FIRST TRUST MORTGAGE INCOME FUND
Form N-CSR
January 05, 2015

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, 2014

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.

ITEM 1. REPORTS TO STOCKHOLDERS.

The Report to Shareholders is attached herewith.

FIRST TRUST BROOKFIELD

FIRST TRUST MORTGAGE INCOME FUND (FMY)

ANNUAL REPORT
FOR THE YEAR ENDED
OCTOBER 31, 2014

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FIRST TRUST MORTGAGE INCOME FUND (FMY)
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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/or Brookfield Investment Management Inc. ("Brookfield" or the "Sub-Advisor") and their 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/or Sub-Advisor and their respective 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.

HOW TO READ THIS REPORT

This report contains information that may help you evaluate your investment. 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 relevant market benchmarks.

It is important to keep in mind that the opinions expressed by personnel of Brookfield 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 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, 2014

Dear Shareholders:

I am pleased to present you with the annual report for your investment in First Trust Mortgage Income Fund (the "Fund"). This report provides detailed information about the Fund, including a performance review and the financial statements for the past 12 months. I encourage you to read this document and discuss it with your financial advisor.

Although markets have seemed choppy over the past 12 months, the U.S. has shown sustained growth over the period. In fact, the S&P 500(R) Index, as measured on a total return basis, rose 17.27% during the period. First Trust Advisors L.P. ("First Trust") believes that staying invested in quality products through different types of markets can benefit investors over the long term.

First Trust offers a variety of products that we believe could fit the financial plans for many investors seeking long-term investment success. We invite you to look at our investment products with your financial advisor to determine if any of them might fit your financial goals. We believe that regularly discussing your financial objectives and investment options with your financial advisor can help keep you on track.

First Trust will continue to make available up-to-date information about your investments so you and your financial advisor are current on any First Trust investments you own. We value our relationship with you, and thank you for the opportunity to assist you in achieving 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.

FIRST TRUST MORTGAGE INCOME FUND (FMY)
"AT A GLANCE"
AS OF OCTOBER 31, 2014 (UNAUDITED)

FUND STATISTICS	
Symbol on New York Stock Exchange	FMY
Common Share Price	$15.12
Common Share Net Asset Value ("NAV")	$17.02
Premium (Discount) to NAV	(11.16)%
Net Assets Applicable to Common Shares	$71,708,258
Current Monthly Distribution per Common Share (1)	$0.085
Current Annualized Distribution per Common Share	$1.020
Current Distribution Rate on Closing Common Share Price (2)	6.75%
Current Distribution Rate on NAV (2)	5.99%

COMMON SHARE PRICE & NAV (WEEKLY CLOSING PRICE)

	Common Share Price	NAV
10/13	15.79	17.63
	15.91	17.58
	15.89	17.61
	15.95	17.62
	15.89	17.65
11/13	15.70	17.63
	15.50	17.62
	15.16	17.56

	15.33	17.52
12/13	15.52	17.47
	15.60	17.54
	15.63	17.70
	15.79	17.71
	15.90	17.70
1/14	15.79	17.68
	15.76	17.66
	15.80	17.70
	15.86	17.72
2/14	15.94	17.72
	15.82	17.67
	15.94	17.65
	15.79	17.64
3/14	15.74	17.59
	15.88	17.56
	15.94	17.57
	16.00	17.62
4/14	16.01	17.58
	15.95	17.50
	15.88	17.58
	15.99	17.58
	16.08	17.60
5/14	16.01	17.58
	15.70	17.59
	15.71	17.57
	15.82	17.57
6/14	15.90	17.55
	15.76	17.53
	15.79	17.48
	15.77	17.41
7/14	15.72	17.39
	15.43	17.37
	15.45	17.38
	15.60	17.35
	15.52	17.37
8/14	15.50	17.35
	15.49	17.32
	15.46	17.39
	15.37	17.34
9/14	15.20	17.31
	14.96	17.20
	14.88	17.14
	15.00	16.96
	15.04	17.01
10/14	15.12	17.02

PERFORMANCE

		Average Annual Total Return	
	1 Year Ended 10/31/14	5 Years Ended 10/31/14	Inception (5/25/05) to 10/31/14
FUND PERFORMANCE (3)			
NAV	3.01%	6.17%	6.80%
Market Value	2.17%	5.59%	4.96%
INDEX PERFORMANCE			
Barclays Capital U.S. MBS: Agency Fixed Rate MBS Index	4.11%	3.58%	4.82%

PORTFOLIO CHARACTERISTICS	
Weighted Average Duration	1.45
Weighted Average Life (Years)	6.54

ASSET CLASSIFICATION	% OF TOTAL INVESTMENTS
Mortgage-Backed Securities	72.9%
U.S. Government Agency Mortgage-Backed Securities	26.8
Asset-Backed Securities	0.3
Total	100.0%

SECURITY TYPE	% OF TOTAL INVESTMENTS
Adjustable Rate Securities	57.7%
Fixed Rate Securities	29.7
Interest Only Securities	12.6
Total	100.0%

CREDIT QUALITY (4)	% OF TOTAL FIXED-INCOME INVESTMENTS
AAA	30.3%
AA+	21.3
AA	1.1
A+	19.2
A	1.7
BBB+	0.9
BBB	0.3
BB+	0.6
BB	2.9
B	1.4
B-	1.9
CCC+	0.2
CCC	11.2
CCC-	0.9
CC	3.6
D	2.4
NR	0.1
Total	100.0%

(1) Most recent distribution paid or declared through 10/31/2014. 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 10/31/2014. 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 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.

(4) The credit quality information presented reflects the ratings assigned by one or more nationally recognized statistical rating organizations (NRSROs), including Standard & Poor's Ratings Group, a division of The McGraw-Hill Companies, Inc., Moody's Investors Service, Inc., Fitch Ratings or a comparably rated NRSRO. For situations in which a security is rated by more than one NRSRO and ratings are not equivalent, the highest ratings are used. Sub-investment grade ratings are those rated BB+/Ba1 or lower. Investment grade ratings are those rated BBB-/Baa3 or higher. The credit ratings shown relate to the creditworthiness of the issuers of the underlying securities in the Fund, and not to the Fund or its shares. Credit ratings are subject to change.

NR Not Rated

PORTFOLIO COMMENTARY

FIRST TRUST MORTGAGE INCOME FUND (FMY)
ANNUAL REPORT
OCTOBER 31, 2014

SUB-ADVISOR

Brookfield Investment Management Inc. ("Brookfield") serves as the Fund's Sub-Advisor. Brookfield is a wholly owned subsidiary of Brookfield Asset Management, a global alternative asset manager with approximately $200 billion in assets under management as of September 30, 2014. Brookfield Asset Management has over a 100-year history of owning and operating assets with a focus on property, renewable power, infrastructure and private equity. The company offers a range of public and private investment products and services, which leverage its expertise and experience and provide it with a competitive advantage in the markets where it operates. On behalf of its clients, Brookfield Asset Management is also an active investor in the public securities markets, where its experience extends over 30 years. Over this time, the company has successfully developed several investment operations and built expertise in the management of institutional portfolios, retail mutual funds and various commingled vehicles.

Brookfield Asset Management's public market activities are conducted by

Brookfield, a registered investment advisor. These activities complement Brookfield Asset Management's core competencies and included global listed real estate and infrastructure equities, corporate credit and securitized credit strategies. Headquartered in New York, NY, Brookfield maintains offices and investment teams in Toronto, Chicago, Boston and London and has over $17 billion of assets under management as of September 30, 2014.

PORTFOLIO MANAGEMENT TEAM

ANTHONY BREAKS, CFA - SENIOR DIRECTOR
CHRIS WU - DIRECTOR

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 seeks to preserve capital. The Fund pursues its objectives by investing primarily in mortgage-backed securities ("MBS") representing part ownership in a pool of either residential or commercial mortgage loans that, in the opinion of the Fund's Sub-Advisor, offer an attractive combination of credit quality, yield and maturity. There can be no assurance that the Fund will achieve its investment objectives. The Fund may not be appropriate for all investors.

MARKET RECAP AND OUTLOOK

Within the Securitized Products universe, Agency Residential Mortgage-Backed Securities ("RMBS"), non-Agency RMBS and Commercial Mortgage-Backed Securities ("CMBS") all had strong returns for the fiscal year ended October 31, 2014 driven by improving collateral performance and strong investor demand.

On a macro level, economic conditions materially improved throughout 2014. Headline unemployment fell from 7.2% to 5.8% over the fiscal year. Non-farm payrolls averaged about a 220,000 per month increase through the period. This is an acceleration of job growth from about 200,000 per month, on average, in 2013. Consumer confidence rose from 72 at the start of the fiscal year to finish at 94, based upon the Confidence Board Consumer Confidence Index(R). Household debt burden has ticked up slightly, indicating more confident consumer spending, particularly in auto sales. Another area of increase is student loan debt, which at $1.2 trillion as of October 31, 2014 nationally, is second only to mortgages in contributing to total household debt. This debt is concentrated in a relatively narrow demographic band and may hold back first-time home buyers on the margin. The first-time home buyer also has fewer financing options than in prior cycles, compounding the effect. There is potential for government policy action to address student loan debt in the years to come.

Ten-year interest rates peaked above 3% briefly at the end of December 2013 before generally falling through October 31, 2014. The low point for yields was the 2.13% close in mid-October before ending the fiscal year slightly higher at 2.34%, on October 31, 2014.

The Federal Reserve has concluded its purchase program for Treasury bonds and Agency RMBS but will continue to reinvest paydowns. Agency RMBS issuance is very low; however, we have yet to see how October's steeply lower rates affected production. At some point, we expect Agency issuance will increase and will have to adjust as private investors now stand alone as buyers.

Away from Agency RMBS issuance, we are seeing little supply from dealer conduits and real estate investment trusts, historically a source of non-Agency mortgages. The Government Sponsored Enterprises ("GSEs") have turned into a material source of new issue mortgage credit through the issuance of risk-sharing securities. These securities convey a slice of risk from the GSEs guarantee portfolio. Issuance of these securities has picked up and the Director of the Federal Housing Finance Agency ("FHFA") signaled an interest in tripling

FIRST TRUST MORTGAGE INCOME FUND (FMY)
ANNUAL REPORT
OCTOBER 31, 2014

the pace of issuance. During the Fund's fiscal year, Fannie Mae and Freddie Mac issued a combined $8.9 billion, still small in the context of non-Agency RMBS issuance historically, but notable given overall low levels of supply. CMBS issuance has slowed a bit with $60 billion in new unguaranteed deals and $53 billion in Agency-guaranteed CMBS for the period.

Within residential real estate, prices have been on a steady rise since the beginning of 2012. The pace of new construction has increased from approximately 600,000 to 1,000,000 units since the beginning of 2012 through October 31, 2014. This is still below long-term averages of approximately 1,500,000, suggesting that an oversupply of new homes will not imperil home prices. Given the lack of new construction after the financial crisis and a recovery in household formation, we see housing demand supporting prices for existing homes: the type that secure the mortgages in the Fund's portfolio. The last report from Case-Shiller showed a 5.6% year-over-year increase in its 20-city index. This represents a slowing of price increases from double digit gains through 2013.

Within commercial real estate, top-tier properties in major markets continue to improve and indeed prices now exceed peak levels from 2007. Secondary and tertiary markets continue to recover and the pace of recovery has increased since the middle of 2013. The availability of commercial mortgage credit has greatly improved, and the deal-making has now broadened beyond major markets. Oversupply has not been an issue in this real estate cycle, as new construction virtually came to a halt during the financial crisis in 2008 and 2009 and, with the exception of the multifamily sector, remains low. The relative lack of new construction should also assist further recovery in values as demand for space returns and the lead times required to deliver new space keeps supply in check. One area that continues to struggle is retail. Department store sales continue to decline and the malls they anchor have struggled in certain markets. We see no reason to see the trend reversing and choose to avoid CMBS with larger exposure to these weak retail properties.

Agency RMBS remains another key sector for the Fund. Rallies in interest rates and low volatility over the period resulted in positive performance for Agency RMBS. The 30-year mortgage rate dropped to 4% from 4.5% at the beginning of 2014 and the prices of mortgage bonds rose. The increase of prepayment speeds, however, was muted even though mortgage rates have dropped. Slow prepayment speeds were mostly due to a slow housing market and restrictive lending standards by mortgage banks, which mitigated the negative impact of lower interest rates on the valuation of premium coupon pools, and interest-only ("IO") securities that receive only the coupon associated with a pool of loans.

We remain positive on most securitized products for the next year, based on continued improvement in forecasts for collateral performance. Expansion of credit for borrowers has slowed versus market expectations and this remains an area of potential improvement for markets in which the Fund invests. Banks have been slow to expand borrowing beyond Agency-eligible loans and non-Agency eligible loans to otherwise very clean, typically high net worth borrowers. Putback risk for banks has been somewhat reduced through actions of the FHFA but banks remain very cautious in their underwriting of even agency eligible loans. That said, home prices continue to increase and rates remain low. As a result, we believe more borrowers should be able to refinance their mortgages, and homes which are for sale should attract a broader audience of buyers. Rents have been rising for several years, and with interest rates still low, many households have a financial incentive to purchase rather than rent. All of these dynamics support the current increase in home prices and potential for further increases.

PERFORMANCE ANALYSIS

For the one-year period ended October 31, 2014, the Fund had a total return1 of 3.01% based on net asset value ("NAV"). For the period, the Fund traded from a discount to NAV of -10.44% to a discount to NAV of -11.16%, resulting in a total return(1) of 2.17%, based on market price. During the period, the Fund's benchmark, the Barclays Capital U.S. MBS: Agency Fixed Rate MBS Index returned 4.11%.

In December 2013, many closed-end funds were hit by tax-motivated selling pressure and feared interest rate increases. This selling pressure caused NAV discounts to expand for many bond funds, including the Fund. Those concerns continue and the Fund remains at a substantial discount, albeit lower than the 13.75% reached in December 2013. Interestingly, some hedge funds and other active investors bought closed-end fixed-income funds to take advantage of the discount. With the passage of time, it is clear that the rate rise that worried retail investors has not occurred; in fact, just the opposite occurred. Interest rates fell during 2014. Overall, we believe the Fund is positioned to moderate the impact of interest rate increases. When interest rates do begin to rise, we believe we will see differentiated performance from the Fund.

All of the Fund's sectors rallied during the period with the exception of Agency derivatives, which reflected improved assumptions for collateral performance and tightening spreads. MBS remains one of the widest spread assets in fixed income, especially for investment-grade non-Agency RMBS and CMBS. As spreads have come in broadly, this spread advantage becomes more attractive. The other advantage

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(1) 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 and does not reflect sales load. Past performance is not indicative of future results.

we see is in the substantial fraction of mortgage product that carries a floating-rate coupon. Many investors are trying to limit their exposure to fixed rates. For below investment-grade mortgage bonds, fundamental improvements and stronger economic data has pushed prices higher.

Agency MBS holdings in the Fund modestly underperformed the Agency Fixed Rate MBS Index, which benefited from falling interest rates. The Fund held about 12.6% of IO securities as of October 31, 2014, which were used to hedge against an interest rate rise. The valuation of IO securities was negatively impacted by falling interest rates as expectations for prepayment speeds rose. Lower prices of IOs therefore dragged the performance of Agency MBS holdings.

We anticipate short-term interest rates will begin to increase in the next 12 to 24 months as employment continues to strengthen and the Fed begins reversing years of stimulus. We believe the Fund is positioned with low interest rate risk and that the rise in short-term interest rates will be reflected in increased income as the Fund's floating rate investments reset to higher rates.

As of October 31, 2014, the Fund held approximately 11.0% cash as a percentage of gross assets. In October, the Fund sold some investment-grade senior CMBS bonds that had appreciated considerably among other assets, which resulted in an increase in the Fund's cash allocation. The Fund's primary purchases were investment-grade Prime Hybrid Adjustable Rate Mortgage RMBS and investment-grade CMBS. With limited new issuance, particularly in RMBS, it has been challenging to source attractive investment-grade mortgage assets with sufficient income. We continue to find attractive purchase candidates, albeit on a slower timeline. In addition to those purchases, the Fund sold a meaningful portion of below A rated assets. These sales allowed the Fund to recognize some large gains and keep the Fund in compliance with its 75% "A or better" ratings test. With this investment limit, we utilize flexibility to do relative value trading among A- or lower rated assets and put our best ideas to work. In particular, we are evaluating the Fund's BBB rated bonds, one of which we sold in third quarter. They consume precious credit capacity and typically earn little more yield than the Fund's "A or better" holdings.

An important factor impacting the return of the Fund relative to its benchmark was the Fund's use of financial leverage through the use of reverse repurchase agreements. Please note that the Fund's benchmark does not utilize leverage. The Fund uses leverage because its managers believe that, over time, leverage provides opportunities for additional income for common shareholders. However, the use of leverage also can expose common shareholders to additional volatility. For example, if the prices of securities held by the Fund decline, the negative impact of the valuation changes on common share net asset value and common shareholder total return is magnified by the use of leverage. Conversely, leverage may enhance common share returns during periods when the prices of securities held by the Fund generally are rising.

As of October 31, 2014, the Fund's leverage was relatively low at 10.6% of Managed Assets, given that the Fund may utilize leverage in an amount up to 33.33% of Managed Assets. Leverage contributed positively to the Fund's performance during the reporting period. Borrowing costs were approximately 53 basis points annualized, which were substantially exceeded by the returns on the Agency Pools the Fund used as collateral.

Reverse repurchase borrowing remains expensive for many of the Fund's target asset classes. For this reason, we may continue to employ leverage below its maximum or choose alternative assets, such as Agency Guaranteed assets, to use as collateral. Financing costs may also fall, thereby reversing this current dynamic. Where our overall budget for risk warrants it and when the return opportunities are compelling, we are likely to increase leverage in an attempt to improve returns. In periods of stability, this may be an especially important tool.

The Fund's portfolio holdings are subject to change without notice. The mention of specific securities is not a recommendation or solicitation for any person to buy, sell or hold any particular security. There is no assurance that the Fund currently holds these securities. These views represent the opinions of Brookfield Investment Management Inc. and are not intended to predict or depict the performance of any investment. These views are as of the close of business on October 31, 2014 and subject to change based on subsequent developments.

FIRST TRUST MORTGAGE INCOME FUND (FMY)
PORTFOLIO OF INVESTMENTS
OCTOBER 31, 2014

PRINCIPAL VALUE	DESCRIPTION	STATED COUPON	STATED MATURITY	
	MORTGAGE-BACKED SECURITIES - 73.1%			
	COLLATERALIZED MORTGAGE OBLIGATIONS - 61.1%			
	ACE Securities Corp. Home Equity Loan Trust			
$ 1,250,911	Series 2006-ASAP6, Class A2D (a)..........	0.37%	12/25/36	$
	Banc of America Mortgage Trust			
80,293	Series 2002-L, Class 1A1 (a) (b)..........	2.62%	12/25/32	
	Bear Stearns Adjustable Rate Mortgage Trust			
619,383	Series 2004-9, Class 12A1 (a).............	2.80%	11/25/34	
499,292	Series 2005-5, Class A2 (a)...............	2.26%	08/25/35	
	Chase Mortgage Finance Trust			
452,929	Series 2007-A1, Class 1A3 (a).............	2.55%	02/25/37	
	Countrywide Alternative Loan Trust			
662,603	Series 2006-41CB, Class 2A17..............	6.00%	01/25/37	
76,901	Series 2007-11T1, Class A37 (b) (c)........	39.11%	05/25/37	
	Countrywide Home Loan Mortgage Pass-Through Trust			
1,126,772	Series 2003-46, Class 2A1 (a).............	2.76%	01/19/34	
622,277	Series 2006-21, Class A8..................	5.75%	02/25/37	
920,071	Series 2006-HYB5, Class 3A1A (a)..........	2.55%	09/20/36	
	Credit Suisse First Boston Mortgage Securities Corp.			
1,417,043	Series 2004-AR2, Class 1A1 (a) (b)........	2.67%	03/25/34	
1,337,133	Series 2004-AR8, Class 6A1 (a)............	2.40%	09/25/34	
	DSLA Mortgage Loan Trust			
1,249,438	Series 2004-AR3, Class 2A2A (a)...........	0.53%	07/19/44	
1,172,157	Series 2007-AR1, Class 2A1A (a)...........	0.30%	04/19/47	
	GMAC Mortgage Corporation Loan Trust			
228,753	Series 2004-AR1, Class 22A (a)............	2.89%	06/25/34	
	GSR Mortgage Loan Trust			
393,395	Series 2005-AR1, Class 4A1 (a)............	4.43%	01/25/35	
	Harborview Mortgage Loan Trust			

177,827	Series 2004-1, Class 2A (a)...............	2.38%	04/19/34
789,100	Series 2004-6, Class 3A1 (a)..............	2.61%	08/19/34
	JP Morgan Mortgage Trust		
2,031,117	Series 2005-ALT1, Class 4A1 (a)...........	5.18%	10/25/35
545,976	Series 2006-A2, Class 4A1 (a).............	2.50%	08/25/34
185,719	Series 2006-A2, Class 5A3 (a).............	2.47%	11/25/33
	JP Morgan Re-REMIC		
1,348,862	Series 2009-7, Class 12A1 (d).............	6.25%	01/27/37
	MASTR Asset Backed Securities Trust		
1,199,334	Series 2006-HE5, Class A3 (a).............	0.31%	11/25/36
247,235	Series 2006-HE5, Class A4 (a) (b).........	0.37%	11/25/36
1,728,627	Series 2006-NC2, Class A3 (a).............	0.26%	08/25/36
789,035	Series 2006-NC2, Class A5 (a).............	0.39%	08/25/36
	Mellon Residential Funding Corp.		
	Mortgage Pass-Through Trust		
670,815	Series 2001-TBC1, Class A1 (a)............	0.85%	11/15/31
706,523	Series 2002-TBC2, Class A (a).............	1.01%	08/15/32

FIRST TRUST MORTGAGE INCOME FUND (FMY)
PORTFOLIO OF INVESTMENTS (CONTINUED)
OCTOBER 31, 2014

PRINCIPAL VALUE	DESCRIPTION	STATED COUPON	STATED MATURITY
MORTGAGE-BACKED SECURITIES (CONTINUED)			
	COLLATERALIZED MORTGAGE OBLIGATIONS (CONTINUED)		
	Morgan Stanley Mortgage Loan Trust		
$ 507,450	Series 2004-7AR, Class 2A6 (a)............	2.47%	09/25/34
	Provident Funding Mortgage Loan Trust		
281,530	Series 2005-1, Class 1A1 (a)..............	2.50%	05/25/35
	Residential Accredit Loans, Inc.		
258,262	Series 2006-QO1, Class 2A1 (a)............	0.42%	02/25/46
	Residential Funding Mortgage Securities I		
49,949	Series 2005-S5, Class A5 (b)..............	5.25%	07/25/35
	Securitized Asset Backed Receivables LLC		
1,215,748	Series 2007-BR2, Class A2 (a).............	0.38%	02/25/37
	Structured Adjustable Rate Mortgage Loan Trust		
764,161	Series 2004-2, Class 4A2 (a)..............	2.51%	03/25/34
	Thornburg Mortgage Securities Trust		
676,013	Series 2003-4, Class A1 (a)...............	0.79%	09/25/43
582,448	Series 2005-1, Class A3 (a)...............	2.23%	04/25/45
	Wachovia Mortgage Loan Trust, LLC		
586,026	Series 2006-A, Class 3A1 (a)..............	2.66%	05/20/36
	WaMu Mortgage Pass-Through Certificates		
924,565	Series 2004-AR1, Class A (a)..............	2.41%	03/25/34
934,207	Series 2004-AR10, Class A1B (a)...........	0.57%	07/25/44
706,017	Series 2004-AR13, Class A1A (a)...........	0.51%	11/25/34
993,989	Series 2005-AR1, Class A1A (a)............	0.47%	01/25/45
1,357,490	Series 2005-AR11, Class A1A (a)...........	0.47%	08/25/45

103,193	Series 2005-AR2, Class 2A21 (a)...........	0.48%	01/25/45
1,135,189	Series 2005-AR2, Class 2A23 (a)...........	0.53%	01/25/45
1,291,631	Series 2005-AR6, Class 2A1A (a)...........	0.38%	04/25/45
585,313	Series 2005-AR9, Class A1A (a)............	0.47%	07/25/45
969,735	Series 2006-AR2, Class 1A1 (a)............	2.33%	03/25/36
1,182,506	Series 2006-AR5, Class A1A (a)............	1.10%	06/25/46
	Washington Mutual Alternative Mortgage Pass-Through Certificates		
45,497	Series 2007-5, Class A11 (b) (c)..........	38.57%	06/25/37
	Washington Mutual MSC Mortgage Pass-Through Certificates		
363,709	Series 2004-RA1, Class 2A.................	7.00%	03/25/34
	Wells Fargo Mortgage Backed Securities Trust		
716,455	Series 2003-H, Class A1 (a)...............	2.62%	09/25/33
547,609	Series 2004-A, Class A1 (a)...............	2.64%	02/25/34
1,921,849	Series 2004-R, Class 1A1 (a)..............	2.62%	09/25/34
533,291	Series 2004-S, Class A1 (a)...............	2.62%	09/25/34
944,048	Series 2004-Y, Class 1A2 (a)..............	2.61%	11/25/34
513,642	Series 2005-AR10, Class 2A17 (a)..........	2.61%	06/25/35
1,076,919	Series 2005-AR16, Class 1A1 (a)...........	2.59%	08/25/33
445,420	Series 2005-AR3, Class 2A1 (a)............	2.60%	03/25/35
773,492	Series 2005-AR8, Class 1A1 (a)............	2.61%	06/25/35
1,002,471	Series 2006-AR10, Class 5A2 (a)...........	2.62%	07/25/36

See Notes to Financial Statements

FIRST TRUST MORTGAGE INCOME FUND (FMY)
PORTFOLIO OF INVESTMENTS (CONTINUED)
OCTOBER 31, 2014

PRINCIPAL VALUE	DESCRIPTION	STATED COUPON	STATED MATURITY	
MORTGAGE-BACKED SECURITIES (CONTINUED)				
	COLLATERALIZED MORTGAGE OBLIGATIONS (CONTINUED)			
	Wells Fargo Mortgage Backed Securities Trust (Continued)			
$ 438,330	Series 2007-16, Class 1A1.................	6.00%	12/28/37	$
548,403	Series 2007-2, Class 1A13.................	6.00%	03/25/37	
127,704	Series 2007-8, Class 2A2..................	6.00%	07/25/37	
				-
				-
	COMMERCIAL MORTGAGE-BACKED SECURITIES - 12.0%			
	Banc of America Commercial Mortgage Trust			
1,000,000	Series 2006-6, Class AJ...................	5.42%	10/10/45	
650,000	Series 2007-3, Class AJ, STRIP............	5.56%	06/10/49	
	Bayview Commercial Asset Trust			
821,420	Series 2004-2, Class A (a) (d)............	0.58%	08/25/34	
	Commercial Mortgage Trust			
950,000	Series 2005-GG5, Class AM.................	5.28%	04/10/37	
650,000	Series 2007-GG11, Class AJ, STRIP.........	6.05%	12/10/49	

	JP Morgan Chase Commercial Mortgage Securities Trust		
1,500,000	Series 2007-LD12, Class A4.................	5.88%	02/15/51
	LB-UBS Commercial Mortgage Trust		
420,000	Series 2007-C1, Class AM...................	5.46%	02/15/40
100,000	Series 2007-C2, Class AM...................	5.49%	02/15/40
	Mid-State Capital Corp. Trust		
596,675	Series 2004-1, Class M1....................	6.50%	08/15/37
	VNDO Mortgage Trust		
900,000	Series 2012-6AVE, Class A (d)..............	3.00%	11/15/30
	Wachovia Bank Commercial Mortgage Trust		
650,000	Series 2007-C33, Class AJ, STRIP...........	5.94%	02/15/51
	TOTAL MORTGAGE-BACKED SECURITIES..		
	(Cost $51,392,664)		

U.S. GOVERNMENT AGENCY MORTGAGE-BACKED SECURITIES - 26.9%

	COLLATERALIZED MORTGAGE OBLIGATIONS - 10.0%		
	Federal Home Loan Mortgage Corp.		
1,999,362	Series 2807, Class SB, IO (c)..............	7.30%	11/15/33
13,874	Series 3195, Class SX (b) (c)..............	45.16%	07/15/36
301,431	Series 3562, Class KI, IO (b)..............	4.50%	11/15/22
2,264,217	Series 3619, Class EI, IO (b)..............	4.50%	05/15/24
1,722,762	Series 3692, Class PS, IO (b) (c)..........	6.45%	05/15/38
3,818,984	Series 3726, Class KI, IO..................	3.50%	04/15/25
2,785,454	Series 3870, Class WS, IO (c)..............	6.45%	06/15/31
1,568,888	Series 4206, Class IA, IO (b)..............	3.00%	03/15/33
	Federal National Mortgage Association		
758,139	Series 2005-122, Class SN (c)..............	27.99%	01/25/36
177,800	Series 2008-50, Class AI, IO (b)...........	5.50%	06/25/23
3,946,499	Series 2010-103, Class ID, IO (b)..........	5.00%	09/25/40

FIRST TRUST MORTGAGE INCOME FUND (FMY)
PORTFOLIO OF INVESTMENTS (CONTINUED)
OCTOBER 31, 2014

PRINCIPAL VALUE	DESCRIPTION	STATED COUPON	STATED MATURITY
	U.S. GOVERNMENT AGENCY MORTGAGE-BACKED SECURITIES (CONTINUED)		
	COLLATERALIZED MORTGAGE OBLIGATIONS (CONTINUED)		
	Federal National Mortgage Association (Continued)		
$ 6,818,461	Series 2010-139, Class KI, IO (b)..........	1.09%	12/25/40
673,827	Series 2010-142, Class PS, IO (b) (c)......	5.90%	05/25/40
968,559	Series 2010-145, Class TI, IO (b)..........	3.50%	12/25/20
2,791,808	Series 2010-40, Class MI, IO (b)...........	4.50%	08/25/24
4,038,450	Series 2012-112, Class BI, IO..............	3.00%	09/25/31

2,960,128	Series 2012-125, Class MI, IO (b)..........	3.50%	11/25/42
4,148,338	Series 2013-32, Class IG, IO (b)...........	3.50%	04/25/33
	Federal National Mortgage Association, STRIP		
2,865,198	Series 406, Class 6, IO (b)................	4.00%	01/25/41
	Government National Mortgage Association		
974,839	Series 2009-65, Class NJ, IO (b)...........	5.50%	07/20/39
3,143,640	Series 2010-115, Class IQ, IO..............	4.50%	11/20/38
6,546,726	Series 2011-131, Class EI, IO..............	4.50%	08/20/39
1,011,078	Series 2011-69, Class CI, IO (b)...........	5.00%	03/20/36
	COMMERCIAL MORTGAGE-BACKED SECURITIES - 4.0%		
	Government National Mortgage Association		
16,363,670	Series 2011-152, Class IO, IO (a)..........	1.30%	08/16/51
8,459,893	Series 2012-100, Class IO, IO (a) (e)......	0.83%	08/16/52
11,672,957	Series 2012-70, Class IO, IO (a) (e).......	0.97%	08/16/52
7,235,263	Series 2012-78, Class IO, IO (a) (e).......	1.05%	06/16/52
2,534,367	Series 2012-95, Class IO, IO (a) (e).......	0.98%	02/16/53
	PASS-THROUGH SECURITIES - 12.9%		
1,000,000	Fannie Mae Pool............................	4.00%	11/30/44
	Fannie Mae REMICs		
926,416	Series 2005-83, Class LZ...................	5.50%	10/25/35
	Federal Home Loan Mortgage Corp.		
1,679,561	Pool A94738 (e)............................	4.50%	11/01/40
758,747	Pool K36017 (e)............................	5.00%	09/01/47
	Federal National Mortgage Association		
1,877,253	Pool 831145 (e)............................	6.00%	12/01/35
2,099,407	Pool 843971 (e)............................	6.00%	11/01/35
	TOTAL U.S. GOVERNMENT AGENCY MORTGAGE-BACKED SECURITIES.................		
	(Cost $22,604,191)		

FIRST TRUST MORTGAGE INCOME FUND (FMY)
PORTFOLIO OF INVESTMENTS (CONTINUED)
OCTOBER 31, 2014

PRINCIPAL VALUE	DESCRIPTION	STATED COUPON	STATED MATURITY	
ASSET-BACKED SECURITIES - 0.3%				
	Green Tree Financial Corp.			
$ 54,564	Series 1997-2, Class A6 (b)................	7.24%	06/15/28	$
70,370	Series 1997-3, Class A6 (b)................	7.32%	03/15/28	
79,065	Series 1997-7, Class A6 (b)................	6.76%	07/15/28	

PRINCIPAL VALUE	DESCRIPTION
	TOTAL ASSET-BACKED SECURITIES..
	(Cost $214,609)
	TOTAL INVESTMENTS - 100.3%...
	(Cost $74,211,464) (f)

PRINCIPAL VALUE	DESCRIPTION
REVERSE REPURCHASE AGREEMENTS - (11.8%)	
(1,257,000)	With JP Morgan 1.00% dated 10/06/14, to be repurchased at $1,258,086 on 11/06/14..
(4,290,000)	With JP Morgan 0.34% dated 10/06/14, to be repurchased at $4,286,707 on 01/05/15..
(2,522,000)	With JP Morgan 0.37% dated 10/14/14, to be repurchased at $2,524,333 on 01/12/15..
(402,000)	With JP Morgan 1.00% dated 10/27/14, to be repurchased at $402,336 on 11/26/14..
	TOTAL REVERSE REPURCHASE AGREEMENTS....................................
	NET OTHER ASSETS AND LIABILITIES - 11.5%...............................
	NET ASSETS - 100.0%.. $

(a) Floating or variable rate security. The interest rate shown reflects the rate in effect at October 31, 2014.

(b) Pursuant to procedures adopted by the Fund's Board of Trustees, this security has been determined to be illiquid by Brookfield Investment Management Inc. ("Brookfield"), the Fund's sub-advisor.

(c) Inverse floating rate instrument. The interest rate shown reflects the rate in effect at October 31, 2014.

(d) 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, 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 Brookfield. 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, 2014, securities noted as such amounted to $3,107,558, or 4.33% of net assets.

(e) This security or a portion of this security is segregated as collateral for reverse repurchase agreements.

(f) Aggregate cost for federal income tax purposes is $73,904,992. As of October 31, 2014, the aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost was $5,580,078 and the aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value was

$7,579,287.

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

FIRST TRUST MORTGAGE INCOME FUND (FMY)
PORTFOLIO OF INVESTMENTS (CONTINUED)
OCTOBER 31, 2014

VALUATION INPUTS

A summary of the inputs used to value the Fund's investments as of October 31, 2014 is as follows (see Note 2A - Portfolio Valuation in the Notes to Financial Statements):

ASSETS TABLE

INVESTMENTS	TOTAL VALUE AT 10/31/2014	LEVEL 1 QUOTED PRICES	LEVEL 2 SIGNIFICA OBSERVABL INPUTS
Mortgage-Backed Securities........................	$ 52,417,826	$ --	$ 52,417,
U.S. Government Agency Mortgage-Backed Securities..	19,273,182	--	19,273,
Asset-Backed Securities...........................	214,775	--	214,
Total Investments.................................	$ 71,905,783	$ --	$ 71,905,

LIABILITIES TABLE

	TOTAL VALUE AT 10/31/2014	LEVEL 1 QUOTED PRICES	LEVEL 2 SIGNIFICA OBSERVABL INPUTS
Reverse Repurchase Agreements.....................	$ (8,471,000)	$ --	$ (8,471,

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, 2014.

FIRST TRUST MORTGAGE INCOME FUND (FMY)
STATEMENT OF ASSETS AND LIABILITIES
OCTOBER 31, 2014

ASSETS:
Investments, at value
(Cost $74,211,464)
Cash
Restricted cash
Interest receivable
Prepaid expenses

Total Assets

LIABILITIES:
Reverse repurchase agreements
Payables:
Investment securities purchased
Investment advisory fees
Audit and tax fees
Administrative fees
Printing fees
Transfer agent fees
Custodian fees
Interest on reverse repurchase agreements
Legal fees
Trustees' fees and expenses
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)

 See Notes to Financial Statements

FIRST TRUST MORTGAGE INCOME FUND (FMY)
STATEMENT OF OPERATIONS
FOR THE YEAR ENDED OCTOBER 31, 2014

INVESTMENT INCOME:	
Interest..	
Total investment income...	
EXPENSES:	
Investment advisory fees..	
Administrative fees...	
Excise tax expense..	
Audit and tax fees..	
Interest expense on reverse repurchase agreements...	
Transfer agent fees...	
Printing fees...	
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 increase from payment by the sub-advisor (a)..	
Net change in unrealized appreciation (depreciation) on investments.........................	
NET REALIZED AND UNREALIZED GAIN (LOSS)...	
NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS..............................	

(a) See Note 3 in the Notes to Financial Statements.

See Notes to Financial Statements

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

	YEAR ENDE 10/31/2
OPERATIONS:	
Net investment income (loss)...	$ 4,30
Net realized gain (loss)..	(39
Net increase from payment by the sub-advisor (a)...............................	
Net change in unrealized appreciation (depreciation)...........................	(2,16

Net increase (decrease) in net assets resulting from operations....................	1,74
DISTRIBUTIONS TO SHAREHOLDERS FROM:	
Net investment income..	(4,29
Total distributions to shareholders..	(4,29
CAPITAL TRANSACTIONS:	
Proceeds from Common Shares reinvested...	
Net increase (decrease) in net assets resulting from capital transactions..........	
Total increase (decrease) in net assets..	(2,55
NET ASSETS:	
Beginning of period...	74,25
End of period...	$ 71,70
Accumulated net investment income (loss) at end of period..........................	$ 35
CAPITAL TRANSACTIONS WERE AS FOLLOWS:	
Common Shares at beginning of period..	4,21
Common Shares issued as reinvestment under the Dividend Reinvestment Plan..........	
Common Shares at end of period...	4,21

(a) See Note 3 in the Notes to Financial Statements.

 See Notes to Financial Statements

FIRST TRUST MORTGAGE INCOME FUND (FMY)
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED OCTOBER 31, 2014

CASH FLOWS FROM OPERATING ACTIVITIES:	
Net increase (decrease) in net assets resulting from operation.....................	$ 1,74
Adjustments to reconcile net increase (decrease) in net assets resulting from operations to net cash used in operating activities:	
Purchases of investments..	(46,46
Sales, maturities and paydowns on investments...................................	51,99
Net amortization/accretion of premiums/discounts on investments..............	(17
Net realized gain/loss on investments...	39
Net increase from payment by sub-advisor..	(
Net change in unrealized appreciation/depreciation on investments............	2,16
Net change in restricted cash..	51
CHANGES IN ASSETS AND LIABILITIES:	
Decrease in interest receivable..	5
Decrease in prepaid expenses..	
Decrease in interest payable on reverse repurchase agreements.................	
Decrease in investment advisory fees payable.....................................	(

Decrease in legal fees payable..	(
Decrease in printing fees payable...	
Increase in administrative fees payable.....................................	
Decrease in custodian fees payable..	(1
Increase in transfer agent fees payable.....................................	
Decrease in trustees' fees and expenses payable.............................	
Increase in other liabilities payable.......................................	
CASH PROVIDED BY OPERATING ACTIVITIES.......................................	
CASH FLOWS FROM FINANCING ACTIVITIES:	
Distributions to Common Shareholders from net investment income..............	(4,29
Repurchases of reverse repurchase agreements................................	(45,10
Reverse repurchase agreements borrowings....................................	43,51
CASH USED IN FINANCING ACTIVITIES...	
Increase in cash..	
Cash at beginning of period...	
CASH AT END OF PERIOD...	
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:	
Cash paid during the period for excise tax..................................	
Cash paid during the period for interest....................................	

See Notes to Financial Statements

FIRST TRUST MORTGAGE INCOME FUND (FMY)
FINANCIAL HIGHLIGHTS
FOR A COMMON SHARE OUTSTANDING THROUGHOUT EACH PERIOD

	YEAR ENDED 10/31/2014	YEAR ENDED 10/31/2013	YEAR ENDED 10/31/2012
Net asset value, beginning of period...........	$ 17.63	$ 17.91	$ 18.43
INCOME FROM INVESTMENT OPERATIONS:			
Net investment income (loss)....................	1.02	1.25	1.28
Net realized and unrealized gain (loss).........	(0.61)	(0.28)	0.17
Total from investment operations................	0.41	0.97	1.45
DISTRIBUTIONS PAID TO SHAREHOLDERS FROM:			
Net investment income...........................	(1.02)	(1.25)	(2.03)
Total from distributions........................	(1.02)	(1.25)	(2.03)
Premium from shares sold in at the market			

offering..................................	--	--	0.06
Net asset value, end of period.................	$ 17.02	$ 17.63	$ 17.91
Market value, end of period....................	$ 15.12	$ 15.79	$ 19.00
TOTAL RETURN BASED ON NET ASSET VALUE (c).......	3.01% (d)	6.04% (d)	8.30%
TOTAL RETURN BASED ON MARKET VALUE (c)..........	2.17%	(10.47)%	11.86%
RATIOS TO AVERAGE NET ASSETS/SUPPLEMENTAL DATA:			
Net assets, end of period (in 000's)...........	$71,708	$74,259	$75,439
Ratio of total expenses to average net assets...	1.78%	1.96%	2.47%
Ratio of total expenses to average net assets... excluding interest expense..................	1.72%	1.83%	2.20%
Ratio of net investment income (loss) to average net assets..........................	5.84%	7.01%	7.28%
Portfolio turnover rate........................	54%	109%	52%

(a) On September 20, 2010, the Fund's Board of Trustees approved a new investment management agreement with First Trust Advisors L.P. and a new investment sub-advisory agreement with Fixed Income Discount Advisory Company ("FIDAC"), and on December 6, 2010, the Fund's shareholders voted to approve both agreements.

(b) Effective April 29, 2011, the Fund's Board of Trustees approved Brookfield Investment Management Inc. ("Brookfield") as the investment sub-advisor to the Fund, replacing FIDAC. The Fund's shareholders approved the investment sub-advisory agreement with Brookfield on July 25, 2011.

(c) 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 less than one year. Past performance is not indicative of future results.

(d) 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.

NOTES TO FINANCIAL STATEMENTS

FIRST TRUST MORTGAGE INCOME FUND (FMY)
OCTOBER 31, 2014

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 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 Brookfield Investment Management Inc. ("Brookfield" or the "Sub-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 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 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 Pricing Committee of the Fund's investment advisor, First Trust Advisors L.P. ("First Trust" or the "Advisor") 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 an independent 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;
5) benchmark securities;
6) bids and offers; and
7) reference data including market research publications.

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) for which a 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 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 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 a security;
4) the financial statements of the issuer;
5) the credit quality and cash flow of the issuer, based on the Sub-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 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 methodology 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, 2014, 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.

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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

FIRST TRUST MORTGAGE INCOME FUND (FMY)
OCTOBER 31, 2014

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, 2014, the Fund had no when-issued, delayed-delivery or forward purchase commitments.

C. REVERSE REPURCHASE AGREEMENTS:

Reverse repurchase agreements were utilized as leverage for the Fund. A reverse repurchase agreement, although structured as a sale and repurchase obligation, acts as a 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 $50,000, as shown on the Statement of Assets and Liabilities, is associated with reverse repurchase agreements outstanding as of October 31, 2014.

Information for the year ended October 31, 2014:

Maximum amount outstanding during the period.................	$10,054,000
Average amount outstanding during the period*................	$ 9,242,479
Average Common Shares outstanding during the period..........	4,213,115
Average debt per Common Share outstanding during the period...	$ 2.19

* 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 in the year ended October 31, 2014.

During the year ended October 31, 2014, the interest rates ranged from 0.34% to 1.28%, with a weighted average interest rate of 0.53%, on borrowings by the Fund under reverse repurchase agreements, which had interest expense that aggregated $49,301.

D. 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. These securities, if any, are identified on the Portfolio of Investments.

E. 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.

F. 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.

G. 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 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.

FIRST TRUST MORTGAGE INCOME FUND (FMY)
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Distributions from income and capital gains are determined in accordance with 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, 2014, 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 $764,604, an increase in accumulated net realized gain (loss) on investments by $428,829 and a decrease to paid-in capital of $1,193,433. Net assets were not affected by this reclassification.

The tax character of distributions paid during the fiscal year ended October 31, 2014, and 2013, was as follows:

Distributions paid from:	2014	2013
Ordinary income................................	$ 4,297,377	$ 5,244,634

As of October 31, 2014, the distributable earnings and net assets on a tax basis were as follows:

Undistributed ordinary income....................	$ 45,039
Undistributed capital gains......................	--
Total undistributed earnings.....................	45,039
Accumulated capital and other losses.............	(4,398,469)
Net unrealized appreciation (depreciation)........	(1,999,209)
Total accumulated earnings (losses)..............	(6,352,639)
Other..	--
Paid-in capital..................................	78,060,897
Net assets.......................................	$71,708,258

H. INCOME TAXES:

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 or 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, 2014, the Fund had pre-enactment net capital losses for federal income tax purposes of $3,349,872. At October 31, 2014, the Fund had post-enactment net capital losses for federal income tax purposes of $1,048,597 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, 2014, the Fund did not utilize any pre-enactment capital loss carryforwards.

At October 31, 2014, the Fund had pre-enactment capital loss carryforwards that expired in the amount of $1,082,509.

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 2011, 2012, 2013 and 2014 remain open to federal and state audit. As of October 31, 2014, 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.

FIRST TRUST MORTGAGE INCOME FUND (FMY)
OCTOBER 31, 2014

I. EXPENSES:

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

J. OFFSETTING ON THE STATEMENT OF ASSETS AND LIABILITIES:

In December 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2011-11 "Disclosures about Offsetting Assets and Liabilities" ("ASU 2011-11"). This disclosure requirement is intended to help investors and other financial statement users better assess the effect or potential effect of offsetting arrangements on a fund's financial position. ASU 2011-11 requires entities to disclose both gross and net information about both instruments and transactions subject to master netting or similar agreements. In addition, in January 2013, FASB issued Accounting Standards Update No. 2013-1 "Clarifying the Scope of Offsetting Assets and Liabilities" ("ASU 2013-1"), specifying exactly which transactions are subject to offsetting disclosures. The scope of the disclosure requirements is limited to derivative instruments, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions. ASU 2011-11 and ASU 2013-1 are effective for financial statements with fiscal years beginning on or after January 1, 2013, and interim periods within those fiscal years.

The Fund adopted the disclosure requirement on netting for the current reporting period. For financial reporting purposes, the Fund does not offset financial assets and financial liabilities that are subject to master netting arrangements or similar agreements on the Statement of Assets and Liabilities. The Fund's right to setoff may be restricted or prohibited by the bankruptcy or insolvency laws of the particular jurisdiction to which a specific master netting or similar agreement counterparty is subject.

At October 31, 2014, reverse repurchase agreement assets and liabilities (by type) on a gross basis are as follows:

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	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Statement of Assets and Liabilities	Net Amounts of Liabilities Presented in the Statement of Assets and Liabilities	Ass ------ Finan Instru
Reverse Repurchase Agreements	$ (8,471,000)	$ --	$ (8,471,000)	$ 8,47

K. ACCOUNTING PRONOUNCEMENT:

In June 2014, FASB issued Accounting Standards Update (ASU) No. 2014-11, Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures. A repurchase-to-maturity transaction is one where the repurchase agreement settles at the same time as the maturity of the transferred financial asset. These transactions, unlike other repurchase agreements, were accounted for as sales and purchases instead of being treated as secured borrowings. This ASU changes that accounting practice and treats all repurchase agreements as secured borrowings. The ASU additionally requires two new disclosures which are intended to: a) disclose information on transferred assets accounted for as sales in transactions that are economically similar to repurchase agreements, and b) provide increased transparency about the types of collateral pledged in repurchase agreements and similar transactions accounted for as secured borrowings.

The ASU impacts all entities that enter into repurchase-to-maturity transactions, entities that account for these transactions as a sale and a purchase, and entities that engage in repurchase agreements and securities lending transactions.

The ASU is effective for financial statements with fiscal years beginning on or after December 15, 2014 and interim periods within those fiscal years. Management is evaluating the impact, if any, of this guidance on the Fund's financial statement disclosures.

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 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 1.00% 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.

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OCTOBER 31, 2014

Brookfield serves as the Fund's sub-advisor and manages the Fund's portfolio subject to First Trust's supervision. The Sub-Advisor receives a portfolio management fee of 0.50% of Managed Assets that is paid monthly by First Trust from its investment advisory fee.

During the year ended October 31, 2014, the Fund received reimbursements from the Sub-Advisor of $1,180 in connection with a trade error.

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.

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 pro rata among each fund in the First Trust Fund Complex based on 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 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. 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 Trust 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, 2014, were $25,412,077 and $17,049,362, 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, 2014, were $29,770,103 and $22,006,257, 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 EVENTS

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 were the following subsequent events:

On November 20, 2014, the Fund declared a distribution of $0.085 per share to Common Shareholders of record on December 3, 2014, payable December 10, 2014.

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, 2014, 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 audits 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 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, 2014 by correspondence with the Fund's custodian and brokers; where replies were not received, 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, 2014, and 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 23, 2014

ADDITIONAL INFORMATION

FIRST TRUST MORTGAGE INCOME FUND (FMY)
OCTOBER 31, 2014 (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 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.

FIRST TRUST MORTGAGE INCOME FUND (FMY)
OCTOBER 31, 2014 (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 28, 2014, 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, 2014, 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 Dividend and Income Fund (formerly First Trust Active Dividend Income Fund), First Trust High Income Long/Short Fund, First Trust Energy Infrastructure Fund, First Trust MLP and Energy Income Fund and First Trust Intermediate Duration Preferred & Income Fund was held on April 23, 2014 (the "Annual Meeting"). At the Annual Meeting, Trustee Robert F. Keith was elected by the Common Shareholders of the First Trust Mortgage Income Fund as a Class I Trustee for a three-year term expiring at the Fund's annual meeting of shareholders in 2017. The number of votes cast in favor of Mr. Keith was 3,668,805, the number of votes against wasan" SIZE="2">

8,094,500

20,512,500

Mike Dillard

300,000

9.9

25.74

1/24/2016

4,856,700

12,307,500

Drue Corbusier

300,000

9.9

25.74

1/24/2016

4,856,700

12,307,500

James I. Freeman

300,000

9.9

25.74

1/24/2016

4,856,700

12,307,500

Stock Option Exercises and Holdings

The following table sets forth information concerning stock options exercised during the last fiscal year and stock options held as of the end of the last fiscal year by the named executive officers.

AGGREGATED OPTION/SAR EXERCISES IN LAST FISCAL YEAR AND

FY-END OPTION/SAR VALUES

(a) Name	(b) Shares Acquired on Exercise (#)	(c) Value Realized ($)	(d) Number of Securities Underlying Unexercised Options/SARs at FY-End (#)		(e) Value of Unexercised In-the-Money Options/SARs at FY-End ($)(1)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
William Dillard II	450,000	$ 705,750	1,326,615	0	$ 0	0
Alex Dillard	450,000	816,000	1,322,616	0	0	0
Mike Dillard	250,000	373,500	733,137	0	0	0
Drue Corbusier	210,322	392,323	660,325	0	70,698	0
James I. Freeman	83,482	86,404	688,438	0	0	0

(1) Represents the amount by which the market price at fiscal year end of the shares underlying unexercised options exceeds the exercise price for such shares.

Equity Compensation Plans

The following table provides information as of January 28, 2006 with respect to the shares of Dillard s, Inc. Class A Common Stock that may be issued under the Company s equity compensation plans.

	Number of securities to be issued upon exercise of outstanding options	Weighted average exercise prices of outstanding options	Number of securities available for future issuance under equity compensation plans
Equity compensation plans approved by shareholders (1)	5,099,591	$ 25.26	7,896,306
Equity compensation plans not approved by shareholders	0	0	0
Total	5,099,591	$ 25.26	7,896,306

(1) Includes 1998 Incentive and Nonqualified Stock Option Plan, 2000 Incentive and Nonqualified Stock Option Plan, Stock Purchase Plan, Stock Bonus Plan and the 2005 Non-Employee Director Restricted Stock Plan.

Pension Plan

The following table shows the estimated annual benefits payable pursuant to the Company s pension plan to persons in specified compensation and years of service categories upon retirement.

Pension Plan Table

	Years of Service				
Compensation	**15**	**20**	**25**	**30**	**35**
$500,000	$ 92,723	$123,630	$154,538	$185,445	$216,353
750,000	148,973	198,630	248,288	297,945	347,603
1,000,000	205,223	273,630	342,038	410,445	478,853
1,250,000	261,473	348,630	435,788	522,945	610,103
1,500,000	317,723	423,630	529,538	635,445	741,353
1,750,000	373,973	498,630	623,288	747,945	872,603
2,000,000	430,223	573,630	717,038	860,445	1,003,853
2,250,000	486,473	648,630	810,788	972,945	1,135,103
2,500,000	542,723	723,630	904,538	1,085,445	1,266,353
2,750,000	598,973	798,630	998,288	1,197,945	1,397,603

A participant s compensation covered by the Company s pension plan is his average salary and bonus (as reported in the Summary Compensation Table) for the highest three years of his employment with the Company. The highest three years of salary and bonus for the named executive officers are fiscal 2004, 2002 and 1999. The salary and bonus for fiscal 2002 for the named executive officers is William Dillard II, $2,085,000; Alex Dillard, $1,995,000; Mike Dillard, $1,210,000; Drue Corbusier, $1,145,000 and James I. Freeman, $1,232,000. The salary and bonus for fiscal 1999 for the named executive officers is William Dillard II, $2,015,000; Alex Dillard, $1,925,000; Mike Dillard, $1,185,000; Drue Corbusier, $1,100,000 and James I. Freeman, $1,055,000. The credited years of service for each of the named executive officers is as follows: William Dillard II, 37 years; Alex Dillard, 34 years; Mike Dillard, 34 years; Drue Corbusier, 37 years; and James I. Freeman, 17 years. Benefits shown are computed as a single life annuity with five years term certain beginning at age 65 and are not subject to deduction for social security or other offset amounts.

Compensation of Directors

Directors who are not officers of the Company each receive an annual retainer of $45,000 as well as 2,000 restricted shares of Class A Common Stock. In addition, committee chairmen receive an annual retainer of $20,000. Directors who are not officers also receive $2,500 for attendance at each board meeting, $2,500 for each audit committee meeting, $1,500 for other committee meetings, and actual travel expenses. Directors who are not officers also received a stock option grant of 25,000 shares on January 24, 2006.

Report of the Stock Option and Executive Compensation Committee

The following report addressing the Company s compensation policies for executive officers for fiscal 2005 is submitted by the Stock Option and Executive Compensation Committee (the Compensation Committee) of the Board of Directors.

General

The Compensation Committee, which is composed of directors who are independent as defined under the listing standards of the New York Stock Exchange, establishes policies relating to the compensation of certain employees and oversees the administration of the Company s employee benefit plans. The compensation program of the Company has been designed (1) to provide compensation opportunities that are equivalent to those offered by comparable companies, thereby allowing the Company to compete for and retain talented executives who are critical to the Company s long-term success, (2) to motivate key senior officers by rewarding them for attainment of profitability of the Company, and (3) to align the interests of executives with the long-term interests of stockholders by awarding stock options to executives as part of the compensation provided to them.

In order to develop a competitive compensation package for the executive officers of the Company, the Compensation Committee compares the Company s compensation package with those of a comparison group. The comparison group is composed of department stores, specialty stores and other public companies that were family-founded and continue to be family-managed. Not all of the companies in the comparison group are included in the Standard & Poor s Supercomposite Department Stores Index. The Compensation Committee believes that the companies in the comparison group are comparable to the Company in management style and management culture. Although the Compensation Committee has made these comparisons, it also has taken into account that as the Company has grown in size, the number of senior executives has not grown proportionately, so that the number of senior executives retained by the Company is lower than the number of senior executives at other companies of similar size.

The Company s compensation program for fiscal 2005 consisted primarily of salary, annual cash performance bonus based on the profitability of the Company, and long-term incentive opportunities in the form of stock options. The compensation program is focused both on short-term and long-term performance of the Company, rewarding executives for both achievement of profitability and growth in stockholder value. The Company s executive officers are also eligible to participate in (1) the Company s Retirement Plan, a defined contribution plan whereby they can make a five percent contribution to the plan which will be 100% matched by the Company, with the contributions being used to purchase Company stock, (2) the Company s Stock Purchase Plan to which participants may make contributions only to the extent that they were prevented from contributing to the Retirement Plan because of the nondiscrimination rules and dollar limitations of the Internal Revenue Code, with the contributions being used to purchase Company stock and (3) the Company s Stock Bonus Plan which provides a stock award equal to 6% of the participant s total compensation (salary and bonus) in excess of $15,000 (less applicable withholding) divided by the current fair market value per share on the date that the stock bonus is granted.

Salary Each year the Compensation Committee establishes the salary for all executive officers. Such salaries are set at the discretion of the Compensation Committee and are not specifically related to any company performance criteria, as are both the cash performance bonus and stock option portions of the compensation program, which are discussed below. The Compensation Committee considers the aggregate compensation and benefits of the executive officers and does, however, base any increase in salary on targets based on a regression analysis of salaries paid versus total revenues for the comparison group. For fiscal 2005, the salaries set by the Compensation Committee were below the target salaries produced by this analysis.

Cash Performance Bonus Cash performance bonuses may be paid annually to senior management. For bonuses to be paid, however, the Company must have income before federal and state income taxes (pre-tax income) for the fiscal year. The Compensation Committee, within ninety (90) days after the start of a fiscal year, designates those individuals in senior management eligible to receive a cash performance bonus. Bonuses are paid at the conclusion of a fiscal year from a bonus pool, which is equal to one and one-half percent (1-1/2%) of the Company s pre-tax income plus three and one-half (3-1/2%) of the increase in pre-tax income over the prior fiscal year. When the Compensation Committee designates the individuals eligible to participate in the cash performance bonus program, it also designates the percent of the bonus pool each individual will be entitled to receive. The Compensation Committee retains at all times the authority to adjust downward the amount of bonus any individual may receive pursuant to the above-described formula. For fiscal 2005, the Company experienced a pre-tax income of $135,785,000 and no increase in pre-tax income.

Stock Options Stock option grants under the Company s 2000 Incentive and Non-Qualified Stock Option Plan are utilized by the Company for long-term incentive compensation for executive officers. These stock option grants relate their compensation directly to the performance of the Company s stock. The exercise price for the options granted is one hundred percent (100%) of the fair market value of the shares underlying such options on the date of grant and have value to the executive officers only if the Company s stock price increases. The options are exercisable on or after January 24, 2006. When making the option grants, the Compensation Committee considered that no options had been granted since 2002, but did not take into consideration the number of options already held by an executive officer.

As discussed in previous Compensation Committee Reports, the Omnibus Budget Reconciliation Act of 1993 prevents public corporations from deducting as a business expense that portion of compensation exceeding $1 million paid to a named executive officer in the Summary Compensation Table. This deduction limit does not apply to performance-based compensation. The Compensation Committee believes that the necessary steps have been taken to qualify as performance-based compensation the compensation paid under the cash performance bonus and stock option portions of the Company s compensation program.

Chief Executive Officer

In setting the Chief Executive Officer s compensation, the Compensation Committee makes the same determination with regard to salary, cash performance bonus and stock options as discussed above for the other named executive officers. For fiscal 2005, the Compensation Committee slightly increased the Chief Executive Officer s salary over the prior fiscal year. This resulted in a salary lower than the target salary produced by the regression analysis discussed above.

Robert C. Connor

Warren A. Stephens

Will D. Davis, Chairman

Company Performance

The graph below compares for each of the last five fiscal years the cumulative total returns on the Company s Class A Common Stock, the Standard & Poor s 500 Index and the Standard & Poor s Supercomposite Department Stores Index. The cumulative total return on the Company s Class A Common Stock assumes $100 invested in such stock on February 4, 2001 and assumes reinvestment of dividends.

	2000	2001	2002	2003	2004	2005
Dillard s, Inc.	$ 100	$ 80.05	$ 84.62	$ 96.81	$ 149.17	$ 149.31
S&P 500	100	83.81	64.93	87.45	92.13	102.87
S&P Supercomposite Department Stores	100	106.97	73.83	103.15	121.22	144.82

CERTAIN RELATIONSHIPS AND TRANSACTIONS

William Dillard II, Drue Corbusier, Alex Dillard and Mike Dillard are siblings.

Mr. William H. Sutton is of Counsel with the law firm Friday, Eldredge & Clark, which is retained by the Company for legal services. He was Managing Partner of the firm until his retirement in 2005.

Denise Mahaffy, a Vice President of the Company, is a sibling of William Dillard II, Drue Corbusier, Alex Dillard and Mike Dillard. For fiscal 2005, the Company paid Denise Mahaffy total salary and bonus of $390,577. During fiscal 2005, the Company also made defined contributions for the benefit of Denise Mahaffy in the amount of $36,563 pursuant to its benefit plans. William Dillard III, a Vice President of the Company, is the son of William Dillard II. For fiscal 2005, the Company paid William Dillard III total salary and bonus of $238.269. During fiscal 2005, the Company also made defined contributions for the benefit of William Dillard III in the amount of $23,989 pursuant to its benefit plans. Todd Dillard, an employee of the Company, is the son of William Dillard II. For fiscal 2005, the Company paid Todd Dillard total salary and bonus of $72,384.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 requires the Company s directors and executive officers, and persons who own more than 10% of the Company s Class A Common Stock, to file with the Securities and Exchange Commission and the New York Stock Exchange initial reports of ownership and reports of changes in ownership of stock of the Company.

To the Company s knowledge, based solely on a review of copies of reports provided by such individuals to the Company and written representations of such individuals that no other reports were required, during the fiscal year ended January 28, 2006, all Section 16(a) filing requirements applicable to its officers, directors and greater than 10% beneficial owners were complied with.

AUDIT COMMITTEE REPORT

The Audit Committee operates under a written charter adopted by the Board of Directors. Each of the members of the Audit Committee qualifies as an independent director under the applicable rules of the Securities and Exchange Commission and the New York Stock Exchange listing standards relating to audit committees. The Board of Directors has determined that Peter R. Johnson is an audit committee financial expert and is independent of management as defined by rules of the Securities and Exchange Commission. The designation as an audit committee financial expert does not impose any duties, obligations or liabilities that are greater than the duties, obligations and liabilities imposed by being a member of the audit committee or board of directors. The Audit Committee held ten meetings during the year.

The Audit Committee has reviewed and discussed the audited financial statements for the year ended January 28, 2006 with management and the independent auditors, Deloitte & Touche LLP. Management represented to the Audit Committee that the Company s consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States of America.

The discussions with Deloitte & Touche LLP included the matters required by Statement on Auditing Standards No. 61 (Communications with Audit Committees) and Deloitte & Touche LLP s independence. Deloitte & Touche LLP provided to the Audit Committee the written disclosures and the letter regarding its independence as required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees). The Audit Committee also considered whether the provision of non-audit services by Deloitte & Touche LLP is compatible with maintaining the auditor s independence.

Based upon the reviews and discussions noted above, the Audit Committee recommended to the Board of Directors that the audited consolidated financial statements be included in the Company s Annual Report on Form 10-K to be filed with the Securities and Exchange Commission for the year ended January 28, 2006 and that Deloitte & Touche LLP be appointed independent auditors for the Company for 2006.

Robert C. Connor, Chairman

John Paul Hammerschmidt

Peter R. Johnson

J.C. Watts, Jr.

PROPOSAL 2. RATIFICATION OF THE SELECTION OF THE COMPANY S

INDEPENDENT PUBLIC ACCOUNTANTS

The Board of Directors recommends to the stockholders that they ratify the selection by the Audit Committee of Deloitte & Touche LLP as the Company s independent public accountants for the fiscal year ending February 3, 2007.

In the event that the stockholders fail to ratify the appointment, the Audit Committee will consider the view of the stockholders in determining its selection of the Company s independent public accountants for the subsequent fiscal year. Even if the selection is ratified, the Audit Committee, in its discretion, may direct the appointment of a new independent accounting firm at any time during the year if the Audit Committee feels that such a change would be in the best interests of the Company and the stockholders.

A representative of Deloitte & Touche LLP will be present at the annual meeting and will have the opportunity to make a statement if he or she desires to do so and will be available to respond to appropriate questions.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE

FOR PROPOSAL NO. 2.

INDEPENDENT ACCOUNTANT FEES

The following table shows the fees billed by Deloitte & Touche LLP for the past two years for audit and other related fees:

	2005	**2004**
Audit Fees	$ 1,729,974	$ 1,311,590
Audit Related Fees	87,523 (1)	334,970 (2)
Tax Fees	0	32,500 (3)
All Other Fees	0	0
	$ 1,817,497	$ 1,679,060

(1) Includes audits of Company sponsored employee benefit plans.

(2) Includes readiness consulting regarding section 404 of the Sarbanes Oxley Act and audits of Company sponsored employee benefit plans.

(3) Includes analysis and review of state income tax procedures and tax compliance.

The policy of the Audit Committee requires it to pre-approve all audit and non-audit services to be performed by the independent accountant. During 2005, the Audit Committee approved all of the services described above under the captions Audit Related Fees, Tax Fees and All Other

Fees in accordance with this policy.

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OTHER MATTERS

Management of the Company knows of no other matters that may come before the annual meeting. However, if any matters other than those referred to herein should properly come before the annual meeting, it is the intention of the persons named in the enclosed Proxy to vote the Proxy in accordance with their judgment.

STOCKHOLDER PROPOSALS FOR THE 2007 ANNUAL MEETING

The Company s annual meeting of stockholders in 2007 is scheduled to be held on Saturday, May 19, 2007. If a stockholder intends to submit a proposal to be included in the Company s proxy statement and form of proxy relating to the Company s 2007 annual meeting of stockholders in accordance with Securities and Exchange Rule 14a-8, the proposal must be received by the Company at its principal executive offices not later than December 21, 2006. Such proposal must meet the requirements set forth in the rules and regulations of the SEC in order to be eligible for inclusion in the proxy statement and related form of proxy for the annual meeting of shareholders in 2007.

Under the Company s Bylaws, if a stockholder intends to submit a proposal at the annual meeting of stockholders in 2007, and such proposal is not intended to be included in the Company s proxy statement and form of proxy relating to such meeting pursuant to SEC Rule 14a-8, the stockholder s notice of such proposal (including certain information specified in the Bylaws), must be received by the Company s Secretary at the principal executive office of the Company no earlier than January 20, 2007 and no later than February 19, 2007. If a stockholder fails to submit the proposal within such time period, the proposal will not be considered at the annual meeting of stockholders in 2007.

GENERAL

The Company s annual report for the fiscal year ended January 28, 2006 is being mailed with this Proxy Statement but is not to be considered as a part hereof.

In some cases, where there are multiple stockholders at one address, only one annual report and proxy statement will be delivered, a procedure referred to as householding. Each stockholder will continue to receive a separate proxy card.

Stockholders who hold positions in street name through a broker or other nominee should either call ADP Investor Communication Services at 800-542-1061 or contact their broker or nominee if they have questions, require additional copies of the proxy statement or annual report, or wish either to give instructions to household or to revoke their decision to household.

Registered stockholders who own stock in their own name through certificate and have questions about householding, can contact the Company s stock transfer agent, Registrar and Transfer Company, by phone at 800-368-5948 or by E-mail, info@rtco.com.

The material in this proxy statement under the captions Compensation of Directors and Executive Officers Report of the Stock Option and Executive Compensation Committee, Company Performance, and Audit Committee Report shall not be deemed soliciting material or otherwise deemed filed and shall not be deemed to be incorporated by any general statement of incorporation by reference in any filings made under the Securities Act of 1933 or the Securities Exchange Act of 1934.

A COPY OF THE COMPANY S ANNUAL REPORT ON FORM 10-K, INCLUDING THE FINANCIAL STATEMENTS AND SCHEDULES THERETO, REQUIRED TO BE FILED WITH THE SECURITIES AND EXCHANGE COMMISSION, MAY BE OBTAINED WITHOUT CHARGE BY ANY STOCKHOLDER WHOSE PROXY IS SOLICITED UPON WRITTEN REQUEST TO:

DILLARD S, INC.

Post Office Box 486

Little Rock, Arkansas 72203

Attention: James I. Freeman,

Senior Vice President,

Chief Financial Officer

By Order of the Board of Directors

PAUL J. SCHROEDER, JR.

Vice President, General Counsel,

Secretary

THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS

Dillard s, Inc.
Post Office Box 486
Little Rock, Arkansas 72203
Telephone No. (501) 376-5200

PROXY

The undersigned hereby appoints William Dillard II and Paul J. Schroeder, Jr., or either of them, as proxies and attorneys-in-fact, each with the power to appoint his substitute, to represent and vote, as designated below, all the shares of the Class A Common Stock of Dillard s, Inc., held of record by the undersigned on March 31, 2006, at the annual meeting of stockholders to be held on May 20, 2006, or any postponement or adjournment thereof.

1. ELECTION OF DIRECTORS.

¨ **FOR** all Class A nominees listed below (except as marked to the contrary below).

¨ **WITHHOLD AUTHORITY** to vote for all Class A Nominees.

(INSTRUCTION: TO WITHHOLD AUTHORITY TO VOTE FOR AN INDIVIDUAL NOMINEE, STRIKE A LINE THROUGH THE NOMINEE S NAME IN THE LIST BELOW.)

Class A Nominees

Robert C. Connor * Will D. Davis * John Paul Hammerschmidt * Peter R. Johnson

The Board of Directors of the Company recommends voting <u>FOR</u> this proposal

2. RATIFY THE APPOINTMENT BY THE AUDIT COMMITTEE OF DELOITTE & TOUCHE LLP AS THE INDEPENDENT PUBLIC ACCOUNTANTS OF THE COMPANY FOR 2006.

The Board of Directors of the Company recommends voting <u>FOR</u> this proposal

¨ FOR ¨ AGAINST ¨ ABSTAIN

3. IN THEIR DISCRETION, THE PROXIES ARE AUTHORIZED TO VOTE UPON SUCH OTHER BUSINESS AS MAY PROPERLY COME BEFORE THE MEETING OR ANY POSTPONEMENT OR ADJOURNMENT THEREOF.

THIS PROXY WHEN PROPERLY EXECUTED WILL BE VOTED IN THE MANNER DIRECTED HEREIN BY THE UNDERSIGNED STOCKHOLDER. IF NO DIRECTION IS MADE, THE PROXY WILL BE VOTED FOR PROPOSALS 1 AND 2.

Please sign exactly as name appears below. When shares are held by joint tenants, both should sign. When signing as attorney, executor, administrator, trustee or guardian, please give full title as such. If a corporation, please sign in full corporate name by President or other authorized officer. If a partnership, please sign in partnership name by authorized person.

DATED: ____________, 2006

Signature

Signature, if jointly held

PLEASE MARK, SIGN, DATE AND RETURN

THE PROXY CARD PROMPTLY USING THE

ENCLOSED ENVELOPE.