June 30, 2013 and 2012 are summarized as follows:

| Three Months Ended June 30, 2013 (Unaudited) | | | |
|--|-----------------------|----------------------|-----------------------|
| | | Income Tax | |
| | Pretax | Expense (Benefit) | Net of Tax |
| Other comprehensive loss: | | | |
| Change in net unrealized gains on available-for-sale securities: | | | |
| Unrealized holding losses arising during the period | \$ (2,349,888) | \$ (469,979) | \$ (1,879,909) |
| Reclassification adjustment for gains included in income | (126,932) | (25,386) | (101,546) |
| Net unrealized losses on investments | (2,476,820) | (495,365) | (1,981,455) |
| Adjustment to deferred acquisition costs | 12,197 | 2,438 | 9,759 |
| Total other comprehensive loss | <u>\$ (2,464,623)</u> | <u>\$ (492,927)</u> | <u>\$ (1,971,696)</u> |

| Three Months Ended June 30, 2012 (Unaudited) | | | |
|--|---------------------|----------------------|-------------------|
| | | Income Tax | |
| | Pretax | 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 | \$ 1,220,823 | \$ 259,582 | \$ 961,241 |
| Reclassification adjustment for gains included in income | (24,271) | (5,161) | (19,110) |
| Net unrealized gains on investments | 1,196,552 | 254,421 | 942,131 |
| Adjustment to deferred acquisition costs | (876) | (186) | (690) |
| Total other comprehensive income | <u>\$ 1,195,676</u> | <u>\$ 254,235</u> | <u>\$ 941,441</u> |

| Six Months Ended June 30, 2013 (Unaudited) | | | |
|--|-----------------------|----------------------|-----------------------|
| | | Income Tax | |
| | Pretax | Expense (Benefit) | Net of Tax |
| Other comprehensive loss: | | | |
| Change in net unrealized gains on available-for-sale securities: | | | |
| Unrealized holding losses arising during the period | \$ (2,008,477) | \$ (401,696) | \$ (1,606,781) |
| Reclassification adjustment for gains included in income | (276,201) | (55,241) | (220,960) |
| Net unrealized gains on investments | (2,284,678) | (456,937) | (1,827,741) |
| Adjustment to deferred acquisition costs | 11,681 | 2,335 | 9,346 |
| Total other comprehensive loss | <u>\$ (2,272,997)</u> | <u>\$ (454,602)</u> | <u>\$ (1,818,395)</u> |

| Six Months Ended June 30, 2012 (Unaudited) | | | |
|--|---------------------|----------------------|---------------------|
| | | Income Tax | |
| | Pretax | 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 | \$ 1,897,856 | \$ 413,086 | \$ 1,484,770 |
| Reclassification adjustment for gains included in income | (92,811) | (20,198) | (72,613) |
| Net unrealized gains on investments | 1,805,045 | 392,888 | 1,412,157 |
| Adjustment to deferred acquisition costs | (7,851) | (1,773) | (6,078) |
| Total other comprehensive income | <u>\$ 1,797,194</u> | <u>\$ 391,115</u> | <u>\$ 1,406,079</u> |

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2013
(Unaudited)

8. 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, 2013 are summarized as follows:

| Reclassification Adjustments | Three Months Ended June 30, (Unaudited) | | Six Months Ended June 30, (Unaudited) | |
|--|---|---------------|---------------------------------------|---------------|
| | 2013 | 2012 | 2013 | 2012 |
| Unrealized gains on available-for-sale securities: | | | | |
| Realized gains on sales of securities (a) | \$ 126,932 | \$ 24,271 | \$ 276,201 | \$ 92,811 |
| Income tax expenses (b) | 25,386 | 5,161 | 55,241 | 20,198 |
| Total reclassification adjustments | <u>101,546</u> | <u>19,110</u> | <u>220,960</u> | <u>72,613</u> |

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

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

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

Overview

First Trinity Financial Corporation (“we” “us”, “our”, or the Company) conducts operations as an insurance holding company emphasizing ordinary life insurance products in niche markets and a premium finance company, financing casualty insurance premiums.

As an insurance provider, we collect premiums in the current period to pay future benefits to our policy and contract holders. Our core TLIC operations include issuing modified premium whole life insurance with a flexible premium deferred annuity, ordinary whole life, final expense, term and annuity products to predominately middle income households in the states of Illinois, Kansas, Kentucky, Nebraska, North Dakota, Ohio, Oklahoma and Texas through independent agents. With the acquisition of Family Benefit Life in late 2011, we expanded into Arizona, Colorado, Missouri and New Mexico. Family Benefit Life has recently been licensed in Arkansas, Illinois, Indiana, Kentucky, North Dakota, Pennsylvania, South Dakota, Texas and West Virginia. Sales activity will soon begin in these new states.

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.

We provide financing for casualty insurance premiums through independent property and casualty insurance agents. We are licensed in the states of Alabama, Arkansas, Louisiana, Mississippi and Oklahoma. The Company's management has decided to focus on the Company's core life and annuity insurance business and discontinue offering premium finance contracts. On May 16, 2012, the Company determined and then announced that FTCC would not accept new premium financing contracts after June 30, 2012. FTCC continued to process payments and service all existing premium financing contracts after June 30, 2012 through the duration that the property and casualty premium financing contracts were in force. The Company virtually completed processing and servicing its premium finance operations on June 30, 2013 subject to minor refunds, minor collections of past due accounts and legal matters. The Company incurred minimal costs related to exiting its premium financing operations since resources were redeployed into its growing life and annuity insurance operations.

Acquisitions

The Company expects to facilitate growth through acquisitions of other life insurance companies and/or blocks of life insurance business. In late December 2008, the Company completed its acquisition of 100% of the outstanding stock of First Life America Corporation, included in the life insurance segment, for \$2,500,000 and had additional acquisition related expenses of \$195,000. In late December 2011, the Company completed its acquisition of 100% of the outstanding stock of Family Benefit Life Insurance Company, included in the life insurance segment, for \$13,855,129.

Our profitability in the life insurance segment is a function of our ability to accurately price the policies that we write, adequately value life insurance business acquired and administer life insurance company acquisitions at an expense level that validates the acquisition cost. Profitability in the premium financing segment is dependent on the Company's ability to compete in that sector, maintain low administrative costs and minimize losses. However, as introduced above, the Company has discontinued its premium financing operations and will completely exit that segment of the business on approximately July 1, 2013.

Critical Accounting Policies and Estimates

The discussion and analysis of our financial condition, results of operations and liquidity and capital resources is based on our consolidated financial statements that have been prepared in accordance with accounting principles generally accepted in the United States. Preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses. We evaluate our estimates and assumptions continually, including those related to investments, deferred acquisition costs, loans from premium financing, allowance

for loan losses from premium financing, value of insurance business acquired, policy liabilities, regulatory requirements, contingencies and litigation. We base our estimates on historical experience and on various other factors and assumptions that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

For a description of the Company's critical accounting policies and estimates, please refer to "Item 7 — Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies and Estimates" in the Company's Annual Report on Form 10-K for the year ended December 31, 2012. The Company considers its most critical accounting estimates to be those applied to investments in fixed maturities and equity securities, deferred policy acquisition costs, loans from premium financing, value of insurance business acquired, future policy benefits and federal income taxes. Except as discussed below, there have been no material changes to the Company's critical accounting policies and estimates since December 31, 2012.

Recent Accounting Pronouncements

Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income

In February 2013, the Financial Accounting Standards Board ("FASB") issued updated guidance to improve the reporting of reclassifications out of accumulated other comprehensive income. The guidance requires an entity to present, either on the face of the statement of income or in the notes, separately for each component of comprehensive income, the current period reclassifications out of accumulated other comprehensive income by the respective line items of net income affected by the reclassification.

The updated guidance is effective prospectively for reporting periods beginning after December 15, 2012. The Company adopted the updated guidance effective March 31, 2013, and such adoption did not have any effect on the Company's results of operations, financial position or liquidity.

Testing Indefinite-Lived Intangible Assets for Impairment

In July 2012, the FASB issued updated guidance regarding the impairment test applicable to indefinite-lived intangible assets that is similar to the impairment guidance applicable to goodwill. Under the updated guidance, an entity may assess qualitative factors (such as changes in management, key personnel, strategy, key technology or customers) that may impact the fair value of the indefinite-lived intangible asset and lead to the determination that it is more likely than not that the fair value of the asset is less than its carrying value. If an entity determines that it is more likely than not that the fair value of the intangible asset is less than its carrying value, an impairment test must be performed. The impairment test requires an entity to calculate the estimated fair value of the indefinite-lived intangible asset. If the carrying value of the indefinite-lived intangible asset exceeds its estimated fair value, an impairment loss is recognized in an amount equal to the excess.

The updated guidance was effective for the quarter ended March 31, 2013, but early adoption was permitted. The Company adopted the updated guidance effective December 31, 2012, and such adoption did not have any effect on the Company's results of operations, financial position or liquidity.

Business Segments

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

- Life and annuity insurance operations, consisting of the operations of TLIC and Family Benefit Life;
- Premium finance operations, consisting of the operations of FTCC and SIS; and
- Corporate operations, which includes the results of the parent company 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, 2013 and 2012 and as of June 30, 2013 and December 31, 2012 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, 2013 and 2012

| | (Unaudited) | | | |
|---|-----------------------------|--------------|---------------------|-------------------|
| | Three Months Ended June 30, | | Increase (Decrease) | Percentage Change |
| | 2013 | 2012 | 2013 less 2012 | 2013 to 2012 |
| Premiums | \$ 1,921,494 | \$ 1,806,830 | \$ 114,664 | 6.3% |
| Net investment income | 1,764,367 | 1,266,330 | 498,037 | 39.3% |
| Net realized investment gains | 126,932 | 24,271 | 102,661 | 423.0% |
| Other revenues | 4,739 | 33,665 | (28,926) | -85.9% |
| Total revenues | 3,817,532 | 3,131,096 | 686,436 | 21.9% |
| Benefits and claims | 2,318,195 | 2,264,188 | 54,007 | 2.4% |
| Expenses | 1,407,520 | 1,234,926 | 172,594 | 14.0% |
| Total benefits, claims and expenses | 3,725,715 | 3,499,114 | 226,601 | 6.5% |
| Income (loss) before federal income tax expense | 91,817 | (368,018) | 459,835 | 124.9% |
| Federal income tax expense | 19,267 | 1,561 | 17,706 | 1134.3% |
| Net income (loss) | \$ 72,550 | \$ (369,579) | \$ 442,129 | 119.6% |
| Net income (loss) per common share | | | | |
| basic and diluted | \$ 0.01 | \$ (0.05) | \$ 0.06 | |

Consolidated Condensed Results of Operations for the Six Months Ended June 30, 2013 and 2012

| | (Unaudited) | | | |
|---|---------------------------|--------------|---------------------|-------------------|
| | Six Months Ended June 30, | | Increase (Decrease) | Percentage Change |
| | 2013 | 2012 | 2013 less 2012 | 2013 to 2012 |
| Premiums | \$ 3,849,044 | \$ 3,862,969 | \$ (13,925) | -0.4% |
| Net investment income | 3,415,990 | 2,738,825 | 677,165 | 24.7% |
| Net realized investment gains | 276,201 | 92,811 | 183,390 | 197.6% |
| Other revenues | 7,758 | 88,501 | (80,743) | -91.2% |
| Total revenues | 7,548,993 | 6,783,106 | 765,887 | 11.3% |
| Benefits and claims | 4,487,658 | 4,545,817 | (58,159) | -1.3% |
| Expenses | 2,619,390 | 2,278,850 | 340,540 | 14.9% |
| Total benefits, claims and expenses | 7,107,048 | 6,824,667 | 282,381 | 4.1% |
| Income (loss) before federal income tax expense | 441,945 | (41,561) | 483,506 | 1163.4% |
| Federal income tax expense (benefit) | (11,597) | 10,766 | (22,363) | -207.7% |
| Net income (loss) | \$ 453,542 | \$ (52,327) | \$ 505,869 | 966.7% |
| Net income (loss) per common share | | | | |
| basic and diluted | \$ 0.06 | \$ (0.01) | \$ 0.07 | |

Consolidated Condensed Financial Position as of June 30, 2013 and December 31, 2012

| | (Unaudited) June 30, 2013 | December 31, 2012 | Increase (Decrease) 2013 to 2012 | Percentage Change 2013 to 2012 |
|--|------------------------------|-----------------------|-------------------------------------|-----------------------------------|
| Investment assets | \$ 141,127,564 | \$ 133,846,664 | \$ 7,280,900 | 5.4% |
| Other assets | 32,911,448 | 31,603,653 | 1,307,795 | 4.1% |
| Total assets | <u>\$ 174,039,012</u> | <u>\$ 165,450,317</u> | <u>\$ 8,588,695</u> | 5.2% |
| Policy liabilities | \$ 137,957,753 | \$ 126,966,173 | \$ 10,991,580 | 8.7% |
| Deferred federal income taxes | 2,732,077 | 3,301,524 | (569,447) | -17.2% |
| Other liabilities | 1,070,291 | 1,460,508 | (390,217) | -26.7% |
| Total liabilities | 141,760,121 | 131,728,205 | 10,031,916 | 7.6% |
| Shareholders' equity | 32,278,891 | 33,722,112 | (1,443,221) | -4.3% |
| Total liabilities and shareholders' equity | <u>\$ 174,039,012</u> | <u>\$ 165,450,317</u> | <u>\$ 8,588,695</u> | 5.2% |
| Shareholders' equity per common share | <u>\$ 4.11</u> | <u>\$ 4.29</u> | <u>\$ (0.18)</u> | |

Results of Operations – Three Months Ended June 30, 2013 and 2012

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, 2013 and 2012 are summarized as follows:

| | (Unaudited) | | | |
|-------------------------------|-----------------------------|---------------------|---------------------|-------------------|
| | Three Months Ended June 30, | | Increase (Decrease) | Percentage Change |
| | 2013 | 2012 | 2013 less 2012 | 2013 to 2012 |
| Premiums | \$ 1,921,494 | \$ 1,806,830 | \$ 114,664 | 6.3% |
| Income from premium financing | 3,236 | 29,679 | (26,443) | -89.1% |
| Net investment income | 1,764,367 | 1,266,330 | 498,037 | 39.3% |
| Net realized investment gains | 126,932 | 24,271 | 102,661 | 423.0% |
| Other income | 1,503 | 3,986 | (2,483) | -62.3% |
| Total revenues | <u>\$ 3,817,532</u> | <u>\$ 3,131,096</u> | <u>\$ 686,436</u> | 21.9% |

The increase in total revenues of \$686,436 for the three months ended June 30, 2013 is discussed below.

Premiums

Our premiums for the three months ended June 30, 2013 and 2012 are summarized as follows:

| | (Unaudited) | | | |
|--------------------------------|-----------------------------|--------------|---------------------|-------------------|
| | Three Months Ended June 30, | | Increase (Decrease) | Percentage Change |
| | 2013 | 2012 | 2013 less 2012 | 2013 to 2012 |
| Whole life and term first year | \$ 34,807 | \$ 37,220 | \$ (2,413) | -6.5% |
| Whole life and term renewal | 667,077 | 684,756 | (17,679) | -2.6% |
| Final expense first year | 239,575 | 270,604 | (31,029) | -11.5% |
| Final expense renewal | 980,035 | 814,250 | 165,785 | 20.4% |
| Total premiums | \$ 1,921,494 | \$ 1,806,830 | \$ 114,664 | 6.3% |

The \$114,664 increase in premiums for the three months ended June 30, 2013 is primarily due to a \$165,785 increase in final expense renewal premiums that exceeded a decrease of \$31,029 in final expense first year premiums.

Income from Premium Financing

The income from premium financing has steadily decreased during the past two years. There was a decrease of \$26,443 for the three months ended June 30, 2013. As introduced above, the Company's management has decided to focus on the Company's core life and annuity insurance business and discontinue offering premium finance contracts. On May 16, 2012, the Company determined and then announced that FTCC would not accept new premium financing contracts after June 30, 2012. FTCC continued to process payments and service all existing premium financing contracts after June 30, 2012 through the duration that the property and casualty premium financing contracts were in force. The Company virtually completed processing and servicing its premium finance operations on June 30, 2013 subject to minor refunds, minor collections of past due accounts and legal matters. The Company incurred minimal costs related to exiting its premium financing operations since resources were redeployed into its growing life and annuity insurance operations.

Net Investment Income

The major components of our net investment income for the three months ended June 30, 2013 and 2012 are summarized as follows:

| | (Unaudited) | | | |
|----------------------------------|-----------------------------|--------------|---------------------|-------------------|
| | Three Months Ended June 30, | | Increase (Decrease) | Percentage Change |
| | 2013 | 2012 | 2013 less 2012 | 2013 to 2012 |
| Fixed maturity securities | \$ 1,094,086 | \$ 862,769 | \$ 231,317 | 26.8% |
| Equity securities | 7,371 | 15,605 | (8,234) | -52.8% |
| Other long-term investments | 419,843 | 275,209 | 144,634 | 52.6% |
| Mortgage loans | 266,145 | 113,705 | 152,440 | 134.1% |
| Policy loans | 24,961 | 23,837 | 1,124 | 4.7% |
| Real estate | 90,710 | 93,476 | (2,766) | -3.0% |
| Short-term and other investments | 17,536 | 5,583 | 11,953 | 214.1% |
| Gross investment income | 1,920,652 | 1,390,184 | 530,468 | 38.2% |
| Investment expenses | (156,285) | (123,854) | 32,431 | -26.2% |
| Net investment income | \$ 1,764,367 | \$ 1,266,330 | \$ 498,037 | 39.3% |

The \$530,468 increase in gross investment income for the three months ended June 30, 2013 is due to the 2013 investment of excess cash primarily in fixed maturity securities, mortgage loans and other long-term investments (lottery receivables).

The \$32,431 increase in investment expenses for the three months ended June 30, 2013 is primarily due to increased mortgage loan origination fees. As of June 30, 2013, \$201,936 of cash and \$204,800 of independent mortgage loan balances are held in escrow by a third party for the benefit of the Company related to its investment in mortgage loans on real estate with one loan originator.

Net Realized Investment Gains

There was a \$102,661 increase in net realized investment gains for the three months ended June 30, 2013.

The net realized investment gains from the sales and maturities of fixed maturity securities available-for-sale of \$6,178 for the three months ended June 30, 2013 resulted from proceeds of \$1,256,225 for these securities that had carrying values of \$1,250,047 as of the 2013 disposal dates.

The net realized investment gains from the sales and maturities of fixed maturity and equity securities available-for-sale of \$24,271 for the three months ended June 30, 2012 resulted from proceeds of \$1,825,015 for these securities that had carrying values of \$1,800,744 as of the 2012 disposal dates.

The net realized investment gains from mortgage loans on real estate of \$120,754 for the three months ended June 30, 2013, resulted from the early payoff of a mortgage loan that the Company had acquired at a discount price.

We have recorded no other-than-temporary impairments in 2013 and 2012.

Other Income

The \$2,483 decrease in other income for the three months ended June 30, 2013 is due to decreased service fees.

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, 2013 and 2012 are summarized as follows:

| | (Unaudited) | | | |
|--|-----------------------------|--------------|---------------------|-------------------|
| | Three Months Ended June 30, | | Increase (Decrease) | Percentage Change |
| | 2013 | 2012 | 2013 less 2012 | 2013 to 2012 |
| Benefits and claims | | | | |
| Increase in future policy benefits | \$ 575,056 | \$ 564,374 | \$ 10,682 | 1.9% |
| Death benefits | 601,828 | 625,862 | (24,034) | -3.8% |
| Surrenders | 179,940 | 144,553 | 35,387 | 24.5% |
| Interest credited to policyholders | 892,263 | 845,504 | 46,759 | 5.5% |
| Dividend, endowment and supplementary life contract benefits | 69,108 | 83,895 | (14,787) | -17.6% |
| Total benefits and claims | 2,318,195 | 2,264,188 | 54,007 | 2.4% |
| Expenses | | | | |
| Policy acquisition costs deferred | (511,059) | (478,514) | (32,545) | 6.8% |
| Amortization of deferred policy acquisition costs | 126,171 | 141,582 | (15,411) | -10.9% |
| Amortization of value of insurance business acquired | 120,956 | 108,011 | 12,945 | 12.0% |
| Commissions | 533,795 | 494,262 | 39,533 | 8.0% |
| Other underwriting, insurance and acquisition expenses | 1,137,657 | 969,585 | 168,072 | 17.3% |
| Total expenses | 1,407,520 | 1,234,926 | 172,594 | 14.0% |
| Total benefits, claims and expenses | \$ 3,725,715 | \$ 3,499,114 | \$ 226,601 | 6.5% |

The increase of \$226,601 in total benefits, claims and expenses for the three months ended June 30, 2013 is discussed below.

Benefits and Claims

The \$54,007 increase in benefits and claims for the three months ended June 30, 2013 is primarily due to a \$46,759 increase in interest credited to policyholders as the liability for policyholders' account balances continues to increase with annuity sales and deposit-type liability funds. In addition, there was a \$35,387 increase in surrender activity primarily related to the insurance policies and contracts acquired in the Family Benefit Life December 2011 acquisition.

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 production of new and renewal insurance and annuity contracts.

For the three months ended June 30, 2013 and 2012, capitalized costs were \$511,059 and \$478,514, respectively. Amortization of deferred policy acquisition costs for the three months ended June 30, 2013 and 2012 were \$126,171 and \$141,582, respectively.

The \$32,545 increase in the acquisition costs deferred primarily relates to increased deferrable commissions in 2013. The \$15,411 decrease in the 2013 amortization of deferred acquisition costs is as expected.

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 \$120,956 and \$108,011 for the three months ended June 30, 2013 and 2012, respectively. The \$12,945 increase in the 2013 amortization of value of insurance business acquired primarily is as expected and reflects a slight increase in surrender activity of the insurance policies and contracts acquired in the Family Benefit Life December 2011 acquisition.

Commissions

Our commissions for the three months ended June 30, 2013 and 2012 are summarized as follows:

| | (Unaudited) | | | |
|--------------------------------|-----------------------------|------------|---------------------|-------------------|
| | Three Months Ended June 30, | | Increase (Decrease) | Percentage Change |
| | 2013 | 2012 | 2013 less 2012 | 2013 to 2012 |
| Annuity | \$ 113,607 | \$ 35,763 | \$ 77,844 | 217.7% |
| Whole life and term first year | 24,200 | 27,371 | (3,171) | -11.6% |
| Whole life and term renewal | 25,290 | 29,239 | (3,949) | -13.5% |
| Final expense first year | 278,395 | 325,708 | (47,313) | -14.5% |
| Final expense renewal | 92,303 | 76,181 | 16,122 | 21.2% |
| Total commissions | \$ 533,795 | \$ 494,262 | \$ 39,533 | 8.0% |

The \$39,533 increase in commissions for the three months ended June 30, 2013 is primarily due to a \$77,844 increase in commissions on annuity considerations that exceeded a \$47,313 decrease in final expense first year commissions related to increases and decreases in the production of these lines of insurance policies and annuity contracts.

Other Underwriting, Insurance and Acquisition Expenses

The \$168,072 increase in other underwriting, insurance and acquisition expenses for the three months ended June 30, 2013 is primarily attributed to increased 2013 legal fees and increased purchases of potential policyholder leads provided to agents.

Federal Income Taxes

FTFC files a consolidated federal income tax return with FTCC but does not file a consolidated tax return with TLIC or Family Benefit Life. TLIC and Family Benefit Life are taxed as life insurance companies under the provisions of the Internal Revenue Code. Life insurance companies must file separate tax returns until they have been a member of the consolidated filing group for five years. However, for 2012 and 2013, we intend to file a combined life insurance company federal tax return for TLIC and Family Benefit Life. 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, 2013 and 2012, current income tax expense was \$55,724 and \$12,500, respectively. Deferred federal income tax benefit was \$36,457 and \$10,939 for the three months ended June 30, 2013 and 2012, respectively.

Net Income (Loss) Per Common Share Basic and Diluted

Net income (loss) was \$72,550 [\$0.01 per common share basic and diluted] and (\$369,579) [(\$0.05) loss per common share basic and diluted] for the three months ended June 30, 2013 and 2012, respectively.

Net income per common share basic and diluted is calculated using the weighted average number of common shares outstanding and subscribed during the year. The weighted average outstanding and subscribed common shares basic and diluted for the three months ended June 30, 2013 and 2012 were 7,851,984 and 7,969,304 respectively.

Business Segments

The revenues and income (loss) before federal income taxes from our business segments for the three months ended June 30, 2013 and 2012 are summarized as follows:

| | (Unaudited) | | | |
|---------------------------------------|-----------------------------|---------------------|---------------------|-------------------|
| | Three Months Ended June 30, | | Increase (Decrease) | Percentage Change |
| | 2013 | 2012 | 2013 to 2012 | 2013 to 2012 |
| Revenues: | | | | |
| Life and annuity insurance operations | \$ 3,757,813 | \$ 3,084,028 | \$ 673,785 | 21.8% |
| Premium finance operations | 2,403 | 29,752 | (27,349) | -91.9% |
| Corporate operations | 57,316 | 17,316 | 40,000 | 231.0% |
| Total | <u>\$ 3,817,532</u> | <u>\$ 3,131,096</u> | <u>\$ 686,436</u> | 21.9% |
| Income (loss) before income taxes: | | | | |
| Life and annuity insurance operations | \$ 235,316 | \$ (163,236) | \$ 398,552 | -244.2% |
| Premium finance operations | (60,014) | (91,400) | 31,386 | -34.3% |
| Corporate operations | (83,485) | (113,382) | 29,897 | -26.4% |
| Total | <u>\$ 91,817</u> | <u>\$ (368,018)</u> | <u>\$ 459,835</u> | -124.9% |

Life and Annuity Insurance Operations

The \$673,785 increase in revenues from Life and Annuity Insurance Operations for the three months ended June 30, 2013 is primarily due to the following:

- \$458,108 increase in net investment income
- \$114,664 increase in premiums
- \$102,661 increase in net realized investment gains
- \$1,648 decrease in other income

The \$398,552 increased profitability from Life and Annuity Insurance Operations for the three months ended June 30, 2013 is primarily due to the following:

- \$458,108 increase in net investment income
- \$114,664 increase in premiums
- \$102,661 increase in net realized investment gains
- \$47,956 increase in policy acquisition costs deferred net of amortization
- \$1,648 decrease in other income
- \$12,945 increase in amortization of value of insurance business acquired
- \$39,533 increase in commissions

- \$54,007 increase in benefits and claims
- \$216,704 increase in other underwriting, insurance and acquisition expenses

Premium Finance Operations

The \$27,349 decrease in revenues from Premium Finance Operations for the three months ended June 30, 2013 is due to decreased fee income as we discontinued offering premium finance contracts on July 1, 2012.

The \$31,386 increased profitability from Premium Finance Operations for the three months ended June 30, 2013 is primarily due to \$58,735 of decreased expenses less \$27,349 of decreased fee income.

Corporate Operations

The \$40,000 increase in revenues from Corporate Operations for the three months ended June 30, 2013 is primarily due to increased net investment income and fees.

The \$29,897 increased Corporate Operations profitability for the three months ended June 30, 2013 is primarily due to the \$40,000 increase in net investment income and \$10,103 of increased operating expenses.

Results of Operations – Six Months Ended June 30, 2013 and 2012

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, 2013 and 2012 are summarized as follows:

| | (Unaudited) | | | |
|-------------------------------|---------------------------|---------------------|---------------------|-------------------|
| | Six Months Ended June 30, | | Increase (Decrease) | Percentage Change |
| | 2013 | 2012 | 2013 less 2012 | 2013 to 2012 |
| Premiums | \$ 3,849,044 | \$ 3,862,969 | \$ (13,925) | -0.4% |
| Income from premium financing | 4,330 | 76,691 | (72,361) | -94.4% |
| Net investment income | 3,415,990 | 2,738,825 | 677,165 | 24.7% |
| Net realized investment gains | 276,201 | 92,811 | 183,390 | 197.6% |
| Other income | 3,428 | 11,810 | (8,382) | -71.0% |
| Total revenues | <u>\$ 7,548,993</u> | <u>\$ 6,783,106</u> | <u>\$ 765,887</u> | 11.3% |

The increase in total revenues of \$765,887 for the six months ended June 30, 2013 is discussed below.

Premiums

Our premiums for the six months ended June 30, 2013 and 2012 are summarized as follows:

| | (Unaudited) | | | |
|--------------------------------|---------------------------|--------------|---------------------|-------------------|
| | Six Months Ended June 30, | | Increase (Decrease) | Percentage Change |
| | 2013 | 2012 | 2013 less 2012 | 2013 to 2012 |
| Whole life and term first year | \$ 58,002 | \$ 69,662 | \$ (11,660) | -16.7% |
| Whole life and term renewal | 1,388,694 | 1,654,691 | (265,997) | -16.1% |
| Final expense first year | 492,458 | 544,149 | (51,691) | -9.5% |
| Final expense renewal | 1,909,890 | 1,594,467 | 315,423 | 19.8% |
| Total premiums | \$ 3,849,044 | \$ 3,862,969 | \$ (13,925) | -0.4% |

The \$13,925 decrease in premiums for the six months ended June 30, 2013 is primarily due to a \$265,997 decrease in whole life and term renewal premiums and \$51,691 decrease in final expense first year premiums that exceeded a \$315,423 increase in final expense renewal premiums.

Income from Premium Financing

The income from premium financing has steadily decreased during the past two years. There was a decrease of \$72,361 for the six months ended June 30, 2013. As introduced above, the Company's management has decided to focus on the Company's core life and annuity insurance business and discontinue offering premium finance contracts. On May 16, 2012, the Company determined and then announced that FTCC would not accept new premium financing contracts after June 30, 2012. FTCC continued to process payments and service all existing premium financing contracts after June 30, 2012 through the duration that the property and casualty premium financing contracts were in force. The Company virtually completed processing and servicing its premium finance operations on June 30, 2013 subject to minor refunds, minor collections of past due accounts and legal matters. The Company incurred minimal costs related to exiting its premium financing operations since resources were redeployed into its growing life and annuity insurance operations.

Net Investment Income

The major components of our net investment income for the six months ended June 30, 2013 and 2012 are summarized as follows:

| | (Unaudited) | | | |
|----------------------------------|---------------------------|--------------|---------------------|-------------------|
| | Six Months Ended June 30, | | Increase (Decrease) | Percentage Change |
| | 2013 | 2012 | 2013 less 2012 | 2013 to 2012 |
| Fixed maturity securities | \$ 2,192,919 | \$ 2,064,475 | \$ 128,444 | 6.2% |
| Equity securities | 14,686 | 28,166 | (13,480) | -47.9% |
| Other long-term investments | 815,478 | 494,580 | 320,898 | 64.9% |
| Mortgage loans | 476,167 | 152,026 | 324,141 | 213.2% |
| Policy loans | 49,065 | 48,830 | 235 | 0.5% |
| Real estate | 181,420 | 186,951 | (5,531) | -3.0% |
| Short-term and other investments | 27,964 | 14,628 | 13,336 | 91.2% |
| Gross investment income | 3,757,699 | 2,989,656 | 768,043 | 25.7% |
| Investment expenses | (341,709) | (250,831) | 90,878 | -36.2% |
| Net investment income | \$ 3,415,990 | \$ 2,738,825 | \$ 677,165 | 24.7% |

The \$768,043 increase in gross investment income for the six months ended June 30, 2013 is due to the 2013 investment of excess cash primarily in mortgage loans and other long-term investments.

The \$90,878 increase in investment expenses for the six months ended June 30, 2013 is primarily due to increased mortgage loan origination fees and the establishment of a \$45,409 bad debt allowance on mortgage loans on real estate for commercial and residential mortgage loans where funds or real estate are not otherwise escrowed and held by a third party for the benefit of the Company. As of June 30, 2013, \$201,936 of cash and \$204,800 of independent mortgage loan balances are held in escrow by a third party for the benefit of the Company related to its investment in mortgage loans on real estate with one loan originator.

Net Realized Investment Gains

There was an \$183,390 increase in net realized investment gains for the six months ended June 30, 2013.

The net realized investment gains from the sales and maturities of fixed maturity securities available-for-sale of \$52,932 for the six months ended June 30, 2013 resulted from proceeds of \$3,043,743 for these securities that had carrying values of \$2,990,811 as of the 2013 disposal dates.

The net realized investment gains from the sales and maturities of fixed maturity securities available-for-sale of \$92,811 for the six months ended June 30, 2012 resulted from proceeds of \$4,036,055 for these securities that had carrying values of \$3,943,244 as of the 2012 disposal dates.

The net realized investment gains from mortgage loans on real estate of \$223,629 for the six months ended June 30, 2013, resulted from the early payoff of three mortgage loans that the Company had acquired at a discount price.

We have recorded no other-than-temporary impairments in 2013 and 2012.

Other Income

The \$8,382 decrease in other income for the six months ended June 30, 2013 is primarily due to decreased service fees.

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, 2013 and 2012 are summarized as follows:

| | (Unaudited) | | | |
|--|---------------------------|--------------|---------------------|-------------------|
| | Six Months Ended June 30, | | Increase (Decrease) | Percentage Change |
| | 2013 | 2012 | 2013 less 2012 | 2013 to 2012 |
| Benefits and claims | | | | |
| Increase in future policy benefits | \$ 1,165,747 | \$ 1,173,015 | \$ (7,268) | -0.6% |
| Death benefits | 1,095,694 | 1,285,568 | (189,874) | -14.8% |
| Surrenders | 308,976 | 274,000 | 34,976 | 12.8% |
| Interest credited to policyholders | 1,795,303 | 1,632,136 | 163,167 | 10.0% |
| Dividend, endowment and supplementary life contract benefits | 121,938 | 181,098 | (59,160) | -32.7% |
| Total benefits and claims | 4,487,658 | 4,545,817 | (58,159) | -1.3% |
| Expenses | | | | |
| Policy acquisition costs deferred | (1,152,594) | (1,425,925) | 273,331 | -19.2% |
| Amortization of deferred policy acquisition costs | 383,709 | 384,539 | (830) | -0.2% |
| Amortization of value of insurance business acquired | 215,800 | 215,666 | 134 | 0.1% |
| Commissions | 1,052,437 | 1,290,175 | (237,738) | -18.4% |
| Other underwriting, insurance and acquisition expenses | 2,120,038 | 1,814,395 | 305,643 | 16.8% |
| Total expenses | 2,619,390 | 2,278,850 | 340,540 | 14.9% |
| Total benefits, claims and expenses | \$ 7,107,048 | \$ 6,824,667 | \$ 282,381 | 4.1% |

The increase of \$282,381 in total benefits, claims and expenses for the six months ended June 30, 2013 is discussed below.

Benefits and Claims

The \$58,159 decrease in benefits and claims for the six months ended June 30, 2013 is primarily due to the following:

- \$189,874 decrease in death benefits due to favorable mortality experience in 2013 compared to 2012.
- \$59,160 decrease in dividends, endowments and supplementary life contract benefits due to management's decision to decrease non guaranteed dividends on Family Benefit Life products due to decreased investment yields and decreased divisible surplus.
- \$163,167 increase in interest credited to policyholders primarily due to an increase in the amount of policyholders' account balances in the consolidated statement of financial position (increased deposits in excess of withdrawals).

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 production of new and renewal insurance and annuity contracts.

For the six months ended June 30, 2013 and 2012, capitalized costs were \$1,152,594 and \$1,425,925, respectively. Amortization of deferred policy acquisition costs for the six months ended June 30, 2013 and 2012 were \$383,709 and \$384,539, respectively.

The \$273,331 decrease in the acquisition costs deferred primarily relates to decreased commissions in 2013. The \$830 decrease in the 2013 amortization of deferred acquisition costs is as expected.

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 \$215,800 and \$215,666 for the six months ended June 30, 2013 and 2012, respectively. The \$134 increase in the 2013 amortization of value of insurance business acquired is as expected.

Commissions

Our commissions for the six months ended June 30, 2013 and 2012 are summarized as follows:

| | (Unaudited) | | | |
|--------------------------------|---------------------------|--------------|---------------------|-------------------|
| | Six Months Ended June 30, | | Increase (Decrease) | Percentage Change |
| | 2013 | 2012 | 2013 less 2012 | 2013 to 2012 |
| Annuity | \$ 205,144 | \$ 367,490 | \$ (162,346) | -44.2% |
| Whole life and term first year | 41,196 | 52,561 | (11,365) | -21.6% |
| Whole life and term renewal | 50,974 | 66,217 | (15,243) | -23.0% |
| Final expense first year | 575,224 | 655,652 | (80,428) | -12.3% |
| Final expense renewal | 179,899 | 148,255 | 31,644 | 21.3% |
| Total commissions | \$ 1,052,437 | \$ 1,290,175 | \$ (237,738) | -18.4% |

The \$237,738 decrease in commissions for the six months ended June 30, 2013 is primarily due to a \$162,346 decrease in commissions on annuity considerations and an \$80,428 decrease in final expense first year commissions related to decreased production in these lines of new insurance policies and insurance contracts.

Other Underwriting, Insurance and Acquisition Expenses

The \$305,643 increase in other underwriting, insurance and acquisition expenses for the six months ended June 30, 2013 is primarily attributed to a \$125,000 reduction in the bonuses accrued at December 31, 2011 that reduced salaries and wages during the six months ended June 30, 2012 and increased 2013 legal fees and increased purchases of potential policyholder leads provided to agents.

Federal Income Taxes

FTFC files a consolidated federal income tax return with FTCC but does not file a consolidated tax return with TLIC or Family Benefit Life. TLIC and Family Benefit Life are taxed as life insurance companies under the provisions of the Internal Revenue Code. Life insurance companies must file separate tax returns until they have been a member of the consolidated filing group for five years. However, for 2012 and 2013, we intend to file a combined life insurance company federal tax return for TLIC and Family Benefit Life. 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, 2013 and 2012, current income tax expense was \$103,248 and \$66,780, respectively. Deferred federal income tax benefit was \$114,845 and \$56,014 for the six months ended June 30, 2013 and 2012, respectively.

Net Income Per Common Share Basic and Diluted

Net income (loss) was \$453,542 [\$0.06 per common share basic and diluted] and (\$52,327) [(\$0.01) loss per common share basic and diluted] for the six months ended June 30, 2013 and 2012, respectively.

Net income per common share basic and diluted is calculated using the weighted average number of common shares outstanding and subscribed during the year. The weighted average outstanding and subscribed common shares basic and diluted for the six months ended June 30, 2013 and 2012 were 7,852,045 and 7,906,452 respectively.

Business Segments

The revenues and income (loss) before federal income taxes from our business segments for the six months ended June 30, 2013 and 2012 are summarized as follows:

| | (Unaudited) | | | |
|---------------------------------------|---------------------------|---------------------|---------------------|-------------------|
| | Six Months Ended June 30, | | Increase (Decrease) | Percentage Change |
| | 2013 | 2012 | 2013 to 2012 | 2013 to 2012 |
| Revenues: | | | | |
| Life and annuity insurance operations | \$ 7,444,087 | \$ 6,667,631 | \$ 776,456 | 11.6% |
| Premium finance operations | 3,497 | 76,808 | (73,311) | -95.4% |
| Corporate operations | 101,409 | 38,667 | 62,742 | 162.3% |
| Total | <u>\$ 7,548,993</u> | <u>\$ 6,783,106</u> | <u>\$ 765,887</u> | 11.3% |
| Income (loss) before income taxes: | | | | |
| Life and annuity insurance operations | \$ 798,170 | \$ 336,147 | \$ 462,023 | 137.4% |
| Premium finance operations | (168,821) | (104,155) | (64,666) | 62.1% |
| Corporate operations | (187,404) | (273,553) | 86,149 | -31.5% |
| Total | <u>\$ 441,945</u> | <u>\$ (41,561)</u> | <u>\$ 483,506</u> | -1163.4% |

Life and Annuity Insurance Operations

The \$776,456 increase in revenues from Life and Annuity Insurance Operations for the six months ended June 30, 2013 is primarily due to the following:

- \$611,606 increase in net investment income
- \$183,390 increase in net realized investment gains
- \$4,615 decrease in other income
- \$13,925 decrease in premiums

The \$462,023 increased profitability from Life and Annuity Insurance Operations for the six months ended June 30, 2013 is primarily due to the following:

- \$611,606 increase in net investment income
- \$237,738 decrease in commissions
- \$183,390 increase in net realized investment gains
- \$58,159 decrease in benefits and claims

- \$134 increase in amortization of value of insurance business acquired
- \$4,615 decrease in other income
- \$13,925 decrease in premiums
- \$272,501 decrease in policy acquisition costs deferred net of amortization
- \$337,695 increase in other underwriting, insurance and acquisition expenses

Premium Finance Operations

The \$73,311 decrease in revenues from Premium Finance Operations for the six months ended June 30, 2013 is due to decreased fee income as we discontinued offering premium finance contracts on July 1, 2012.

The \$64,666 decreased profitability from Premium Finance Operations for the six months ended June 30, 2013 is primarily due to \$73,311 of decreased fee income and \$8,645 of decreased operating expenses.

Corporate Operations

The \$62,742 increase in revenues from Corporate Operations for the six months ended June 30, 2013 is primarily due to increased net investment income and fees.

The \$86,149 increased Corporate Operations profitability for the six months ended June 30, 2013 is primarily due to the \$62,742 increase in net investment income and \$23,407 of decreased operating expenses.

Consolidated Financial Condition

Our invested assets as of June 30, 2013 and December 31, 2012 are summarized as follows:

| | (Unaudited) June 30, 2013 | December 31, 2012 | Increase 2013 to 2012 | Percentage Change 2013 to 2012 |
|--|------------------------------|-----------------------|--------------------------|-----------------------------------|
| Assets | | | | |
| Investments | | | | |
| Available-for-sale fixed maturity securities at fair value (amortized cost: \$95,331,777 and \$91,543,308 as of June 30, 2013 and December 31, 2012, respectively) | \$ 100,144,385 | \$ 98,659,797 | \$ 1,484,588 | 1.5% |
| Available-for-sale equity securities at fair value (cost: \$700,137 and \$695,846 as of June 30, 2013 and December 31, 2012, respectively) | 866,991 | 843,497 | 23,494 | 2.8% |
| Mortgage loans on real estate | 13,620,414 | 10,435,776 | 3,184,638 | 30.5% |
| Investment real estate | 2,873,478 | 2,858,765 | 14,713 | 0.5% |
| Policy loans | 1,519,286 | 1,488,035 | 31,251 | 2.1% |
| Other long-term investments | 22,103,010 | 19,560,794 | 2,542,216 | 13.0% |
| Total investments | <u>\$ 141,127,564</u> | <u>\$ 133,846,664</u> | <u>\$ 7,280,900</u> | 5.4% |

The \$1,484,588 increase in available-for-sale fixed maturity securities for the six months ended June 30, 2013 is primarily due to purchases of \$7,200,433 in excess of sales and maturities of \$3,043,743, net realized investment gains of \$52,932, \$2,303,881 decrease in unrealized appreciation and premium amortization of \$421,153. This portfolio is reported at fair value with unrealized gains and losses, net of applicable income taxes, reflected as a separate component in shareholders' equity within "Accumulated Other Comprehensive Income." The available-for-sale fixed maturity securities portfolio is invested primarily in a variety of companies and U. S. government and foreign securities.

As of June 30, 2013, we held 103 available-for-sale fixed maturity securities with an unrealized loss of \$756,895, fair value of \$19,263,044 and amortized cost of \$20,019,939.

The \$23,494 increase in available-for-sale equity securities for the six months ended June 30, 2013 is primarily due to purchases of \$4,291 and a \$19,203 increase in unrealized appreciation of available-for-sale equity securities. This portfolio is also reported at fair value with unrealized gains and losses, net of applicable income taxes, reflected as a separate component in shareholders' equity within "Accumulated Other Comprehensive Income." The available-for-sale equity securities portfolio is invested in a variety of companies.

As of both June 30, 2013 and December 31, 2012 there were no available-for-sale equity securities in an unrealized loss position.

The \$3,184,638 increase in mortgage loans for the six months ended June 30, 2013 is primarily due to the origination of \$4,340,626 of mortgage loans, \$88,458 capitalization of loan origination fees, \$223,269 of realized gains on the early pay off of loans purchased at a discount, discount accretion of \$41,904 less principal payments of \$1,440,236, allowance for uncollectible mortgage loans of \$45,409 and \$23,974 of amortization of loan origination fees.

The \$2,542,216 increase in other long-term investments (comprised of lottery receivables) for the six months ended June 30, 2013 is primarily due to the purchases of \$3,831,065, \$815,477 of accretion of discount less principal payments of \$2,104,326.

Our assets other than invested assets as of June 30, 2013 and December 31, 2012 are summarized as follows:

| | (Unaudited) June 30, 2013 | December 31, 2012 | Increase (Decrease) 2013 to 2012 | Percentage Change 2013 to 2012 |
|--------------------------------------|------------------------------|----------------------|-------------------------------------|-----------------------------------|
| Cash and cash equivalents | \$ 11,094,179 | \$ 10,947,474 | \$ 146,705 | 1.3% |
| Accrued investment income | 1,502,190 | 1,417,218 | 84,972 | 6.0% |
| Recoverable from reinsurers | 1,421,315 | 1,188,371 | 232,944 | 19.6% |
| Agents' balances and due premiums | 343,185 | 358,729 | (15,544) | -4.3% |
| Loans from premium financing, net | 148,981 | 261,072 | (112,091) | -42.9% |
| Deferred policy acquisition costs | 7,809,386 | 7,028,820 | 780,566 | 11.1% |
| Value of insurance business acquired | 7,293,096 | 7,508,895 | (215,799) | -2.9% |
| Property and equipment, net | 147,247 | 124,558 | 22,689 | 18.2% |
| Other assets | 3,151,869 | 2,768,516 | 383,353 | 13.8% |
| Assets other than investment assets | <u>\$ 32,911,448</u> | <u>\$ 31,603,653</u> | <u>\$ 1,307,795</u> | 4.1% |

The \$112,091 decrease in loans from premium financing is related to normal loan collections and our May 16, 2012 decision to discontinue offering premium finance contracts effective July 1, 2012.

Other assets consist primarily of prepaid expenses, recoverable federal and state income taxes, guaranty funds, notes receivable, customer account balances receivable and receivables for securities sold with trade dates and settlement dates in different accounting periods. The \$383,353 increase in other assets is primarily due to \$552,495 of increased recoverable federal and state income taxes. In addition, during second quarter 2013, FTCC foreclosed on a delinquent loan and recovered the former office building of SIS for \$125,464 and correspondingly reduced notes receivable (included in other assets) and increased investment real estate. This recovery of the note receivable and capitalization of the building was a non-cash investing and financing activity.

The progression of the Company's loans from premium financing for the six months ended June 30, 2013 and year ended December 31, 2012 is summarized as follows:

| | (Unaudited) Six Months Ended June 30, 2013 | Year Ended December 31, 2012 |
|---|--|---------------------------------|
| Balance, beginning of year | \$ 491,460 | \$ 1,274,707 |
| Loans financed | - | 847,845 |
| Unearned interest | 1,205 | 51,525 |
| Capitalized fees and interest | 765 | 12,827 |
| Payment of loans and unearned interest | (120,072) | (1,695,444) |
| Ending loan balance including unearned interest | 373,358 | 491,460 |
| Unearned interest included in ending loan balances | - | (1,389) |
| Loan balance net of unearned interest | 373,358 | 490,071 |
| Less allowance for loan loss | (224,377) | (228,999) |
| Loan balance net of unearned interest and allowance for loan losses | \$ 148,981 | \$ 261,072 |

Our liabilities as of June 30, 2013 and December 31, 2012 are summarized as follows:

| | (Unaudited) June 30, 2013 | December 31, 2012 | Increase (Decrease) 2013 to 2012 | Percentage Change 2013 to 2012 |
|---------------------------------|------------------------------|-------------------|-------------------------------------|-----------------------------------|
| Policy liabilities | | | | |
| Policyholders' account balances | \$ 104,935,793 | \$ 95,043,370 | \$ 9,892,423 | 10.4% |
| Future policy benefits | 32,260,828 | 31,065,560 | 1,195,268 | 3.8% |
| Policy claims | 675,630 | 717,521 | (41,891) | -5.8% |
| Other policy liabilities | 85,502 | 139,722 | (54,220) | -38.8% |
| Total policy liabilities | 137,957,753 | 126,966,173 | 10,991,580 | 8.7% |
| Deferred federal income taxes | 2,732,077 | 3,301,524 | (569,447) | -17.2% |
| Other liabilities | 1,070,291 | 1,460,508 | (390,217) | -26.7% |
| Total liabilities | \$ 141,760,121 | \$ 131,728,205 | \$ 10,031,916 | 7.6% |

Other liabilities consist primarily of accrued expenses, account payables, deposits on pending policy applications, unearned investment income and payable for securities purchased with trade dates and settlement dates in different accounting periods.

The \$10,991,580 increase in policy liabilities is primarily due to deposits on annuity and deposit-type contracts exceeding withdrawals by \$8,097,120, \$1,795,303 of interest credited to policyholder account deposits, \$1,195,268 of increased future policy benefit reserves, \$41,891 of decreased liabilities for policy claims and \$54,220 of decreased other policy liabilities.

The \$569,447 decrease in deferred federal income taxes during the six months ended June 30, 2013 was due to \$454,602 of decreased deferred federal income taxes on the unrealized appreciation of available-for-sale fixed maturity and equity securities and \$114,845 of operating deferred tax benefits.

The \$390,217 decrease in other liabilities is primarily due to a \$600,000 payable for securities purchased with trade dates in 2012 and settlement dates in 2013 that exceeded a \$214,000 increase in deposits on pending applications.

Liquidity and Capital Resources

Our operations have been financed primarily through the private placement of equity securities and an intrastate public stock offering. Through June 30, 2013, we have received \$27,119,480 from the sale of our shares. Our operations have been profitable and have generated \$5,525,845 of net income from operations since we were incorporated in 2004 as shown in the accumulated earnings balance in the June 30, 2013 consolidated statement of financial position. The Company issued 323,777 shares in connection with a stock dividend paid to shareholders of record as of March 10, 2011, however, that resulted in accumulated earnings being charged \$2,428,328 with an offsetting credit of \$2,428,328 to common stock and additional paid-in capital. The Company also issued 378,928 shares in connection with a stock dividend paid to shareholders of record as of March 10, 2012, that resulted in accumulated earnings being charged an additional \$2,841,960 with an offsetting credit of \$2,841,960 to common stock and additional paid-in capital. The impact of these two stock dividend charges of \$5,270,288 to accumulated earnings decreased the balance of accumulated earnings as of June 30, 2013 to \$255,557.

As of June 30, 2013, we had cash and cash equivalents totaling \$11,094,179. As of June 30, 2013, cash and cash equivalents of \$6,778,988 and \$812,872, respectively, of the total \$11,094,179 were held by TLIC and Family Benefit Life and may not be available for use by FTFC due to the required pre-approval by the Oklahoma Insurance Department and Missouri Department of Insurance of any dividend or intercompany transaction to transfer funds to FTFC. The maximum dividend, which may be paid in any twelve-month period without notification or approval, is limited to the lesser 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. Based on these limitations, there is capacity for TLIC to pay a dividend up to \$377,777 in 2013 without prior approval. In addition, based on those limitations, there is the capacity for Family Benefit Life to pay a dividend up to \$887,520 in 2013 without prior approval.

The Company maintains cash and cash equivalents at multiple institutions. The Federal Deposit Insurance Corporation insures non-interest bearing accounts up to \$250,000. Uninsured balances aggregate \$5,559,076 as of June 30, 2013. 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, 2013 and 2012 are summarized as follows:

| | (Unaudited) | | | |
|--|---------------------------|---------------|---------------------|-------------------|
| | Six Months Ended June 30, | | Increase (Decrease) | Percentage Change |
| | 2013 | 2012 | 2013 to 2012 | 2013 to 2012 |
| Net cash provided by operating activities | \$ 816,163 | \$ 381,151 | \$ 435,012 | 114.1% |
| Net cash used in investing activities | (8,688,210) | (24,869,981) | 16,181,771 | -65.1% |
| Net cash provided by financing activities | 8,018,752 | 9,262,682 | (1,243,930) | -13.4% |
| Increase (decrease) in cash | 146,705 | (15,226,148) | 15,372,853 | -101.0% |
| Cash and cash equivalents, beginning of period | 10,947,474 | 27,705,711 | (16,758,237) | -60.5% |
| Cash and cash equivalents, end of period | \$ 11,094,179 | \$ 12,479,563 | \$ (1,385,384) | -11.1% |

The \$435,012 increase in cash provided by operating activities during the six months ended June 30, 2013 is primarily due to decreased benefits and claims and increases in net investment income that exceed decreases in premiums and increases in other underwriting, insurance and acquisition expenses.

The \$16,181,771 of decreased cash used for investing activities during the six months ended June 30, 2013 was primarily related to increased purchase activity in 2012 compared to 2013.

The \$1,243,930 decrease in cash provided by financing activities for the six months ended June 30, 2013 resulted from \$1,474,201 of decreased net proceeds from the public and private placement stock offerings and \$45,136 for purchasing treasury shares in excess of \$275,407 of increased policyholder account deposits in excess of withdrawals.

Our shareholders' equity as of June 30, 2013 and December 31, 2012 is summarized as follows:

| | (Unaudited) June 30, 2013 | December 31, 2012 | Increase (Decrease) 2013 to 2012 | Percentage Change 2013 to 2012 |
|--|------------------------------|----------------------|-------------------------------------|-----------------------------------|
| Common stock, par value \$.01 per share, 20,000,000 shares authorized, and 7,974,373 issued as of June 30, 2013 and December 31, 2012 and 7,776,164 and 7,789,060 outstanding as of June 30, 2013 and December 31, 2012, respectively, and 75,820 and 63,070 subscribed as of June 30, 2013 and December 31, 2012, respectively | \$ 80,502 | \$ 80,374 | \$ 128 | 0.2% |
| Additional paid-in capital | 28,674,288 | 28,707,648 | (33,360) | -0.1% |
| Treasury stock, at cost (198,209 and 185,313 shares as of June 30, 2013 and December 31, 2012, respectively) | (693,731) | (648,595) | (45,136) | 7.0% |
| Accumulated other comprehensive income | 3,962,275 | 5,780,670 | (1,818,395) | -31.5% |
| Accumulated earnings (deficit) | 255,557 | (197,985) | 453,542 | -229.1% |
| Total shareholders' equity | <u>\$ 32,278,891</u> | <u>\$ 33,722,112</u> | <u>\$ (1,443,221)</u> | -4.3% |

The decrease in shareholders' equity of \$1,443,221 for the six months ended June 30, 2013 is due to \$33,232 of net expenses utilized in servicing the public stock offering (gross proceeds of \$108,375 and offering expenses of \$141,607), \$1,818,395 of other comprehensive losses, \$453,542 of net income and \$45,136 for purchases of 12,896 shares of treasury stock from a former member of the Board of Directors and a charitable organization for which that former Director had donated 10,250 shares of the Company's common stock.

Equity per common share outstanding decreased 4.2% to \$4.11 as of June 30, 2013 compared to \$4.29 per share as of December 31, 2012, based upon 7,851,984 common shares outstanding and subscribed as of June 30, 2013 and 7,852,130 common shares outstanding and subscribed as of December 31, 2012.

The liquidity requirements of our life insurance company are met primarily by funds provided from operations. Premium deposits and revenues, investment income and investment maturities are the primary sources of funds, while investment purchases, policy benefits, and operating expenses are the primary uses of funds. There were no liquidity issues in 2013 or 2012. Our investments consist primarily of marketable debt securities that could be readily converted to cash for liquidity needs.

We are subject to various market risks. The quality of our investment portfolio and the current level of shareholders' equity continue to provide a sound financial base as we strive to expand our marketing to offer competitive products. Our investment portfolio recovered from the disruptions in the capital markets and had unrealized appreciation on available-for-sale securities of \$4,979,462 as of June 30, 2013 and \$7,264,140 as of December 31, 2012, respectively, prior to the impact of income taxes and deferred acquisition cost adjustments. This \$2,284,678 decrease in net unrealized gains arising for the six months ended June 30, 2013 has been increased by the net realized investment gain of \$276,201 due to the sale and call activity for available-for-sale fixed maturity securities and sale of mortgage loans on real estate during 2013.

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 Family Benefit Life's annuity business is subject to variable interest rates. Life insurance company policy liabilities bear fixed rates. From a liquidity perspective, our fixed rate policy liabilities are relatively insensitive to interest rate fluctuations.

We believe gradual increases in interest rates do not present a significant liquidity exposure for the life insurance policies. We maintain conservative durations in our fixed maturity portfolio. As of June 30, 2013, cash and the fair value of fixed maturity available-for-sale securities with maturities of less than one year and the fair value of lottery receivables with maturities of less than one year equaled 14.7% 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 Family Benefit Life must comply with the NAIC promulgated Standard Valuation Law ("SVL") which specifies minimum reserve levels and prescribes methods for determining them, with the intent of enhancing solvency. Upon meeting certain tests, which TLIC and Family Benefit Life met during 2012 and 2011, the SVL also requires the Company to perform annual cash flow testing for TLIC and Family Benefit Life. 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.

We will service other expenses and commitments by: (1) using available cash, (2) dividends from TLIC and Family Benefit Life that are limited by law to the lesser of prior year net operating income or 10% of prior year-end surplus unless specifically approved by the controlling insurance department, (3) return of invested capital from FTCC as those operations are discontinued, (4) public and private offerings of our common stock and (5) corporate borrowings, if necessary.

We will use the majority of our capital provided from the public stock offerings to expand life insurance operations and acquire life insurance companies. The operations of TLIC and Family Benefit Life 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.

On June 29, 2010, the Company commenced a public offering of its common stock registered with the U.S. Securities and Exchange Commission and the Oklahoma Department of Securities. The offering was completed April 30, 2012. The Company raised \$11,000,010 from this offering and incurred \$1,650,001 in offering costs resulting in \$9,350,009 in net proceeds.

On August 15, 2012, the Company commenced a private placement of its common stock primarily in the states of Kansas, Missouri and South Dakota. The private placement was for 600,000 shares of the Company's common stock for \$8.50 per share. If all shares were sold, the Company would have received \$4,335,000 after reduction for estimated offering expenses. The offering was suspended on March 8, 2013 and resulted in gross proceeds of \$644,470 from the subscription of 75,820 shares of its common stock and incurred \$374,529 in offering costs.

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, 2013 will be sufficient to fund our anticipated operating expenses.

Off-Balance Sheet Arrangements

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

SPECIAL NOTE CONCERNING FORWARD-LOOKING STATEMENTS

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

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

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

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Changes to Internal Control over Financial Reporting

There were no changes in the Company’s internal control over financial reporting during the three months ended June 30, 2013 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.

There are no material legal proceedings pending against the Company or its subsidiaries or of which any of their property is the subject. There are no proceedings in which any director, officer, affiliate or shareholder of the Company, or any of their associates, is a party adverse to the Company or any of its subsidiaries or has a material interest adverse to the Company or any of its subsidiaries.

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

None

Item 3. Defaults Upon Senior Securities.

None

Item 4. Mine Safety Disclosures

None

Item 5. Other Information

None

Item 6. Exhibits

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

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

32.1 Section 1350 Certification of Principal Executive Officer

32.2 Section 1350 Certification of Principal Financial Officer

101.INS** XBRL Instance

101.SCH** XBRL Taxonomy Extension Schema

101.CAL** XBRL Taxonomy Extension Calculation

101.DEF** XBRL Taxonomy Extension Definition

101.LAB** XBRL Taxonomy Extension Labels

101.PRE** XBRL Taxonomy Extension Presentation

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

SIGNATURES

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

FIRST TRINITY FINANCIAL CORPORATION
an Oklahoma corporation

August 13, 2013

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

August 13, 2013

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

CERTIFICATION

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

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

Date: August 13, 2013

By: /s/ Gregg E. Zahn

Gregg E. Zahn, President and Chief Executive Officer

CERTIFICATION

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

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

Date: August 13, 2013

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, 2013 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 13, 2013

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, 2013 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 13, 2013

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