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FIRST TRUST MORTGAGE INCOME FUND
Form N-CSR
January 06, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT INVESTMENT
COMPANIES

Investment Company Act file number 811-21727

First Trust Mortgage Income Fund

(Exact name of registrant as specified in charter)

120 East Liberty Drive, Suite 400
Wheaton, IL 60187

(Address of principal executive offices) (Zip code)

W. Scott Jardine, Esq.

First Trust Portfolios L.P.
120 East Liberty Drive, Suite 400
Wheaton, IL 60187

(Name and address of agent for service)

registrant's telephone number, including area code: 630-765-8000

Date of fiscal year end: October 31

Date of reporting period: October 31, 2016

Form N-CSR is to be used by management investment companies to file reports with the Commission not later than 10 days after the transmission to stockholders of any report that is required to be transmitted to stockholders under Rule 30e-1 under the Investment Company Act of 1940 (17 CFR 270.30e-1). The Commission may use the information provided on Form N-CSR in its regulatory, disclosure review, inspection, and policymaking roles.

A registrant is required to disclose the information specified by Form N-CSR, and the Commission will make this information public. A registrant is not required to respond to the collection of information contained in Form N-CSR unless the Form displays a currently valid Office of Management and Budget ("OMB") control number. Please direct comments concerning the accuracy of the information collection burden estimate and any suggestions for reducing the burden to Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549. The OMB has reviewed this collection of information under the clearance requirements of 44 U.S.C. ss. 3507.

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ITEM 1. REPORTS TO STOCKHOLDERS.

The Report to Shareholders is attached herewith.

FIRST TRUST
MORTGAGE INCOME FUND (FMY)

ANNUAL REPORT
FOR THE YEAR ENDED
OCTOBER 31, 2016

FIRST TRUST

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ANNUAL REPORT
OCTOBER 31, 2016

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CAUTION REGARDING FORWARD-LOOKING STATEMENTS

This report contains certain forward-looking statements within the meaning of the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended. Forward-looking statements include statements regarding the goals, beliefs, plans or current expectations of First Trust Advisors L.P. ("First Trust" or the "Advisor") and its respective representatives, taking into account the information currently available to them. Forward-looking statements include all statements that do not relate solely to current or historical fact. For example, forward-looking statements include the use of words such as "anticipate," "estimate," "intend," "expect," "believe," "plan," "may," "should," "would" or other words that convey uncertainty of future events or outcomes.

Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of First Trust Mortgage Income Fund (the "Fund") to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. When evaluating the information included in this report, you are cautioned not to place undue reliance on these forward-looking statements, which reflect the judgment of the Advisor and its respective

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representatives only as of the date hereof. We undertake no obligation to publicly revise or update these forward-looking statements to reflect events and circumstances that arise after the date hereof.

PERFORMANCE AND RISK DISCLOSURE

There is no assurance that the Fund will achieve its investment objectives. The Fund is subject to market risk, which is the possibility that the market values of securities owned by the Fund will decline and that the value of the Fund shares may therefore be less than what you paid for them. Accordingly, you can lose money by investing in the Fund. See "Risk Considerations" in the Additional Information section of this report for a discussion of certain other risks of investing in the Fund.

Performance data quoted represents past performance, which is no guarantee of future results, and current performance may be lower or higher than the figures shown. For the most recent month-end performance figures, please visit <http://www.ftportfolios.com> or speak with your financial advisor. Investment returns, net asset value and common share price will fluctuate and Fund shares, when sold, may be worth more or less than their original cost.

The Advisor may periodically provide additional information on Fund performance on the Fund's webpage at <http://www.ftportfolios.com>.

HOW TO READ THIS REPORT

This report contains information that may help you evaluate your investment in the Fund. It includes details about the Fund and presents data and analysis that provide insight into the Fund's performance and investment approach.

By reading the portfolio commentary by the portfolio management team of the Fund, you may obtain an understanding of how the market environment affected the Fund's performance. The statistical information that follows may help you understand the Fund's performance compared to that of the relevant market benchmark.

It is important to keep in mind that the opinions expressed by personnel of the Advisor are just that: informed opinions. They should not be considered to be promises or advice. The opinions, like the statistics, cover the period through the date on the cover of this report. The material risks of investing in the Fund are spelled out in the prospectus, the statement of additional information, this report and other Fund regulatory filings.

SHAREHOLDER LETTER

FIRST TRUST MORTGAGE INCOME FUND (FMY)
ANNUAL LETTER FROM THE CHAIRMAN AND CEO
OCTOBER 31, 2016

Dear Shareholders:

Thank you for your investment in First Trust Mortgage Income Fund.

First Trust Advisors L.P. ("First Trust") is pleased to provide you with the annual report which contains detailed information about your investment for the

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12 months ended October 31, 2016, including a market overview and a performance analysis for the period. We encourage you to read this report and discuss it with your financial advisor.

Early in 2016, many investors were concerned that the volatility witnessed in the stock market in 2015 would continue, and it did. During the first six months of the year, one of the events that affected the global markets was the "Brexit" vote (where citizens in the UK voted to leave the European Union). Just a few days after the historic vote, the global equity markets rebounded to close June 30, 2016 at a combined market capitalization of \$62 trillion. As of October 31, 2016, the S&P 500(R) Index was up 5.87% calendar year-to-date, according to Bloomberg. From October 30, 2015 through October 31, 2016, the S&P 500(R) Index was also in positive territory at 4.51%. The last few months have had investors keenly watching the presidential election in anticipation of the outcome of the vote and its effect on the stock market and economy. I will discuss that more in my next letter.

The current bull market (measuring from March 9, 2009 through October 31, 2016) is the second longest in history. First Trust believes that having a long-term investment horizon and investing in quality products can help you reach your goals, regardless of ups and downs in the market. We strive to provide quality investment products, which has been one of the hallmarks of our firm since its inception more than 25 years ago.

Thank you for giving First Trust the opportunity to be a part of your investment plan. We value our relationship with you and will continue to focus on helping investors like you reach your financial goals.

Sincerely,

/s/ James A. Bowen

James A. Bowen
Chairman of the Board of Trustees
Chief Executive Officer of First Trust Advisors L.P.

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FIRST TRUST MORTGAGE INCOME FUND (FMY)
"AT A GLANCE"
AS OF OCTOBER 31, 2016 (UNAUDITED)

FUND STATISTICS

| | |
|---|--------------|
| Symbol on New York Stock Exchange | FMY |
| Common Share Price | \$14.00 |
| Common Share Net Asset Value ("NAV") | \$15.53 |
| Premium (Discount) to NAV | (9.85)% |
| Net Assets Applicable to Common Shares | \$65,436,838 |
| Current Monthly Distribution per Common Share (1) | \$0.065 |
| Current Annualized Distribution per Common Share | \$0.780 |
| Current Distribution Rate on Closing Common Share Price (2) | 5.57% |
| Current Distribution Rate on NAV (2) | 5.02% |

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COMMON SHARE PRICE & NAV (WEEKLY CLOSING PRICE)

| | Common Share Price | NAV |
|-------|--------------------|-------|
| 10/15 | 14.58 | 16.05 |
| | 14.36 | 15.99 |
| | 14.36 | 15.99 |
| | 14.50 | 15.98 |
| | 14.54 | 15.98 |
| 11/15 | 14.52 | 15.92 |
| | 14.38 | 15.92 |
| | 14.43 | 15.89 |
| | 14.63 | 15.89 |
| 12/15 | 14.54 | 15.88 |
| | 14.54 | 15.81 |
| | 14.08 | 15.79 |
| | 14.19 | 15.76 |
| 1/16 | 14.40 | 15.75 |
| | 14.40 | 15.68 |
| | 14.36 | 15.64 |
| | 14.15 | 15.56 |
| 2/16 | 14.24 | 15.57 |
| | 14.31 | 15.51 |
| | 14.44 | 15.52 |
| | 14.43 | 15.52 |
| 3/16 | 14.45 | 15.54 |
| | 14.48 | 15.49 |
| | 14.50 | 15.49 |
| | 14.51 | 15.49 |
| 4/16 | 14.46 | 15.55 |
| | 14.49 | 15.57 |
| | 14.20 | 15.52 |
| | 14.39 | 15.50 |
| 5/16 | 14.53 | 15.51 |
| | 14.46 | 15.53 |
| | 14.40 | 15.47 |
| | 14.40 | 15.47 |
| 6/16 | 14.36 | 15.47 |
| | 14.37 | 15.48 |
| | 14.40 | 15.45 |
| | 14.61 | 15.44 |
| 7/16 | 14.57 | 15.49 |
| | 14.54 | 15.49 |
| | 14.70 | 15.50 |
| | 14.58 | 15.47 |
| 8/16 | 14.56 | 15.45 |
| | 14.60 | 15.47 |
| | 14.51 | 15.48 |
| | 14.56 | 15.44 |
| 9/16 | 14.50 | 15.44 |
| | 14.54 | 15.45 |
| | 14.46 | 15.44 |
| | 14.40 | 15.50 |
| 10/16 | 14.41 | 15.48 |
| | 14.28 | 15.49 |
| | 14.10 | 15.51 |
| | 14.00 | 15.54 |
| | 14.00 | 15.53 |

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 PERFORMANCE

| | Average Ann | | |
|--|--------------|---------------|---------|
| | 1 Year Ended | 5 Years Ended | 10 Year |
| | 10/31/16 | 10/31/16 | 10/3 |
| FUND PERFORMANCE (3) | | | |
| NAV | 3.05% | 4.26% | 6.3 |
| Market Value | 2.26% | 1.58% | 6.3 |
| INDEX PERFORMANCE | | | |
| Bloomberg Barclays U.S. Mortgage Backed Securities (MBS) Index | 3.27% | 2.59% | 4.5 |

 PORTFOLIO CHARACTERISTICS

| | |
|-------------------------------------|------|
| Weighted Average Effective Duration | 1.06 |
| Weighted Average Effective Maturity | 4.08 |

| ASSET CLASSIFICATION | % OF TOTAL INVESTMENTS |
|----------------------------|------------------------|
| Mortgage-Backed Securities | 68.37% |
| U.S. Government Agency MBS | 21.02 |
| Asset-Backed Securities | 1.47 |
| Cash & Cash Equivalents | 9.14 |
| Total | 100.00% |

=====

| CREDIT QUALITY (4) | % OF TOTAL FIXED-INCOME INVESTMENTS |
|--------------------|-------------------------------------|
| Government | 21.02% |
| AAA | 0.27 |
| AA+ | 14.34 |
| AA | 2.54 |
| AA- | 4.94 |
| A+ | 9.05 |
| A | 0.96 |
| A- | 1.28 |
| BBB | 1.79 |
| BBB- | 2.03 |
| BB+ | 0.86 |
| BB- | 4.69 |
| B | 1.06 |
| B- | 1.30 |
| CCC | 8.59 |
| CC | 3.05 |

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| | |
|-------------------------|---------|
| D | 3.36 |
| NR | 9.73 |
| Cash & Cash Equivalents | 9.14 |
| ----- | |
| Total | 100.00% |
| | ===== |

- (1) Most recent distribution paid or declared through 10/31/2016. Subject to change in the future.
- (2) Distribution rates are calculated by annualizing the most recent distribution paid or declared through the report date and then dividing by Common Share Price or NAV, as applicable, as of 10/31/2016. Subject to change in the future.
- (3) Total return is based on the combination of reinvested dividend, capital gain and return of capital distributions, if any, at prices obtained by the Dividend Reinvestment Plan and changes in NAV per share for NAV returns and changes in Common Share Price for market value returns. Total returns do not reflect sales load and are not annualized for periods of less than one year. Past performance is not indicative of future results.
- (4) The ratings are by Standard & Poor's. A credit rating is an assessment provided by a nationally recognized statistical rating organization (NRSRO), of the creditworthiness of an issuer with respect to debt obligations. Ratings are measured on a scale that generally ranges from AAA (highest) to D (lowest). Investment grade is defined as those issuers that have a long-term credit rating of BBB- or higher. Sub-investment grade ratings are those rated BB+ or lower. "NR" indicates no rating. The credit ratings shown relate to the credit worthiness of the issuers of the underlying securities in the fund, and not to the fund or its shares. U.S. Treasury, U.S. Agency and U.S. Agency mortgage-backed securities appear under "Government". Credit ratings are subject to change.

NR Not Rated

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PORTFOLIO COMMENTARY

FIRST TRUST MORTGAGE INCOME FUND (FMY)
ANNUAL REPORT
OCTOBER 31, 2016 (UNAUDITED)

INVESTMENT MANAGER

First Trust Advisors L.P. ("First Trust") was established in 1991 and is located in Wheaton, Illinois. First Trust is a registered investment advisor which offers customized portfolio management using its structured, quantitative approach to security selection. As of October 31, 2016, First Trust managed or supervised \$95.051 billion in assets. Effective September 19, 2016, the portfolio management of the First Trust Mortgage Income Fund ("FMY" or the "Fund") transitioned to the First Trust Mortgage Securities Team, led by Jim

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Snyder and Jeremiah Charles. Prior to that date, Brookfield Investment Management, Inc. ("Brookfield") served as the Fund's sub-advisor and was responsible for the management of the Fund's portfolio. On September 19, 2016, Schroder Investment Management North America Inc. acquired the portfolio management team of Brookfield, resulting in the automatic termination of the investment sub-advisory agreement among Brookfield, First Trust and the Fund. In connection with the change in portfolio management, First Trust agreed to lower the investment management fee payable by the Fund to a rate of 0.85% of the Fund's managed assets, a decrease from the Fund's previous investment management fee of 1.00% of the Fund's managed assets.

PORTFOLIO MANAGEMENT TEAM

JEREMIAH CHARLES - VICE PRESIDENT, PORTFOLIO MANAGER
JIM SNYDER - VICE PRESIDENT, PORTFOLIO MANAGER

COMMENTARY

FIRST TRUST MORTGAGE INCOME FUND

The Fund's primary investment objective is to seek a high level of current income. As a secondary objective, the Fund will seek to preserve capital. The Fund will pursue its objectives by investing primarily in mortgage-backed securities representing part ownership in a pool of either residential or commercial mortgage loans that, in the opinion of the Fund's investment advisor, offer an attractive combination of credit quality, yield and maturity. There can be no assurance the Fund will achieve its investment objectives. The Fund may not be appropriate for all investors.

MARKET RECAP

The longer maturity segment of the U.S. bond market rallied from October 31, 2015 through October 31, 2016, led by the 30-year Treasury, which saw its yield decline by 34 basis points ("bps"). The long end outperformed the 5-year Treasury, with a yield curve bull flattening of 13bps. The fiscal year began with a significant rally in intermediate and long maturities and saw ongoing rate volatility as the market reacted to a wavering Federal Reserve ("Fed") and the shock of UK's vote to leave the European Union ("Brexit"). Post Brexit, the market began to focus on improving U.S. fundamentals and the risk-off decline in yield slowly dissipated. Mortgage-backed securities ("MBS") spreads tightened modestly from October 31, 2015 through October 31, 2016, in 7bps to close at 15bps option-adjusted spread ("OAS"), as measured using the Bank of America Merrill Lynch US Mortgage Backed Index calculations. This allowed MBS to generally outperform Treasury securities of similar maturities on a price return basis.

PERFORMANCE ANALYSIS

For the 12-month period ended October 31, 2016, the Fund returned 3.05% based on net asset value ("NAV") and 2.26% based on market price. During the period, the Fund's benchmark, the Bloomberg Barclays U.S. MBS Index returned 3.28%

Since taking over management of the Fund, early changes have been focused on achieving two objectives. First, we have increased the Fund's position in negative duration, interest-only securities, which we believe will help improve the Fund's income and reduce the Fund's interest rate risk. Second, we have made purchases to longer maturity, higher credit quality securities in anticipation of a flatter yield curve and some expected deterioration in the relative performance of lower credit quality, fully valued securities.

MARKET OUTLOOK

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The fiscal year ended October 31, 2016 saw the Fed delay interest rates policy normalization, possibly focused on political events and their corresponding impacts on capital markets. The Brexit created a very short-term market dislocation but was very quickly reversed. We expect that the Fed will finally begin increasing the funding rate with a potential of a total of four hikes during the 2016-2017 period. The labor markets have tightened substantially over the past year, now accompanied by the long-awaited income and wage growth. The numerous goal posts that the Fed has set as obstacles to normalization seem to have been met, and therefore, we now see an impatient committee that is signaling to the financial markets to be prepared for monetary tightening. We are ready for the new regime.

Given our views and outlook on the markets, we plan to continue to manage the Fund defensively versus the Fund's benchmark, the Bloomberg Barclays U.S. MBS Index, from a duration standpoint, while maintaining our ongoing strategy of barbell our duration across the yield curve, with higher yielding, spread assets allocated primarily to defensive short maturities. We continue to be bearish on the benchmark and credit spreads in general, and as such, we plan to upgrade quality in the Fund and to keep "powder dry" for expected widening in spreads which often materialize in monetary tightening cycles.

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FIRST TRUST MORTGAGE INCOME FUND (FMY)
 PORTFOLIO OF INVESTMENTS
 OCTOBER 31, 2016

| PRINCIPAL VALUE | DESCRIPTION | STATED COUPON | STATE MATURI |
|---|--|------------------|-----------------|
| MORTGAGE-BACKED SECURITIES - 69.1% | | | |
| COLLATERALIZED MORTGAGE OBLIGATIONS - 52.8% | | | |
| | Accredited Mortgage Loan Trust | | |
| \$ 412,995 | Series 2003-2, Class A1..... | 4.98% | 10/01/ |
| | ACE Securities Corp. Home Equity Loan Trust | | |
| 1,055,072 | Series 2006-ASAP6, Class A2D (a)..... | 0.75% | 12/25/ |
| | Banc of America Mortgage Trust | | |
| 54,419 | Series 2002-L, Class 1A1 (a)..... | 2.50% | 12/01/ |
| | Chase Mortgage Finance Trust | | |
| 287,272 | Series 2007-A1, Class 1A3 (a)..... | 3.06% | 02/01/ |
| | Citigroup Mortgage Loan Trust | | |
| 955,057 | Series 2012-7, Class 10A2 (a) (b)..... | 3.23% | 09/01/ |
| | Countrywide Asset-Backed Certificates | | |
| 205,751 | Series 2006-S8, Class A6..... | 5.51% | 04/01/ |
| | Countrywide Home Loan Mortgage Pass-Through Trust | | |
| 573,028 | Series 2003-46, Class 2A1 (a)..... | 3.20% | 01/01/ |
| 416,961 | Series 2006-21, Class A8..... | 5.75% | 02/01/ |
| 706,429 | Series 2006-HYB5, Class 3A1A (a)..... | 3.10% | 09/01/ |
| | Credit Suisse First Boston Mortgage Securities Corp. | | |
| 388,169 | Series 2004-AR2, Class 1A1 (a)..... | 3.20% | 03/01/ |
| 745,527 | Series 2004-AR8, Class 6A1 (a)..... | 2.91% | 09/01/ |
| | DSL A Mortgage Loan Trust | | |

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| | | | |
|-----------|--------------------------------------|-------|--------|
| 912,698 | Series 2004-AR3, Class 2A2A (a)..... | 0.90% | 07/19/ |
| 962,410 | Series 2007-AR1, Class 2A1A (a)..... | 0.67% | 04/19/ |
| | GMAC Mortgage Corporation Loan Trust | | |
| 190,949 | Series 2004-AR1, Class 2A (a)..... | 3.53% | 06/01/ |
| | GSR Mortgage Loan Trust | | |
| 235,694 | Series 2005-AR1, Class 4A1 (a)..... | 2.48% | 01/01/ |
| | Harborview Mortgage Loan Trust | | |
| 549,681 | Series 2004-6, Class 3A1 (a)..... | 3.41% | 08/01/ |
| | Home Equity Asset Trust | | |
| 520,000 | Series 2005-9, Class M1 (a)..... | 0.94% | 04/25/ |
| | Irwin Home Equity Loan Trust | | |
| 259,394 | Series 2006-3, Class 2A2 (b)..... | 5.83% | 09/01/ |
| | IXIS Real Estate Capital Trust | | |
| 1,208,397 | Series 2007-HE1, Class A3 (a)..... | 0.69% | 05/25/ |
| | JP Morgan Mortgage Trust | | |
| 1,480,995 | Series 2005-ALT1, Class 4A1 (a)..... | 3.12% | 10/01/ |
| 663,343 | Series 2006-A2, Class 4A1 (a)..... | 3.18% | 08/01/ |
| 398,538 | Series 2006-A2, Class 5A3 (a)..... | 2.97% | 11/01/ |
| | JP Morgan Re-REMIC | | |
| 456,987 | Series 2009-7, Class 12A1 (b)..... | 6.25% | 01/01/ |
| | MASTR Alternative Loan Trust | | |
| 4,091,712 | Series 2006-2, Class 2A3 (a)..... | 0.88% | 03/25/ |
| | MASTR Asset Backed Securities Trust | | |
| 1,011,274 | Series 2006-HE5, Class A3 (a)..... | 0.69% | 11/25/ |
| 1,504,422 | Series 2006-NC2, Class A3 (a)..... | 0.64% | 08/25/ |
| 686,697 | Series 2006-NC2, Class A5 (a)..... | 0.77% | 08/25/ |

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See Notes to Financial Statements

FIRST TRUST MORTGAGE INCOME FUND (FMY)
 PORTFOLIO OF INVESTMENTS (CONTINUED)
 OCTOBER 31, 2016

| PRINCIPAL VALUE | DESCRIPTION | STATED COUPON | STATE MATURI |
|---|---|------------------|-----------------|
| MORTGAGE-BACKED SECURITIES (CONTINUED) | | | |
| COLLATERALIZED MORTGAGE OBLIGATIONS (CONTINUED) | | | |
| | Mellon Residential Funding Corp. Mortgage Pass-Through Trust | | |
| \$ 463,840 | Series 2001-TBC1, Class A1 (a)..... | 1.23% | 11/15/ |
| 433,048 | Series 2002-TBC2, Class A (a)..... | 1.39% | 08/15/ |
| | Morgan Stanley Mortgage Loan Trust | | |
| 331,436 | Series 2004-7AR, Class 2A6 (a)..... | 2.96% | 09/01/ |
| | Nomura Asset Acceptance Corporation | | |
| 839,011 | Series 2004-AR4, Class M1 (a)..... | 1.13% | 12/25/ |
| | Nomura Resecuritization Trust | | |
| 1,263,000 | Series 2015-6R, Class 2A4 (a) (b)..... | 7.20% | 01/02/ |
| | Provident Funding Mortgage Loan Trust | | |
| 133,041 | Series 2005-1, Class 1A1 (a)..... | 2.85% | 05/01/ |
| | Residential Accredit Loans, Inc | | |
| 31,101,775 | Series 2004-QS1, Class AV, IO (a)..... | 0.40% | 01/01/ |

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| | | | |
|-----------|---|--------|--------|
| 189,812 | Series 2006-Q01, Class 2A1 (a)..... | 0.80% | 02/25/ |
| 2,344,248 | Series 2006-QS6, Class 1AV, IO (a)..... | 0.76% | 06/01/ |
| | Saxon Asset Securities Trust | | |
| 1,087,553 | Series 2007-2, Class A2D (a)..... | 0.83% | 05/25/ |
| | Springleaf Mortgage Loan Trust | | |
| 174,681 | Series 2013-3A, Class A (b)..... | 1.87% | 09/01/ |
| 850,000 | Series 2013-3A, Class M3 (b)..... | 5.00% | 09/01/ |
| | Structured Adjustable Rate Mortgage Loan Trust | | |
| 546,306 | Series 2004-2, Class 4A2 (a)..... | 2.98% | 03/01/ |
| | Thornburg Mortgage Securities Trust | | |
| 445,714 | Series 2003-4, Class A1 (a)..... | 1.17% | 09/25/ |
| | Towd Point Mortgage Trust | | |
| 854,197 | Series 2015-2, Class 2A1 (a) (b)..... | 3.75% | 11/01/ |
| | Wachovia Mortgage Loan Trust, LLC | | |
| 519,658 | Series 2006-A, Class 3A1 (a)..... | 3.02% | 05/01/ |
| | WaMu Mortgage Pass-Through Certificates | | |
| 245,401 | Series 2003-AR5, Class A7 (a)..... | 2.82% | 06/01/ |
| 631,704 | Series 2004-AR1, Class A (a)..... | 2.79% | 03/01/ |
| 695,402 | Series 2004-AR10, Class A1B (a)..... | 0.95% | 07/25/ |
| 546,691 | Series 2004-AR13, Class A1A (a)..... | 1.25% | 11/25/ |
| 709,401 | Series 2005-AR1, Class A1A (a)..... | 1.17% | 01/25/ |
| 1,027,598 | Series 2005-AR11, Class A1A (a)..... | 0.85% | 08/25/ |
| 974,971 | Series 2005-AR6, Class 2A1A (a)..... | 0.76% | 04/25/ |
| 419,567 | Series 2005-AR9, Class A1A (a)..... | 1.17% | 07/25/ |
| 687,687 | Series 2006-AR2, Class 1A1 (a)..... | 2.48% | 03/01/ |
| | Washington Mutual Alternative Mortgage Pass-Through Certificates | | |
| 35,350 | Series 2007-5, Class A11 (c)..... | 36.28% | 06/25/ |
| | Washington Mutual MSC Mortgage Pass-Through Certificates | | |
| 486,291 | Series 2004-RA1, Class 2A..... | 7.00% | 03/01/ |

See Notes to Financial Statements

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FIRST TRUST MORTGAGE INCOME FUND (FMY)
PORTFOLIO OF INVESTMENTS (CONTINUED)
OCTOBER 31, 2016

| PRINCIPAL VALUE | DESCRIPTION | STATED COUPON | STATE MATURI |
|---|--|------------------|-----------------|
| MORTGAGE-BACKED SECURITIES (CONTINUED) | | | |
| COLLATERALIZED MORTGAGE OBLIGATIONS (CONTINUED) | | | |
| | Wells Fargo Mortgage Backed Securities Trust | | |
| \$ 471,172 | Series 2003-H, Class A1 (a)..... | 3.02% | 09/01/ |
| 616,993 | Series 2004-A, Class A1 (a)..... | 2.88% | 02/01/ |
| 1,242,320 | Series 2004-R, Class 1A1 (a)..... | 3.03% | 09/01/ |
| 316,010 | Series 2004-S, Class A1 (a)..... | 3.03% | 09/01/ |
| 627,429 | Series 2004-Y, Class 1A2 (a)..... | 2.95% | 11/01/ |
| 315,214 | Series 2005-AR10, Class 2A17 (a)..... | 2.98% | 06/01/ |
| 651,911 | Series 2005-AR16, Class 1A1 (a)..... | 3.06% | 08/01/ |
| 301,523 | Series 2005-AR3, Class 2A1 (a)..... | 3.10% | 03/01/ |

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| | | | |
|---|---|-------|--------|
| 501,763 | Series 2005-AR8, Class 1A1 (a)..... | 3.04% | 06/01/ |
| 582,281 | Series 2006-13, Class A5..... | 6.00% | 10/01/ |
| 205,178 | Series 2007-16, Class 1A1..... | 6.00% | 12/04/ |
| 291,109 | Series 2007-2, Class 1A13..... | 6.00% | 03/01/ |
| 72,338 | Series 2007-8, Class 2A2..... | 6.00% | 07/01/ |
| COMMERCIAL MORTGAGE-BACKED SECURITIES - 16.3% | | | |
| Banc of America Commercial Mortgage Trust | | | |
| 1,000,000 | Series 2006-6, Class AJ..... | 5.42% | 10/01/ |
| 650,000 | Series 2007-3, Class AJ, STRIP..... | 5.55% | 06/01/ |
| Bayview Commercial Asset Trust | | | |
| 560,868 | Series 2004-2, Class A (a) (b)..... | 0.96% | 08/25/ |
| BXHTL Mortgage Trust | | | |
| 800,000 | Series 2015-JWRZ, Class B (a) (d)..... | 2.24% | 05/15/ |
| COMM Mortgage Trust | | | |
| 150,000 | Series 2007-C9, Class AJ..... | 5.65% | 12/01/ |
| Greenwich Capital Commercial Funding Corp. | | | |
| 700,000 | Series 2007-GG11, Class AJ..... | 6.03% | 12/01/ |
| Hudsons Bay Simon JV Trust | | | |
| 510,000 | Series 2015-HBFL, Class DFL (a) (b)..... | 4.17% | 08/05/ |
| Hyatt Hotel Portfolio Trust | | | |
| 1,040,000 | Series 2015-HYT, Class B (a) (b)..... | 2.23% | 11/15/ |
| JP Morgan Chase Commercial Mortgage Securities Corp | | | |
| 113,947 | Series 2007-CB18, Class A4..... | 5.44% | 06/01/ |
| LB-UBS Commercial Mortgage Trust | | | |
| 210,000 | Series 2007-C1, Class AJ..... | 5.48% | 02/11/ |
| 835,000 | Series 2007-C1, Class AM..... | 5.46% | 02/11/ |
| 440,000 | Series 2007-C2, Class AM..... | 5.49% | 02/11/ |
| Morgan Stanley Capital I Trust | | | |
| 540,000 | Series 2007-T25, Class AM..... | 5.54% | 11/01/ |
| UBS-Barclays Commercial Mortgage Trust | | | |
| 14,952,487 | Series 2013-C5, Class XA, IO (a) (b)..... | 1.05% | 03/01/ |
| Wachovia Bank Commercial Mortgage Trust | | | |
| 740,000 | Series 2007-C30, Class AJ..... | 5.41% | 12/01/ |
| 650,000 | Series 2007-C33, Class AJ, STRIP..... | 5.96% | 02/01/ |

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See Notes to Financial Statements

FIRST TRUST MORTGAGE INCOME FUND (FMY)
 PORTFOLIO OF INVESTMENTS (CONTINUED)
 OCTOBER 31, 2016

| PRINCIPAL VALUE | DESCRIPTION | STATED COUPON | STATE MATURI |
|---|--|------------------|-----------------|
| MORTGAGE-BACKED SECURITIES (CONTINUED) | | | |
| COMMERCIAL MORTGAGE-BACKED SECURITIES (CONTINUED) | | | |
| Waldorf Astoria Boca Raton Trust | | | |
| \$ 1,000,000 | Series 2016-BOCA, Class E (a) (d)..... | 4.88% | 06/15/ |

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TOTAL MORTGAGE-BACKED SECURITIES.....
 (Cost \$45,734,218)

U.S. GOVERNMENT AGENCY MORTGAGE-BACKED SECURITIES - 21.3%

COLLATERALIZED MORTGAGE OBLIGATIONS - 10.0%

| Federal Home Loan Mortgage Corp. | | | |
|--|--|--------|--------|
| 1,197,666 | Series 2807, Class SB, IO (c)..... | 6.92% | 11/15/ |
| 2,284,797 | Series 2975, Class SJ, IO (c)..... | 6.12% | 05/15/ |
| 13,874 | Series 3195, Class SX (c)..... | 42.68% | 07/15/ |
| 762,725 | Series 3619, Class EI, IO..... | 4.50% | 05/01/ |
| 504,681 | Series 3692, Class PS, IO (c)..... | 6.07% | 05/15/ |
| 2,035,544 | Series 3726, Class KI, IO..... | 3.50% | 04/01/ |
| 1,599,717 | Series 3870, Class WS, IO (c)..... | 6.07% | 06/15/ |
| 654,920 | Series 3898, Class NI, IO..... | 5.00% | 07/01/ |
| 1,302,787 | Series 4206, Class IA, IO..... | 3.00% | 03/01/ |
| 520,209 | Series 4615, Class GT (c)..... | 4.00% | 10/15/ |
| Federal National Mortgage Association | | | |
| 180,182 | Series 2003-15, Class MS, IO (c)..... | 7.47% | 03/25/ |
| 369,720 | Series 2005-122, Class SN (c)..... | 26.46% | 01/25/ |
| 15,454 | Series 2008-50, Class AI, IO..... | 5.50% | 06/01/ |
| 2,592,075 | Series 2010-103, Class ID, IO..... | 5.00% | 09/01/ |
| 3,902,465 | Series 2010-139, Class KI, IO..... | 1.09% | 12/01/ |
| 109,985 | Series 2010-142, Class PS, IO (c)..... | 5.52% | 05/25/ |
| 528,206 | Series 2010-145, Class TI, IO..... | 3.50% | 12/01/ |
| 931,932 | Series 2010-40, Class MI, IO..... | 4.50% | 08/01/ |
| 2,807,771 | Series 2012-112, Class BI, IO..... | 3.00% | 09/01/ |
| 2,311,035 | Series 2012-125, Class MI, IO..... | 3.50% | 11/01/ |
| 3,101,718 | Series 2013-32, Class IG, IO..... | 3.50% | 04/01/ |
| 2,362,777 | Series 2015-76, Class BI, IO..... | 4.00% | 10/01/ |
| 5,830,822 | Series 2015-97, Class AI, IO..... | 4.00% | 09/01/ |
| Federal National Mortgage Association, STRIP | | | |
| 1,693,714 | Series 406, Class 6, IO..... | 4.00% | 01/01/ |
| Government National Mortgage Association | | | |
| 104,582 | Series 2005-68, Class DP (c)..... | 15.07% | 06/17/ |
| 314,552 | Series 2009-65, Class NJ, IO..... | 5.50% | 07/01/ |
| 1,523,997 | Series 2010-115, Class IQ, IO..... | 4.50% | 11/01/ |
| 715,000 | Series 2010-61, Class KE..... | 5.00% | 05/01/ |
| 1,990,461 | Series 2011-131, Class EI, IO..... | 4.50% | 08/01/ |

See Notes to Financial Statements

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FIRST TRUST MORTGAGE INCOME FUND (FMY)
 PORTFOLIO OF INVESTMENTS (CONTINUED)
 OCTOBER 31, 2016

| PRINCIPAL VALUE | DESCRIPTION | STATED COUPON | STATE MATURI |
|--------------------|-------------|------------------|-----------------|
|--------------------|-------------|------------------|-----------------|

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U.S. GOVERNMENT AGENCY MORTGAGE-BACKED SECURITIES (CONTINUED)

| COMMERCIAL MORTGAGE-BACKED SECURITIES - 0.3% | | | | |
|--|-----------|--|-------|--------|
| | | Government National Mortgage Association | | |
| \$ | 218,000 | Series 2013-57, Class D..... | 2.35% | 06/01/ |
| PASS-THROUGH SECURITIES - 11.0% | | | | |
| Federal Home Loan Mortgage Corp. | | | | |
| | 988,290 | Gold Pool..... | 3.00% | 08/01/ |
| | 729,929 | Pool A94738..... | 4.50% | 11/01/ |
| | 553,110 | Pool K36017..... | 5.00% | 09/01/ |
| Federal National Mortgage Association | | | | |
| | 1,181,087 | Pool 831145..... | 6.00% | 12/01/ |
| | 1,150,052 | Pool 843971..... | 6.00% | 11/01/ |
| | 981,571 | Pool AS9194..... | 4.50% | 12/01/ |
| | 951,945 | Pool AT2720..... | 3.00% | 05/01/ |

TOTAL U.S. GOVERNMENT AGENCY MORTGAGE-BACKED SECURITIES.....
(Cost \$16,862,165)

ASSET-BACKED SECURITIES - 1.5%

| | | | | |
|-------------------------------|---------|------------------------------|-------|--------|
| Green Tree Financial Corp. | | | | |
| | 10,876 | Series 1997-2, Class A6..... | 7.24% | 06/15/ |
| | 26,279 | Series 1997-3, Class A6..... | 7.32% | 03/15/ |
| | 21,502 | Series 1997-7, Class A6..... | 6.76% | 07/15/ |
| Mid-State Capital Corp. Trust | | | | |
| | 489,506 | Series 2004-1, Class M1..... | 6.50% | 08/01/ |
| | 353,304 | Series 2005-1, Class A..... | 5.75% | 01/01/ |

TOTAL ASSET-BACKED SECURITIES.....
(Cost \$987,120)

TOTAL INVESTMENTS - 91.9%.....
(Cost \$63,583,503) (e)

NET OTHER ASSETS AND LIABILITIES - 8.1%.....

NET ASSETS - 100.0%.....

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See Notes to Financial Statements

FIRST TRUST MORTGAGE INCOME FUND (FMY)
PORTFOLIO OF INVESTMENTS (CONTINUED)
OCTOBER 31, 2016

(a) Floating or variable rate security. The interest rate shown reflects the rate in effect at October 31, 2016.

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- (b) This security, sold within the terms of a private placement memorandum, is exempt from registration upon resale under Rule 144A of the Securities Act of 1933, as amended (the "1933 Act"), and may be resold in transactions exempt from registration, normally to qualified institutional buyers. Pursuant to procedures adopted by the Fund's Board of Trustees, this security has been determined to be liquid by First Trust Advisors L.P. ("First Trust" or the "Advisor"), the Fund's advisor. Although market instability can result in periods of increased overall market illiquidity, liquidity for each security is determined based on security specific factors and assumptions, which require subjective judgment. At October 31, 2016, securities noted as such amounted to \$7,359,672, or 11.25% of net assets.
- (c) Inverse floating rate instrument. The interest rate shown reflects the rate in effect at October 31, 2016.
- (d) This security, sold within the terms of a private placement memorandum, is exempt from registration upon resale under Rule 144A of the 1933 Act, and may be resold in transactions exempt from registration, normally to qualified institutional buyers (see Note 2C - Restricted Securities in the Notes to Financial Statements).
- (e) Aggregate cost for federal income tax purposes is \$63,698,974. As of October 31, 2016, the aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost was \$1,313,742 and the aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value was \$4,878,724.
- IO Interest-Only Security - Principal amount shown represents par value on which interest payments are based.

STRIP Separate Trading of Registered Interest and Principal of Securities

----- VALUATION INPUTS

A summary of the inputs used to value the Fund's investments as of October 31, 2016 is as follows (see Note 2A - Portfolio Valuation in the Notes to Financial Statements):

| | TOTAL VALUE AT 10/31/2016 | LEVEL 1 QUOTED PRICES | LEVEL 2 SIGNIFICA OBSERVABL INPUTS |
|---|---------------------------------|-----------------------------|---|
| | ----- | ----- | ----- |
| Mortgage-Backed Securities..... | \$ 45,252,813 | \$ -- | \$ 45,252, |
| U.S. Government Agency Mortgage-Backed Securities.. | 13,909,241 | -- | 13,909, |
| Asset-Backed Securities..... | 971,938 | -- | 971, |
| Total Investments..... | \$ 60,133,992 | \$ -- | \$ 60,133, |
| | ===== | ===== | ===== |

All transfers in and out of the Levels during the period are assumed to be transferred on the last day of the period at their current value. There were no transfers between Levels at October 31, 2016.

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See Notes to Financial Statements

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FIRST TRUST MORTGAGE INCOME FUND (FMY)
STATEMENT OF ASSETS AND LIABILITIES
OCTOBER 31, 2016

ASSETS:

Investments, at value
(Cost \$63,583,503).....
Cash.....
Restricted cash.....
Interest receivable.....

Total Assets.....

LIABILITIES:

Payables:

Investment securities purchased.....
Audit and tax fees.....
Investment advisory fees.....
Printing fees.....
Administrative fees.....
Transfer agent fees.....
Custodian fees.....
Trustees' fees and expenses.....
Legal fees.....
Financial reporting fees.....
Other liabilities.....

Total Liabilities.....

NET ASSETS.....

NET ASSETS CONSIST OF:

Paid-in capital.....
Par value.....
Accumulated net investment income (loss).....
Accumulated net realized gain (loss) on investments.....
Net unrealized appreciation (depreciation) on investments.....

NET ASSETS.....

NET ASSET VALUE, per Common Share outstanding (par value \$0.01 per Common Share).....

Number of Common Shares outstanding (unlimited number of Common Shares has been authorized)....

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FIRST TRUST MORTGAGE INCOME FUND (FMY)
 STATEMENT OF OPERATIONS
 FOR THE YEAR ENDED OCTOBER 31, 2016

INVESTMENT INCOME:

Interest.....
 Total investment income.....

EXPENSES:

Investment advisory fees.....
 Audit and tax fees.....
 Administrative fees.....
 Transfer agent fees.....
 Printing fees.....
 Interest expense on reverse repurchase agreements.....
 Trustees' fees and expenses.....
 Custodian fees.....
 Financial reporting fees.....
 Legal fees.....
 Other.....
 Total expenses.....

NET INVESTMENT INCOME.....

NET REALIZED AND UNREALIZED GAIN (LOSS):

 Net realized gain (loss) on investments.....
 Net change in unrealized appreciation (depreciation) on investments.....

NET REALIZED AND UNREALIZED GAIN (LOSS).....

NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS.....

See Notes to Financial Statements

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FIRST TRUST MORTGAGE INCOME FUND (FMY)
 STATEMENTS OF CHANGES IN NET ASSETS

OPERATIONS:

| | | |
|-----------------------------------|----|----|
| Net investment income (loss)..... | \$ | (7 |
| Net realized gain (loss)..... | | 41 |

FOR TH
 YEAR
 ENDED
 10/31/2

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| | |
|--|----------|
| Net change in unrealized appreciation (depreciation)..... | 1,28 |
| Net increase (decrease) in net assets resulting from operations..... | 1,63 |
| DISTRIBUTIONS TO SHAREHOLDERS FROM: | |
| Net investment income..... | (2,26) |
| Return of capital..... | (1,56) |
| Total distributions to shareholders..... | (3,83) |
| Total increase (decrease) in net assets..... | (2,20) |
| NET ASSETS: | |
| Beginning of period..... | 67,63 |
| End of period..... | \$ 65,43 |
| Accumulated net investment income (loss) at end of period..... | \$ (11) |
| CAPITAL TRANSACTIONS WERE AS FOLLOWS: | |
| Common Shares at end of period..... | 4,21 |

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See Notes to Financial Statements

FIRST TRUST MORTGAGE INCOME FUND (FMY)
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED OCTOBER 31, 2016

| | |
|--|---------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | |
| Net increase (decrease) in net assets resulting from operations..... | \$ 1,63 |
| Adjustments to reconcile net increase (decrease) in net assets resulting from operations to net cash used in operating activities: | |
| Purchases of investments..... | (31,54) |
| Sales, maturities and paydowns on investments..... | 34,83 |
| Net amortization/accretion of premiums/discounts on investments..... | 3,02 |
| Net realized gain/loss on investments..... | (41) |
| Net change in unrealized appreciation/depreciation on investments..... | (1,28) |
| CHANGES IN ASSETS AND LIABILITIES: | |
| Increase in interest receivable..... | (1) |
| Decrease in prepaid expenses..... | |
| Decrease in interest payable on reverse repurchase agreements..... | (|
| Decrease in investment advisory fees payable..... | (1 |
| Increase in legal fees payable..... | |
| Increase in printing fees payable..... | |
| Decrease in administrative fees payable..... | (|
| Increase in custodian fees payable..... | |
| Increase in transfer agent fees payable..... | |
| Increase in Trustees' fees and expenses payable..... | |
| Increase in financial reporting fees payable..... | |
| Increase in other liabilities payable..... | |
| CASH PROVIDED BY OPERATING ACTIVITIES..... | |

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CASH FLOWS FROM FINANCING ACTIVITIES:

| | |
|--|--------|
| Distributions to Common Shareholders from net investment income..... | (2,26 |
| Distributions to Common Shareholders from return of capital..... | (1,56 |
| Repurchases of reverse repurchase agreements..... | (48,61 |
| Reverse repurchase agreements borrowings..... | 43,30 |

CASH USED IN FINANCING ACTIVITIES.....

| | |
|----------------------------------|--|
| Decrease in cash..... | |
| Cash at beginning of period..... | |

CASH AT END OF PERIOD.....

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

| | |
|---|--|
| Cash paid during the period for interest..... | |
|---|--|

See Notes to Financial Statements

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FIRST TRUST MORTGAGE INCOME FUND (FMY)

FINANCIAL HIGHLIGHTS

FOR A COMMON SHARE OUTSTANDING THROUGHOUT EACH PERIOD

| | YEAR ENDED OCTOBER 31, | | | |
|--|------------------------|----------|-----------|----------|
| | 2016 (a) | 2015 | 2014 | 2013 |
| Net asset value, beginning of period..... | \$ 16.05 | \$ 17.02 | \$ 17.63 | \$ 17.91 |
| INCOME FROM INVESTMENT OPERATIONS: | | | | |
| Net investment income (loss)..... | (0.02) | 1.02 | 1.02 | 1.25 |
| Net realized and unrealized gain (loss).... | 0.41 | (0.97) | (0.61) | (0.28) |
| Total from investment operations..... | 0.39 | 0.05 | 0.41 | 0.97 |
| DISTRIBUTIONS PAID TO SHAREHOLDERS FROM: | | | | |
| Net investment income..... | (0.54) | (0.47) | (1.02) | (1.25) |
| Return of capital..... | (0.37) | (0.55) | -- | -- |
| Total distributions to Common Shareholders..... | (0.91) | (1.02) | (1.02) | (1.25) |
| Premium from shares sold in Common Share offering..... | -- | -- | -- | -- |
| Net asset value, end of period..... | \$ 15.53 | \$ 16.05 | \$ 17.02 | \$ 17.63 |
| Market value, end of period..... | \$ 14.00 | \$ 14.58 | \$ 15.12 | \$ 15.79 |
| TOTAL RETURN BASED ON NET ASSET VALUE (b)... | 3.05% | 1.06% | 3.01% (c) | 6.04% |

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| | | | | |
|--|----------|----------|----------|----------|
| TOTAL RETURN BASED ON MARKET VALUE (b)..... | 2.26% | 3.34% | 2.17% | (10.47)% |
| | ===== | ===== | ===== | ===== |
| ----- | | | | |
| RATIOS TO AVERAGE NET ASSETS/ SUPPLEMENTAL DATA: | | | | |
| Net assets, end of period (in 000's)..... | \$65,437 | \$67,639 | \$71,708 | \$74,259 |
| Ratio of total expenses to average net assets..... | 1.47% | 1.55% | 1.78% | 1.96% |
| Ratio of total expenses to average net assets excluding interest expense..... | 1.43% | 1.51% | 1.72% | 1.83% |
| Ratio of net investment income (loss) to average net assets..... | (0.11)% | 6.18% | 5.84% | 7.01% |
| Portfolio turnover rate..... | 49% | 46% | 54% | 109% |
| ----- | | | | |

- (a) Effective September 19, 2016, the portfolio management of the Fund transitioned to the First Trust Mortgage Securities Team. Schroder Investment Management North America Inc. acquired the portfolio management team of Brookfield Investment Management Inc. ("Brookfield"), previously responsible for the portfolio management of the Fund, resulting in the automatic termination of the investment sub-advisory agreement among Brookfield, First Trust and the Fund. In connection with the change in portfolio management, First Trust agreed to lower the investment management fee payable by the Fund to a rate of 0.85% of the Fund's managed assets, a decrease from the Fund's previous investment management fee of 1.00% of the Fund's managed assets.
- (b) Total return is based on the combination of reinvested dividend, capital gain and return of capital distributions, if any, at prices obtained by the Dividend Reinvestment Plan, and changes in net asset value per share for net asset value returns and changes in Common Share Price for market value returns. Total returns do not reflect sales load and are not annualized for periods of less than one year. Past performance is not indicative of future results.
- (c) The Fund received reimbursements from Brookfield in the amount of \$1,180 and \$5,310 for the years ended October 31, 2014 and 2013, respectively. The reimbursements from Brookfield represent less than \$0.01 per share and had no effect on the Fund's total return.

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See Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS

FIRST TRUST MORTGAGE INCOME FUND (FMY)
OCTOBER 31, 2016

1. ORGANIZATION

First Trust Mortgage Income Fund (the "Fund") is a diversified, closed-end management investment company organized as a Massachusetts business trust on February 22, 2005, and is registered with the Securities and Exchange Commission

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(the "SEC") under the Investment Company Act of 1940, as amended (the "1940 Act"). The Fund trades under the ticker symbol FMY on the New York Stock Exchange ("NYSE").

The Fund's primary investment objective is to seek a high level of current income. As a secondary objective, the Fund seeks to preserve capital. The Fund pursues these objectives by investing primarily in mortgage-backed securities that, in the opinion of First Trust Advisors L.P. ("First Trust" or the "Advisor"), offer an attractive combination of credit quality, yield and maturity. There can be no assurance that the Fund's investment objectives will be achieved. The Fund may not be appropriate for all investors.

2. SIGNIFICANT ACCOUNTING POLICIES

The Fund is considered an investment company and follows accounting and reporting guidance under Financial Accounting Standards Board Accounting Standards Codification Topic 946, "Financial Services-Investment Companies." The following is a summary of significant accounting policies consistently followed by the Fund in the preparation of its financial statements. The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

A. PORTFOLIO VALUATION

The net asset value ("NAV") of the Common Shares of the Fund is determined daily, as of the close of regular trading on the NYSE, normally 4:00 p.m. Eastern time, on each day the NYSE is open for trading. If the NYSE closes early on a valuation day, the NAV is determined as of that time. Domestic debt securities and foreign securities are priced using data reflecting the earlier closing of the principal markets for those securities. The NAV per Common Share is calculated by dividing the value of all assets of the Fund (including accrued interest and dividends), less all liabilities (including accrued expenses, dividends declared but unpaid and any borrowings of the Fund), by the total number of Common Shares outstanding.

The Fund's investments are valued daily at market value or, in the absence of market value with respect to any portfolio securities, at fair value. Market value prices represent last sale or official closing prices from a national or foreign exchange (i.e., a regulated market) and are primarily obtained from third-party pricing services. Fair value prices represent any prices not considered market value prices and are either obtained from a third-party pricing service or are determined by the Advisor's Pricing Committee, in accordance with valuation procedures adopted by the Fund's Board of Trustees, and in accordance with provisions of the 1940 Act. Investments valued by the Advisor's Pricing Committee, if any, are footnoted as such in the footnotes to the Portfolio of Investments. The Fund's investments are valued as follows:

U.S. government securities, mortgage-backed securities, asset-backed securities and other debt securities are fair valued on the basis of valuations provided by dealers who make markets in such securities or by a third-party pricing service approved by the Fund's Board of Trustees, which may use the following valuation inputs when available:

- 1) benchmark yields;
- 2) reported trades;
- 3) broker/dealer quotes;
- 4) issuer spreads;

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- 5) benchmark securities;
- 6) bids and offers; and
- 7) reference data including market research publications.

Fixed income and other debt securities having a remaining maturity of sixty days or less when purchased are fair valued at cost adjusted for amortization of premiums and accretion of discounts (amortized cost), provided the Advisor's Pricing Committee has determined that the use of amortized cost is an appropriate reflection of fair value given market and issuer-specific conditions existing at the time of the determination. Factors that may be considered in determining the appropriateness of the use of amortized cost include, but are not limited to, the following:

- 1) the credit conditions in the relevant market and changes thereto;
- 2) the liquidity conditions in the relevant market and changes thereto;
- 3) the interest rate conditions in the relevant market and changes thereto (such as significant changes in interest rates);
- 4) issuer-specific conditions (such as significant credit deterioration); and
- 5) any other market-based data the Advisor's Pricing Committee considers relevant. In this regard, the Advisor's Pricing Committee may use last-obtained market-based data to assist it when valuing portfolio securities using amortized cost.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

FIRST TRUST MORTGAGE INCOME FUND (FMY)
OCTOBER 31, 2016

Certain securities may not be able to be priced by pre-established pricing methods. Such securities may be valued by the Fund's Board of Trustees or its delegate, the Advisor's Pricing Committee, at fair value. These securities generally include, but are not limited to, restricted securities (securities which may not be publicly sold without registration under the Securities Act of 1933, as amended (the "1933 Act")) for which a third-party pricing service is unable to provide a market price; securities whose trading has been formally suspended; a security whose market or fair value price is not available from a pre-established pricing source; a security with respect to which an event has occurred that is likely to materially affect the value of the security after the market has closed but before the calculation of the Fund's NAV or make it difficult or impossible to obtain a reliable market quotation; and a security whose price, as provided by the third-party pricing service, does not reflect the security's fair value. As a general principle, the current fair value of a security would appear to be the amount which the owner might reasonably expect to receive for the security upon its current sale. When fair value prices are

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used, generally they will differ from market quotations or official closing prices on the applicable exchanges. A variety of factors may be considered in determining the fair value of such securities, including, but not limited to, the following:

- 1) the fundamental business data relating to the issuer;
- 2) an evaluation of the forces which influence the market in which these securities are purchased and sold;
- 3) the type, size and cost of security;
- 4) the financial statements of the issuer;
- 5) the credit quality and cash flow of the issuer, based on the Advisor's or external analysis;
- 6) the information as to any transactions in or offers for the security;
- 7) the price and extent of public trading in similar securities (or equity securities) of the issuer/borrower, or comparable companies;
- 8) the coupon payments;
- 9) the quality, value and salability of collateral, if any, securing the security;
- 10) the business prospects of the issuer, including any ability to obtain money or resources from a parent or affiliate and an assessment of the issuer's management;
- 11) the prospects for the issuer's industry, and multiples (of earnings and/or cash flows) being paid for similar businesses in that industry; and
- 12) other relevant factors.

The Fund is subject to fair value accounting standards that define fair value, establish the framework for measuring fair value and provide a three-level hierarchy for fair valuation based upon the inputs to the valuation as of the measurement date. The three levels of the fair value hierarchy are as follows:

- o Level 1 - Level 1 inputs are quoted prices in active markets for identical investments. An active market is a market in which transactions for the investment occur with sufficient frequency and volume to provide pricing information on an ongoing basis.
- o Level 2 - Level 2 inputs are observable inputs, either directly or indirectly, and include the following:
 - o Quoted prices for similar investments in active markets.
 - o Quoted prices for identical or similar investments in markets that are non-active. A non-active market is a market where there are few transactions for the investment, the prices are not current, or price quotations vary substantially either over time or among market makers, or in which little information is released publicly.
 - o Inputs other than quoted prices that are observable for the investment (for example, interest rates and yield curves

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observable at commonly quoted intervals, volatilities, prepayment speeds, loss severities, credit risks, and default rates).

- o Inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- o Level 3 - Level 3 inputs are unobservable inputs. Unobservable inputs may reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the investment.

The inputs or methodologies used for valuing investments are not necessarily an indication of the risk associated with investing in those investments. A summary of the inputs used to value the Fund's investments as of October 31, 2016, is included with the Fund's Portfolio of Investments.

B. SECURITIES TRANSACTIONS AND INVESTMENT INCOME

Securities transactions are recorded as of the trade date. Realized gains and losses from securities transactions are recorded on the identified cost basis. Interest income is recorded daily on the accrual basis. Amortization of premiums and the accretion of discounts are recorded using the effective interest method.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

FIRST TRUST MORTGAGE INCOME FUND (FMY)
OCTOBER 31, 2016

The Fund invests in interest-only securities. For these securities, if there is a change in the estimated cash flows, based on an evaluation of current information, then the estimated yield is adjusted. Additionally, if the evaluation of current information indicates a permanent impairment of the security, the cost basis of the security is written down and a loss is recognized. Debt obligations may be placed on non-accrual status and the related interest income may be reduced by ceasing current accruals and writing off interest receivables when the collection of all or a portion of interest has become doubtful based on consistently applied procedures. A debt obligation is removed from non-accrual status when the issuer resumes interest payments or when collectability of interest is reasonably assured.

Securities purchased or sold on a when-issued, delayed-delivery or forward purchase commitment basis may have extended settlement periods. The value of the security so purchased is subject to market fluctuations during this period. The Fund maintains liquid assets with a current value at least equal to the amount of its when-issued, delayed-delivery or forward purchase commitments until payment is made. At October 31, 2016 the Fund had no when-issued, delayed-delivery or forward purchase commitments.

C. RESTRICTED SECURITIES

The Fund invests in restricted securities, which are securities that may not be

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offered for public sale without first being registered under the 1933 Act. Prior to registration, restricted securities may only be resold in transactions exempt from registration under Rule 144A under the 1933 Act, normally to qualified institutional buyers. As of October 31, 2016, the Fund held restricted securities as shown in the following table that the Advisor has deemed illiquid pursuant to procedures adopted by the Fund's Board of Trustees. Although market instability can result in periods of increased overall market illiquidity, liquidity for each security is determined based on security-specific factors and assumptions, which require subjective judgment. The Fund does not have the right to demand that such securities be registered. These securities are valued according to the valuation procedures as stated in the Portfolio Valuation note (Note 2A) and are not expressed as a discount to the carrying value of a comparable unrestricted security. There are no unrestricted securities with the same maturity dates and yields for these issuers.

| SECURITY | Acquisition Date | Principal Value | Current Price | Carrying Cost | |
|--|---------------------|--------------------|------------------|------------------|-------|
| ----- | | | | | |
| BXHTL Mortgage Trust, Series 2015-JWRZ, Class B | 6/19/15 | \$ 800,000 | \$ 99.49 | \$ 800,000 | \$ |
| Waldorf Astoria Boca Raton Trust, Series 2016-BOCA, Class E | 7/12/16 | 1,000,000 | 100.15 | 1,000,000 | 1 |
| | | | | ----- | ----- |
| | | | | \$ 1,800,000 | \$ 1 |
| | | | | ===== | ===== |

D. REVERSE REPURCHASE AGREEMENTS

During the period November 1, 2015 to July 27, 2016, reverse repurchase agreements were utilized as leverage for the Fund. A reverse repurchase agreement, although structured as a sale and repurchase obligation, acts as financing under which Fund assets are pledged as collateral to secure a short-term loan. Generally, the other party to the agreement makes the loan in an amount equal to a percentage of the market value of the pledged collateral. At the maturity of the reverse repurchase agreement, the loan will be repaid and the collateral will correspondingly be received back by the Fund. While used as collateral, the assets continue to pay principal and interest which are for the benefit of the Fund.

Restricted cash in the amount of \$788,066, as shown on the Statement of Assets and Liabilities, is pledged as collateral for reverse repurchase agreements.

Information for the period during which reverse repurchase agreements were outstanding:

| | |
|---|--------------|
| Maximum amount outstanding during the period..... | \$ 5,309,000 |
| Average amount outstanding during the period*..... | \$ 5,031,413 |
| Average Common Shares outstanding during the period..... | 4,213,115 |
| Average debt per Common Share outstanding during the period... \$ | 1.19 |

* The average amount outstanding during the period was calculated by adding the borrowings at the end of each day and dividing the sum by the number of days during which reverse repurchase agreements were outstanding in the year ended October 31, 2016.

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During the year ended October 31, 2016, the interest rates ranged from 0.42% to 0.75%, with a weighted average interest rate of 0.66%, on borrowings by the Fund under reverse repurchase agreements, which had interest expense that aggregated \$25,073.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

FIRST TRUST MORTGAGE INCOME FUND (FMY) OCTOBER 31, 2016

E. INVERSE FLOATING-RATE SECURITIES

An inverse floating-rate security is one where the coupon is inversely indexed to a short-term floating interest rate multiplied by a specific factor. As the floating rate rises, the coupon is reduced. Conversely, as the floating rate declines, the coupon is increased. The price of these securities may be more volatile than the price of a comparable fixed-rate security. These instruments are typically used to enhance the yield of the portfolio and have the effect of creating leverage. These securities, if any, are identified on the Portfolio of Investments.

F. STRIPPED MORTGAGE-BACKED SECURITIES

Stripped Mortgage-Backed Securities are created by segregating the cash flows from underlying mortgage loans or mortgage securities to create two or more new securities, each with a specified percentage of the underlying security's principal or interest payments. Mortgage securities may be partially stripped so that each investor class receives some interest and some principal. When securities are completely stripped, however, all of the interest is distributed to holders of one type of security known as an interest-only security ("IO Security") and all of the principal is distributed to holders of another type of security known as a principal-only security. These securities, if any, are identified on the Portfolio of Investments.

G. INTEREST-ONLY SECURITIES

An IO Security is the interest-only portion of a mortgage-backed security that receives some or all of the interest portion of the underlying mortgage-backed security and little or no principal. A reference principal value called a notional value is used to calculate the amount of interest due to the IO Security. IO Securities are sold at a deep discount to their notional principal amount. Generally speaking, when interest rates are falling and prepayment rates are increasing, the value of an IO Security will fall. Conversely, when interest rates are rising and prepayment rates are decreasing, generally the value of an IO Security will rise. These securities, if any, are identified on the Portfolio of Investments.

H. DIVIDENDS AND DISTRIBUTIONS TO SHAREHOLDERS

The Fund will distribute to holders of its Common Shares monthly dividends of all or a portion of its net income after the payment of interest and dividends in connection with leverage, if any. Distributions of any net long-term capital

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gains earned by the Fund are distributed at least annually. Distributions will automatically be reinvested into additional Common Shares pursuant to the Fund's Dividend Reinvestment Plan unless cash distributions are elected by the shareholder.

Distributions from income and capital gains are determined in accordance with federal income tax regulations, which may differ from U.S. GAAP. Certain capital accounts in the financial statements are periodically adjusted for permanent differences in order to reflect their tax character. These permanent differences are primarily due to the varying treatment of income and gain/loss on portfolio securities held by the Fund and have no impact on net assets or NAV per share. Temporary differences, which arise from recognizing certain items of income, expense and gain/loss in different periods for financial statement and tax purposes, will reverse at some point in the future. Permanent differences incurred during the fiscal year ended October 31, 2016, primarily as a result of differing book/tax treatment on recognition of amortization/accretion on portfolio holdings, have been reclassified at year end to reflect an increase in accumulated net investment income (loss) by \$939,126 and a decrease in accumulated net realized gain (loss) on investments by \$939,126. Net assets were not affected by this reclassification.

The tax character of distributions paid during the fiscal year ended October 31, 2016, and 2015, was as follows:

| Distributions paid from: | 2016 | 2015 |
|--------------------------|--------------|--------------|
| Ordinary income..... | \$ 2,266,839 | \$ 1,990,325 |
| Capital gain..... | -- | -- |
| Return of capital..... | 1,567,096 | 2,307,052 |

As of October 31, 2016, the distributable earnings and net assets on a tax basis were as follows:

| | |
|---|---------------|
| Undistributed ordinary income..... | \$ -- |
| Undistributed capital gains..... | -- |
| | ----- |
| Total undistributed earnings..... | -- |
| Accumulated capital and other losses..... | (4,993,262) |
| Net unrealized appreciation (depreciation)..... | (3,564,982) |
| | ----- |
| Total accumulated earnings (losses)..... | (8,558,244) |
| Other..... | -- |
| Paid-in capital..... | 73,995,082 |
| | ----- |
| Net assets..... | \$ 65,436,838 |
| | ===== |

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

FIRST TRUST MORTGAGE INCOME FUND (FMY)
OCTOBER 31, 2016

I. INCOME TAXES

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The Fund intends to continue to qualify as a regulated investment company by complying with the requirements under Subchapter M of the Internal Revenue Code of 1986, as amended, which includes distributing substantially all of its net investment income and net realized gains to shareholders. Accordingly, no provision has been made for federal and state income taxes. However, due to the timing and amount of distributions, the Fund may be subject to an excise tax of 4% of the amount by which approximately 98% of the Fund's taxable income exceeds the distributions from such taxable income for the calendar year.

Under the Regulated Investment Company Modernization Act of 2010 (the "Act"), net capital losses arising in taxable years after December 22, 2010, may be carried forward indefinitely, and their character is retained as short-term and/or long-term losses. Previously, net capital losses were carried forward for up to eight years and treated as short-term losses. As a transition rule, the Act requires that post-enactment net capital losses be used before pre-enactment net capital losses. At October 31, 2016, the Fund had pre-enactment net capital losses for federal income tax purposes of \$3,349,872. At October 31, 2016, the Fund had post-enactment net capital losses for federal income tax purposes of \$1,643,390 to be carried forward indefinitely. The pre-enactment net capital losses for federal income tax purposes will expire as follows:

| EXPIRATION DATE | AMOUNT |
|------------------|--------------|
| October 31, 2017 | \$ 1,927,985 |
| October 31, 2018 | \$ 1,421,887 |

During the taxable year ended October 31, 2016, the Fund did not utilize any pre-enactment capital loss carryforwards.

The Fund is subject to certain limitations under the U.S. tax rules on the use of capital loss carryforwards and net unrealized built-in losses. These limitations apply when there has been a 50% change in ownership.

The Fund is subject to accounting standards that establish a minimum threshold for recognizing, and a system for measuring, the benefits of a tax position taken or expected to be taken in a tax return. Taxable years ended 2013, 2014, 2015 and 2016 remain open to federal and state audit. As of October 31, 2016, management has evaluated the application of these standards to the Fund and has determined that no provision for income tax is required in the Fund's financial statements for uncertain tax positions.

J. EXPENSES

The Fund will pay all expenses directly related to its operations.

K. NEW AND AMENDED FINANCIAL REPORTING RULES AND FORMS

On October 13, 2016, the SEC adopted new rules and forms, and amended existing rules and forms. The new and amended rules and forms are intended to modernize the reporting of information provided by funds and to improve the quality and type of information that funds provide to the SEC and investors. The new and amended rules and forms will be effective for the First Trust funds, including the Fund, for reporting periods beginning on and after June 1, 2018. Management is evaluating the new and amended rules and forms to determine the impact to the Fund.

3. INVESTMENT ADVISORY FEE, AFFILIATED TRANSACTIONS AND OTHER FEE ARRANGEMENTS

First Trust, the investment advisor to the Fund, is a limited partnership with one limited partner, Grace Partners of DuPage L.P., and one general partner, The Charger Corporation. The Charger Corporation is an Illinois corporation controlled by James A. Bowen, Chief Executive Officer of First Trust. First

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Trust is responsible for the ongoing monitoring of the Fund's investment portfolio, managing the Fund's business affairs and providing certain administrative services necessary for the management of the Fund. For these investment management services, First Trust is entitled to a monthly fee calculated at an annual rate of 0.85% of the Fund's Managed Assets (the average daily total asset value of the Fund minus the sum of the Fund's liabilities other than the principal amount of borrowings or reverse repurchase agreements, if any). First Trust also provides fund reporting services to the Fund for a flat annual fee in the amount of \$9,250.

Prior to September 19, 2016, Brookfield Investment Management Inc. ("Brookfield") served as the Fund's sub-advisor and managed the Fund's portfolio subject to First Trust's supervision. Brookfield received a portfolio management fee equal to an annual rate of 0.50% of the Fund's Managed Assets that was paid monthly by First Trust from its investment advisory fee.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

FIRST TRUST MORTGAGE INCOME FUND (FMY) OCTOBER 31, 2016

Effective September 19, 2016, the portfolio management of the Fund transitioned to the First Trust Mortgage Securities Team. Schroder Investment Management North America Inc. acquired the portfolio management team of Brookfield, resulting in the automatic termination of the investment sub-advisory agreement among Brookfield, First Trust and the Fund. In connection with the change in portfolio management, First Trust agreed to lower the investment management fee payable by the Fund to a rate of 0.85% of the Fund's Managed Assets, a decrease from the Fund's previous investment management fee of 1.00% of the Fund's Managed Assets.

BNY Mellon Investment Servicing (US) Inc. ("BNYM IS") serves as the Fund's administrator, fund accountant and transfer agent in accordance with certain fee arrangements. As administrator and fund accountant, BNYM IS is responsible for providing certain administrative and accounting services to the Fund, including maintaining the Fund's books of account, records of the Fund's securities transactions, and certain other books and records. As transfer agent, BNYM IS is responsible for maintaining shareholder records for the Fund. The Bank of New York Mellon ("BNYM") serves as the Fund's custodian in accordance with certain fee arrangements. As custodian, BNYM is responsible for custody of the Fund's assets. BNYM IS and BNYM are subsidiaries of The Bank of New York Mellon Corporation, a financial holding company.

Each Trustee who is not an officer or employee of First Trust, any sub-advisor or any of their affiliates ("Independent Trustees") is paid a fixed annual retainer that is allocated equally among each fund in the First Trust Fund Complex. Prior to January 1, 2016, the fixed annual retainer was allocated pro rata based on each fund's net assets. Each Independent Trustee is also paid an annual per fund fee that varies based on whether the fund is a closed-end or other actively managed fund, or is an index fund.

Additionally, the Lead Independent Trustee and the Chairmen of the Audit

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Committee, Nominating and Governance Committee and Valuation Committee are paid annual fees to serve in such capacities, with such compensation allocated pro rata among each fund in the First Trust Fund Complex based on net assets. Independent Trustees are reimbursed for travel and out-of-pocket expenses in connection with all meetings. The Lead Independent Trustee and Committee Chairmen rotate every three years. The officers and "Interested" Trustee receive no compensation from the Fund for acting in such capacities.

4. PURCHASES AND SALES OF SECURITIES

The cost of purchases of U.S. Government securities and non-U.S. Government securities, excluding short-term investments, for the year ended October 31, 2016, were \$22,019,339 and \$8,360,291, respectively. The proceeds from sales and paydowns of U.S. Government securities and non-U.S. Government securities, excluding short-term investments, for the year ended October 31, 2016, were \$19,128,642 and \$15,703,455, respectively.

5. INDEMNIFICATION

The Fund has a variety of indemnification obligations under contracts with its service providers. The Fund's maximum exposure under these arrangements is unknown. However, the Fund has not had prior claims or losses pursuant to these contracts and expects the risk of loss to be remote.

6. SUBSEQUENT EVENT

Management has evaluated the impact of all subsequent events to the Fund through the date the financial statements were issued, and has determined that there was the following subsequent event:

On November 21, 2016, the Fund declared a distribution of \$0.065 per share to Common Shareholders of record on December 5, 2016, payable December 12, 2016.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

TO THE BOARD OF TRUSTEES AND SHAREHOLDERS OF FIRST TRUST MORTGAGE INCOME FUND:

We have audited the accompanying statement of assets and liabilities of First Trust Mortgage Income Fund (the "Fund"), including the portfolio of investments, as of October 31, 2016, and the related statements of operations and cash flows for the year then ended, the statements of changes in net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. The Fund is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of

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internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Our procedures included confirmation of securities owned as of October 31, 2016, by correspondence with the Fund's custodian and brokers; where replies were not received from brokers, we performed other auditing procedures. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of the First Trust Mortgage Income Fund as of October 31, 2016, the results of its operations and its cash flows for the year then ended, the changes in its net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ Deloitte & Touche LLP

Chicago, Illinois
December 20, 2016

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ADDITIONAL INFORMATION

FIRST TRUST MORTGAGE INCOME FUND (FMY) OCTOBER 31, 2016 (UNAUDITED)

DIVIDEND REINVESTMENT PLAN

If your Common Shares are registered directly with the Fund or if you hold your Common Shares with a brokerage firm that participates in the Fund's Dividend Reinvestment Plan (the "Plan"), unless you elect, by written notice to the Fund, to receive cash distributions, all dividends, including any capital gain distributions, on your Common Shares will be automatically reinvested by BNY Mellon Investment Servicing (US) Inc. (the "Plan Agent"), in additional Common Shares under the Plan. If you elect to receive cash distributions, you will receive all distributions in cash paid by check mailed directly to you by the Plan Agent, as the dividend paying agent.

If you decide to participate in the Plan, the number of Common Shares you will receive will be determined as follows:

- (1) If Common Shares are trading at or above net asset value ("NAV") at the time of valuation, the Fund will issue new shares at a price equal to the greater of (i) NAV per Common Share on that date or (ii) 95% of the market price on that date.
- (2) If Common Shares are trading below NAV at the time of valuation, the Plan Agent will receive the dividend or distribution in cash and

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will purchase Common Shares in the open market, on the NYSE or elsewhere, for the participants' accounts. It is possible that the market price for the Common Shares may increase before the Plan Agent has completed its purchases. Therefore, the average purchase price per share paid by the Plan Agent may exceed the market price at the time of valuation, resulting in the purchase of fewer shares than if the dividend or distribution had been paid in Common Shares issued by the Fund. The Plan Agent will use all dividends and distributions received in cash to purchase Common Shares in the open market within 30 days of the valuation date except where temporary curtailment or suspension of purchases is necessary to comply with federal securities laws. Interest will not be paid on any uninvested cash payments.

You may elect to opt-out of or withdraw from the Plan at any time by giving written notice to the Plan Agent, or by telephone at (866) 340-1104, in accordance with such reasonable requirements as the Plan Agent and the Fund may agree upon. If you withdraw or the Plan is terminated, you will receive a certificate for each whole share in your account under the Plan, and you will receive a cash payment for any fraction of a share in your account. If you wish, the Plan Agent will sell your shares and send you the proceeds, minus brokerage commissions.

The Plan Agent maintains all Common Shareholders' accounts in the Plan and gives written confirmation of all transactions in the accounts, including information you may need for tax records. Common Shares in your account will be held by the Plan Agent in non-certificated form. The Plan Agent will forward to each participant any proxy solicitation material and will vote any shares so held only in accordance with proxies returned to the Fund. Any proxy you receive will include all Common Shares you have received under the Plan.

There is no brokerage charge for reinvestment of your dividends or distributions in Common Shares. However, all participants will pay a pro rata share of brokerage commissions incurred by the Plan Agent when it makes open market purchases.

Automatically reinvesting dividends and distributions does not mean that you do not have to pay income taxes due upon receiving dividends and distributions. Capital gains and income are realized although cash is not received by you. Consult your financial advisor for more information.

If you hold your Common Shares with a brokerage firm that does not participate in the Plan, you will not be able to participate in the Plan and any dividend reinvestment may be effected on different terms than those described above.

The Fund reserves the right to amend or terminate the Plan if in the judgment of the Board of Trustees the change is warranted. There is no direct service charge to participants in the Plan; however, the Fund reserves the right to amend the Plan to include a service charge payable by the participants. Additional information about the Plan may be obtained by writing BNY Mellon Investment Servicing (US) Inc., 301 Bellevue Parkway, Wilmington, Delaware 19809.

PROXY VOTING POLICIES AND PROCEDURES

A description of the policies and procedures that the Fund uses to determine how to vote proxies and information on how the Fund voted proxies relating to portfolio securities during the most recent 12-month period ended June 30 is available (1) without charge, upon request, by calling (800) 988-5891; (2) on the Fund's website located at <http://www.ftportfolios.com>; and (3) on the Securities and Exchange Commission's ("SEC") website at <http://www.sec.gov>.

ADDITIONAL INFORMATION (CONTINUED)

FIRST TRUST MORTGAGE INCOME FUND (FMY)
OCTOBER 31, 2016 (UNAUDITED)

PORTFOLIO HOLDINGS

The Fund files its complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. The Fund's Forms N-Q are available (1) by calling (800) 988-5891; (2) on the Fund's website located at <http://www.ftportfolios.com>; (3) on the SEC's website at <http://www.sec.gov>; and (4) for review and copying at the SEC's Public Reference Room ("PRR") in Washington, DC. Information regarding the operation of the PRR may be obtained by calling (800) SEC-0330.

NYSE CERTIFICATION INFORMATION

In accordance with Section 303A-12 of the New York Stock Exchange ("NYSE") Listed Company Manual, the Fund's President has certified to the NYSE that, as of April 26, 2016, he was not aware of any violation by the Fund of NYSE corporate governance listing standards. In addition, the Fund's reports to the SEC on Forms N-CSR, N-CSRS and N-Q contain certifications by the Fund's principal executive officer and principal financial officer that relate to the Fund's public disclosure in such reports and are required by Rule 30a-2 under the 1940 Act.

TAX INFORMATION

Of the ordinary income (including short-term capital gain) distributions made by the Fund during the year ended October 31, 2016, none qualify for the corporate dividends received deduction available to corporate shareholders or as qualified dividend income.

SUBMISSION OF MATTERS TO A VOTE OF SHAREHOLDERS

The Joint Annual Meeting of Shareholders of the Common Shares of Macquarie/First Trust Global Infrastructure/Utilities Dividend & Income Fund, First Trust Energy Income and Growth Fund, First Trust Enhanced Equity Income Fund, First Trust/Aberdeen Global Opportunity Income Fund, First Trust Mortgage Income Fund, First Trust Strategic High Income Fund II, First Trust/Aberdeen Emerging Opportunity Fund, First Trust Specialty Finance and Financial Opportunities Fund, First Trust High Income Long/Short Fund, First Trust Energy Infrastructure Fund, First Trust MLP and Energy Income Fund, First Trust Intermediate Duration Preferred & Income Fund and First Trust New Opportunities MLP & Energy Fund was held on April 22, 2016 (the "Annual Meeting"). At the Annual Meeting, James A. Bowen and Niel B. Nielson were elected by the Common Shareholders of the First Trust Mortgage Income Fund as Class III Trustees for a three-year term expiring at the Fund's annual meeting of shareholders in 2019. The number of votes cast in favor of Mr. Bowen was 3,339,139, the number of votes against was 352,697 and the number of broker non-votes was 521,279. The number of votes cast in favor of Mr. Nielson was 3,332,225, the number of votes against was 359,611 and the number of broker non-votes was 521,279. Richard E. Erickson, Thomas R. Kadlec

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and Robert F. Keith are the other current and continuing Trustees.

RISK CONSIDERATIONS

Risks are inherent in all investing. The following summarizes some of the risks that should be considered for the Fund. For additional information about the risks associated with investing in the Fund, please see the Fund's prospectus and statement of additional information, as well as other Fund regulatory filings.

FIXED-INCOME SECURITIES RISK: Debt securities, including high yield securities, are subject to certain risks, including: (i) issuer risk, which is the risk that the value of fixed-income securities may decline for a number of reasons which directly relate to the issuer, such as management performance, financial leverage and reduced demand for the issuer's goods and services or, in the case of asset-backed issuers, a decline in the value and/or cash flows of the underlying assets; (ii) reinvestment risk, which is the risk that income from the Fund's portfolio will decline if the proceeds from matured, traded or called bonds are invested at market interest rates that are below the Fund portfolio's current earnings rate; and (iii) credit risk, which is the risk that a security in the Fund's portfolio will decline in price or the issuer fails to make interest payments when due because the issuer of the security experiences a decline in its financial status.

INTEREST RATE RISK: The Fund may also hold MBS which are Stripped Mortgage-Backed Securities, IO securities and PO securities. Generally speaking, when interest rates are falling and prepayment rates are increasing, the value of a PO security will rise and the value of an IO security will fall. Conversely, when interest rates are rising and prepayment rates are decreasing, generally the value of a PO security will fall and the value of an IO security will rise.

INVESTMENT AND MARKET RISK: An investment in the Fund's Common Shares is subject to investment risk, including the possible loss of the entire principal invested. An investment in Common Shares represents an indirect investment in the securities owned by the Fund. The value of these securities, like other market investments, may move up or down, sometimes rapidly and unpredictably. Common Shares at any point in time may be worth less than the original investment, even after taking into account the reinvestment of Fund distributions. Security prices can fluctuate for several reasons including the general condition of the securities market, or when political or economic

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ADDITIONAL INFORMATION (CONTINUED)

FIRST TRUST MORTGAGE INCOME FUND (FMY)
OCTOBER 31, 2016 (UNAUDITED)

events affecting the issuers occur, including the risk that borrowers do not pay their mortgages. When the advisor determines that it is temporarily unable to follow the fund's investment strategy or that it is impractical to do so (such as when a market disruption event has occurred and trading in the securities is extremely limited or absent), the advisor may take temporary defensive

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positions.

LEVERAGE RISK: Borrowings up to 33-1/3% (or such other percentage as permitted by law) of Fund assets (including the amount borrowed) less liabilities other than borrowings may be utilized in the Fund. Leverage may be used for investment purposes and to meet cash requirements. The leveraged capital structure creates special risks not associated with unleveraged funds having similar investment objectives and policies. These include the possibility of higher volatility of the NAV of the Fund. Reverse repurchase agreements are used to leverage the Fund's assets. Reverse repurchase agreements are subject to the risks that the market value of the Fund's securities sold may decline below the price of the securities the Fund is obligated to repurchase, and that the securities may not be returned to the Fund. From time to time the amount of the leverage may be changed in response to actual or anticipated changes in interest rates or the value of the Fund's investment portfolio. There can be no assurance that the leverage strategies will be successful.

MORTGAGE AND ASSET-BACKED SECURITIES RISK: The value of mortgage and asset-backed securities can fall if the owners of the underlying mortgages or other obligations pay off their mortgages or other obligations sooner than expected, which could happen when interest rates fall or for other reasons. Mortgage and asset-backed securities are also subject to extension risk, which is the risk that rising interest rates could cause mortgages or other obligations underlying the securities to be prepaid more slowly than expected, which would, in effect, convert a short or medium duration mortgage or asset-backed security into a longer duration security, increasing its sensitivity to interest rate changes and causing its price to decline. Mortgage and asset-backed security values may also be affected by the creditworthiness of the servicing agent for the pool, the originator of the loans or receivables or entities providing for any credit enhancement.

A mortgage backed security may be negatively affected by the quality of the mortgages underlying such security and the structure of its issuer. For example, if a mortgage underlying a certain mortgage backed security defaults, the value of that security may decrease.

Mortgage backed securities issued by a private issuer, such as commercial mortgage backed securities, generally entail greater risk than obligations directly or indirectly guaranteed by the U.S. government or a government sponsored entity.

PREPAYMENT RISK: If borrowers prepay their mortgage loans at rates that are faster than expected, this results in prepayments that are faster than expected on MBS. These faster than expected prepayments may adversely affect the Fund's profitability, particularly if the prepayments must be reinvested at market interest rates that are below the Fund portfolio's current earnings rate.

Moreover, the Fund may also hold MBS that are less affected by prepayments. While the Advisor seeks to minimize prepayment risk to the extent practical, they must balance prepayment risk against other risks and the potential returns of each investment in selecting investments. No strategy can completely insulate the Fund from prepayment risk.

SUBORDINATED DEBT RISK: A portion of the Fund's Managed Assets may be invested in subordinated classes of MBS, including debt obligations issued by private originators or issuers backed by residential mortgage loans and multi-class debt or pass-through or pay-through securities backed by a mortgage loan or pool of mortgage loans on commercial real estate. Such subordinated classes are subject to a greater degree of non-payment risk than are senior classes of the same issuer or agency.

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BOARD CONSIDERATIONS REGARDING CONTINUATION OF INVESTMENT MANAGEMENT AND INVESTMENT SUB-ADVISORY AGREEMENTS

The Board of Trustees of First Trust Mortgage Income Fund (the "Fund"), including the Independent Trustees, unanimously approved the continuation of the Investment Management Agreement (the "Advisory Agreement") between the Fund and First Trust Advisors L.P. (the "Advisor") and the Investment Sub Advisory Agreement (the "Sub Advisory Agreement" and together with the Advisory Agreement, the "Agreements") among the Fund, the Advisor and Brookfield Investment Management Inc. (the "Sub Advisor") for a one-year period ending June 30, 2017 at a meeting held on June 13, 2016. The Board determined that the continuation of the Agreements is in the best interests of the Fund in light of the extent and quality of the services provided and such other matters as the Board considered to be relevant in the exercise of its reasonable business judgment.

To reach this determination, the Board considered its duties under the Investment Company Act of 1940, as amended (the "1940 Act"), as well as under the general principles of state law in reviewing and approving advisory contracts; the requirements of the 1940 Act in such matters; the fiduciary duty of investment advisors with respect to advisory agreements and compensation; the standards used by courts in determining whether investment company boards have fulfilled their duties; and the factors to be considered by the Board in voting on such agreements. At meetings held on April 22, 2016 and June 13, 2016, the Board, including the Independent Trustees, reviewed materials provided by the Advisor and the Sub Advisor responding to requests for information from counsel

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ADDITIONAL INFORMATION (CONTINUED)

FIRST TRUST MORTGAGE INCOME FUND (FMY) OCTOBER 31, 2016 (UNAUDITED)

to the Independent Trustees that, among other things, outlined the services provided by the Advisor and the Sub Advisor to the Fund (including the relevant personnel responsible for these services and their experience); the advisory fee rate payable by the Fund and the sub-advisory fees for the Fund as compared to fees charged to a peer group of funds compiled by Management Practice, Inc. ("MPI"), an independent source (the "MPI Peer Group"), and as compared to fees charged to other clients of the Advisor and the Sub Advisor; expenses of the Fund as compared to expense ratios of the funds in the MPI Peer Group; performance information for the Fund; the nature of expenses incurred in providing services to the Fund and the potential for economies of scale, if any; financial data on the Advisor and the Sub Advisor; any fall out benefits to the Advisor and the Sub Advisor; and information on the Advisor's and the Sub Advisor's compliance programs. The Board reviewed initial materials with the Advisor at a special meeting held on April 22, 2016, prior to which the Independent Trustees and their counsel met separately to discuss the information provided by the Advisor and the Sub-Advisor. Following the April meeting, independent legal counsel on behalf of the Independent Trustees requested certain clarifications and supplements to the materials provided, and the information provided in response to those requests was considered at an

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executive session of the Independent Trustees and independent legal counsel held prior to the June 13, 2016 meeting, as well as at the meeting held that day. Also subsequent to the April meeting, on May 16, 2016, the Sub-Advisor announced that Schroder Investment Management North America Inc. ("Schroders") had agreed to acquire a portion of the Sub-Advisor's business that included the Sub-Advisor's portfolio management team responsible for the Fund. The Sub-Advisor informed the Advisor and the Board that the transaction was expected to close in the third quarter of 2016. The Advisor informed the Board that the consummation of the transaction would be considered an assignment of the Sub-Advisory Agreement and would result in the automatic termination of the Sub-Advisory Agreement. At the June 13, 2016 meeting, the Board received a presentation from the CEO of Schroders and from one of the Brookfield portfolio managers. At that time, the Advisor discussed with the Board potential options for the management of the Fund upon the termination of the Sub-Advisory Agreement, including continuing with the current portfolio management team after its move to Schroders or transitioning portfolio management of the Fund to the Advisor's Mortgage Securities Team. The Advisor agreed that it would continue to review the various options and present a formal recommendation at a future meeting, but was requesting that the Board renew the Sub-Advisory Agreement at the meeting. The Board took all the information presented under consideration as it considered the renewal of the Sub-Advisory Agreement. The Board applied its business judgment to determine whether the arrangements between the Fund and the Advisor and among the Fund, the Advisor and the Sub Advisor continue to be reasonable business arrangements from the Fund's perspective as well as from the perspective of shareholders. The Board determined that, given the totality of the information provided with respect to the Agreements, the Board had received sufficient information to renew the Agreements. The Board considered that shareholders chose to invest or remain invested in the Fund knowing that the Advisor and the Sub Advisor manage the Fund.

In reviewing the Agreements, the Board considered the nature, extent and quality of the services provided by the Advisor and the Sub Advisor under the Agreements. With respect to the Advisory Agreement, the Board considered that the Advisor is responsible for the overall management and administration of the Fund and reviewed all of the services provided by the Advisor to the Fund, including the oversight of the Sub Advisor, as well as the background and experience of the persons responsible for such services. In reviewing the services provided, the Board noted the compliance program that had been developed by the Advisor and considered that it includes a robust program for monitoring the Advisor's, the Sub Advisor's and the Fund's compliance with the 1940 Act, as well as the Fund's compliance with its investment objectives and policies. In addition, as part of the Board's consideration of the Advisor's services, the Advisor, in its written materials and at the April 22, 2016 meeting, described to the Board the scope of its ongoing investment in additional infrastructure and personnel to maintain and improve the quality of services provided to the Fund and the other funds in the First Trust Fund Complex. With respect to the Sub Advisory Agreement, in addition to the written materials provided by the Sub-Advisor, at the June 13, 2016 meeting, the Board also received a presentation from one of the Sub-Advisor's portfolio managers discussing the services that the Sub-Advisor provides to the Fund and how the Sub-Advisor manages the Fund's investments. In considering the Sub-Advisor's management of the Fund, the Board noted the background and experience of the Sub-Advisor's portfolio management team. In light of the information presented and the considerations made, the Board concluded that the nature, extent and quality of the services provided to the Fund by the Advisor and the Sub Advisor under the Agreements have been and are expected to remain satisfactory and that the Sub Advisor, under the oversight of the Advisor, has managed the Fund consistent with its investment objectives and policies.

The Board considered the advisory and sub advisory fee rates payable under the Agreements for the services provided. The Board noted that the sub advisory fee is paid by the Advisor from its advisory fee. The Board received and reviewed

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information showing the advisory fee rates and expense ratios of the peer funds in the MPI Peer Group, as well as advisory fee rates charged by the Advisor and the Sub-Advisor to other fund and non-fund clients, as applicable. With respect to the MPI Peer Group, the Board discussed with representatives of the Advisor the limitations in creating a relevant peer group for the Fund, including that (i) the Fund is unique in its composition, which makes assembling peers with similar strategies and asset mix difficult; (ii) peer funds may use different amounts and types of leverage with different costs associated with them or may use no leverage; (iii) none of the peer funds employs an advisor/sub advisor management structure with an unaffiliated sub-advisor; and (iv) most of the peer funds are larger than the Fund, which causes the Fund's fixed expenses to be higher on a percentage basis as compared to the larger peer funds, and some of the peer funds are part of a larger fund complex that may allow for additional economies of scale. The Board took these limitations into account in considering the peer data, and noted that the advisory fee rate payable by the Fund, based on average net assets, was below the median of the MPI Peer Group. With respect

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ADDITIONAL INFORMATION (CONTINUED)

FIRST TRUST MORTGAGE INCOME FUND (FMY) OCTOBER 31, 2016 (UNAUDITED)

to fees charged to other clients, the Board considered differences between the Fund and other clients that limited their comparability. In considering the advisory fee rate overall, the Board also considered the Advisor's statement that it seeks to meet investor needs through innovative and value-added investment solutions and the Advisor's description of its long-term commitment to the Fund.

The Board considered performance information for the Fund. The Board noted the process it has established for monitoring the Fund's performance and portfolio risk on an ongoing basis, which includes quarterly performance reporting from the Advisor and Sub-Advisor for the Fund. The Board determined that this process continues to be effective for reviewing the Fund's performance. The Board received and reviewed information comparing the Fund's performance for periods ended December 31, 2015 to the performance of the MPI Peer Group and to a benchmark index. In reviewing the Fund's performance as compared to the performance of the MPI Peer Group, the Board took into account the limitations described above with respect to creating a relevant peer group for the Fund. Based on the information provided on net asset value performance, the Board noted that the Fund underperformed the MPI Peer Group average for the one-, three- and five-year periods ended December 31, 2015. The Board also noted that the Fund underperformed the benchmark index in the one-year period, but outperformed the benchmark index in the three- and five-year periods ended December 31, 2015. In addition, the Board considered information provided by the Advisor on the impact of leverage on the Fund's returns. The Board also received information on the Fund's annual distribution rate as of December 31, 2015 and the Fund's average trading discount during 2015 and comparable information for the peer group.

On the basis of all the information provided on the fees, expenses and performance of the Fund and the ongoing oversight by the Board, the Board

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concluded that the advisory and sub advisory fees continue to be reasonable and appropriate in light of the nature, extent and quality of the services provided by the Advisor and the Sub Advisor to the Fund under the Agreements.

The Board considered information and discussed with the Advisor whether there were any economies of scale in connection with providing advisory services to the Fund and noted the Advisor's statement that it expects its expenses to increase over the next twelve months as the Advisor continues to make investments in personnel and infrastructure. The Board determined that due to the Fund's closed-end structure, the potential for realization of economies of scale as Fund assets grow was not a material factor to be considered. The Board considered the revenues and allocated costs (including the allocation methodology) of the Advisor in serving as investment advisor to the Fund for the twelve months ended December 31, 2015 and the estimated profitability level for the Fund calculated by the Advisor based on such data, as well as complex-wide and product-line profitability data for the same period. The Board noted the inherent limitations in the profitability analysis, and concluded that, based on the information provided, the Advisor's profitability level for the Fund was not unreasonable. In addition, the Board considered fall out benefits described by the Advisor that may be realized from its relationship with the Fund, including the Advisor's compensation for fund reporting services pursuant to a separate Fund Reporting Services Agreement.

The Board noted the Sub Advisor's expenses in providing investment services to the Fund and considered the Sub Advisor's statement that it does not expect economies of scale to be present in connection with its provision of services to the Fund but that there may be economic efficiencies achieved from aggregate trade orders. The Board considered that the sub advisory fee rate was negotiated at arm's length between the Advisor and the Sub Advisor, an unaffiliated third party. The Board also considered information provided by the Sub Advisor with respect to the profitability of the Sub Advisory Agreement to the Sub Advisor. The Board noted the inherent limitations in the profitability analysis and concluded that the profitability analysis for the Advisor was more relevant. The Board noted that the Sub Advisor does not maintain any soft-dollar arrangements and that the Sub Advisor indicated that it does not anticipate any material fall out benefits from its relationship to the Fund.

Based on all of the information considered and the conclusions reached, the Board, including the Independent Trustees, unanimously determined that the terms of the Agreements continue to be fair and reasonable and that the continuation of the Agreements is in the best interests of the Fund. No single factor was determinative in the Board's analysis.

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BOARD OF TRUSTEES AND OFFICERS

FIRST TRUST MORTGAGE INCOME FUND (FMY)
OCTOBER 31, 2016 (UNAUDITED)

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| NAME, ADDRESS, DATE OF BIRTH AND POSITION WITH THE FUND | TERM OF OFFICE AND LENGTH OF SERVICE (1) | PRINCIPAL OCCUPATIONS DURING PAST 5 YEARS |
|---|---|---|
| ----- INDEPENDENT TRUSTEES ----- | | |
| Richard E. Erickson, Trustee c/o First Trust Advisors L.P. 120 East Liberty Drive, Suite 400 Wheaton, IL 60187 D.O.B.: 04/51 | <ul style="list-style-type: none"> o Three-Year Term o Since Fund Inception | Physician; President, Wheaton Orthopedics; Limited Partner, Gundersen Real Estate Limited Partnership; Member, Sportsmed LLC (April 2007 to November 2015) |
| Thomas R. Kadlec, Trustee c/o First Trust Advisors L.P. 120 East Liberty Drive, Suite 400 Wheaton, IL 60187 D.O.B.: 11/57 | <ul style="list-style-type: none"> o Three-Year Term o Since Fund Inception | President, ADM Investor Services, Inc. (Futures Commission Merchant) |
| Robert F. Keith, Trustee c/o First Trust Advisors L.P. 120 East Liberty Drive, Suite 400 Wheaton, IL 60187 D.O.B.: 11/56 | <ul style="list-style-type: none"> o Three-Year Term o Since June 2006 | President, Hibs Enterprises (Financial and Management Consulting) |
| Niel B. Nielson, Trustee c/o First Trust Advisors L.P. 120 East Liberty Drive, Suite 400 Wheaton, IL 60187 D.O.B.: 03/54 | <ul style="list-style-type: none"> o Three-Year Term o Since Fund Inception | Managing Director and Chief Operating Officer (January 2015 to Present), Pelita Harapan Educational Foundation (Educational Products and Services); President and Chief Executive Officer (June 2012 to September 2014), Servant Interactive LLC (Educational Products and Services); President and Chief Executive Officer (June 2012 to September 2014), Dew Learning LLC (Educational Products and Services); President (June 2002 to June 2012), Covenant College |
| ----- INTERESTED TRUSTEE ----- | | |
| James A. Bowen(2), Trustee, Chairman of the Board 120 East Liberty Drive, Suite 400 Wheaton, IL 60187 D.O.B.: 09/55 | <ul style="list-style-type: none"> o Three-Year Term o Since Fund Inception | Chief Executive Officer, First Trust Advisors L.P. and First Trust Portfolios L.P.; Chairman of the Board of Directors, BondWave LLC (Software Development Company) and Stonebridge Advisors LLC (Investment Advisor) |

(1) Currently, Robert F. Keith, as a Class I Trustee, is serving as a trustee until the Fund's 2017 annual meeting of shareholders. Richard E. Erickson and Thomas R. Kadlec, as Class II Trustees, are serving as trustees until the Fund's 2018 annual meeting of shareholders. James A. Bowen and Niel B. Nielson, as Class III Trustees, are serving as trustees until the Fund's

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2019 annual meeting of shareholders.

- (2) Mr. Bowen is deemed an "interested person" of the Fund due to his position as Chief Executive Officer of First Trust Advisors L.P., investment advisor of the Fund.

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 BOARD OF TRUSTEES AND OFFICERS (CONTINUED)

FIRST TRUST MORTGAGE INCOME FUND (FMY)
 OCTOBER 31, 2016 (UNAUDITED)

| NAME, ADDRESS AND DATE OF BIRTH | POSITION AND OFFICES WITH FUND | TERM OF OFFICE AND LENGTH OF SERVICE | PRI DU |
|---|---|--|--|
| ----- OFFICERS (3) ----- | | | |
| James M. Dykas 120 E. Liberty Drive, Suite 400 Wheaton, IL 60187 D.O.B.: 01/66 | President and Chief Executive Officer | o Indefinite Term o Since January 2016 | Managing Director a Officer (January 20 (January 2011 to Ja President (April 20 Trust Advisors L.P. Portfolios L.P.; Ch BondWave LLC (Softw Company) (January 2 Stonebridge Advisor (January 2016 to Pr |
| Donald P. Swade 120 E. Liberty Drive, Suite 400 Wheaton, IL 60187 D.O.B.: 08/72 | Treasurer, Chief Financial Officer and Chief Accounting Officer | o Indefinite Term o Since January 2016 | Senior Vice Preside Vice President (Apr Trust Advisors L.P. Portfolios L.P.; Vi 2006 to April 2012) Investment Advisors Securities, Inc. |
| W. Scott Jardine 120 E. Liberty Drive, Suite 400 Wheaton, IL 60187 D.O.B.: 05/60 | Secretary and Chief Legal Officer | o Indefinite Term o Since Fund Inception | General Counsel, Fi First Trust Portfol General Counsel, Bo of Stonebridge Advi |
| Daniel J. Lindquist 120 E. Liberty Drive, Suite 400 Wheaton, IL 60187 D.O.B.: 02/70 | Vice President | o Indefinite Term o Since Fund Inception | Managing Director (Vice President (Sep First Trust Advisor Portfolios L.P. |

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Kristi A. Maher
120 E. Liberty Drive,
Suite 400
Wheaton, IL 60187
D.O.B.: 12/66

Chief Compliance Officer
and Assistant Secretary

- o Indefinite Term
- o Chief Compliance Officer since January 2011
- o Assistant Secretary since Fund Inception

Deputy General Counsel
Advisors L.P. and F

(3) The term "officer" means the president, vice president, secretary, treasurer, controller or any other officer who performs a policy making function.

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PRIVACY POLICY

FIRST TRUST MORTGAGE INCOME FUND (FMY)
OCTOBER 31, 2016 (UNAUDITED)

PRIVACY POLICY

First Trust values our relationship with you and considers your privacy an important priority in maintaining that relationship. We are committed to protecting the security and confidentiality of your personal information.

SOURCES OF INFORMATION

We collect nonpublic personal information about you from the following sources:

- o Information we receive from you and your broker-dealer, investment advisor or financial representative through interviews, applications, agreements or other forms;
- o Information about your transactions with us, our affiliates or others;
- o Information we receive from your inquiries by mail, e-mail or telephone; and
- o Information we collect on our website through the use of "cookies". For example, we may identify the pages on our website that your browser requests or visits.

INFORMATION COLLECTED

The type of data we collect may include your name, address, social security number, age, financial status, assets, income, tax information, retirement and estate plan information, transaction history, account balance, payment history, investment objectives, marital status, family relationships and other personal information.

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DISCLOSURE OF INFORMATION

We do not disclose any nonpublic personal information about our customers or former customers to anyone, except as permitted by law. In addition to using this information to verify your identity (as required under law), the permitted uses may also include the disclosure of such information to unaffiliated companies for the following reasons:

- o In order to provide you with products and services and to effect transactions that you request or authorize, we may disclose your personal information as described above to unaffiliated financial service providers and other companies that perform administrative or other services on our behalf, such as transfer agents, custodians and trustees, or that assist us in the distribution of investor materials such as trustees, banks, financial representatives, proxy services, solicitors and printers.
- o We may release information we have about you if you direct us to do so, if we are compelled by law to do so, or in other legally limited circumstances (for example to protect your account from fraud).

In addition, in order to alert you to our other financial products and services, we may share your personal information within First Trust.

PRIVACY ONLINE

We allow third-party companies, including AddThis (a social media sharing service), to collect certain anonymous information when you visit our website. These companies may use non-personally identifiable information during your visits to this and other websites in order to provide advertisements about goods and services likely to be of greater interest to you. These companies typically use a cookie, third party web beacon or pixel tags, to collect this information. To learn more about this behavioral advertising practice, you can visit www.networkadvertising.org.

CONFIDENTIALITY AND SECURITY

With regard to our internal security procedures, First Trust restricts access to your nonpublic personal information to those First Trust employees who need to know that information to provide products or services to you. We maintain physical, electronic and procedural safeguards to protect your nonpublic personal information.

POLICY UPDATES AND INQUIRIES

As required by federal law, we will notify you of our privacy policy annually. We reserve the right to modify this policy at any time, however, if we do change it, we will tell you promptly. For questions about our policy, or for additional copies of this notice, please go to www.ftportfolios.com, or contact us at 1-800-621-1675 (First Trust Portfolios) or 1-800-222-6822 (First Trust Advisors).

March 2016

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FIRST TRUST

INVESTMENT ADVISOR
First Trust Advisors L.P.
120 E. Liberty Drive, Suite 400
Wheaton, IL 60187

ADMINISTRATOR,
FUND ACCOUNTANT &
TRANSFER AGENT
BNY Mellon Investment Servicing (US) Inc.
301 Bellevue Parkway
Wilmington, DE 19809

CUSTODIAN
The Bank of New York Mellon
101 Barclay Street, 20th Floor
New York, NY 10286

INDEPENDENT REGISTERED
PUBLIC ACCOUNTING FIRM
Deloitte & Touche LLP
111 S. Wacker Drive
Chicago, IL 60606

LEGAL COUNSEL
Chapman and Cutler LLP
111 W. Monroe Street
Chicago, IL 60603

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ITEM 2. CODE OF ETHICS.

- (a) The registrant, as of the end of the period covered by this report, has adopted a code of ethics that applies to the registrant's principal

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executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions, regardless of whether these individuals are employed by the registrant or a third party.

- (c) There have been no amendments, during the period covered by this report, to a provision of the code of ethics that applies to the registrant's principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions, regardless of whether these individuals are employed by the registrant or a third party, and that relates to any element of the code of ethics description.
- (d) The registrant has not granted any waivers, including an implicit waiver, from a provision of the code of ethics that applies to the registrant's principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions, regardless of whether these individuals are employed by the registrant or a third party, that relates to one or more of the items set forth in paragraph (b) of this item's instructions.

ITEM 3. AUDIT COMMITTEE FINANCIAL EXPERT.

As of the end of the period covered by the report, the Registrant's board of trustees has determined that Thomas R. Kadlec and Robert F. Keith are qualified to serve as audit committee financial experts serving on its audit committee and that each of them is "independent," as defined by Item 3 of Form N-CSR.

ITEM 4. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

- (a) Audit Fees (Registrant) -- The aggregate fees billed for each of the last two fiscal years for professional services rendered by the principal accountant for the audit of the registrant's annual financial statements or services that are normally provided by the accountant in connection with statutory and regulatory filings or engagements for those fiscal years were \$45,000 for the fiscal year ended October 31, 2015 and \$45,000 for the fiscal year ended October 31, 2016.
- (b) Audit-Related Fees (Registrant) -- The aggregate fees billed in each of the last two fiscal years for assurance and related services by the principal accountant that are reasonably related to the performance of the audit of the registrant's financial statements and are not reported under paragraph (a) of this Item were \$0 for the fiscal year ended October 31, 2015 and \$3,000 for the fiscal year ended October 31, 2016. The 2016 audit-related fees reflect fees for auditing data after migration to new fund accounting software.

Audit-Related Fees (Investment Advisor) -- The aggregate fees billed in each of the last two fiscal years for assurance and related services by the principal accountant that are reasonably related to the performance of the audit of the registrant's financial statements and are not reported under paragraph (a) of this Item were \$0 for the fiscal year ended October 31, 2015 and \$0 for the fiscal year ended October 31, 2016.

- (c) Tax Fees (Registrant) -- The aggregate fees billed in each of the last two fiscal years for professional services rendered by the principal accountant for tax compliance, tax advice, and tax planning were \$5,200 for the fiscal year ended October 31, 2015 and \$5,200 for the fiscal year ended October 31, 2016. These fees were for tax return preparation and review.

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Tax Fees (Investment Advisor) -- The aggregate fees billed in each of the last two fiscal years for professional services rendered by the principal accountant for tax compliance, tax advice, and tax planning were \$0 for the fiscal year ended October 31, 2015 and \$0 for the fiscal year ended October 31, 2016.

- (d) All Other Fees (Registrant) -- The aggregate fees billed in each of the last two fiscal years for products and services provided by the principal accountant to the Registrant, other than the services reported in paragraphs (a) through (c) of this Item were \$0 for the fiscal year ended October 31, 2015 and \$0 for the fiscal year ended October 31, 2016.

All Other Fees (Investment Adviser) The aggregate fees billed in each of the last two fiscal years for products and services provided by the principal accountant to the Registrant, other than the services reported in paragraphs (a) through (c) of this Item were \$0 for the fiscal year ended October 31, 2015 and \$0 for the fiscal year ended October 31, 2016.

- (e) (1) Disclose the audit committee's pre-approval policies and procedures described in paragraph (c) (7) of Rule 2-01 of Regulation S-X.

Pursuant to its charter and its Audit and Non-Audit Services Pre-Approval Policy, the Audit Committee (the "Committee") is responsible for the pre-approval of all audit services and permitted non-audit services (including the fees and terms thereof) to be performed for the registrant by its independent auditors. The Chairman of the Committee is authorized to give such pre-approvals on behalf of the Committee up to \$25,000 and report any such pre-approval to the full Committee.

The Committee is also responsible for the pre-approval of the independent auditor's engagements for non-audit services with the registrant's adviser (not including a sub-adviser whose role is primarily portfolio management and is sub-contracted or overseen by another investment adviser) and any entity controlling, controlled by or under common control with the investment adviser that provides ongoing services to the registrant, if the engagement relates directly to the operations and financial reporting of the registrant, subject to the de minimis exceptions for non-audit services described in Rule 2-01 of Regulation S-X. If the independent auditor has provided non-audit services to the registrant's adviser (other than any sub-adviser whose role is primarily portfolio management and is sub-contracted with or overseen by another investment adviser) and any entity controlling, controlled by or under common control with the investment adviser that provides ongoing services to the registrant that were not pre-approved pursuant to its policies, the Committee will consider whether the provision of such non-audit services is compatible with the auditor's independence.

- (e) (2) The percentage of services described in each of paragraphs (b) through (d) for the Registrant and the Registrant's investment adviser of this Item that were approved by the audit committee pursuant to the pre-approval exceptions included in paragraph (c) (7) (i) (c) or paragraph (c) (7) (ii) of Rule 2-01 of Regulation S-X are as follows:

(b) 0%
(c) 0%
(d) 0%

- (f) The percentage of hours expended on the principal accountant's engagement to audit the registrant's financial statements for the most recent fiscal year that were attributed to work performed by persons other than the principal accountant's full-time, permanent employees was less than fifty percent.

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- (g) The aggregate non-audit fees billed by the registrant's accountant for services rendered to the registrant, and rendered to the registrant's investment adviser (not including any sub-adviser whose role is primarily portfolio management and is subcontracted with or overseen by another investment adviser), and any entity controlling, controlled by, or under common control with the adviser that provides ongoing services to the registrant for the Registrant's fiscal year ended October 31, 2015 were \$5,200 for the Registrant and \$12,500 for the Registrant's investment adviser and for the Registrant's fiscal year ended October 31, 2016 were \$5,200 for the Registrant and \$13,000 for the Registrant's investment adviser.
- (h) The registrant's audit committee of the board of directors has considered whether the provision of non-audit services that were rendered to the registrant's investment adviser (not including any sub-adviser whose role is primarily portfolio management and is subcontracted with or overseen by another investment adviser), and any entity controlling, controlled by, or under common control with the investment adviser that provides ongoing services to the registrant that were not pre-approved pursuant to paragraph (c)(7)(ii) of Rule 2-01 of Regulation S-X is compatible with maintaining the principal accountant's independence.

ITEM 5. AUDIT COMMITTEE OF LISTED REGISTRANTS.

- (a) The Registrant has a separately designated audit committee consisting of all the independent directors of the Registrant. The members of the audit committee are: Thomas R. Kadlec, Niel B. Nielson, Richard E. Erickson and Robert F. Keith.

ITEM 6. INVESTMENTS.

- (a) Schedule of Investments in securities of unaffiliated issuers as of the close of the reporting period is included as part of the report to shareholders filed under Item 1 of this form.
- (b) Not applicable.

ITEM 7. DISCLOSURE OF PROXY VOTING POLICIES AND PROCEDURES FOR CLOSED-END MANAGEMENT INVESTMENT COMPANIES.

The Proxy Voting Policies are attached herewith.

ITEM 8. PORTFOLIO MANAGERS OF CLOSED-END MANAGEMENT INVESTMENT COMPANIES.

- (A) (1) IDENTIFICATION OF PORTFOLIO MANAGER(S) OR MANAGEMENT TEAM MEMBERS AND DESCRIPTION OF ROLE OF PORTFOLIO MANAGER(S) OR MANAGEMENT TEAM MEMBERS.

Information provided as of January 5, 2017.

Effective September 19, 2016, the day-to-day management of the registrant's portfolio transitioned to the First Trust Mortgage Securities Team, led by Jim Snyder and Jeremiah Charles.

JIM SNYDER. Mr. Snyder is a Portfolio Manager for the First Trust Mortgage Securities Team. Prior to joining First Trust in 2013, Mr. Snyder worked as a Senior Portfolio Manager at Fort Sheridan Advisors where he managed mortgage portfolios for institutional clients. Mr. Snyder has led several mortgage

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trading and portfolio groups at Deerfield Capital, Spyglass Capital & Trading and American Express Financial Advisors. Mr. Snyder managed AXP Federal Income Fund, and developed mortgage trading strategies for Spyglass Capital and Deerfield's Mortgage REIT and Opportunity Fund. Mr. Snyder holds a B.S. and M.A. in Economics from DePaul University and an MBA from University of Chicago Booth School of Business.

JEREMIAH CHARLES. Mr. Charles is a Portfolio Manager for the First Trust Mortgage Securities Team. Prior to joining First Trust in 2013, Mr. Charles worked as a Vice President of Mortgage Product Sales for CRT Capital where he advised pension funds, hedge funds, and institutional money managers. Before joining CRT in 2011, Mr. Charles spent 6 years with Deerfield Capital Management LLC as a Senior Vice President and Senior Portfolio Manager for the Mortgage Trading team. He began his professional career as an Analyst at Piper Jaffray. Mr. Charles holds a B.S. in Finance from the Leeds School of Business at the University of Colorado, and a M.S. in Real Estate Finance with Honors from the Charles H. Kellstadt Graduate School of Business at DePaul University.

(2) OTHER ACCOUNTS MANAGED BY PORTFOLIO MANAGERS OR MANAGEMENT TEAM MEMBER AND POTENTIAL CONFLICTS OF INTEREST

Information provided as of October 31, 2016.

| Name of Portfolio Manager or Team Member | Type of Accounts* | Total # of Accounts Managed | Total Assets |
|---|-----------------------------------|-----------------------------------|---------------|
| 1. Jeremiah Charles | Registered Investment Companies: | 4 | \$349,974,834 |
| | Other Pooled Investment Vehicles: | 0 | \$ 0 |
| | Other Accounts: | 0 | \$ 0 |
| 2. James Snyder | Registered Investment Companies: | 0 | \$349,974,834 |
| | Other Pooled Investment Vehicles: | 0 | \$ 0 |
| | Other Accounts: | 0 | \$ 0 |

PORTFOLIO MANAGER MATERIAL CONFLICTS OF INTEREST

Potential conflicts of interest may arise when a portfolio manager of the Registrant has day-to-day management responsibilities with respect to one or more other funds or other accounts. The First Trust Mortgage Securities Team adheres to its trade allocation policy utilizing a pro-rata methodology to address this conflict.

First Trust and its affiliate, First Trust Portfolios L.P. ("FTP"), have in place a joint Code of Ethics and Insider Trading Policies and Procedures that are designed to (a) prevent First Trust personnel from trading securities based upon material inside information in the possession of such personnel and (b) ensure that First Trust personnel avoid actual or potential conflicts of interest or abuse of their positions of trust and responsibility that could occur through such activities as front running securities trades for the

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Registrant. Personnel are required to have duplicate confirmations and account statements delivered to First Trust and FTP compliance personnel who then compare such trades to trading activity to detect any potential conflict situations.

(3) COMPENSATION STRUCTURE OF PORTFOLIO MANAGERS OR MANAGEMENT TEAM MEMBERS

PORTFOLIO MANAGER COMPENSATION

Information provided as of October 31, 2016.

The compensation structure for the Mortgage Securities Team of First Trust is based upon a fixed salary as well as a discretionary bonus determined by the management of First Trust.

Salaries are determined by management and are based upon an individual's position and overall value to the firm. Bonuses are also determined by management and are based upon an individual's overall contribution to the success of the firm and the profitability of the firm. Salaries and bonuses for members of the First Trust Advisors L.P. Mortgage Securities Team are not based upon criteria such as performance of the Registrant and are not directly tied to the value of assets of the Fund.

(4) DISCLOSURE OF SECURITIES OWNERSHIP

Information provided as of October 31, 2016.

| NAME | DOLLAR RANGE OF FUND | |
|------------------|----------------------|--------------------|
| | SHARES | BENEFICIALLY OWNED |
| Jeremiah Charles | | \$ 0 |
| James Snyder | | \$ 0 |

(B) Not applicable.

ITEM 9. PURCHASES OF EQUITY SECURITIES BY CLOSED-END MANAGEMENT INVESTMENT COMPANY AND AFFILIATED PURCHASERS.

Not applicable.

ITEM 10. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

There have been no material changes to the procedures by which the shareholders may recommend nominees to the registrant's board of directors, where those changes were implemented after the registrant last provided disclosure in response to the requirements of Item 407(c)(2)(iv) of Regulation S-K (17 CFR 229.407) (as required by Item 22(b)(15) of Schedule 14A (17 CFR 240.14a-101)), or this Item.

ITEM 11. CONTROLS AND PROCEDURES.

(a) The registrant's principal executive and principal financial officers, or persons performing similar functions, have concluded that the registrant's disclosure controls and procedures (as defined in Rule 30a-3(c) under the Investment Company Act of 1940, as amended (the "1940 Act") (17 CFR 270.30a-3(c))) are effective, as of a date within 90 days of the filing date of the report that includes the disclosure required by this

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paragraph, based on their evaluation of these controls and procedures required by Rule 30a-3(b) under the 1940 Act (17 CFR 270.30a-3(b)) and Rules 13a-15(b) or 15d-15(b) under the Securities Exchange Act of 1934, as amended (17 CFR 240.13a-15(b) or 240.15d-15(b)).

- (b) There were no changes in the registrant's internal control over financial reporting (as defined in Rule 30a-3(d) under the 1940 Act (17 CFR 270.30a-3(d)) that occurred during the registrant's second fiscal quarter of the period covered by this report that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

ITEM 12. EXHIBITS.

- (a) (1) Code of ethics, or any amendment thereto, that is the subject of disclosure required by Item 2 is attached hereto.
(a) (2) Certifications pursuant to Rule 30a-2(a) under the 1940 Act and Section 302 of the Sarbanes-Oxley Act of 2002 are attached hereto.
(a) (3) Not applicable.
(b) Certifications pursuant to Rule 30a-2(b) under the 1940 Act and Section 906 of the Sarbanes-Oxley Act of 2002 are attached hereto.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

(registrant) First Trust Mortgage Income Fund

By (Signature and Title)* /s/ James M. Dykas
James M. Dykas, President and Chief Executive Officer (principal executive officer)

Date: December 20, 2016

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By (Signature and Title)* /s/ James M. Dykas
James M. Dykas, President and Chief Executive Officer (principal executive officer)

Date: December 20, 2016

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By (Signature and Title)*

/s/ Donald P. Swade

Donald P. Swade, Treasurer,
Chief Financial Officer and
Chief Accounting Officer
(principal financial officer)

Date: December 20, 2016

* Print the name and title of each signing officer under his or her signature.