

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 September 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 November 11, 2013: 7,851,984 shares

FIRST TRINITY FINANCIAL CORPORATION AND SUBSIDIARIES
QUARTERLY REPORT ON FORM 10-Q
FOR QUARTERLY PERIOD ENDED SEPTEMBER 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

	September 30, 2013 (Unaudited)	December 31, 2012
Assets		
Investments		
Available-for-sale fixed maturity securities at fair value (amortized cost: \$97,805,325 and \$91,543,308 as of September 30, 2013 and December 31, 2012, respectively)	\$ 101,683,656	\$ 98,659,797
Available-for-sale equity securities at fair value (cost: \$607,931 and \$695,846 as of September 30, 2013 and December 31, 2012, respectively)	737,381	843,497
Mortgage loans on real estate	16,024,208	10,435,776
Investment real estate	2,697,071	2,858,765
Policy loans	1,519,371	1,488,035
Other long-term investments	22,294,629	19,560,794
Total investments	144,956,316	133,846,664
Cash and cash equivalents	12,254,639	10,947,474
Accrued investment income	1,448,238	1,417,218
Recoverable from reinsurers	1,319,565	1,188,371
Agents' balances and due premiums	310,758	358,729
Loans from premium financing, net	148,625	261,072
Deferred policy acquisition costs	8,018,223	7,028,820
Value of insurance business acquired	7,187,324	7,508,895
Property and equipment, net	142,678	124,558
Other assets	3,048,704	2,768,516
Total assets	\$ 178,835,070	\$ 165,450,317
Liabilities and Shareholders' Equity		
Policy liabilities		
Policyholders' account balances	\$ 108,794,797	\$ 95,043,370
Future policy benefits	32,839,871	31,065,560
Policy claims	814,108	717,521
Other policy liabilities	93,302	139,722
Total policy liabilities	142,542,078	126,966,173
Deferred federal income taxes	2,847,213	3,301,524
Other liabilities	2,116,000	1,460,508
Total liabilities	147,505,291	131,728,205
Shareholders' equity		
Common stock, par value \$.01 per share, 20,000,000 shares authorized, and 8,050,193 and 7,974,373 issued as of September 30, 2013 and December 31, 2012, respectively, and 7,851,984 and 7,789,060 outstanding as of September 30, 2013 and December 31, 2012, respectively, and 63,070 subscribed as of December 31, 2012	80,502	80,374
Additional paid-in capital	28,666,748	28,707,648
Treasury stock, at cost (198,209 and 185,313 shares as of September 30, 2013 and December 31, 2012, respectively)	(693,731)	(648,595)
Accumulated other comprehensive income	3,188,282	5,780,670
Accumulated earnings (deficit)	87,978	(197,985)
Total shareholders' equity	31,329,779	33,722,112
Total liabilities and shareholders' equity	\$ 178,835,070	\$ 165,450,317

See notes to consolidated financial statements (unaudited).

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Revenues				
Premiums	\$ 1,930,541	\$ 1,943,647	\$ 5,779,585	\$ 5,806,616
Income from premium financing	36,055	20,591	40,385	97,282
Net investment income	1,826,964	1,565,135	5,242,954	4,303,960
Net realized investment gains	89,799	378,378	366,000	471,189
Other income	7,318	3,544	10,746	15,354
Total revenues	3,890,677	3,911,295	11,439,670	10,694,401
Benefits, Claims and Expenses				
Benefits and claims				
Increase in future policy benefits	576,056	472,508	1,741,803	1,645,523
Death benefits	847,526	606,062	1,943,220	1,891,630
Surrenders	129,880	156,212	438,856	430,212
Interest credited to policyholders	942,075	873,679	2,737,378	2,505,815
Dividend, endowment and supplementary life contract benefits	69,225	93,576	191,163	274,674
Total benefits and claims	2,564,762	2,202,037	7,052,420	6,747,854
Policy acquisition costs deferred	(274,016)	(459,085)	(1,426,610)	(1,885,010)
Amortization of deferred policy acquisition costs	69,372	52,998	453,081	437,537
Amortization of value of insurance business acquired	105,771	92,211	321,571	307,877
Commissions	505,998	545,148	1,558,435	1,835,323
Other underwriting, insurance and acquisition expenses	901,754	940,584	3,021,792	2,754,979
Total expenses	1,308,879	1,171,856	3,928,269	3,450,706
Total benefits, claims and expenses	3,873,641	3,373,893	10,980,689	10,198,560
Income before total federal income tax expense	17,036	537,402	458,981	495,841
Current federal income tax expense (benefit)	(124,016)	53,365	(20,768)	120,145
Deferred federal income tax expense (benefit)	308,631	11,960	193,786	(44,054)
Total federal income tax expense	184,615	65,325	173,018	76,091
Net income (loss)	\$ (167,579)	\$ 472,077	\$ 285,963	\$ 419,750
Net income (loss) per common share basic and diluted	\$ (0.02)	\$ 0.06	\$ 0.04	\$ 0.05

See notes to consolidated financial statements (unaudited).

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Net income (loss)	\$ (167,579)	\$ 472,077	\$ 285,963	\$ 419,750
Other comprehensive income (loss)				
Total net unrealized gains (losses) arising during the period	(881,882)	2,868,334	(2,890,359)	4,766,190
Less net realized investment gains	89,799	378,378	366,000	471,189
Net unrealized gains (losses)	(971,681)	2,489,956	(3,256,359)	4,295,001
Adjustment to deferred acquisition costs	4,193	(5,547)	15,874	(13,398)
Other comprehensive income before income tax expense (benefit)	(967,488)	2,484,409	(3,240,485)	4,281,603
Income tax expense (benefit)	(193,495)	511,973	(648,097)	903,088
Total other comprehensive income (loss)	(773,993)	1,972,436	(2,592,388)	3,378,515
Total comprehensive income (loss)	<u>\$ (941,572)</u>	<u>\$ 2,444,513</u>	<u>\$ (2,306,425)</u>	<u>\$ 3,798,265</u>

See notes to consolidated financial statements (unaudited).

First Trinity Financial Corporation and Subsidiaries
Consolidated Statements of Changes in Shareholders' Equity
Nine Months Ended September 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	2,671	1,744,569	-	-	-	1,747,240
Repurchase of common stock	-	-	(485,058)	-	-	(485,058)
Comprehensive income:						
Net income	-	-	-	-	419,750	419,750
Other comprehensive income	-	-	-	3,378,515	-	3,378,515
Balance as of September 30, 2012	<u>\$ 80,109</u>	<u>\$ 28,668,886</u>	<u>\$ (485,058)</u>	<u>\$ 6,074,739</u>	<u>\$ (880,116)</u>	<u>\$ 33,458,560</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	(40,900)	-	-	-	(40,772)
Repurchase of common stock	-	-	(45,136)	-	-	(45,136)
Comprehensive income (loss):						
Net income	-	-	-	-	285,963	285,963
Other comprehensive loss	-	-	-	(2,592,388)	-	(2,592,388)
Balance as of September 30, 2013	<u>\$ 80,502</u>	<u>\$ 28,666,748</u>	<u>\$ (693,731)</u>	<u>\$ 3,188,282</u>	<u>\$ 87,978</u>	<u>\$ 31,329,779</u>

See notes to consolidated financial statements (unaudited).

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

	Nine Months Ended September 30,	
	2013	2012
Operating activities		
Net income	\$ 285,963	\$ 419,750
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for depreciation	156,736	165,182
Accretion of discount on investments	(648,823)	(116,930)
Net realized investment gains	(366,000)	(471,189)
Gain on sale of fixed asset	-	(2,934)
Gain on sale of real estate	(3,047)	-
Amortization of policy acquisition cost	453,081	437,537
Policy acquisition cost deferred	(1,426,610)	(1,885,010)
Mortgage loan origination fees deferred	(112,458)	(149,588)
Amortization of loan origination fees	34,575	-
Amortization of value of insurance business acquired	321,571	307,877
Provision for deferred federal income tax benefit	193,786	(44,054)
Interest credited to policyholders	2,737,378	2,505,815
Change in assets and liabilities:		
Accrued investment income	(31,020)	(316,062)
Policy loans	(31,336)	(1,707)
Allowance for mortgage and premium finance loan losses	42,114	5,997
Recoverable from reinsurers	(131,194)	(38,269)
Agents' balances and due premiums	47,971	7,048
Other assets	(405,651)	(427,576)
Future policy benefits	1,774,311	1,683,161
Policy claims	96,587	32,407
Other policy liabilities	(46,420)	5,224
Other liabilities	655,492	(302,149)
Net cash provided by operating activities	3,597,006	1,814,530
Investing activities		
Purchases of fixed maturity securities	(12,111,396)	(18,476,679)
Maturities of fixed maturity securities	2,441,000	1,378,000
Sales of fixed maturity securities	2,882,457	4,971,785
Purchases of equity securities	(14,504)	(504,568)
Sales of equity securities	97,965	891,480
Purchases of mortgage loans	(7,371,253)	(7,341,848)
Payments on mortgage loans	2,137,408	833,373
Purchases of other long-term investments	(4,337,915)	(9,573,807)
Payments on other long-term investments	2,824,536	1,545,128
Loans made for premiums financed	-	(924,868)
Loans repaid for premiums financed	118,371	1,455,667
Sales of real estate	180,000	-
Purchases of real estate	(10,656)	-
Sales of furniture and equipment	-	5,000
Purchases of furniture and equipment	(53,995)	(1,294)
Net cash used in investing activities	(13,217,982)	(25,742,631)
Financing activities		
Policyholders' account deposits	16,094,089	11,386,515
Policyholders' account withdrawals	(5,080,040)	(3,545,191)
Purchases of treasury stock	(45,136)	(485,058)
Proceeds from (used in) public and private stock offerings	(40,772)	1,747,240
Net cash provided by financing activities	10,928,141	9,103,506
Increase (decrease) in cash	1,307,165	(14,824,595)
Cash and cash equivalents, beginning of period	10,947,474	27,705,711
Cash and cash equivalents, end of period	<u>\$ 12,254,639</u>	<u>\$ 12,881,116</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 home office building of Southern Insurance Services, LLC that was subsequently sold during third quarter 2013. In conjunction with this 2013 transaction, the non-cash impact on investing and finance activities is summarized as follows:

	<u>Nine Months Ended September 30, 2013</u>
Reduction in notes receivable for recovery of investment real estate	<u>\$ 125,464</u>
Recognition of investment real estate from foreclosure	<u>\$ 125,464</u>

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:

	<u>Nine Months Ended September 30, 2012</u>
Fair value of shares issued in connection with the stock dividend (378,928 shares issued in 2012)	<u>\$ 2,841,960</u>
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	<u>2,838,171</u>
Change in shareholders' equity due to the stock dividend	<u>\$ -</u>

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
September 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 \$382,069 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
September 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 nine months ended September 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 September 30, 2013 through the date that these financial statements have been issued.

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

2. Investments

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

	Amortized	Gross	Gross	Fair
	Cost	Unrealized	Unrealized	Value
		Gains	Losses	
<u>September 30, 2013 (unaudited)</u>				
Fixed maturity securities				
U.S. government	\$ 3,154,137	\$ 206,885	\$ 194,358	\$ 3,166,664
States and political subdivisions	260,647	755	8,329	253,073
Residential mortgage-backed securities	87,567	71,100	-	158,667
Corporate bonds	89,787,225	4,471,843	898,431	93,360,637
Foreign bonds	4,515,749	239,297	10,431	4,744,615
Total fixed maturity securities	97,805,325	4,989,880	1,111,549	101,683,656
Equity securities				
Mutual funds	66,532	20,787	2,100	85,219
Corporate preferred stock	347,905	21,693	28,845	340,753
Corporate common stock	193,494	117,915	-	311,409
Total equity securities	607,931	160,395	30,945	737,381
Total fixed maturity and equity securities	<u>\$ 98,413,256</u>	<u>\$ 5,150,275</u>	<u>\$ 1,142,494</u>	<u>\$ 102,421,037</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 September 30, 2013 and December 31, 2012 are summarized as follows:

<u>September 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	\$ 1,235,642	\$ 194,358	3
States and political subdivisions	99,599	8,329	1
Corporate bonds	22,112,633	898,431	134
Foreign bonds	474,429	10,431	3
Total fixed maturity securities	23,922,303	1,111,549	141
Equity securities			
Less than 12 months			
Mutual funds	10,956	2,100	1
Corporate preferred stock	189,600	28,845	3
Total equity securities	200,556	30,945	4
Total fixed maturity and equity securities	<u>\$ 24,122,859</u>	<u>\$ 1,142,494</u>	<u>145</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 September 30, 2013, all of the above fixed maturity securities had a fair value to cost ratio equal to or greater than 79%. 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 September 30, 2013 and December 31, 2012, respectively.

As of September 30, 2013, all of the above equity securities had a fair value to cost ratio equal to or greater than 79%.

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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(Unaudited)

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 nine months ended September 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 September 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 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 September 30, 2013 and December 31, 2012, are summarized as follows:

	(Unaudited)	
	September 30, 2013	December 31, 2012
Unrealized appreciation on		
available-for-sale securities	\$ 4,007,781	\$ 7,264,140
Adjustment to deferred acquisition costs	(22,425)	(38,299)
Deferred income taxes	(797,074)	(1,445,171)
Net unrealized appreciation on		
available-for-sale securities	<u>\$ 3,188,282</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 September 30, 2013, by contractual maturity, are summarized as follows:

	September 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	\$ 5,699,048	\$ 5,811,187	\$ 3,732,183	\$ 3,759,565
Due in one year through five years	38,355,712	41,158,032	9,710,802	10,400,168
Due after five years through ten years	41,997,752	43,180,334	6,179,655	7,396,613
Due after ten years	11,665,246	11,375,436	2,671,989	3,749,825
Due at multiple maturity dates	87,567	158,667	-	-
	<u>\$ 97,805,325</u>	<u>\$ 101,683,656</u>	<u>\$ 22,294,629</u>	<u>\$ 25,306,171</u>

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

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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 nine months ended September 30, 2013 and 2012 are summarized as follows:

	Three Months Ended September 30, (Unaudited)				Nine Months Ended September 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	\$ 2,377,678	\$ 3,205,210	\$ 694,203	\$ -	\$ 5,421,422	\$ 7,241,265	\$ 2,134,439	\$ -
Gross realized gains	55,425	380,992	40,954	-	115,020	476,614	264,223	-
Gross realized losses	(6,580)	(2,614)	-	-	(13,243)	(5,425)	-	-

The accumulated change in net unrealized investment gains for fixed maturity and equity securities available-for-sale for the three and nine months ended September 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 nine months ended September 30, 2013 and 2012 are summarized as follows:

	Three Months Ended September 30, (Unaudited)		Nine Months Ended September 30, (Unaudited)	
	2013	2012	2013	2012
Change in unrealized investment gains:				
Available-for-sale securities:				
Fixed maturity securities	\$ (934,277)	\$ 2,465,576	\$ (3,238,158)	\$ 4,221,883
Equity securities	(37,404)	24,380	(18,201)	73,118
Net realized investment gains (losses):				
Available-for-sale securities:				
Fixed maturity securities	53,300	20,230	106,232	109,725
Equity securities	(4,455)	358,148	(4,455)	361,464
Mortgage loans on real estate	40,954	-	264,223	-

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

	Three Months Ended September 30, (Unaudited)		Nine Months Ended September 30, (Unaudited)	
	2013	2012	2013	2012
Fixed maturity securities	\$ 1,101,529	\$ 1,065,560	\$ 3,294,448	\$ 3,130,035
Equity securities	10,330	11,077	25,016	39,243
Other long-term investments	404,978	275,496	1,220,456	770,076
Mortgage loans	305,106	213,949	781,273	365,975
Policy loans	25,804	27,785	74,869	76,615
Real estate	90,870	93,684	272,290	280,635
Short-term and other investments	42,700	2,843	70,664	17,471
Gross investment income	1,981,317	1,690,394	5,739,016	4,680,050
Investment expenses	(154,353)	(125,259)	(496,062)	(376,090)
Net investment income	\$ 1,826,964	\$ 1,565,135	\$ 5,242,954	\$ 4,303,960

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2. Investments (continued)

Included in invested assets are securities and other assets having amortized cost values of \$3,223,464 and \$3,981,060 and fair values of \$3,210,405 and \$4,219,334 as of September 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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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 September 30, 2013 and December 31, 2012 is summarized as follows:

<u>September 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	\$ -	\$ 3,166,664	\$ -	\$ 3,166,664
States and political subdivisions	-	253,073	-	253,073
Residential mortgage-backed securities	-	158,667	-	158,667
Corporate bonds	-	93,360,637	-	93,360,637
Foreign bonds	-	4,744,615	-	4,744,615
Total fixed maturity securities	<u>\$ -</u>	<u>\$ 101,683,656</u>	<u>\$ -</u>	<u>\$ 101,683,656</u>
Equity securities, available-for-sale				
Mutual funds	\$ -	\$ 85,219	\$ -	\$ 85,219
Corporate preferred stock	83,800	256,953	-	340,753
Corporate common stock	250,909	-	60,500	311,409
Total equity securities	<u>\$ 334,709</u>	<u>\$ 342,172</u>	<u>\$ 60,500</u>	<u>\$ 737,381</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 September 30, 2013, Level 3 financial instruments consisted of three private placement common stocks that have no active trading. During 2013, one private placement common stock was purchased. 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.

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
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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 September 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.

The change in the fair value of the Company's Level 3 equity securities, available-for-sale for the three and nine months ended September 30, 2013 and 2012 is summarized as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Beginning balance	\$ 52,500	\$ 77,500	\$ 52,500	\$ 77,500
Purchases	\$ 8,000	-	\$ 8,000	-
Sales	-	(35,000)	-	(35,000)
Ending balance	<u>\$ 60,500</u>	<u>\$ 42,500</u>	<u>\$ 60,500</u>	<u>\$ 42,500</u>

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3. Fair Value Measurements (continued)

Fair Value of Financial Instruments

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

September 30, 2013 (Unaudited)					
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Financial assets					
Mortgage loans on real estate					
Commercial	\$ 2,158,860	\$ 2,218,722	\$ -	\$ -	\$ 2,218,722
Residential	13,865,348	14,156,658	-	-	14,156,658
Policy loans	1,519,371	1,519,371	-	-	1,519,371
Other long-term investments	22,294,629	25,306,171	-	-	25,306,171
Cash and cash equivalents	12,254,639	12,254,639	12,254,639	-	-
Accrued investment income	1,448,238	1,448,238	-	-	1,448,238
Loans from premium financing	148,625	148,625	-	-	148,625
Total financial assets	<u>\$ 53,689,710</u>	<u>\$ 57,052,424</u>	<u>\$ 12,254,639</u>	<u>\$ -</u>	<u>\$ 44,797,785</u>
Financial liabilities					
Policyholders' account balances	\$ 108,794,797	\$ 95,395,372	\$ -	\$ -	\$ 95,395,372
Policy claims	814,108	814,108	-	-	814,108
Total financial liabilities	<u>\$ 109,608,905</u>	<u>\$ 96,209,480</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 96,209,480</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 \$223,075 and \$228,999 as of September 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 September 30, 2013 and December 31, 2012 and for the three and nine months ended September 30, 2013 and 2012 are summarized as follows:

	Three Months Ended September 30, (Unaudited)		Nine Months Ended September 30, (Unaudited)	
	2013	2012	2013	2012
Revenues:				
Life and annuity insurance operations	\$ 3,774,076	\$ 3,521,425	\$ 11,218,163	\$ 10,189,056
Premium finance operations	40,146	20,717	43,643	97,525
Corporate operations	76,455	369,153	177,864	407,820
Total	<u>\$ 3,890,677</u>	<u>\$ 3,911,295</u>	<u>\$ 11,439,670</u>	<u>\$ 10,694,401</u>
Income (loss) before income taxes:				
Life and annuity insurance operations	\$ 99,346	\$ 398,533	\$ 897,516	\$ 734,680
Premium finance operations	(69,973)	(78,135)	(238,794)	(182,290)
Corporate operations	(12,337)	217,004	(199,741)	(56,549)
Total	<u>\$ 17,036</u>	<u>\$ 537,402</u>	<u>\$ 458,981</u>	<u>\$ 495,841</u>
Depreciation and amortization expense:				
Life and annuity insurance operations	\$ 232,234	\$ 195,896	\$ 947,743	\$ 877,170
Premium finance operations	927	911	2,796	2,765
Corporate operations	5,274	9,864	15,424	30,661
Total	<u>\$ 238,435</u>	<u>\$ 206,671</u>	<u>\$ 965,963</u>	<u>\$ 910,596</u>
	(Unaudited)			
	September 30, 2013	December 31, 2012		
Assets:				
Life and annuity insurance operations	\$ 172,167,761	\$ 158,151,031		
Premium finance operations	544,123	979,390		
Corporate operations	6,123,186	6,319,896		
Total	<u>\$ 178,835,070</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 nine months ended September 30, 2013 and 2012 is summarized as follows:

	Three Months Ended September 30, (Unaudited)		Nine Months Ended September 30, (Unaudited)	
	2013	2012	2013	2012
Allowance at beginning of period	\$ 224,377	\$ 223,135	\$ 228,999	\$ 229,004
Additions (reductions)	(1,302)	11,866	(5,924)	5,997
Allowance at end of period	<u>\$ 223,075</u>	<u>\$ 235,001</u>	<u>\$ 223,075</u>	<u>\$ 235,001</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.

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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 nine months ended September 30, 2013 and 2012 are summarized as follows:

Three Months Ended September 30, 2013 and 2012 (Unaudited)			
	Unrealized Appreciation on Available-For-Sale Securities	Adjustment to Deferred Acquisition Costs	Accumulated Other Comprehensive Income
Balance as of July 1, 2013	\$ 3,983,568	\$ (21,293)	\$ 3,962,275
Other comprehensive loss before reclassifications, net of tax	(705,506)	3,353	(702,153)
Less amounts reclassified from accumulated other comprehensive loss, net of tax	71,840	-	71,840
Other comprehensive loss	(777,346)	3,353	(773,993)
Balance as of September 30, 2013	<u>\$ 3,206,222</u>	<u>\$ (17,940)</u>	<u>\$ 3,188,282</u>
Balance as of July 1, 2012	\$ 4,131,042	\$ (28,739)	\$ 4,102,303
Other comprehensive income before reclassifications, net of tax	2,276,430	(3,590)	2,272,840
Less amounts reclassified from accumulated other comprehensive income, net of tax	300,404	-	300,404
Other comprehensive income	1,976,026	(3,590)	1,972,436
Balance as of September 30, 2012	<u>\$ 6,107,068</u>	<u>\$ (32,329)</u>	<u>\$ 6,074,739</u>

Nine Months Ended September 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	(2,312,287)	12,699	(2,299,588)
Less amounts reclassified from accumulated other comprehensive loss, net of tax	292,800	-	292,800
Other comprehensive loss	(2,605,087)	12,699	(2,592,388)
Balance as of September 30, 2013	<u>\$ 3,206,222</u>	<u>\$ (17,940)</u>	<u>\$ 3,188,282</u>
Balance as of January 1, 2012	\$ 2,718,885	\$ (22,661)	\$ 2,696,224
Other comprehensive income before reclassifications, net of tax	3,759,987	(9,668)	3,750,319
Less amounts reclassified from accumulated other comprehensive income, net of tax	371,804	-	371,804
Other comprehensive income	3,388,183	(9,668)	3,378,515
Balance as of September 30, 2012	<u>\$ 6,107,068</u>	<u>\$ (32,329)</u>	<u>\$ 6,074,739</u>

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
September 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 nine months ended September 30, 2013 and 2012 are summarized as follows:

Three Months Ended September 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	\$ (881,882)	\$ (176,376)	\$ (705,506)
Reclassification adjustment for gains included in income	(89,799)	(17,959)	(71,840)
Net unrealized losses on investments	(971,681)	(194,335)	(777,346)
Adjustment to deferred acquisition costs	4,193	840	3,353
Total other comprehensive loss	<u>\$ (967,488)</u>	<u>\$ (193,495)</u>	<u>\$ (773,993)</u>
Three Months Ended September 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	\$ 2,868,334	\$ 591,904	\$ 2,276,430
Reclassification adjustment for gains included in income	(378,378)	(77,974)	(300,404)
Net unrealized gains on investments	2,489,956	513,930	1,976,026
Adjustment to deferred acquisition costs	(5,547)	(1,957)	(3,590)
Total other comprehensive income	<u>\$ 2,484,409</u>	<u>\$ 511,973</u>	<u>\$ 1,972,436</u>
Nine Months Ended September 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	\$ (2,890,359)	\$ (578,072)	\$ (2,312,287)
Reclassification adjustment for gains included in income	(366,000)	(73,200)	(292,800)
Net unrealized losses on investments	(3,256,359)	(651,272)	(2,605,087)
Adjustment to deferred acquisition costs	15,874	3,175	12,699
Total other comprehensive loss	<u>\$ (3,240,485)</u>	<u>\$ (648,097)</u>	<u>\$ (2,592,388)</u>
Nine Months Ended September 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	\$ 4,766,190	\$ 1,006,203	\$ 3,759,987
Reclassification adjustment for gains included in income	(471,189)	(99,385)	(371,804)
Net unrealized gains on investments	4,295,001	906,818	3,388,183
Adjustment to deferred acquisition costs	(13,398)	(3,730)	(9,668)
Total other comprehensive income	<u>\$ 4,281,603</u>	<u>\$ 903,088</u>	<u>\$ 3,378,515</u>

First Trinity Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
September 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 nine months ended September 30, 2013 and 2012 are summarized as follows:

Reclassification Adjustments	Three Months Ended September 30, (Unaudited)		Nine Months Ended September 30, (Unaudited)	
	2013	2012	2013	2012
Unrealized gains on available-for-sale securities:				
Realized gains on sales of securities (a)	\$ 89,799	\$ 378,378	\$ 366,000	\$ 471,189
Income tax expenses (b)	17,959	77,974	73,200	99,385
Total reclassification adjustments	<u>\$ 71,840</u>	<u>\$ 300,404</u>	<u>\$ 292,800</u>	<u>\$ 371,804</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 has effectively exited that segment of the business on 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 nine months ended September 30, 2013 and 2012 and as of September 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 September 30, 2013 and 2012

	(Unaudited)			
	Three Months Ended September 30,		Increase (Decrease)	Percentage Change
	2013	2012	2013 less 2012	2013 to 2012
Premiums	\$ 1,930,541	\$ 1,943,647	\$ (13,106)	-0.7%
Net investment income	1,826,964	1,565,135	261,829	16.7%
Net realized investment gains	89,799	378,378	(288,579)	-76.3%
Other revenues	43,373	24,135	19,238	79.7%
Total revenues	3,890,677	3,911,295	(20,618)	-0.5%
Benefits and claims	2,564,762	2,202,037	362,725	16.5%
Expenses	1,308,879	1,171,856	137,023	11.7%
Total benefits, claims and expenses	3,873,641	3,373,893	499,748	14.8%
Income before federal income tax expense	17,036	537,402	(520,366)	-96.8%
Federal income tax expense	184,615	65,325	119,290	182.6%
Net income (loss)	\$ (167,579)	\$ 472,077	\$ (639,656)	-135.5%
Net income (loss) per common share				
basic and diluted	\$ (0.02)	\$ 0.06	\$ (0.08)	

Consolidated Condensed Results of Operations for the Nine Months Ended September 30, 2013 and 2012

	(Unaudited)			
	Nine Months Ended September 30,		Increase (Decrease)	Percentage Change
	2013	2012	2013 less 2012	2013 to 2012
Premiums	\$ 5,779,585	\$ 5,806,616	\$ (27,031)	-0.5%
Net investment income	5,242,954	4,303,960	938,994	21.8%
Net realized investment gains	366,000	471,189	(105,189)	-22.3%
Other revenues	51,131	112,636	(61,505)	-54.6%
Total revenues	11,439,670	10,694,401	745,269	7.0%
Benefits and claims	7,052,420	6,747,854	304,566	4.5%
Expenses	3,928,269	3,450,706	477,563	13.8%
Total benefits, claims and expenses	10,980,689	10,198,560	782,129	7.7%
Income before federal income tax expense	458,981	495,841	(36,860)	-7.4%
Federal income tax expense	173,018	76,091	96,927	127.4%
Net income	\$ 285,963	\$ 419,750	\$ (133,787)	-31.9%
Net income per common share				
basic and diluted	\$ 0.04	\$ 0.05	\$ (0.01)	

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

	(Unaudited) September 30, 2013	December 31, 2012	Increase (Decrease) 2013 to 2012	Percentage Change 2013 to 2012
Investment assets	\$ 144,956,316	\$ 133,846,664	\$ 11,109,652	8.3%
Other assets	33,878,754	31,603,653	2,275,101	7.2%
Total assets	<u>\$ 178,835,070</u>	<u>\$ 165,450,317</u>	<u>\$ 13,384,753</u>	8.1%
Policy liabilities	\$ 142,542,078	\$ 126,966,173	\$ 15,575,905	12.3%
Deferred federal income taxes	2,847,213	3,301,524	(454,311)	-13.8%
Other liabilities	2,116,000	1,460,508	655,492	44.9%
Total liabilities	147,505,291	131,728,205	15,777,086	12.0%
Shareholders' equity	31,329,779	33,722,112	(2,392,333)	-7.1%
Total liabilities and shareholders' equity	<u>\$ 178,835,070</u>	<u>\$ 165,450,317</u>	<u>\$ 13,384,753</u>	8.1%
Shareholders' equity per common share	<u>\$ 3.99</u>	<u>\$ 4.29</u>	<u>\$ (0.30)</u>	

Results of Operations – Three Months Ended September 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 September 30, 2013 and 2012 are summarized as follows:

	(Unaudited)		Increase (Decrease)	Percentage Change
	Three Months Ended September 30,			
	2013	2012	2013 less 2012	2013 to 2012
Premiums	\$ 1,930,541	\$ 1,943,647	\$ (13,106)	-0.7%
Income from premium financing	36,055	20,591	15,464	75.1%
Net investment income	1,826,964	1,565,135	261,829	16.7%
Net realized investment gains	89,799	378,378	(288,579)	-76.3%
Other income	7,318	3,544	3,774	106.5%
Total revenues	<u>\$ 3,890,677</u>	<u>\$ 3,911,295</u>	<u>\$ (20,618)</u>	-0.5%

The decrease in total revenues of \$20,618 for the three months ended September 30, 2013 is discussed below.

Premiums

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

	(Unaudited)			
	Three Months Ended September 30,		Increase (Decrease)	Percentage Change
	2013	2012	2013 less 2012	2013 to 2012
Whole life and term first year	\$ 27,274	\$ 116,364	\$ (89,090)	-76.6%
Whole life and term renewal	658,720	718,243	(59,523)	-8.3%
Final expense first year	226,903	267,100	(40,197)	-15.0%
Final expense renewal	1,017,644	841,940	175,704	20.9%
Total premiums	\$ 1,930,541	\$ 1,943,647	\$ (13,106)	-0.7%

The \$13,106 decrease in premiums for the three months ended September 30, 2013 is primarily due to \$188,810 of decreases in whole life and term first year and renewal premiums and final expense first year premiums that slightly exceeded an increase of \$175,704 in final expense renewal premiums.

Income from Premium Financing

The income from premium financing has generally decreased during the past two years. However, there was a slight increase of \$15,464 for the three months ended September 30, 2013 due to collection settlement activity. 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 September 30, 2013 and 2012 are summarized as follows:

	(Unaudited)			
	Three Months Ended September 30,		Increase (Decrease)	Percentage Change
	2013	2012	2013 less 2012	2013 to 2012
Fixed maturity securities	\$ 1,101,529	\$ 1,065,560	\$ 35,969	3.4%
Equity securities	10,330	11,077	(747)	-6.7%
Other long-term investments	404,978	275,496	129,482	47.0%
Mortgage loans	305,106	213,949	91,157	42.6%
Policy loans	25,804	27,785	(1,981)	-7.1%
Real estate	90,870	93,684	(2,814)	-3.0%
Short-term and other investments	42,700	2,843	39,857	1401.9%
Gross investment income	1,981,317	1,690,394	290,923	17.2%
Investment expenses	(154,353)	(125,259)	29,094	-23.2%
Net investment income	\$ 1,826,964	\$ 1,565,135	\$ 261,829	16.7%

The \$290,923 increase in gross investment income for the three months ended September 30, 2013 is due to the 2013 investment of excess cash primarily in fixed maturity securities, mortgage loans and other long-term investments (comprised of lottery receivables).

The \$29,094 increase in investment expenses for the three months ended September 30, 2013 is primarily due to increased fees of originating purchases of fixed maturity securities, mortgage loans and lottery receivables. As of September 30, 2013, \$201,936 of cash and \$204,395 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 \$288,579 decrease in net realized investment gains for the three months ended September 30, 2013.

The net realized investment gains from the sales and maturities of fixed maturity securities available-for-sale of \$53,300 for the three months ended September 30, 2013 resulted from proceeds of \$2,279,713 for these securities that had carrying values of \$2,226,413 as of the 2013 disposal dates.

The net realized investment gains from the sales and maturities of fixed maturity securities available-for-sale of \$20,230 for the three months ended September 30, 2012 resulted from proceeds of \$2,613,575 for these securities that had carrying values of \$2,593,345 as of the 2012 disposal dates.

The net realized investment losses from the sales of equity securities available-for-sale of \$4,455 for the three months ended September 30, 2013 resulted from proceeds of \$97,965 on these securities that had carrying values of \$102,420 at the 2013 disposal dates.

The net realized investment gains from the sales of equity securities available-for-sale of \$358,148 for the three months ended September 30, 2012 resulted from proceeds of \$591,635 on these securities that had carrying values of \$233,487 at the 2012 disposal dates.

The net realized investment gains from mortgage loans on real estate of \$40,594 for the three months ended September 30, 2013, resulted from the early payoff of mortgage loans that the Company had acquired at a discounted price.

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

Other Income

The \$3,774 increase in other income for the three months ended September 30, 2013 is primarily due to the sale of the former home office building of SIS for \$140,000 resulting in a gain of \$3,880.

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 September 30, 2013 and 2012 are summarized as follows:

	(Unaudited)			
	Three Months Ended September 30,		Increase (Decrease)	Percentage Change
	2013	2012	2013 less 2012	2013 to 2012
Benefits and claims				
Increase in future policy benefits	\$ 576,056	\$ 472,508	\$ 103,548	21.9%
Death benefits	847,526	606,062	241,464	39.8%
Surrenders	129,880	156,212	(26,332)	-16.9%
Interest credited to policyholders	942,075	873,679	68,396	7.8%
Dividend, endowment and supplementary life contract benefits	69,225	93,576	(24,351)	-26.0%
Total benefits and claims	2,564,762	2,202,037	362,725	16.5%
Expenses				
Policy acquisition costs deferred	(274,016)	(459,085)	185,069	-40.3%
Amortization of deferred policy acquisition costs	69,372	52,998	16,374	30.9%
Amortization of value of insurance business acquired	105,771	92,211	13,560	14.7%
Commissions	505,998	545,148	(39,150)	-7.2%
Other underwriting, insurance and acquisition expenses	901,754	940,584	(38,830)	-4.1%
Total expenses	1,308,879	1,171,856	137,023	11.7%
Total benefits, claims and expenses	\$ 3,873,641	\$ 3,373,893	\$ 499,748	14.8%

The increase of \$499,748 in total benefits, claims and expenses for the three months ended September 30, 2013 is discussed below.

Benefits and Claims

The \$362,725 increase in benefits and claims for the three months ended September 30, 2013 is primarily due to a \$241,464 increase in death benefits. This increase in death benefits was due to a \$3,739 increase in average final expense death claims incurred in third quarter 2013 compared to third quarter 2012. During third quarter 2013, 66 final expense death claims were incurred amounting to \$706,754. During third quarter 2012, 65 final expense death claims were incurred amounting to \$453,025. In addition, the \$103,548 growth in the increase in future policy benefits is as expected.

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 September 30, 2013 and 2012, capitalized costs were \$274,016 and \$459,085, respectively. Amortization of deferred policy acquisition costs for the three months ended September 30, 2013 and 2012 were \$69,372 and \$52,998, respectively.

The \$185,069 decrease in the acquisition costs deferred is primarily due to our decision, based upon the evaluation of nine months of 2013 operations, to decrease, in third quarter 2013, the deferral of non-commission acquisition costs for products sold in 2013. This nine month reduction in the deferral of non-commission acquisition costs for products sold in 2013 amounted to approximately \$150,000 and was recorded in third quarter 2013. The \$16,374 increase 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 \$105,771 and \$92,211 for the three months ended September 30, 2013 and 2012, respectively. The \$13,560 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 September 30, 2013 and 2012 are summarized as follows:

	(Unaudited)			
	Three Months Ended September 30,		Increase (Decrease)	Percentage Change
	2013	2012	2013 less 2012	2013 to 2012
Annuity	\$ 102,369	\$ 38,625	\$ 63,744	165.0%
Whole life and term first year	19,820	73,313	(53,493)	-73.0%
Whole life and term renewal	28,276	32,081	(3,805)	-11.9%
Final expense first year	260,704	321,833	(61,129)	-19.0%
Final expense renewal	94,829	79,296	15,533	19.6%
Total commissions	\$ 505,998	\$ 545,148	\$ (39,150)	-7.2%

The \$39,150 decrease in commissions for the three months ended September 30, 2013 is primarily due to decreases of \$61,129 in final expense first year commissions and \$53,493 in whole life and term first year commission that exceeded a \$63,744 increase in commissions on annuity considerations related to production decreases and increases in these lines of insurance policies and annuity contracts.

Other Underwriting, Insurance and Acquisition Expenses

The \$38,830 decrease in other underwriting, insurance and acquisition expenses for the three months ended September 30, 2013 is as expected.

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, we filed 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 September 30, 2013 and 2012, current income tax expense (benefit) was (\$124,016) and \$53,365, respectively. Deferred federal income tax expense was \$308,631 and \$11,960 for the three months ended September 30, 2013 and 2012, respectively.

Net Income (Loss) Per Common Share Basic and Diluted

Net income (loss) was (\$167,579) [(\$0.02) per common share basic and diluted] and \$472,077 [\$0.06 per common share basic and diluted] for the three months ended September 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 September 30, 2013 and 2012 were 7,851,984 and 7,888,074 respectively.

Business Segments

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

	(Unaudited)			
	Three Months Ended September 30,		Increase (Decrease)	Percentage Change
	2013	2012	2013 to 2012	2013 to 2012
Revenues:				
Life and annuity insurance operations	\$ 3,774,076	\$ 3,521,425	\$ 252,651	7.2%
Premium finance operations	40,146	20,717	19,429	93.8%
Corporate operations	76,455	369,153	(292,698)	-79.3%
Total	<u>\$ 3,890,677</u>	<u>\$ 3,911,295</u>	<u>\$ (20,618)</u>	-0.5%
Income (loss) before income taxes:				
Life and annuity insurance operations	\$ 99,346	\$ 398,533	\$ (299,187)	-75.1%
Premium finance operations	(69,973)	(78,135)	8,162	-10.4%
Corporate operations	(12,337)	217,004	(229,341)	-105.7%
Total	<u>\$ 17,036</u>	<u>\$ 537,402</u>	<u>\$ (520,366)</u>	-96.8%

Life and Annuity Insurance Operations

The \$252,651 increase in revenues from Life and Annuity Insurance Operations for the three months ended September 30, 2013 is primarily due to the following:

- \$204,653 increase in net investment income
- \$61,421 increase in net realized investment gains
- \$317 decrease in other income
- \$13,106 decrease in premiums

The \$299,187 decreased profitability from Life and Annuity Insurance Operations for the three months ended September 30, 2013 is primarily due to the following:

- \$362,725 increase in benefits and claims
- \$201,443 decrease in policy acquisition costs deferred net of amortization
- \$13,560 increase in amortization of value of insurance business acquired
- \$13,260 increase in other underwriting, insurance and acquisition expenses

- \$13,106 decrease in premiums
- \$317 decrease in other income
- \$39,150 decrease in commissions
- \$61,421 increase in net realized investment gains
- \$204,653 increase in net investment income

Premium Finance Operations

The \$19,429 increase in revenues from Premium Finance Operations for the three months ended September 30, 2013 is due to increased fee income although we discontinued offering premium finance contracts on July 1, 2012. The slight increase in revenues for the three months ended September 30, 2013 is due to collection settlement activity.

The \$8,162 increased profitability from Premium Finance Operations for the three months ended September 30, 2013 is primarily due to \$19,429 of increased premium finance income less \$11,267 of increased expenses.

Corporate Operations

The \$292,698 decrease in revenues from Corporate Operations is primarily due to \$350,000 of net realized investment gains from the sale of an equity security for the three months ended September 30, 2012 that exceeded \$57,302 of increased net investment income and fees for the three months ended September 30, 2013.

The \$229,341 decreased Corporate Operations profitability for the three months ended September 30, 2013 is primarily due to the \$292,698 decrease in revenues discussed above that exceeded \$63,357 of decreased operating expenses.

Results of Operations – Nine Months Ended September 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 nine months ended September 30, 2013 and 2012 are summarized as follows:

	(Unaudited)			
	Nine Months Ended September 30,		Increase (Decrease)	Percentage Change
	2013	2012	2013 less 2012	2013 to 2012
Premiums	\$ 5,779,585	\$ 5,806,616	\$ (27,031)	-0.5%
Income from premium financing	40,385	97,282	(56,897)	-58.5%
Net investment income	5,242,954	4,303,960	938,994	21.8%
Net realized investment gains	366,000	471,189	(105,189)	-22.3%
Other income	10,746	15,354	(4,608)	-30.0%
Total revenues	<u>\$ 11,439,670</u>	<u>\$ 10,694,401</u>	<u>\$ 745,269</u>	7.0%

The increase in total revenues of \$745,269 for the nine months ended September 30, 2013 is discussed below.

Premiums

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

	(Unaudited)			
	Nine Months Ended September 30,		Increase (Decrease)	Percentage Change
	2013	2012	2013 less 2012	2013 to 2012
Whole life and term first year	\$ 85,283	\$ 186,026	\$ (100,743)	-54.2%
Whole life and term renewal	2,047,409	2,372,934	(325,525)	-13.7%
Final expense first year	719,360	811,249	(91,889)	-11.3%
Final expense renewal	2,927,533	2,436,407	491,126	20.2%
Total premiums	\$ 5,779,585	\$ 5,806,616	\$ (27,031)	-0.5%

The \$27,031 decrease in premiums for the nine months ended September 30, 2013 is primarily due to \$518,157 of decreases in whole life and term first year and renewal premiums and final expense first year premiums that slightly exceeded an increase of \$491,126 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 \$56,897 for the nine months ended September 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 nine months ended September 30, 2013 and 2012 are summarized as follows:

	(Unaudited)			
	Nine Months Ended September 30,		Increase (Decrease)	Percentage Change
	2013	2012	2013 less 2012	2013 to 2012
Fixed maturity securities	\$ 3,294,448	\$ 3,130,035	\$ 164,413	5.3%
Equity securities	25,016	39,243	(14,227)	-36.3%
Other long-term investments	1,220,456	770,076	450,380	58.5%
Mortgage loans	781,273	365,975	415,298	113.5%
Policy loans	74,869	76,615	(1,746)	-2.3%
Real estate	272,290	280,635	(8,345)	-3.0%
Short-term and other investments	70,664	17,471	53,193	304.5%
Gross investment income	5,739,016	4,680,050	1,058,966	22.6%
Investment expenses	(496,062)	(376,090)	119,972	-31.9%
Net investment income	\$ 5,242,954	\$ 4,303,960	\$ 938,994	21.8%

The \$1,058,966 increase in gross investment income for the nine months ended September 30, 2013 is due to the 2013 investment of excess cash primarily in mortgage loans, other long-term investments (comprised of lottery receivables) and fixed maturity securities.

The \$119,972 increase in investment expenses for the nine months ended September 30, 2013 is primarily due to increased fees of originating purchases of fixed maturity securities, mortgage loans and lottery receivables and the establishment of a \$48,308 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 September 30, 2013, \$201,936 of cash and \$204,395 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 \$105,189 decrease in net realized investment gains for the nine months ended September 30, 2013.

The net realized investment gains from the sales and maturities of fixed maturity securities available-for-sale of \$106,232 for the nine months ended September 30, 2013 resulted from proceeds of \$5,323,457 for these securities that had carrying values of \$5,217,225 as of the 2013 disposal dates.

The net realized investment gains from the sales and maturities of fixed maturity securities available-for-sale of \$109,725 for the nine months ended September 30, 2012 resulted from proceeds of \$6,349,785 for these securities that had carrying values of \$6,240,060 as of the 2012 disposal dates.

The net realized investment losses from the sales of equity securities available-for-sale of \$4,455 for the nine months ended September 30, 2013 resulted from proceeds of \$97,965 on these securities that had carrying values of \$102,420 at the 2013 disposal dates.

The net realized investment gains from the sales of equity securities available-for-sale of \$361,464 for the nine months ended September 30, 2012 resulted from proceeds of \$891,480 for these securities that had carrying values of \$530,016 at the 2012 disposal dates.

The net realized investment gains from mortgage loans on real estate of \$264,223 for the nine months ended September 30, 2013, resulted from the early payoff of 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 \$4,608 decrease in other income for the nine months ended September 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 nine months ended September 30, 2013 and 2012 are summarized as follows:

	(Unaudited)			
	Nine Months Ended September 30,		Increase (Decrease)	Percentage Change
	2013	2012	2013 less 2012	2013 to 2012
Benefits and claims				
Increase in future policy benefits	\$ 1,741,803	\$ 1,645,523	\$ 96,280	5.9%
Death benefits	1,943,220	1,891,630	51,590	2.7%
Surrenders	438,856	430,212	8,644	2.0%
Interest credited to policyholders	2,737,378	2,505,815	231,563	9.2%
Dividend, endowment and supplementary life contract benefits	191,163	274,674	(83,511)	-30.4%
Total benefits and claims	7,052,420	6,747,854	304,566	4.5%
Expenses				
Policy acquisition costs deferred	(1,426,610)	(1,885,010)	458,400	-24.3%
Amortization of deferred policy acquisition costs	453,081	437,537	15,544	3.6%
Amortization of value of insurance business acquired	321,571	307,877	13,694	4.4%
Commissions	1,558,435	1,835,323	(276,888)	-15.1%
Other underwriting, insurance and acquisition expenses	3,021,792	2,754,979	266,813	9.7%
Total expenses	3,928,269	3,450,706	477,563	13.8%
Total benefits, claims and expenses	\$ 10,980,689	\$ 10,198,560	\$ 782,129	7.7%

The increase of \$782,129 in total benefits, claims and expenses for the nine months ended September 30, 2013 is discussed below.

Benefits and Claims

The \$304,566 increase in benefits and claims for the nine months ended September 30, 2013 is primarily due to the following:

- \$231,563 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).
- \$96,280 increase in future policy benefits that is as expected.
- \$51,590 increase in death benefits due to slightly unfavorable mortality experience in 2013 compared to 2012 due to a \$3,739 increase in average claims paid on final expense death benefits during third quarter 2013.
- \$83,511 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.

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 nine months ended September 30, 2013 and 2012, capitalized costs were \$1,426,610 and \$1,885,010, respectively. Amortization of deferred policy acquisition costs for the nine months ended September 30, 2013 and 2012 were \$453,081 and \$437,537, respectively.

The \$458,400 decrease in the acquisition costs deferred relates to a decrease in commissions of \$276,888 in 2013 and our decision, based upon the evaluation of nine months of 2013 operation, to decrease, in third quarter 2013, the deferral of non-commission acquisition costs for products sold in 2013. This nine month reduction in the deferral of non-commission acquisition costs for products sold in 2013 amounted to approximately \$150,000 and was recorded in third quarter 2013. The \$15,544 increase 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 \$321,571 and \$307,877 for the nine months ended September 30, 2013 and 2012, respectively. The \$13,694 increase in the 2013 amortization of value of insurance business acquired is as expected.

Commissions

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

	(Unaudited)			
	Nine Months Ended September 30,		Increase (Decrease)	Percentage Change
	2013	2012	2013 less 2012	2013 to 2012
Annuity	\$ 307,514	\$ 406,115	\$ (98,601)	-24.3%
Whole life and term first year	61,015	125,875	(64,860)	-51.5%
Whole life and term renewal	79,249	98,297	(19,048)	-19.4%
Final expense first year	835,926	977,485	(141,559)	-14.5%
Final expense renewal	274,731	227,551	47,180	20.7%
Total commissions	\$ 1,558,435	\$ 1,835,323	\$ (276,888)	-15.1%

The \$276,888 decrease in commissions for the nine months ended September 30, 2013 is due to decreases of \$141,559 in final expense first year commissions, \$98,601 in annuity commissions and \$83,908 in whole life and term first year and renewal commission that exceeded a \$47,180 increase in final expense renewal commissions related to production decreases and increases in these lines of insurance policies and annuity contracts.

Other Underwriting, Insurance and Acquisition Expenses

The \$266,813 increase in other underwriting, insurance and acquisition expenses for the nine months ended September 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 nine months ended September 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, we filed 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 nine months ended September 30, 2013 and 2012, current income tax expense (benefit) was (\$20,768) and \$120,145, respectively. Deferred federal income tax expense (benefit) was \$193,786 and (\$44,054) for the nine months ended September 30, 2013 and 2012, respectively.

Net Income Per Common Share Basic and Diluted

Net income was \$285,963 [\$0.04 per common share basic and diluted] and \$419,750 [\$0.05 per common share basic and diluted] for the nine months ended September 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 nine months ended September 30, 2013 and 2012 were 7,852,025 and 7,900,326 respectively.

Business Segments

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

	(Unaudited)			
	Nine Months Ended September 30,		Increase (Decrease)	Percentage Change
	2013	2012	2013 to 2012	2013 to 2012
Revenues:				
Life and annuity insurance operations	\$ 11,218,163	\$ 10,189,056	\$ 1,029,107	10.1%
Premium finance operations	43,643	97,525	(53,882)	-55.2%
Corporate operations	177,864	407,820	(229,956)	-56.4%
Total	<u>\$ 11,439,670</u>	<u>\$ 10,694,401</u>	<u>\$ 745,269</u>	7.0%
Income (loss) before income taxes:				
Life and annuity insurance operations	\$ 897,516	\$ 734,680	\$ 162,836	22.2%
Premium finance operations	(238,794)	(182,290)	(56,504)	31.0%
Corporate operations	(199,741)	(56,549)	(143,192)	253.2%
Total	<u>\$ 458,981</u>	<u>\$ 495,841</u>	<u>\$ (36,860)</u>	-7.4%

Life and Annuity Insurance Operations

The \$1,029,107 increase in revenues from Life and Annuity Insurance Operations for the nine months ended September 30, 2013 is primarily due to the following:

- \$816,259 increase in net investment income
- \$244,811 increase in net realized investment gains
- \$4,932 decrease in other income
- \$27,031 decrease in premiums

The \$162,836 increased profitability from Life and Annuity Insurance Operations for the nine months ended September 30, 2013 is primarily due to the following:

- \$816,259 increase in net investment income
- \$276,888 decrease in commissions
- \$244,811 increase in net realized investment gains
- \$4,932 decrease in other income
- \$13,694 increase in amortization of value of insurance business acquired
- \$27,031 decrease in premiums
- \$304,566 increase in benefits and claims
- \$350,955 increase in other underwriting, insurance and acquisition expenses
- \$473,944 decrease in policy acquisition costs deferred net of amortization

Premium Finance Operations

The \$53,882 decrease in revenues from Premium Finance Operations for the nine months ended September 30, 2013 is due to decreased fee income as we discontinued offering premium finance contracts on July 1, 2012.

The \$56,504 decreased profitability from Premium Finance Operations for the nine months ended September 30, 2013 is primarily due to \$53,882 of decreased fee income and \$2,622 of increased operating expenses.

Corporate Operations

The \$229,956 decrease in revenues from Corporate Operations is primarily due to \$350,000 of net realized investment gains from the sale of an equity security for the nine months ended September 30, 2012 that exceeded \$120,044 of increased net investment income and fees for the nine months ended September 30, 2013.

The \$143,192 decreased Corporate Operations profitability for the nine months ended September 30, 2013 is primarily due to the \$229,956 decrease in revenues discussed above that exceeded \$86,764 of decreased operating expenses.

Consolidated Financial Condition

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

	(Unaudited) September 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: \$97,805,325 and \$91,543,308 as of September 30, 2013 and December 31, 2012, respectively)	\$ 101,683,656	\$ 98,659,797	\$ 3,023,859	3.1%
Available-for-sale equity securities at fair value (cost: \$607,931 and \$695,846 as of September 30, 2013 and December 31, 2012, respectively)	737,381	843,497	(106,116)	-12.6%
Mortgage loans on real estate	16,024,208	10,435,776	5,588,432	53.6%
Investment real estate	2,697,071	2,858,765	(161,694)	-5.7%
Policy loans	1,519,371	1,488,035	31,336	2.1%
Other long-term investments	22,294,629	19,560,794	2,733,835	14.0%
Total investments	<u>\$ 144,956,316</u>	<u>\$ 133,846,664</u>	<u>\$ 11,109,652</u>	8.3%

The \$3,023,859 increase in available-for-sale fixed maturity securities for the nine months ended September 30, 2013 is primarily due to purchases of \$12,111,396 in excess of sales and maturities of \$5,323,457, net realized investment gains of \$106,232, \$3,238,158 decrease in unrealized appreciation and premium amortization of \$632,154. 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 September 30, 2013, we held 141 available-for-sale fixed maturity securities with an unrealized loss of \$1,111,549, fair value of \$23,922,303 and amortized cost of \$25,033,852.

The \$106,116 decrease in available-for-sale equity securities for the nine months ended September 30, 2013 is primarily due to sales of \$97,965 in excess of purchases of \$14,504, net realized investment losses of \$4,455 and an \$18,201 decrease 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 September 30, 2013, we held four available-for-sale equity securities with an unrealized loss of \$30,945, fair value of \$200,556 and cost of \$231,501.

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

The \$5,588,432 increase in mortgage loans for the nine months ended September 30, 2013 is primarily due to the origination of \$7,371,253 of mortgage loans, \$112,458 capitalization of loan origination fees, \$264,223 of realized gains on the early pay off of loans purchased at a discount, discount accretion of \$60,519 less principal payments of \$2,137,408, allowance for uncollectible mortgage loans of \$48,038 and \$34,575 of amortization of loan origination fees.

The \$2,733,835 increase in other long-term investments (comprised of lottery receivables) for the nine months ended September 30, 2013 is primarily due to the purchases of \$4,337,915, \$1,220,456 of accretion of discount less principal payments of \$2,824,536.

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

	(Unaudited) September 30, 2013	December 31, 2012	Increase (Decrease) 2013 to 2012	Percentage Change 2013 to 2012
Cash and cash equivalents	\$ 12,254,639	\$ 10,947,474	\$ 1,307,165	11.9%
Accrued investment income	1,448,238	1,417,218	31,020	2.2%
Recoverable from reinsurers	1,319,565	1,188,371	131,194	11.0%
Agents' balances and due premiums	310,758	358,729	(47,971)	-13.4%
Loans from premium financing, net	148,625	261,072	(112,447)	-43.1%
Deferred policy acquisition costs	8,018,223	7,028,820	989,403	14.1%
Value of insurance business acquired	7,187,324	7,508,895	(321,571)	-4.3%
Property and equipment, net	142,678	124,558	18,120	14.5%
Other assets	3,048,704	2,768,516	280,188	10.1%
Assets other than investment assets	<u>\$ 33,878,754</u>	<u>\$ 31,603,653</u>	<u>\$ 2,275,101</u>	7.2%

The \$112,447 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, advances, guaranty funds, notes receivable, customer account balances receivable and receivables for securities sold with trade dates and settlement dates in different accounting periods. The \$280,188 increase in other assets is primarily due to \$992,530 of increased advances to a third party to facilitate our purchase of discounted mortgage loans from the third party and \$175,627 of increased recoverable federal and state income taxes that exceeded \$601,530 of receivables for securities sold with trade dates in 2012 and settlement dates in 2013 and \$150,000 of lottery receivables due as of December 31, 2012 that were paid in 2013. In addition, during second quarter 2013, FTCC foreclosed on a delinquent loan and recovered the former home 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. This building was refurbished in the first half of 2013 at a cost of \$10,656 and sold in third quarter 2013 for \$140,000 resulting in a gain of \$3,880.

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

	(Unaudited) Nine Months Ended September 30, 2013	Year Ended December 31, 2012
Balance, beginning of year	\$ 491,460	\$ 1,274,707
Loans financed	-	847,845
Unearned interest	-	51,525
Capitalized fees and interest	1,336	12,827
Payment of loans and unearned interest	<u>(121,096)</u>	<u>(1,695,444)</u>
Ending loan balance including unearned interest	371,700	491,460
Unearned interest included in ending loan balances	<u>-</u>	<u>(1,389)</u>
Loan balance net of unearned interest	371,700	490,071
Less allowance for loan loss	<u>(223,075)</u>	<u>(228,999)</u>
Loan balance net of unearned interest and allowance for loan losses	<u>\$ 148,625</u>	<u>\$ 261,072</u>

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

	(Unaudited) September 30, 2013	December 31, 2012	Increase (Decrease) 2013 to 2012	Percentage Change 2013 to 2012
Policy liabilities				
Policyholders' account balances	\$ 108,794,797	\$ 95,043,370	\$ 13,751,427	14.5%
Future policy benefits	32,839,871	31,065,560	1,774,311	5.7%
Policy claims	814,108	717,521	96,587	13.5%
Other policy liabilities	93,302	139,722	(46,420)	-33.2%
Total policy liabilities	142,542,078	126,966,173	15,575,905	12.3%
Deferred federal income taxes	2,847,213	3,301,524	(454,311)	-13.8%
Other liabilities	2,116,000	1,460,508	655,492	44.9%
Total liabilities	\$ 147,505,291	\$ 131,728,205	\$ 15,777,086	12.0%

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 \$15,575,905 increase in policy liabilities is primarily due to deposits on annuity and deposit-type contracts exceeding withdrawals by \$11,014,049, \$2,737,378 of interest credited to policyholder account deposits, \$1,774,311 of increased future policy benefit reserves, \$96,587 of increased liabilities for policy claims and \$46,420 of decreased other policy liabilities.

The \$454,311 decrease in deferred federal income taxes during the nine months ended September 30, 2013 was due to \$648,097 of decreased deferred federal income taxes on the unrealized appreciation of available-for-sale fixed maturity and equity securities and \$193,786 of operating deferred tax expenses.

The \$655,492 increase in other liabilities is primarily due to a \$695,300 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 September 30, 2013, we have received \$27,119,480 from the sale of our shares. Our operations have been profitable and have generated \$5,358,266 of net income from operations since we were incorporated in 2004. 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 September 30, 2013 to \$87,978, as shown in the accumulated earnings balance in the September 30, 2013 consolidated statement of financial position. .

As of September 30, 2013, we had cash and cash equivalents totaling \$12,254,639. As of September 30, 2013, cash and cash equivalents of \$6,705,121 and \$2,347,552, respectively, of the total \$12,254,639 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 \$5,493,962 as of September 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 nine months ended September 30, 2013 and 2012 are summarized as follows:

	(Unaudited)		Increase (Decrease) 2013 to 2012	Percentage Change 2013 to 2012
	Nine Months Ended September 30, 2013	2012		
Net cash provided by operating activities	\$ 3,597,006	\$ 1,814,530	\$ 1,782,476	98.2%
Net cash used in investing activities	(13,217,982)	(25,742,631)	12,524,649	-48.7%
Net cash provided by financing activities	10,928,141	9,103,506	1,824,635	20.0%
Increase (decrease) in cash	1,307,165	(14,824,595)	16,131,760	-108.8%
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	\$ 12,254,639	\$ 12,881,116	\$ (626,477)	-4.9%

The \$1,782,476 increase in cash provided by operating activities during the nine months ended September 30, 2013 is primarily due to increased net investment income that exceeds decreased premiums and increased benefit and claims and other underwriting, insurance and acquisition expenses.

The \$12,524,649 of decreased cash used for investing activities during the nine months ended September 30, 2013 was primarily related to increased purchase activity in 2012 compared to 2013.

The \$1,824,635 increase in cash provided by financing activities for the nine months ended September 30, 2013 resulted from \$3,172,725 of increased policyholder account deposits in excess of withdrawals and \$439,922 less used for purchasing treasury shares in 2013 that exceeded decreased net proceeds from the public and private placement stock offerings of \$1,788,012.

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

	(Unaudited)		Increase (Decrease) 2013 to 2012	Percentage Change 2013 to 2012
	September 30, 2013	December 31, 2012		
Common stock, par value \$.01 per share, 20,000,000 shares authorized, and 8,050,193 and 7,974,373 issued as of September 30, 2013 and December 31, 2012, respectively, and 7,851,984 and 7,789,060 outstanding as of September 30, 2013 and December 31, 2012, respectively, and 63,070 subscribed as of December 31, 2012	\$ 80,502	\$ 80,374	\$ 128	0.2%
Additional paid-in capital	28,666,748	28,707,648	(40,900)	-0.1%
Treasury stock, at cost (198,209 and 185,313 shares as of September 30, 2013 and December 31, 2012, respectively)	(693,731)	(648,595)	(45,136)	7.0%
Accumulated other comprehensive income	3,188,282	5,780,670	(2,592,388)	-44.8%
Accumulated earnings (deficit)	87,978	(197,985)	285,963	-144.4%
Total shareholders' equity	\$ 31,329,779	\$ 33,722,112	\$ (2,392,333)	-7.1%

The decrease in shareholders' equity of \$2,392,333 for the nine months ended September 30, 2013 is due to \$40,772 of net expenses utilized in servicing the public stock offering (gross proceeds of \$108,375 and offering expenses of \$149,147), \$2,592,388 of other comprehensive losses, \$285,963 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 7.0% to \$3.99 as of September 30, 2013 compared to \$4.29 per share as of December 31, 2012, based upon 7,851,984 common shares outstanding as of September 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 \$4,007,781 as of September 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 \$3,256,359 decrease in net unrealized gains arising for the nine months ended September 30, 2013 has been increased by net realized investment gains of \$366,000 due to the sale and call activity for available-for-sale fixed maturity securities and early payoffs of mortgage loans on real estate that was acquired at a discount.

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 September 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 15.3% of total policy liabilities. If interest rates rise significantly in a short time frame, there can be no assurance that the life insurance industry, including the Company, would not experience increased levels of surrenders and reduced sales, and thereby be materially adversely affected.

In addition to the measures described above, TLIC and 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 September 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 September 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

November 13, 2013

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

November 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: November 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: November 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 September 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: November 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 September 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: November 13, 2013

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