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American Income Life Insurance Company — New Zealand Branch

New Zealand Basis Financial Statements
Year Ended December 31, 2009

AMERICAN INCOME LIFE INSURANCE COMPANY
NEW ZEALAND BRANCH

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009

INDEX

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AUDIT REPORT
TO THE SHAREHOLDERS OF
AMERICAN INCOME LIFE INSURANCE COMPANY – NEW ZEALAND BRANCH

We have audited the financial statements on pages 4 to 25. The financial statements provide information about the past financial performance of American Income Life Insurance Company – New Zealand Branch and its financial position as at 31 December 2009. This information is stated in accordance with the accounting policies set out on pages 4 to 10.

This report is made solely to the company's shareholders, as a body, in accordance with Section 205(1) of the Companies Act 1993. Our audit has been undertaken so that we might state to the company's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

Board of Directors' Responsibilities

The Board of Directors is responsible for the preparation, in accordance with New Zealand law and generally accepted accounting practice, of financial statements which give a true and fair view of the financial position of the branch as at 31 December 2009 and of the results of its operations and cash flows for the year ended on that date.

Auditors' Responsibilities

It is our responsibility to express to you an independent opinion on the financial statements presented by the Board of Directors.

Basis of Opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- the significant estimates and judgements made by the Board of Directors in the preparation of the financial statements, and
- whether the accounting policies are appropriate to the branch's circumstances, consistently applied and adequately disclosed.

We conducted our audit in accordance with New Zealand Auditing Standards. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to obtain reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Other than in our capacity as auditor and the provision of taxation advice, we have no relationship with or interests in American Income Life Insurance Company – New Zealand Branch.

Fundamental Uncertainty

The New Zealand branch is part of American Income Life Insurance Company. The assets of the branch are legally available for the satisfaction of debts of the entire company, not solely those appearing on the accompanying Statement of Financial Position and its debts may result in claims against assets not appearing thereon.

Unqualified Opinion

We have obtained all the information and explanations we have required.

In our opinion:

- proper accounting records have been kept by American Income Life Insurance Company – New Zealand Branch as far as appears from our examination of those records; and
- the financial statements on pages 4 to 25:
  - comply with generally accepted accounting practice in New Zealand;
  - comply with International Financial Reporting Standards; and
  - give a true and fair view of the financial position of American Income Life Insurance Company – New Zealand Branch as at 31 December 2009 and the results of its operations and cash flows for the year ended on that date.

Our audit was completed on 30 June 2010 and our unqualified opinion is expressed as at that date.

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Chartered Accountants
CHRISTCHURCH, NEW ZEALAND

American Income Life Insurance Company – New Zealand Branch
Financial Statements
For the year ended 31 December 2009

APPROVAL BY DIRECTORS

The directors are please to present the financial statements of American Income Life Insurance Company – New Zealand Branch for the year ended 31 December 2009.

Director	Director
Larry M. Hutchinson	Gary L. Coleman

For and on behalf of the Directors

Date: 30 June 2010

1. GENERAL ACCOUNTING POLICIES

General Information — The reporting entity is the New Zealand Branch of American Income Life Insurance Company (the 'Branch'). American Income Life Insurance Company (the 'Company') is registered under the Companies Act 1993.

The life insurance operations of American Income Life Insurance Company New Zealand Branch is conducted as required by the Life Insurance Act 1908 and are reported in aggregate in the Statement of Comprehensive Income, Balance Sheet and Statement of Changes in the Home Office Account of American Income Life Insurance Company New Zealand Branch. The life insurance operations of American Income Life Insurance Company New Zealand Branch comprise the selling and administration of life insurance contracts. All contracts are non-investment linked business. All business written by American Income Life Insurance Company New Zealand Branch is non-participating and all profits and losses are allocated to the Head Office.

Life insurance contracts involve the acceptance of significant insurance risk. Insurance contracts include those where the insured benefit is payable on the occurrence of a specified event such as death, injury or disability caused by accident or illness.

The principal place of business in New Zealand and contact address is AIL House, 3055 Great North Road, New Lynn, Auckland, New Zealand.

Basis of Preparation — The financial statements presented are those solely for the Branch and are prepared on the basis of historical costs except for certain assets and liabilities as noted. The financial statements comply with the Financial Reporting Act 1993 and comprise statements of the following: significant accounting policies, statement of comprehensive income, statement of changes in the Home Office Account, balance sheet, statement of cash flows, as well as notes to these statements contained on pages 15 to 25.

Statement of Compliance — The Branch is a profit-oriented entity and has applied all applicable standards for profit-oriented entities.

The financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand ('NZ GAAP'). They comply with New Zealand equivalents to International Financial Reporting Standards ('NZ IFRS') and other applicable Financial Reporting Standards as appropriate for profit-oriented entities. The financial statements comply with International Financial Reporting Standards.

These financial statements have been prepared in New Zealand dollars.

1. GENERAL ACCOUNTING POLICIES (CONTINUED)

Overview of Insurance Risk — The financial assets and liabilities are subject to market and insurance risk and other changes of experience assumptions that may have a material effect on NZ IFRS basis profit or loss and equity. Market risk is the risk that the fair value or future cash flows of a financial instrument, or liability of insurance contracts will vary because of changes in market prices. Market risk involves three types of risk:

Currency risk - is the risk of loss resulting from changes in exchange rate when applied to assets and liabilities or future transactions denominated in a currency that is not the Branch's functional currency. The Branch sets limits for the management of currency risk arising from the Branch's investments based on prudent international asset management practice.

Interest rate risk - is the risk that the value or future value of cash flows of a financial instrument or liability will fluctuate because of changes in interest rates. The Branch manages interest rate risk arising from its interest bearing investments in accordance with Branch policies.

Other price risk - due is the risk of loss resulting from the decline in prices of equity securities or other assets. The price risk is managed by diversification of the investment portfolio.

Policyholder liabilities and reserves are subject to the effects of changes in experience, or expected future experience, such as for mortality and rates of discontinuance.

Changes in Accounting Policy — There have been no changes to existing accounting policies during the year.

Adoption of new and revised Standards and Interpretations - The following new accounting standards have impacted current year disclosures and accounting policies in the financial statements:

NZ IAS 1- Presentation of Financial Statements (revised 2007)

This has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements. In particular there is a new more detailed Statement of Comprehensive Income.

Amendments to NZ IFRS 7 - Financial Instruments - Disclosures

The amendments to NZ IFRS 7 expand the disclosures required in respect of fair value measurements and liquidity risk.

All other Standards and Interpretations that became effective in the current year have not led to any changes in the Branch 's accounting policies with measurement or recognition impact on the periods presented in these financial statements

Standards and Interpretations not yet effective

We are not aware of any other standards in issue but not yet effective which would materially impact the amounts recognised or disclosed in the financial statements.

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PARTICULAR ACCOUNTING POLICIES

a) **Recognition of Premium Income and Policy Expenses** — Premiums on life insurance policies are reported as revenues when due. Premiums on accident and health policies are reported as revenue when earned. Unearned premiums on accident and health policies are calculated on a pro rata basis.

Policy acquisition costs are the fixed and variable costs of acquiring new business, including commission. Policy maintenance costs include all operating and management costs other than acquisition and investment management costs.

All expenses that are not directly attributable to the acquisition of life insurance contracts are classified as maintenance expenses.

The Actuary, in determining the policy liability, takes account of the deferral and future recovery of acquisition costs, resulting in policy liability being lower and those costs amortised over the period at a constant percentage of the premium.

b) **Investments** — The government, and other debt securities are stated at fair values which were obtained from independent brokers and published valuation guides, with any resultant gain or loss recognised in profit or loss.

c) **Taxation** — Income tax expense represents the sum of the tax currently payable and deferred tax.

Current Tax — The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the profit or loss because it excludes items of income or expenses that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Branch's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred Tax — Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised.

American Income Life Insurance Company New Zealand branch has determined that all financial assets held in relation to insurance contracts are assets backing insurance contract liabilities.

The accounting policies applying to financial assets held to back life insurance activities are:

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PARTICULAR ACCOUNTING POLICIES (CONTINUED)

d) **Financial Instruments** — Assets and liabilities of the Branch are primarily financial instruments and are recognised in the Balance Sheet.

Financial assets are classified as fair value through profit and loss ("FVTPL"). These financials assets are stated at fair value, with any resulting gain or loss recognised in the profit or loss. All purchases or sales of financials assets classified as fair value through profit or loss that require delivery within the timeframe established by regulation or market convention ("regular way" purchase and sales) are recognised at trade date, which is the date the Branch commits to purchase or sell the assets. Loan and deposits are recognised at settlement date, which is the date that the assets are delivered or received.

Short term deposits and cash are classified as loans and receivables and are recorded at amortised cost using the effective interest method, with revenue recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is that rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount of the financial asset.

Accrued investment income and agent balance receivables are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate. Agent balance receivables primarily represent claw back commission, advances to agents and interest accrued on these amounts. Where considered necessary the asset has been written down to its estimated recoverable amount.

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PARTICULAR ACCOUNTING POLICIES (CONTINUED)

e) **Trade and Other Liabilities** — Trade payables and other liabilities are recognised when the entity becomes obliged to make future payments resulting from the purchase of goods and services and are measured at amortised cost.

f) **Statement of Cash Flows** — The Statement of Cash Flows has been prepared using the direct approach.

Operating activities are the principal revenue producing activities of the Branch and other activities that are not investing or financing activities.

Investing activities are the acquisition and disposal of long-term assets and other investments not included in cash and cash equivalents.

Financing activities are activities that result in changes in the size and composition of the contributed equity and borrowings of the entity.

Cash and cash equivalents reflect the balance of cash and liquid assets used in the day-to-day cash management.

g) **Impairment of assets**

Impairment of non-financial assets - At the end of each reporting period, the Branch reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Branch estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

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PARTICULAR ACCOUNTING POLICIES (CONTINUED)

g) Impairment of assets (Continued)

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior periods. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase. Impairment of goodwill is not reversed.

Impairment of financial assets - Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

SIGNIFICANT JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

In the application of NZ IFRS management is required to make judgements, estimates and assumptions about the carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that we believe to be reasonable under the circumstances, the results of which form the basis of making the judgements. Actual results may differ from these estimates.

SIGNIFICANT JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (CONTINUED)

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Significant judgements, estimates and assumptions made by management in the preparation of these financial statements are outlined below:

a) **Estimation of Insurance Contract Liabilities** — Insurance contract liabilities for life insurance contracts are computed using statistical or mathematical methods. The computations are made by suitably qualified personnel on the basis of recognised actuarial methods, with due regard to relevant actuarial principles. The methodology takes into account the risks and uncertainties of the particular classes of life insurance business written. Deferred policy acquisition costs are connected with the measurement basis of life insurance liabilities and are equally sensitive to the factors that are considered in the liability measurement.

   The key factors that affect the estimation of these liabilities and related assets are:

   - Mortality and morbidity experience on life insurance products, including enhancements to policyholder benefits;
   - Discontinuance experience, which affects American Income Life Insurance Company New Zealand branch's ability to recover the cost of acquiring new business over the lives of the contracts;
   - The cost of providing benefits and administering these insurance contracts;
   - The discount rate applied to calculated the present value of future benefits;

   In addition, factors such as regulation, inflation, interest rates, investment market conditions and general economic conditions affect the level of these liabilities. Refer to Note 15 for disclosure assumptions.

b) **Policy and Contract Claims** — Policy and contract claims include provisions for reported claims and claims incurred but not reported. The provision for claims incurred but not reported is estimated based on the Branch's experience.

   Since this liability is based on estimates, the ultimate settlement of losses may vary from the amounts included in the financial statements. Although it is not possible to measure the degree of variability inherent in such estimates, the Branch believes the liability for losses is reasonable.

AMERICAN INCOME LIFE INSURANCE COMPANY
NEW ZEALAND BRANCH

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2009

	2009 $	2008 $
INCOME:		
Premiums (Note 1)	9,103,646	7,107,272
Interest income on investments (Note 2)	355,177	355,657
Change in liability for future policy benefits (Note 15)	1,985,395	-
Unrealized surplus on revaluation of debt security investments to fair value	-	468,383
Other interest income	219,862	419,202
	11,664,080	8,350,514
EXPENDITURE:		
Claims (Note 3)	2,385,905	1,890,261
Commissions (Note 4)	5,716,160	3,443,138
Unrealized deficit on revaluation of debt security investments to fair value	263,020	-
Change in liability for future policy benefits (Note 15)	-	1,201,712
Management expenses (Note 5)	3,070,840	1,617,741
	11,435,925	8,152,852
PROFIT BEFORE TAXATION	228,155	197,662
TAXATION (Note 14)	-	-
PROFIT AFTER TAXATION ATTRIBUTABLE TO HEAD OFFICE (Note 6)	228,155	197,662
TOTAL COMPREHENSIVE INCOME	228,155	197,662

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AMERICAN INCOME LIFE INSURANCE COMPANY
NEW ZEALAND BRANCH

STATEMENTS OF CHANGES IN THE HOME OFFICE ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2009

	2009 $	2008 $
Balance at the beginning of the year	20,249,713	18,587,136
Contributions from the Home Office:		
General advances	742,416	421,508
Expenses paid on behalf of the Branch (Note 9)	2,083,786	1,043,407
	2,826,202	1,464,915
Net profit after tax	228,155	197,662
Other comprehensive income	-	-
Total comprehensive income	228,155	197,662
Balance at the end of the year	23,304,070	20,249,713

AMERICAN INCOME LIFE INSURANCE COMPANY
NEW ZEALAND BRANCH

BALANCE SHEET
AS AT 31 DECEMBER 2009

ASSETS	2009 $	2008 $
Cash and cash equivalents	3,296,432	6,055,680
Short term deposits	1,834,443	1,532,911
Investments (Note 8)	5,553,523	5,821,281
Outstanding premiums	535,089	265,488
Accrued investment income	100,700	104,636
Agent balance paid in advance	7,853,551	3,578,522
Prepayments	49,674	57,235
Premium taxes receivable	-	4,000
Reserve for future policy benefits (Note 15)	5,240,234	3,254,839
Deferred tax asset (Note 14)	4,530,032	3,635,922
TOTAL ASSETS	28,993,678	24,310,514
LIABILITIES		
Policy and contract claims	374,422	282,869
Unearned premiums	7,601	2,929
Premium taxes due	9,000	-
Trade and other liabilities	768,553	139,081
Deferred tax liability (Note 14)	4,530,032	3,635,922
TOTAL LIABILITIES	5,689,608	4,060,801
Advances from Home Office (Note 9)	12,243,579	9,417,377
Accumulated surplus	11,060,491	10,832,336
Total Home Office Account	23,304,070	20,249,713
TOTAL LIABILITIES & HOME OFFICE ACCOUNT	28,993,678	24,310,514

The Statement of Significant Accounting Policies and Notes to the Financial Statements form part of, and should be read in conjunction with, these financial statements.

AMERICAN INCOME LIFE INSURANCE COMPANY
NEW ZEALAND BRANCH

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2009

	2009 $	2008 $
CASH FLOWS FROM OPERATING ACTIVITIES:		
Premiums and other considerations received from policyholders	8,834,045	7,057,106
Interest income	363,851	357,362
Other interest	219,862	419,202
Payment of claims	(2,289,680)	(1,909,148)
Payments of taxes	(45,151)	(45,151)
Payments of commissions	(9,991,189)	(4,527,586)
Payments to suppliers, agents etc.	(2,375,656)	(1,576,759)
Net cash (used in) / provided by operating activities (Note 12)	(5,283,918)	(224,974)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash paid for the short term deposits	(301,532)	(352,277)
Net cash used in investing activities	(301,532)	(352,277)
CASH FLOWS FROM FINANCING ACTIVITIES —		
Advances provided by related party	2,826,202	1,464,915
Net cash provided by financing activities	2,826,202	1,464,915
NET (DECREASE) / INCREASE IN CASH ON HAND	(2,759,248)	887,664
CASH ON HAND AT BEGINNING OF YEAR	6,055,680	5,168,016
CASH ON HAND AT END OF YEAR	3,296,432	6,055,680

The Statement of Significant Accounting Policies and Notes to the Financial Statements form part of, and should be read in conjunction with, these financial statements.

1. PREMIUMS

	2009	2008
	$	$
Individual Life	7,197,642	5,665,125
Accident and Health	1,906,004	1,442,147
	9,103,646	7,107,272

2. INTEREST INCOME

	2009	2008
	$	$
Government Securities	163,714	181,631
Other Debt Securities	191,463	174,026
	355,177	355,657

3. CLAIMS

	2009	2008
	$	$
Individual Life	1,300,918	970,884
Accident and Health	1,084,987	919,377
	2,385,905	1,890,261

4. COMMISSIONS (POLICY ACQUISITION EXPENSES)

	2009	2008
	$	$
In respect of new policies:		
Individual Life	5,168,317	3,123,201
Accident and Health	547,843	319,937
	5,716,160	3,443,138

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5. MANAGEMENT EXPENSES

	2009 $	2008 $
Home office charges:		
General expenses	485,598	348,770
Salaries	1,598,188	694,637
General office expenses	670,733	303,287
Auditor remuneration —		
Audit services	63,446	39,193
Taxation services	14,591	18,258
Other expenses	209,654	188,909
Investment expenses	28,630	24,687

6. NET PROFIT AFTER TAX

	2009 $	2008 $
The surplus for the year of $228,155 (2008:$197,662) has arisen as follows:		
Planned margin of revenue over expenses	1,110,538	597,769
Difference between actual and assumed experience	(1,449,254)	(1,874,691)
Investment earnings on assets in excess of policy liabilities	566,871	1,474,584
	228,155	197,662

7. CAPITAL COMMITMENTS

There are no commitments for capital expenditure entered into at 31 December 2009 (2008: nil).

8. INVESTMENTS

	2009 $	2008 $
New Zealand Debt Securities —		
Fair value	5,553,523	5,821,281

These securities mature in 2011 and 2015 and carry an effective interest rate of approximately 6.33% (2008: 6.33%).

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9. RELATED PARTY TRANSACTIONS

American Income Life Insurance Company incurs expenses for the New Zealand operations at the Home Office in Waco, Texas. Those expenses, as well as additional start-up costs are shown as advances from the Home Office to the New Zealand Branch. The advance payable to the Home Office as at 31 December 2009 was $12,243,579 (2008: $9,417,377) . The total value of these expenses for the year were $2,083,786 (2008: $1,043,407) and a general advance was paid during the year of $742,416 (2008: $421,508). These amounts are repayable on demand, however the Home Office has no plans to demand settlement in the next 12 months. The advance has no priorities attached and is interest free to the Branch.

10. LOANS TO DIRECTORS OR EMPLOYEES

None (2008: nil)

11. FINANCIAL INSTRUMENTS

The financial condition and operating results of the Branch are affected by a number of financial and non-financial risks. Financial risks include interest rate risk, credit risk, and liquidity risk. Non-financial risks include insurance risks.

The Branch's objective is to prudently manage these risks.

Financial risks are managed via a conservative investment management strategy, with assets concentrated in liquid, low-risk investments. The asset mix includes medium-term investments in government securities, aimed at immunizing the policy liabilities against interest rate fluctuations.

Insurance risks are managed via prudent underwriting of new business applications from prospective policyholders, via a reinsurance programmer, and via thorough selection of appropriate sales staff to act as the Branch's intermediaries.

Insurance Risks — terms and conditions that affect the timing of cash-flows

The Branch's products are predominantly long-term policies providing death and disablement benefits. The policy liabilities are calculated on the basis that the assumed rate of investment returns are able to be realized on policy reserves and on net cash-flows in future. If these returns are not achieved then the projected surpluses will be lower than expected.

The Branch's products provide death and disablement benefits that are significantly in excess of the policy liabilities. Consequently if claim levels are higher than expected then the projected surpluses will be lower than expected.

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11. FINANCIAL INSTRUMENTS (CONTINUED)

The Branch's products provide surrender values on product cancellation, and if more clients surrender than expected then the projected cash out-flows will be accelerated.

The policy liabilities are based on the assumption that policies are able to be maintained for a certain level of administration costs. If these costs are exceeded there will be a resulting reduction in emerging profits.

The Branch does not write any group business, where there could be concentrations of lives insured in one work-place.

Insurance risk can be quantified by showing the sensitivity of policy liabilities and future profit margins to changes in the main assumptions that affect insurance business risks. The table below shows the impact of variations to assumptions concerning discount rates, the major types of claim, policy discontinuances and administration costs.

	December 2009		December 2008	
Assumption variation	Impact on policy liability	Impact on future profit margins	Impact on policy liability	Impact on future profit margins
Discount rate 1% higher	(609,750)	(369,729)	(509,207)	(159,045)
Discount rate 1% lower	897,377	419,249	742,693	180,417
Deaths and disablements 10% higher	-	(1,610,112)	-	(1,157,535)
Deaths and disablements 10% lower	-	1,638,182	-	1,191,551
Annual surrenders 10% higher	-	(1,530,473)	-	(731,924)
Annual surrenders 10% lower	-	1,739,504	-	816,389
Administration costs 10% higher	-	(226,840)	-	(116,974)
Administration costs 10% lower	-	226,840	-	116,974

Interest Rate Risk — Invested assets are subject to the customary risks of defaults, downgrades, and changes in market values. Factors that may affect these risks include interest rate levels, financial market performance, and general economic conditions. Significant increases in interest rates could cause a material temporary decline in the fair value of the fixed investment portfolio, reflecting unrealized fair value losses. This risk is mitigated by the Branch's operating strategy to generally hold investments to maturity recognizing the long-term nature of the life policy reserve liabilities supported by investments, the type of investments held which are all NZ Government and NZ Public Utilities securities (refer to note 8) that greatly diminishes the need to liquidate investments prior to maturity.

11. FINANCIAL INSTRUMENTS (CONTINUED)

The following table illustrates the market risk sensitivity of our interest-rate sensitive fixed-maturity portfolio at 31 December 2009 and 2008. This table measures the effect of a change in interest rates on the profit or loss and equity of the Branch. The data measures the effect on profit or loss and equity arising from an immediate and sustained change in interest rates in increments of 100 basis points.

	Increase (Decrease) in Profit and Equity For the Year	
	2009	**2008**
Change in discount rate (bps):		
-200	470,851	592,697
100	228,741	286,674
0		
+100	(216,257)	(268,766)
+200	(420,847)	(520,945)

Credit Risk — The Branch's major categories of asset comprise the following:
Investments in government securities, public utilities, and registered banks totaling $10.7m. There is very little credit risk involved with these assets.

Premiums due of $0.5m. There is a possibility that a proportion of these premiums will not be received. Agent balances of $7.9m. These represent unexpensed agent commissions, and agent balances due on clawback. The recoverability of unexpensed commissions depends on the continuation of the policies on which the commissions have been accrued. The recoverability of clawback amounts will be affected by whether the agent continues to write new business with the Branch, and whether the agent has assets that are able to contribute to any commission recovery.

Premiums due, and agent balances, are relatively illiquid assets, and are subject to a degree of credit risk.

The Branch does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Branch does not write any group business, where there could be concentrations of lives insured in one work-place.

Liquidity Risk — The Branch maintains adequate cash and short-term investments on an ongoing basis to meet anticipated liquidity needs. Long term securities are primarily NZ government securities which are readily marketable in the event of unforeseen extraordinary liquidity needs.

The Branch's government securities mature in 2011 and 2015. The Branch's other investments have an expected term to maturity of less than 12 months.

The average term of the Branch's liabilities for notified and unnotified claims, unearned premiums, premium taxes, and trade liabilities, totaling $1.2m, is less than 12 months.

11. FINANCIAL INSTRUMENTS (CONTINUED)

The average term of the Branch's policy liabilities is in excess of five years.

Annual claim payments are expected to exceed \$1m per year, however these claims are expected to be met out of projected future net cash-flows, and policy liabilities are projected to increase rather than reduce over the next five years.

Fair Values — The fair values of financial instruments have been determined by the Directors to approximate the carrying amount.

The fair value of investments is derived using quoted prices (unadjusted) in active markets for identical assets or liabilities. Therefore the Branch has categorised these assets as Level 1 under the fair value hierarchy contained within the amendment to NZ IFRS 7.

12. RECONCILIATION OF NET CASH FLOW FROM OPERATING ACTIVITIES TO OPERATING SURPLUS AFTER TAXATION

	2009 $	2008 $
Operating surplus after taxation	228,155	197,662
Add (less) non cash items:		
Change in liability for future policy benefits	(1,985,395)	1,201,712
Unrealized fair value change	263,020	(468,383)
Other	4,738	4,443
Total non-cash items	(1,717,637)	737,772
	(1,489,482)	935,434
Movements in working capital:		
(Increase) in agents' receivables	(4,275,029)	(1,084,448)
Decrease (Increase) in accrued investment income	3,936	(2,738)
(Increase) in outstanding premiums	(269,601)	(50,166)
Decrease (Increase) in prepayments	7,561	13,647
(Decrease) Increase in policy claims and unearned premiums	96,225	(18,887)
(Decrease) increase in trade and other liabilities	642,472	(17,816)
	(3,794,436)	(1,160,408)
Net cash (used in) / provided by operating activities	(5,283,918)	(224,974)

13. CONTROLLING ENTITIES

The immediate controlling entity of the Branch is American Income Life Insurance Company. The ultimate controlling entity of American Income Life Insurance Company is Torchmark Corporation.

Deloitte.
For Identification

14. INCOME TAXES

	2009	2008
Income taxes:		
Current tax expense comprises —		
Current tax expense	$ -	$ -
Total expense	$ -	$ -
The income tax expense on pre-tax accounting profit from operations reconciles to the income tax expense in the financial statements as follows:		
Profit before taxation	$ 228,155	$ 197,662
Income tax expense calculated at 30% in 2009 (30%-2008)	68,447	59,299
Effect of life insurance business profit	(1,545,232)	(395,973)
Effect of accident and health insurance business profit	163,245	53,732
Effect of unused tax losses not recognized as deferred tax assets	1,313,540	(282,942)
	$ -	$ -
Deferred tax balances:		
Deferred tax asset comprise —		
Tax losses	$ 4,530,032	$ 3,635,922
	$ 4,530,032	$ 3,635,922
Deferred tax liability comprise —		
Deferred acquisition costs	$ (4,530,032)	$ (3,635,922)
	(4,530,032)	(3,635,922)
Total deferred tax balance	$ -	$ -
Unrecognized deferred tax balances:		
The following deferred tax assets have not been brought to account as assets:		
Policyholder base:		
Losses	$37,500,840	$30,595,859
Tax effect	11,250,252	9,178,758
Life Assurer base:		
Losses	8,183,478	3,755,010
Tax effect	2,455,043	1,126,503

14. INCOME TAXES (CONTINUED)

In May 2010 legislation was passed to reduce the company tax rate from 30% to 28%. This is effective for the Branch from 1 January 2011.

The Taxation (International Taxation, Life Insurance and Remedial Matters) Act 2009 passed on 6 October 2009 and will affect the taxation of the Branch's life insurance business. The new tax regime for life insurers will result in more tax to pay for new term life business issued from 1 July 2010 and existing term life business once the grand-parenting provisions cease. Initial investigations indicate that with income tax losses and the grandfathering, the impact of this higher tax will be insignificant.

The availability of the income tax losses is subject to statutory requirements being met. The Policyholder Base losses will be forfeited from 1 July 2010 as a result of the new tax regime. The Branch had $23,283,585 of Life Assurer base tax losses available with $15,100,700 being utilized to offset the deferred tax liability arising from the deferred acquisition costs resulting in unrecognized tax losses $8,183,478 resulting in no impact on the current deferred tax position as a result of the new tax regime.

15. ACTUARY'S STATEMENT

The effective date of the actuarial report on policy liabilities and reserves is 31 December 2009. The actuarial report was prepared by Mr. John T. Daly, ASA, of American Income Life Insurance Company.

Mr. Peter Davies of Davies Financial and Actuarial Services, a Fellow of the New Zealand Society of Actuaries, albeit on a gross of tax basis, has certified that the amount of policy liabilities has been determined in accordance with Professional Standard No. 3 of the New Zealand Society of Actuaries.

The actuary is satisfied as to the accuracy of the data from which the policy liabilities have been determined.

	2009 $	2008 $
Policy liabilities:		
Balance at beginning of year	(3,254,839)	(4,456,551)
Movement in current year	(1,985,395)	1,201,712
Reserve for future policy benefits	(5,240,234)	(3,254,839)
Policy liabilities comprises the following:		
Value of future claims	29,051,881	21,429,645
Value of future expenses	12,325,714	6,555,013
Value of future profit margins	6,575,428	2,735,911
Less value of future premiums	(53,193,257)	(33,975,408)
Net cash provided by operating activities	(5,240,234)	(3,254,839)

15. ACTUARY'S STATEMENT (CONTINUED)

The Actuary has performed a liability adequacy test in accordance with NZ IFRS 4 and is satisfied as to the accuracy of the data and the results are satisfactory using the assumptions below.

Disclosure of Assumptions — Policy liabilities were computed using a projection approach. Two separate projections were created for each line of business, Life and Accident and Health (A&H).

Discount rate: The 2009 discount rate increased to 6.0% per annum from 2008 discount rate of 4.9%. This change decreased total reserves by $678,000.

Profit carrier: the premium payable under each contract is the profit carrier. Future profits equal approximately 12% (2008: 6%) of the value of future premiums for Life and 16% (2008: 21%) of the value of future premiums for A&H.

Initial expenses: For life, 28% of premium plus $12 per policy, plus an underwriting expense per $1,000 of sum insured that varies by issue age, plus commission. For A&H, 40% of premium, plus commission.

Management expenses: For Life, $10.00 per policy per annum plus 2.3% (2008: 2.3%) of premium. For A&H, 6.3% (2008:6.3%) of premium.

The policy liabilities have been determined on a gross of tax basis

Mortality rates: American Income company aggregate experience split between Smoker/Non-smoker.

Morbidity: disability waiver rates per 1952 Disability Table. Accidental death benefits per 1959 ADB table. Other non life risks per pricing assumptions.

Accident Claims Costs: American Income company aggregate experience.

Rates of discontinuance: variable scales per expected portfolio experience. For central ages at issue these average 40% in year 1, reducing to 6% for durations 15 and longer.

Sensitivity analyses for other assumptions were performed. Please see note 11 for the valuation results.

16. SOLVENCY

The portion of the Home Office balance retained for solvency purposes is $12,755,594 (2008: $9,879,800). The solvency reserve has been prepared on the Home Office's statutory reporting basis for the State of Indiana in the United States of America. This is a modified net premium basis with the elimination of negative reserves, on conservative valuation assumptions.

17. BRANCH STATUS

The New Zealand branch is part of the American Income Life Insurance Company. The assets of the branch are legally available for the satisfaction of debts of the entire company, not solely those appearing on the accompanying Statement of Financial Position and its debts may result in claims against assets not appearing thereon.

18. CONTINGENT LIABILITIES

There are no contingent liabilities as at 31 December 2009 (2008: nil).

American Income Life Insurance Company

Consolidated Financial Statements and
Separate Parent Company Only
Financial Statements as of and for the Years Ended
December 31, 2009 and 2008, and
Independent Auditors' Report

Signed on behalf of the Directors of American Income Life Insurance Company by two of its Directors for the purposes of section 10(1) of the Financial Reporting Act 1993 (NZ) by:

Gary L Coleman

Director

Director

6/30/2010

Date

AMERICAN INCOME LIFE INSURANCE COMPANY

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INDEPENDENT AUDITORS' REPORT

Board of Directors
American Income Life Insurance Company
Waco, Texas

We have audited the accompanying consolidated balance sheets of American Income Life Insurance Company and subsidiaries (the "Company") and the separate balance sheets of American Income Life Insurance Company as of December 31, 2009 and 2008, and the related statements of income, stockholder's equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 Company'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. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the consolidated financial position of American Income Life Insurance Company and subsidiaries and the financial position of American Income Life Insurance Company as of December 31, 2009 and 2008, and the respective results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

June 28, 2010

AMERICAN INCOME LIFE INSURANCE COMPANY

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2009 AND 2008
(Dollar amounts in thousands, except per share data)

ASSETS	**2009**	**2008**
CASH AND INVESTMENTS:		
Fixed maturities — available for sale — at fair value (amortized cost of $1,450,881 and $1,428,210 in 2009 and 2008, respectively)	$ 1,377,648	$ 1,135,022
Equity securities — available for sale — at fair value (cost of $426)	641	626
Preferred stock of affiliate — at cost	39,169	39,169
Policy loans — at unpaid balances	77,572	64,857
Other long-term investments	7,055	6,929
Cash and cash equivalents	159,003	49,463
Total cash and investments	1,661,088	1,296,066
LIFE INSURANCE PREMIUMS DUE AND UNCOLLECTED	303	331
ACCIDENT AND HEALTH PREMIUMS DUE AND UNPAID	1,622	1,392
INVESTMENT INCOME DUE AND ACCRUED	26,473	26,361
DEFERRED POLICY ACQUISITION COSTS	697,048	617,135
COST OF INSURANCE ACQUIRED	25,235	27,238
GOODWILL	330,657	330,657
AGENTS' BALANCES — Net of allowance of $0	19,517	10,580
INCOME TAXES RECEIVABLE FROM PARENT	11,439	40,575
PROPERTY AND EQUIPMENT — Net of accumulated depreciation	2,320	2,498
OTHER ASSETS	39,810	46,737
TOTAL	$2,815,512	$2,399,570

(Continued)

AMERICAN INCOME LIFE INSURANCE COMPANY

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2009 AND 2008
(Dollar amounts in thousands, except per share data)

LIABILITIES AND STOCKHOLDER'S EQUITY	2009	2008
LIABILITIES:		
Aggregate reserves for future policy benefits:		
Life	$ 1,403,703	$ 1,275,889
Accident and health, including unearned premiums of $5,677 and $5,465 in 2009 and 2008, respectively	65,626	61,334
Total aggregate reserves for future policy benefits	1,469,329	1,337,223
Reserves for policy and contract claims:		
Life	19,342	19,732
Accident and health	12,564	12,334
Total reserves for policy and contract claims	31,906	32,066
Other policyholder funds	82,022	81,602
General insurance expenses and other liabilities	47,790	34,354
Taxes, licenses, and fees	1,586	21
Deferred income taxes	200,532	79,492
Total liabilities	1,833,165	1,564,758
CONTINGENCIES (Note 9)		
STOCKHOLDER'S EQUITY:		
Common stock (par value $1 per share; 23,360,214 shares authorized; 11,680,107 issued and outstanding)	11,680	11,680
Additional paid-in capital	644,290	623,950
Retained earnings	351,998	380,463
Accumulated other comprehensive loss — net of provision for taxes of $(13,803) and $(97,621) in 2009 and 2008, respectively	(25,621)	(181,281)
Total stockholder's equity	982,347	834,812
TOTAL	$2,815,512	$2,399,570

See notes to consolidated financial statements.

(Concluded)

AMERICAN INCOME LIFE INSURANCE COMPANY

CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2009 AND 2008
(Dollar amounts in thousands)

	2009	2008
REVENUES:		
Premiums	$ 583,364	$ 547,613
Net investment income	94,988	93,580
Other income	23	71
Net realized investment losses	(19,058)	(6,441)
Total revenues	659,317	634,823
BENEFITS AND OTHER DEDUCTIONS:		
Death benefits	88,933	81,952
Accident and health benefits	28,959	27,993
Surrender benefits and other fund withdrawals	38,935	34,795
Interest and other benefits on policy and contract funds	827	849
Interest credited to deposit account fund holders	3,776	3,790
Amortization of deferred policy acquisition costs and cost of insurance acquired	113,449	104,882
Increase in aggregate reserves for future policy benefits	112,124	112,626
Commissions	31,202	29,245
General expenses	24,005	15,762
Insurance taxes, licenses, and fees	16,150	12,273
Total benefits and other deductions	458,360	424,167
INCOME FROM OPERATIONS BEFORE DIVIDENDS TO POLICYHOLDERS AND INCOME TAXES	200,957	210,656
DIVIDENDS TO POLICYHOLDERS	25	31
INCOME FROM OPERATIONS BEFORE INCOME TAXES	200,932	210,625
PROVISION FOR INCOME TAXES:		
Current	30,339	38,598
Deferred	38,388	21,318
Total income taxes	68,727	59,916
NET INCOME	$ 132,205	$ 150,709

See notes to consolidated financial statements.

AMERICAN INCOME LIFE INSURANCE COMPANY

STATEMENTS OF STOCKHOLDER'S EQUITY AND COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2009 AND 2008
(Dollar amounts in thousands)

				Accumulated Other Comprehensive Income				
	Common Stock	Additional Paid-In Capital	Retained Earnings	Net Unrealized Gains (Losses)	Foreign Currency Translation Adjustment	Other Comprehensive (Loss)	Total Accumulated Other Comprehensive Income	Total Stockholder's Equity
BALANCE — January 1, 2008	$11,680	$623,581	$313,377	$ (16,579)	$ 26,500	$ (795)	$ 9,126	$ 957,764
Exercise of options		5						5
Stock-based compensation		364						364
Comprehensive income:								
Net income			150,709					150,709
Change in net unrealized gains and losses — net of $(93,618) tax				(173,867)			(173,867)	(173,867)
Change in translation adjustment — net of $(13,013) tax					(16,364)		(16,364)	(16,364)
Pension adjustments — net of $(94) tax						(176)	(176)	(176)
Total comprehensive income								(39,698)
Dividends declared			(83,623)					(83,623)
BALANCE — December 31, 2008	11,680	623,950	380,463	(190,446)	10,136	(971)	(181,281)	834,812
Capital contributions		20,000						20,000
Stock-based compensation		340						
Comprehensive income:								
Net income			132,205					132,426
Change in net unrealized gains and losses — net of $76,992 tax				142,981			142,981	142,981
Change in translation adjustment — net of $7,131 tax					13,243		13,243	13,243
Pension adjustments — net of $(304) tax						(564)	(564)	(564)
Total comprehensive income								288,086
Dividends declared			(160,670)					(160,670)
BALANCE — December 31, 2009	$11,680	$644,290	$351,998	$ (47,465)	$ 23,379	$(1,535)	$ (25,621)	$ 982,347

See notes to financial statements.

AMERICAN INCOME LIFE INSURANCE COMPANY

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2009 AND 2008
(Dollar amounts in thousands)

	2009	2008
OPERATING ACTIVITIES:		
Net income	$ 132,205	$ 150,709
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	529	782
Deferred income taxes	38,388	21,318
Amortization of low income housing investments	652	196
Amortization of bond discount	605	254
Realized losses on sales of investments	19,058	6,441
Amortization of deferred policy acquisition costs and cost of insurance acquired	113,449	104,882
Deferred policy acquisition costs	(191,359)	(149,742)
Changes in assets and liabilities:		
Life insurance premiums due and uncollected	28	(6)
Accident and health premiums due and unpaid	(230)	9
Investment income due and accrued	(112)	(961)
Agents' balances	(8,937)	10,624
Other assets	(28,073)	(10,668)
Aggregate reserves for future policy benefits	132,106	87,396
Reserves for policy and contract claims	(160)	1,717
Other policyholder funds	420	(254)
General insurance expenses and other liabilities	23,692	5,185
Taxes, licenses, and fees	1,565	(2,205)
Income taxes	29,136	1,818
Net cash provided by operating activities	262,962	227,495
INVESTING ACTIVITIES:		
Purchases of fixed maturity available for sale investments	(175,628)	(159,282)
Proceeds from sales, maturities, and repayments of fixed maturity available for sale investments	150,936	52,619
Net amounts loaned to affiliates	35,000	(35,000)
Purchases of property, plant, and equipment	(351)	(494)
Purchases of real estate		(325)
Proceeds from sale of real estate		670
Purchases of other long-term invested assets	(562)	
Proceeds from other long-term invested assets		410
Increase in policy loans	(12,715)	(7,601)
Net cash used in investing activities	(3,320)	(149,003)
FINANCING ACTIVITIES:		
Dividends paid to stockholder	(160,670)	(83,623)
Capital paid in	20,000	
Net amounts borrowed from affiliates	(11,000)	11,000
Tax benefit of stock option exercises		5
Other financing activities		22
Net cash used in financing activities	(151,670)	(72,596)
EFFECT OF FOREIGN CURRENCY TRANSLATION ON CASH AND CASH EQUIVALENTS	1,568	(10,803)
NET CHANGE IN CASH AND CASH EQUIVALENTS	109,540	(4,907)
CASH AND CASH EQUIVALENTS — Beginning of year	49,463	54,370
CASH AND CASH EQUIVALENTS — End of year	$ 159,003	$ 49,463

See notes to consolidated financial statements.

AMERICAN INCOME LIFE INSURANCE COMPANY

BALANCE SHEETS (PARENT COMPANY ONLY)
DECEMBER 31, 2009 AND 2008
(Dollar amounts in thousands, except per share data)

ASSETS	**2009**	**2008**
CASH AND INVESTMENTS:		
Fixed maturities — available for sale — at fair value (amortized cost of $1,417,772 and $1,393,620 in 2009 and 2008, respectively)	$ 1,344,203	$ 1,104,448
Equity securities — available for sale — at fair value (cost of $426)	641	626
Preferred stock of affiliate — at cost	39,169	39,169
Common stock of subsidiaries — at equity	44,698	33,285
Policy loans — at unpaid balances	76,863	64,457
Other long-term investments	7,055	6,929
Cash and cash equivalents	146,455	47,384
Total cash and investments	1,659,084	1,296,298
LIFE INSURANCE PREMIUMS DUE AND UNCOLLECTED	303	331
ACCIDENT AND HEALTH PREMIUMS DUE AND UNPAID	1,486	1,268
INVESTMENT INCOME DUE AND ACCRUED	25,951	25,804
DEFERRED POLICY ACQUISITION COSTS	672,182	596,084
COST OF INSURANCE ACQUIRED	25,235	27,238
GOODWILL	330,657	330,657
AGENTS' BALANCES — Net of allowance of $0	1,808	2,040
INCOME TAXES RECEIVABLE FROM PARENT	12,416	40,740
PROPERTY AND EQUIPMENT — Net of accumulated depreciation	1,089	1,366
OTHER ASSETS	25,134	44,232
TOTAL	$ 2,755,345	$ 2,366,058

(Continued)

AMERICAN INCOME LIFE INSURANCE COMPANY

BALANCE SHEETS (PARENT COMPANY ONLY)
DECEMBER 31, 2009 AND 2008
(Dollar amounts in thousands, except per share data)

LIABILITIES AND STOCKHOLDER'S EQUITY	2009	2008
LIABILITIES:		
Aggregate reserves for future policy benefits:		
Life	$ 1,372,677	$ 1,251,197
Accident and health, including unearned premiums of $5,263 and $5,083 in 2009 and 2008, respectively	64,082	59,998
Total aggregate reserves for future policy benefits	1,436,759	1,311,195
Reserves for policy and contract claims:		
Life	18,904	19,135
Accident and health	11,721	11,421
Total reserves for policy and contract claims	30,625	30,556
Other policyholder funds	82,010	81,593
General insurance expenses and other liabilities	29,155	34,148
Taxes, licenses, and fees	1,501	(36)
Deferred income taxes	192,948	73,790
Total liabilities	1,772,998	1,531,246
CONTINGENCIES (Note 9)		
STOCKHOLDER'S EQUITY:		
Common stock (par value $1 per share; 23,360,214 shares authorized; 11,680,107 issued and outstanding)	11,680	11,680
Additional paid-in capital	644,290	623,950
Retained earnings	351,998	380,463
Accumulated other comprehensive (loss) income — net of provision for taxes of $(13,921) and $(96,215) in 2009 and 2008, respectively	(25,621)	(181,281)
Total stockholder's equity	982,347	834,812
TOTAL	$2,755,345	$2,366,058

See notes to Parent Company only financial statements.

(Concluded)

AMERICAN INCOME LIFE INSURANCE COMPANY

STATEMENTS OF OPERATIONS (PARENT COMPANY ONLY)
YEARS ENDED DECEMBER 31, 2009 AND 2008
(Dollar amounts in thousands)

	2009	2008
REVENUES:		
Premiums	$ 552,379	$ 521,529
Net investment income	89,419	88,240
Equity in earnings of subsidiaries	8,585	7,517
Other income	23	71
Net realized investment losses	(19,076)	(6,443)
Total revenues	631,330	610,914
BENEFITS AND OTHER DEDUCTIONS:		
Death benefits	87,163	80,368
Accident and health benefits	26,551	25,193
Surrender benefits and other fund withdrawals	37,975	34,154
Interest and other benefits on policy and contract funds	815	837
Interest available to deposit account fund holders	3,776	3,790
Amortization of deferred policy acquisition costs and cost of insurance acquired	106,248	98,880
Increase in aggregate reserves for future policy benefits	105,583	106,916
Commissions	29,936	28,179
General expenses	21,640	14,332
Insurance taxes, licenses, and fees	15,337	11,656
Total benefits and other deductions	435,024	404,305
INCOME FROM OPERATIONS BEFORE DIVIDENDS TO POLICYHOLDERS AND INCOME TAXES	196,306	206,609
DIVIDENDS TO POLICYHOLDERS	25	31
INCOME FROM OPERATIONS BEFORE INCOME TAXES	196,281	206,578
PROVISION FOR INCOME TAXES:		
Current	26,047	36,392
Deferred	38,029	19,477
Total income taxes	64,076	55,869
NET INCOME	$ 132,205	$ 150,709

See notes to Parent Company only financial statements.

AMERICAN INCOME LIFE INSURANCE COMPANY

STATEMENTS OF CASH FLOWS (PARENT COMPANY ONLY)
YEARS ENDED DECEMBER 31, 2009 AND 2008
(Dollar amounts in thousands)

	2009	2008
OPERATING ACTIVITIES:		
Net income	$ 132,205	$ 150,709
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	357	538
Deferred income taxes	38,029	19,474
Amortization of low income housing investments	652	196
Amortization of bond discount	622	306
Income of unconsolidated affiliates	(8,585)	(7,517)
Dividend from unconsolidated affiliates		4,000
Realized losses on sales of investments	19,076	6,443
Amortization of deferred policy acquisition costs and cost of insurance acquired	106,248	98,880
Deferred policy acquisition costs	(180,343)	(140,308)
Changes in assets and liabilities:		
Life insurance premiums due and uncollected	28	(6)
Accident and health premiums due and unpaid	(218)	15
Investment income due and accrued	(147)	(710)
Agents' balances	232	(508)
Other assets	(15,902)	(4,966)
Aggregate reserves for future policy benefits	125,564	81,685
Reserves for policy and contract claims	69	1,238
Other policyholder funds	417	(254)
General insurance expenses and other liabilities	5,263	14,169
Taxes, licenses, and fees	1,537	(2,212)
Income taxes	28,324	1,346
Net cash provided by operating activities	253,428	222,518
INVESTING ACTIVITIES:		
Purchases of fixed maturity available for sale investments	(174,627)	(141,395)
Proceeds from sales, maturities, and repayments of fixed maturity available for sale investments	148,420	44,373
Net amount loaned to affiliate	35,000	(35,000)
Purchases of property, plant, and equipment	(80)	(348)
Purchases of real estate		(325)
Proceeds from sale of real estate		670
Purchases of other long-term invested assets	(562)	
Proceeds from other long-term invested assets		410
Increase in policy loans	(12,406)	(7,413)
Net cash used in investing activities	(4,255)	(139,028)
FINANCING ACTIVITIES:		
Dividends paid to stockholder	(160,670)	(83,623)
Capital paid in	20,000	
Net amount borrowed from affiliate	(11,000)	11,000
Tax benefit of stock option exercises		5
Other financing activities		22
Net cash used in financing activities	(151,670)	(72,596)
EFFECT OF FOREIGN CURRENCY TRANSLATION ON CASH AND CASH EQUIVALENTS	1,568	(10,803)
NET CHANGE IN CASH AND CASH EQUIVALENTS	99,071	91
CASH AND CASH EQUIVALENTS — Beginning of year	47,384	47,293
CASH AND CASH EQUIVALENTS — End of year	$ 146,455	$ 47,384

See notes to Parent Company only financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

American Income Life Insurance Company (the "Parent Company"), an insurance company domiciled in the State of Indiana, and its wholly owned subsidiaries National Income Life Insurance Company, American Income Marketing Services and AILIC Receivables Corporation (collectively, the "Company"), is a wholly owned subsidiary of Globe Life and Accident Insurance Company ("Globe"), an insurance company domiciled in the State of Nebraska. Torchmark Corporation ("Torchmark") is the ultimate parent of Globe and the Company.

The Company is engaged in the marketing, underwriting and issuing of individual life and supplemental accident and health insurance. In 2009 and 2008, premium income from life insurance was 87% and 87% of total premiums earned, and premium income from health insurance was 13% and 13% of total premiums earned. The Company reaches its targeted customers, moderate-income wage earners, through sponsored marketing programs with labor union locals, credit unions and other employment-related associations.

The Company is collectively licensed to operate in all 50 states, the District of Columbia, Canada, and New Zealand.

Basis of Presentation — The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). All significant intercompany accounts and transactions have been eliminated in consolidation. The accompanying parent company only financial statements have been prepared in accordance with GAAP, except that subsidiaries have not been consolidated, but accounted for on the equity basis.

Use of Estimates — The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Revenue Recognition — Premiums on life insurance policies are reported as revenues when due. Premiums on accident and health policies are reported as revenues when earned. Unearned premiums on accident and health policies are calculated on a pro rata basis.

Future Policy Benefits — Aggregate reserves for future policy benefits for individual life and health insurance policies have been provided principally on the net level premium method based on estimates of mortality, investment yields and withdrawal rates.

Policy and Contract Claims — Policy and contract claims include provisions for reported claims and claims incurred but not reported. The provision for claims incurred but not reported is estimated based on Company experience.

Deferred Policy Acquisition Costs and Cost of Insurance Acquired — Costs of acquiring new business, which vary with and are primarily related to the production of new business, have been deferred to the extent that such acquisition costs are deemed recoverable from future premiums. Costs that are deemed not recoverable are expensed in the period in which the determination is made. Deferred policy acquisition costs include commissions and certain underwriting and policy issuance costs. Cost of insurance acquired, which is the cost of acquiring new business through the purchase of other companies or blocks of insurance business, is also deferred.

Amortization of deferred policy acquisition costs and cost of insurance acquired has been determined using the worksheet method. This method uses earned net premium ratios that are calculated by determining the present value of future expenses and dividing that amount by the present value of future premiums. This ratio is then multiplied by the amount of premium collected during the period to determine the amount to amortize.

The policy acquisition costs deferred and amortized for the years ended December 31, 2009 and 2008, are summarized as follows:

Consolidated	**2009**	**2008**
Balance — beginning of year	$ 617,135	$ 569,914
Acquisition costs capitalized	191,313	149,816
Amortization	(111,400)	(102,595)
Balance — end of year	$ 697,048	$ 617,135

Parent Company	**2009**	**2008**
Balance — beginning of year	$ 596,084	$ 552,295
Acquisition costs capitalized	180,297	140,382
Amortization	(104,199)	(96,593)
Balance — end of year	$ 672,182	$ 596,084

No additions were made to the cost of insurance acquired during 2009 or 2008. Amortization of these costs was $2,049 and $2,287 in 2009 and 2008, respectively, for both consolidated and parent company only.

Investments — The Company classifies its debt and equity securities as available for sale. Available for sale securities are carried at fair value. Unrealized holding gains and losses, net of the related tax effect, on available for sale securities are excluded from earnings and are reported in other comprehensive income. Policy loans are carried at unpaid balances. On the parent company only financial statements equity securities of affiliates are carried at net GAAP equity with changes in equity recorded in net investment income.

Dividend and interest income are recognized when earned. Realized gains and losses for securities are included in earnings and are determined using the specific identification method.

Impairments of Investments — The Company evaluates securities for other-than-temporary impairment as described in *Note 2 — Investments* under the caption *Other-than-temporary impairments*. If a security is determined to be other-than-temporarily impaired, the cost basis of the security is written down to fair value and is treated as a realized loss. The written-down security will be amortized and revenue recognized in accordance with estimated future cash flows.

Low-Income Housing Tax Credit Interest — The Company has invested in limited partnerships that provide low-income housing tax credits and other related Federal income tax and state premium tax benefits to the Company. The Federal income tax benefit accrued during the year, net of related amortization of the investment, is recorded in income tax expense. The premium tax benefits, net of related amortization, are recorded in net investment income. At December 31, 2009 $14,727 of the investment is included in "other assets" with the remaining $3,729 included in "other invested assets." At December 31, 2008, the comparable amounts were $0 and $4,166, respectively. Any unpaid commitments to invest are recorded in other liabilities.

Goodwill — The excess cost of businesses acquired over the fair value of their net assets is reported as goodwill, which resulted from Torchmark's acquisition of the Company. Goodwill is subject to annual impairment testing based upon the procedures outlined by specific accounting guidance. . Amortization of goodwill is not permitted. In accordance with SFAS No. 142, the Company has tested its goodwill annually for impairment. As a result of the tests, the Company's goodwill was not impaired in any of the periods.

Fair Value Measurements — Effective January 1, 2008, the Financial Accounting Standards Board (FASB) issued and American Income adopted new guidance surrounding fair value accounting, ASC 8210. This Statement clarifies the definition of fair value, establishes a hierarchy for measuring fair value, and expands disclosures about measurement methodology and its effects on fair value. It does not change which assets or liabilities are measured at fair value. The provisions of ASC 8210 are to be applied prospectively. The adoption of ASC 8210 had no material impact on the Company's financial position or results of operations, as the Company's assets and liabilities have historically been measured substantially in accordance with its provisions. For more information regarding the Company's measurements and procedures, please see *Note 2 — Investments* under the caption *Fair Value Measurements.*

Financial Instruments — The following information relates to estimated fair values of the Company's financial instruments as of December 31, 2009 and 2008.

Fair values of fixed maturity and equity securities were determined in accordance with accounting guidance. Fair values are based on quoted market prices, where available. Otherwise, fair values are based on quoted market prices of comparable instruments in active markets, quotes in inactive markets, or other observable criteria. Additional information concerning the fair value of securities is found in *Note 2 — Investments* under the caption *Fair value measurements.* The preferred stock of affiliate is valued at cost.

Policy loans have weighted average interest rates of 7.8% and 7.7% as of December 31, 2009 and 2008, and have no specified maturity dates. These loans are an integral part of the life insurance policies which the Company has in force and cannot be valued separately.

As of December 31, 2009 and 2008, the Company had interest bearing, net agents' balances of approximately $19,517 and $10,580, respectively, which approximated fair value because interest rates on the balances are based on the prime lending rate and the short maturity of these instruments.

At December 31, 2009 and 2008, other policyholder funds included interest bearing deposit type accounts of approximately $78,462 and $77,849, respectively, representing amounts payable on demand. The fair value of such deposit type accounts is equal to the amount payable on demand.

For cash and cash equivalents, accident and health premiums due and unpaid, dividends payable, payable to affiliate, receivables and payables included in other assets and other liabilities, the carrying amounts approximate fair value because of the short maturity of these instruments.

Income Taxes — Income taxes are accounted for using the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

The Company adopted and implemented interpretive accounting guidance concerning uncertain tax positions on January 1, 2007. This interpretation was issued to clarify the accounting for income taxes by providing methodology for the financial statement recognition and measurement of uncertain income tax positions taken or expected to be taken in a tax return. The impact of this adoption is described in *Note 5 — Income Taxes*.

Cash and Cash Equivalents — The Company considers cash, certificates of deposit and short-term investments with a maturity of three months or less to be cash and cash equivalents.

Foreign Currency Translation — For foreign operations (Canada and New Zealand), the balance sheet accounts are translated into U.S. dollars at the current exchange rate in effect at the end of each period. All foreign income and expense items are translated at the average exchange rate for the period. The resulting translation adjustments are reported as a component of other comprehensive income.

Pension Plans —The Parent Company records the funded status of its postretirement benefit plans on its balance sheets. Periodic gains and losses attributable to changes in plan assets and liabilities that are not recognized as components of net periodic benefit costs are to be recognized as components of other comprehensive income, net of tax.

Stock Options — Torchmark grants stock options in Torchmark stock to employees of its subsidiary companies. Stock options granted to employees of the Company by Torchmark are recorded as compensation expense of the Company. The Company accounts for its stock options under the "fair value method." The fair value method requires that a fair value be assigned to a stock option on its grant date and that this value be amortized over the grantees' service period. The fair value method requires the use of an option valuation model to value employee stock options. The Company has elected to use the Black-Scholes valuation model for option expensing. A summary of assumptions for options granted for 2009 and 2008 is as follows:

	2009	2008
Volatility factor	29.7 %	11.7 %
Dividend yield	2.4 %	0.8 %
Expected term (in years)	4.75	4.75
Risk-free rate	2.6 %	2.8 %

All of the above assumptions, with the exception of the expected term, are obtained from independent data services. The expected term is generally derived from Torchmark experience. However, expected terms of grants made under the Torchmark Corporation 2005 Incentive Plan (2005 Plan) and the 2007 Long-Term Compensation Plan (2007 Plan), involving grants made in the years 2005 through 2009, were determined based on the simplified method as permitted by Staff Accounting Bulletins 107 and

110. This method was used because the 2005 and 2007 Plans limited grants to a maximum contract term of seven years, and Torchmark had no previous experience with seven-year contract terms. Prior to 2005, substantially all grants contained ten-year terms. Because a large portion of these grants vest over a three-year period, Torchmark still does not have sufficient exercise history to determine an appropriate expected term on these grants. Volatility and risk-free interest rates are assumed over a period of time consistent with the expected term of the option. Volatility is measured on a historical basis. Monthly data points are utilized by the independent quote service to derive volatility for periods greater than three years. Expected dividend yield is based on current dividend yield held constant over the expected term. Once the fair value of an option has been determined, it is amortized on a straight-line basis over the employee's service period for that grant (from the grant date to the date the grant is fully vested).

New Accounting Standards:

Postretirement Benefit Plan Assets — The Parent Company accounts for its defined benefit pension plans by recognizing the funded status of its postretirement benefit plans on its Balance Sheets. Periodic gains and losses attributable to changes in plan assets and liabilities that are not recognized as components of net periodic benefit costs are recognized as components of other comprehensive income, net of tax. As of December 31, 2009, the Parent Company adopted new accounting guidance requiring new disclosures about assets in its pension plans. The new disclosures include information about how investment decisions are made, categories of assets, information about how assets are valued, and concentrations of risk. More information concerning the accounting and disclosures for postretirement benefits is found in *Note 7 — Postretirement Benefits And Stock Option Plans*.

Codification — United Investors adopted the new *FASB Accounting Standards Codification* as of July 1, 2009. This codification reorganizes and codifies all non-SEC GAAP, and supersedes all previously-issued non-SEC accounting and reporting standards. It also revised the hierarchy of GAAP. The codification is, as of the effective date, the source of all authoritative non-SEC GAAP. Upon adoption, the codification did not change any guidance, but only rearranged previously-issued guidance in a topical manner. On the effective date of codification, substantially all existing non-SEC accounting and reporting standards were superseded, and are no longer referenced by title in these financial statements.

2. INVESTMENTS

The cost or amortized cost, gross unrealized gains and losses, and estimated fair value of fixed maturity and equity investments as of December 31, 2009 and 2008, are as follows:

Consolidated	2009 Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities and obligations of U.S. government agencies	$ 1,447	$ 17	$	$ 1,464
Government-sponsored enterprises	19,681		(918)	18,763
GNMA's	482	99		581
Other mortgage-backed securities	1,704	101		1,805
States, municipalities, and political subdivisions	29,161	13	(940)	28,234
Securities issued by foreign governments	19,640	387	(10)	20,017
Public utilities	256,373	11,069	(1,956)	265,486
Corporate securities	879,118	21,407	(67,002)	833,523
Asset-backed securities	11,721	26	(830)	10,917
Redeemable preferred stocks	231,554	2,068	(36,764)	196,858
Total	1,450,881	35,187	(108,420)	1,377,648
Common stock	426	215		641
Total	$1,451,307	$35,402	$(108,420)	$1,378,289

Parent Company	2009 Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities and obligations of U.S. government agencies	$ 1,046	$ 12	$	$ 1,058
Government-sponsored enterprises	19,681		(918)	18,763
GNMA's	482	99		581
Other mortgage-backed securities	1,704	101		1,805
States, municipalities, and political subdivisions	29,161	13	(940)	28,234
Securities issued by foreign governments	19,640	387	(10)	20,017
Public utilities	243,663	9,513	(1,925)	251,251
Corporate securities	860,502	21,151	(65,731)	815,922
Asset-backed securities	11,417	26	(798)	10,645
Redeemable preferred stocks	230,476	2,068	(36,617)	195,927
Total	1,417,772	33,370	(106,939)	1,344,203
Common stock	426	215		641
Total	$1,418,198	$33,585	$(106,939)	$1,344,844

Consolidated	2008 Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities and obligations of U.S. government agencies	$ 1,450	$ 39	$ -	$ 1,489
Government-sponsored enterprises	31,281	52	(1,580)	29,753
GNMA's	640	99		739
Other mortgage-backed securities	4,507	161	(10)	4,658
States, municipalities, and political subdivisions	421		(33)	388
Securities issued by foreign governments	4,589	388		4,977
Public utilities	175,073	2,991	(11,862)	166,202
Corporate securities	971,980	8,154	(213,943)	766,191
Asset-backed securities	11,887		(2,562)	9,325
Redeemable preferred stocks	226,382	920	(76,002)	151,300
Total	1,428,210	12,804	(305,992)	1,135,022
Common stock	426	200		626
Total	$ 1,428,636	$ 13,004	$ (305,992)	$ 1,135,648

Parent Company	2008 Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities and obligations of U.S. government agencies	$ 1,049	$ 28	$ -	$ 1,077
Government-sponsored enterprises	31,281	52	(1,580)	29,753
GNMA's	640	99		739
Other mortgage-backed securities	4,507	161	(10)	4,658
States, municipalities, and political subdivisions	421		(33)	388
Securities issued by foreign governments	4,589	388		4,977
Public utilities	167,590	2,407	(11,591)	158,406
Corporate securities	946,662	7,988	(209,854)	744,796
Asset-backed securities	11,580		(2,500)	9,080
Redeemable preferred stocks	225,301	920	(75,647)	150,574
Total	1,393,620	12,043	(301,215)	1,104,448
Common stock	426	200		626
Total	$ 1,394,046	$ 12,243	$ (301,215)	$ 1,105,074

The amortized cost and estimated fair value of fixed maturity investments at December 31, 2009, by contractual maturity, are shown below. Expected and actual maturities will differ from contractual maturities because the issuers of such bonds may have the right to call or prepay obligations with or without call or prepayment penalties.

Consolidated	**Amortized Cost**	**Fair Value**
Due in 1 year or less	$ 58,919	$ 60,277
Due after 1–5 years	76,334	79,288
Due after 5–10 years	80,478	80,359
Due after 10–20 years	409,736	390,116
Due after 20 years	811,507	754,305
Mortgaged-backed and asset-backed securities	13,907	13,303
Total	$ 1,450,881	$ 1,377,648

Parent Company	**Amortized Cost**	**Fair Value**
Due in 1 year or less	$ 58,019	$ 59,344
Due after 1–5 years	74,834	77,723
Due after 5–10 years	80,450	80,334
Due after 10–20 years	402,788	383,605
Due after 20 years	788,078	730,166
Mortgaged-backed and asset-backed securities	13,603	13,031
Total	$ 1,417,772	$ 1,344,203

Consolidated — Proceeds from sales of fixed maturity investments during 2009 and 2008 were $73,888 and $22,646, respectively. In 2009 and 2008, the gross realized gains were $6,675 and $901 and gross realized losses were $11,865 and $210, respectively, on those sales.

Parent Company — Proceeds from sales of fixed maturity investments during 2009 and 2008 were $73,372 and $16,993, respectively. In 2009 and 2008, the gross realized gains were $6,656 and $666 and gross realized losses were $11,865 and $0, respectively, on those sales.

Net investment income for the years ended December 31, 2009 and 2008, consists of the following:

Consolidated	**2009**	**2008**
Investment income:		
Fixed maturities	$ 93,634	$ 91,699
Equity securities	2,680	2,685
Policy loans	5,372	4,558
Other investments	1,163	1,507
Total investment income	102,849	100,449
Investment expenses	(7,861)	(6,869)
Net investment income	$ 94,988	$ 93,580

Parent Company	**2009**	**2008**
Investment income:		
Fixed maturities	$91,438	$89,758
Equity securities	2,680	2,685
Policy loans	5,329	4,535
Other investments	1,233	1,010
Total investment income	100,680	97,988
Investment expenses	(11,261)	(9,748)
Net investment income	$89,419	$88,240

Aside from investments in securities issued by the U.S. government or U.S. government agencies, the Company did not have, at December 31, 2009 and 2008, a material concentration of financial instruments in a single investee (except for the preferred stock of affiliate), industry, or geographic location.

At December 31, 2009 and 2008, the Company had bonds on deposit with various insurance regulatory agencies, as required by law, with estimated fair values of approximately $135,099 and $92,067, respectively.

During the year ended December 31, 2009 and 2008, the Company had realized losses of $13,167 and $6,769, respectively, related to a decline in value of certain available for sale investments that management deemed to be other than temporary.

Fair Value Measurements: The Company measures the fair value of its financial assets in accordance with consisting of three levels to indicate the quality of the fair value measurements as described below:

Level 1 — fair values are based on quoted prices in active markets for identical assets or liabilities that the Company has the ability to access as of the measurement date.

Level 2 — fair values are based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, or inputs that can otherwise be corroborated by observable market data.

Level 3 — fair values are based on inputs that are considered unobservable where there is little, if any, market activity for the asset or liability as of the measurement date. In this circumstance, the Company has to rely on values derived by independent brokers or internally-developed assumptions. Unobservable inputs are developed based on the best information available to the Company which may include the Company's own data or bid and ask prices in the dealer market.

The following table represents assets measured at fair value on a recurring basis:

Consolidated

Description	Fair Value Measurements at December 31, 2009 Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)	Total Fair Value
Corporates	$ 13,126	$1,248,233	$34,508	$1,295,867
Mortgage-backed securities		2,386		2,386
Asset-backed securities		4,503	6,414	10,917
Other*		65,080	3,398	68,478
Total fixed maturities	13,126	1,320,202	44,320	1,377,648
Equities	2		639	641
Total	$ 13,128	$1,320,202	$44,959	$1,378,289
Percent of total	1.0 %	95.8 %	3.2 %	100.0 %

* Includes U.S. government, government-sponsored enterprises, municipals, and foreign governments.

Parent Company

Description	Fair Value Measurements at December 31, 2009 Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)	Total Fair Value
Corporates	$ 13,126	$1,215,465	$34,508	$1,263,099
Mortgage-backed securities		2,386		2,386
Asset-backed securities		4,232	6,414	10,646
Other*		64,674	3,398	68,072
Total fixed maturities	13,126	1,286,757	44,320	1,344,203
Equities	2		639	641
Total	$ 13,128	$1,286,757	$44,959	$1,344,844
Percent of total	1.0 %	95.7 %	3.3 %	100.0 %

* Includes U.S. government, government-sponsored enterprises, municipals, and foreign governments.

Consolidated	**Fair Value Measurements at December 31, 2008 Using:**			
Description	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Other Unobservable Inputs (Level 3)**	**Total Fair Value**
Corporates	$ 9,863	$ 1,056,008	$ 17,822	$ 1,083,693
Mortgage-backed securities		5,397		5,397
Asset-backed securities		4,145	5,180	9,325
Other*		35,985	622	36,607
Total fixed maturities	9,863	1,101,535	23,624	1,135,022
Equities	2		624	626
Total	$ 9,865	$ 1,101,535	$ 24,248	$ 1,135,648
Percent of total	0.9 %	97.0 %	2.1 %	100.0 %

* Includes U.S. government, government-sponsored enterprises, municipals, and foreign governments.

Parent Company	**Fair Value Measurements at December 31, 2008 Using:**			
Description	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Other Unobservable Inputs (Level 3)**	**Total Fair Value**
Corporates	$ 9,863	$ 1,026,341	$ 17,572	$ 1,053,776
Mortgage-backed securities		5,397		5,397
Asset-backed securities		3,900	5,180	9,080
Other*		35,573	622	36,195
Total fixed maturities	9,863	1,071,211	23,374	1,104,448
Equities	2		624	626
Total	$ 9,865	$ 1,071,211	$ 23,998	$ 1,105,074
Percent of total	0.9 %	96.9 %	2.2 %	100.0 %

* Includes U.S. government, government-sponsored enterprises, municipals, and foreign governments.

The great majority of the Company's fixed maturities are not actively traded and direct quotes are not generally available. Management therefore determines the fair values of these securities after consideration of data provided by third-party pricing services and independent broker/dealers.

Approximately 97% of the fair value reported at December 31, 2009, was determined using data provided by third-party pricing services. Prices provided by third-party pricing services are not binding offers but are estimated exit values. They are based on observable market data inputs which can vary by security type. Such inputs include benchmark yields, available trades, broker/dealer quotes, issuer spreads, benchmark securities, bids, offers, and other market data. Where possible, these prices were corroborated against other independent sources. When third party vendor prices are not available, the Company attempts to obtain at least three quotes from broker/dealers for each security. When at least three quotes are obtained, and a standard deviation of such quotes is less than 3%, the Company will use the median quote and will classify the security as a Level 2 asset. The less than 3% standard deviation suggests that the independent quotes were likely based on similar market data, indicating observable inputs. At December 31, 2009, there were no Level 2 assets valued in this manner with broker quotes. When the standard deviation is 3% or greater, or the Company cannot obtain three quotes, then additional management judgment is required to assign fair value using whatever broker/dealer quotes or other information is available. Any such assets are considered to be Level 3. As of December 31, 2009, the prices underlying 19% of the Level 3 portfolio were obtained from broker/dealers. In some cases, the Company will use less than three quotes to arrive at Level 3 fair value if, in its judgment, the values are reasonable. Otherwise, the Company will search for trades of securities of the same issuer that are as similar as possible to the holding. An estimate of the value will be determined based upon the yields and characteristics of those observable trades, taking into account available comparable broker/dealer quotes.

The following table represents changes in assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3).

Consolidated	**2009 Analysis of Changes in Fair Value Measurements Using Significant Unobservable Inputs (Level 3)**				
	Corporates	**Asset-Backed Securities**	**Other**	**Equities**	**Total**
Balance — January 1, 2009	$ 17,822	$ 5,180	$ 622	$ 624	$ 24,248
Total gains or losses:					
Included in realized gains/losses					
Included in other comprehensive income	(5,372)	1,380	(4)	15	(3,981)
Purchases, issuances, and settlements (net)	997	(146)	142		993
Transfers in and/or out of Level 3	21,061		2,638		23,699
Balance — December 31, 2009	$ 34,508	$ 6,414	$ 3,398	$ 639	$ 44,959

Parent Company	**2009 Analysis of Changes in Fair Value Measurements Using Significant Unobservable Inputs (Level 3)**				
	Corporates	**Asset-Backed Securities**	**Other**	**Equities**	**Total**
Balance — January 1, 2009	$ 17,572	$ 5,180	$ 622	$ 624	$ 23,998
Total gains or losses:					
Included in realized gains/losses					
Included in other comprehensive income	(5,372)	1,380	(4)	15	(3,981)
Purchases, issuances, and settlements (net)	997	(146)	142		993
Transfers in and/or out of Level 3	21,311		2,638		23,949
Balance — December 31, 2009	$ 34,508	$ 6,414	$ 3,398	$ 639	$ 44,959

Consolidated	2008 Analysis of Changes in Fair Value Measurements Using Significant Unobservable Inputs (Level 3)				
	Corporates	Asset-Backed Securities	Other	Equities	Total
Balance — January 1, 2008	$ 16,296	$ 6,956	$ 819	$594	$ 24,248
Total gains or losses:					
Included in realized gains/losses	21				21
Included in other comprehensive income	(3,503)	(1,776)	(197)	30	(5,446)
Purchases, issuances, and settlements (net)	(1,529)				(1,529)
Transfers in and/or out of Level 3	6,537				6,537
Balance — December 31, 2009	$ 17,822	$ 5,180	$ 622	$624	$ 24,248

Parent Company	2008 Analysis of Changes in Fair Value Measurements Using Significant Unobservable Inputs (Level 3)				
	Corporates	Asset-Backed Securities	Other	Equities	Total
Balance — January 1, 2009	$ 15,896	$ 6,956	$ 819	$594	$ 23,998
Total gains or losses:					
Included in realized gains/losses	21				21
Included in other comprehensive income	(3,353)	(1,776)	(197)	30	(5,296)
Purchases, issuances, and settlements (net)	(1,529)				(1,529)
Transfers in and/or out of Level 3	6,537				6,537
Balance — December 31, 2009	$ 17,572	$ 5,180	$ 622	$624	$ 23,998

The collateral underlying asset-backed securities for which fair values are reported as Level 3 consists primarily of trust preferred securities issued by banks and insurance companies. None of the collateral is subprime or Alt-A mortgages (loans for which the typical documentation was not provided). None of the change in the fair value of Level 3 assets still held at the reporting date was included in net income.

Other-Than-Temporary Impairments — The Company's portfolio of fixed maturities fluctuates in value due to changes in interest rates in the financial markets as well as other factors. Fluctuations caused by market interest rate changes have little bearing on whether or not the investment will be ultimately recoverable. Therefore, the Company considers these declines in value resulting from changes in market interest rates to be temporary. In certain circumstances, however, the Company determines that the decline in the value of a security is other-than-temporary and writes the book value of the security down to its fair value, realizing an investment loss. The determination that an impairment is other-than-temporary is highly subjective and involves the careful consideration of many factors. Among the factors considered are:

- The length of time and extent to which the security has been impaired
- The reason(s) for the impairment
- The financial condition of the issuer and the near-term prospects for recovery in fair value of the security
- The Company's ability and intent to hold the security until anticipated recovery

Among the facts and information considered in the process are:

- Default on a required payment
- Issuer bankruptcy filings
- Financial statements of the issuer
- Changes in credit ratings of the issuer
- News and information included in press releases issued by the issuer
- News and information reported in the media concerning the issuer
- News and information published by or otherwise provided by credit analysts

While all available information is taken into account, it is difficult to predict the ultimately recoverable amount of a distressed or impaired security.

The following tables disclose unrealized investment losses by class of investment at December 31, 2009 and 2008. The Company considers these investments to be only temporarily impaired.

	2009					
	Less Than Twelve Months		Twelve Months or Longer		Total	
Consolidated	Market Value	Unrealized Losses	Market Value	Unrealized Losses	Market Value	Unrealized Losses
Government-sponsored enterprises	$ 18,762	$ (918)	$	$	$ 18,762	$ (918)
States, municipals, and political subs	27,806	(940)			27,806	(940)
Foreign governments	6,889	(10)			6,889	(10)
Corporate securities	205,912	(6,210)	482,129	(100,342)	688,041	(106,552)
Total unrealized losses	$259,369	$ (8,078)	$482,129	$(100,342)	$741,498	$(108,420)

	2008					
	Less Than Twelve Months		Twelve Months or Longer		Total	
Consolidated	Market Value	Unrealized Losses	Market Value	Unrealized Losses	Market Value	Unrealized Losses
Government-sponsored enterprises	$ 11,347	$ (1,580)	$ -	$ -	$ 11,347	$ (1,580)
Other MBS	2,905	(10)			2,905	(10)
States, municipals, and political subs	387	(33)			387	(33)
Corporate securities	474,585	(74,456)	410,469	(229,913)	885,054	(304,369)
Total unrealized losses	$489,224	$(76,079)	$410,469	$(229,913)	$899,693	$(305,992)

	2009					
	Less Than Twelve Months		Twelve Months or Longer		Total	
Parent Company	Market Value	Unrealized Losses	Market Value	Unrealized Losses	Market Value	Unrealized Losses
Government-sponsored enterprises	$ 18,762	$ (918)	$	$	$ 18,762	$ (918)
States, municipals, and political subs	27,806	(940)			27,806	(940)
Foreign governments	6,889	(10)			6,889	(10)
Corporate securities	203,443	(6,142)	473,061	(98,929)	676,504	(105,071)
Total unrealized losses	$256,900	$ (8,010)	$473,061	$ (98,929)	$729,961	$(106,939)

	2008					
	Less Than Twelve Months		Twelve Months or Longer		Total	
Parent Company	Market Value	Unrealized Losses	Market Value	Unrealized Losses	Market Value	Unrealized Losses
Government-sponsored enterprises	$ 11,347	$ (1,580)	$ -	$ -	$ 11,347	$ (1,580)
Other MBS	2,905	(10)			2,905	(10)
States, municipals, and political subs	387	(33)			387	(33)
Corporate securities	462,741	(72,054)	404,716	(227,538)	867,457	(299,592)
Total unrealized losses	$477,380	$(73,677)	$404,716	$(227,538)	$882,096	$(301,215)

3. REINSURANCE

The Company reinsures portions of certain life insurance policies that it underwrites to limit certain risks. The Company retains varying amounts of individual insurance up to a maximum retention on any one life. The Company retains the face amount of a life policy if the face amount is less than $260. If the face amount is greater than $260, the Company retains only $250. Additionally, the Company retains up to $100 of accidental death and dismemberment coverage on any one life. Amounts not retained are ceded to The Lincoln National Life Insurance Company on an automatic or facultative basis. In addition, certain annual renewable term policies in excess of $50 are ceded to Optimum Re Insurance Company. The Company is not relieved of its primary obligations to the policyholders and is therefore contingently liable in the event that assuming reinsurers are unable to meet their obligations. At December 31, 2009 and 2008, the amounts for life insurance ceded were not significant.

4. SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

The following table summarizes for the years ended December 31, 2009 and 2008, the Company's noncash transactions, which are not reflected on the Statements of Cash Flows:

Parent and Consolidated	**2009**	**2008**
Paid-in capital from tax benefit of stock option exercises	$	$ 5
Stock-based compensation	340	364
Commitments for low-income housing interests	11,383	-

The following table summarizes for the years ended December 31, 2009 and 2008, certain amounts paid during the period:

Consolidated	**2009**	**2008**
Interest paid	$ 3,776	$ 3,790
Income taxes (received) paid	(4,008)	49,870

Parent Company	**2009**	**2008**
Interest paid	$ 3,776	$ 3,790
Income taxes (received) paid	(7,487)	48,137

5. INCOME TAXES

The Company is included in the life-nonlife consolidated federal income tax return filed by Torchmark. Under the tax allocation agreement with Torchmark, a company with taxable income pays tax equal to the amount it would pay if it filed a separate return. A company with a loss is paid a tax benefit currently to the extent that affiliated companies with taxable income utilize that loss.

Income tax expense for the years ended December 31, 2009 and 2008, differs from the amount computed by applying the federal income tax rate of 35% to pretax income as a result of the following:

Consolidated	**2009**	**2008**
Computed tax expense at statutory rate	$ 70,326	$ 73,719
Branch tax controversy		(11,941)
Dividends received deduction	(936)	(935)
Other	(663)	(927)
Total income taxes	$ 68,727	$ 59,916

Parent Company	**2009**	**2008**
Computed tax expense at statutory rate	$ 68,698	$ 72,303
Branch tax controversy		(11,941)
Dividends received deduction	(5,568)	(4,985)
Other	946	492
Total income taxes	$ 64,076	$ 55,869

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2009 and 2008, are as follows:

Consolidated	**2009**	**2008**
Deferred tax assets:		
Future policy benefits, unearned and advance premiums and policy claims	$	$ 8,075
Unrealized losses	24,569	107,221
Total gross deferred tax assets	24,569	115,296
Deferred tax liabilities:		
Future policy benefits, unearned and advance premiums and policy claims	8,821	
Deferred policy acquisition costs and cost of insurance acquired	188,821	164,996
Other	27,459	29,792
Total gross deferred tax liabilities	225,101	194,788
Net deferred tax liability	$200,532	$ 79,492

Parent Company	2009	2008
Deferred tax assets:		
Future policy benefits, unearned and advance premiums and policy claims	$	$ 7,195
Unrealized losses	24,687	105,815
Total gross deferred tax assets	24,687	113,010
Deferred tax liabilities:		
Future policy benefits, unearned and advance premiums and policy claims	9,564	
Deferred policy acquisition costs and cost of insurance acquired	182,837	159,858
Other	25,234	26,942
Total gross deferred tax liabilities	217,635	186,800
Net deferred tax liability	$ 192,948	$ 73,790

No valuation allowance has been recorded relating to the Company's deferred tax assets since, in management's judgment the Company will more likely than not have sufficient taxable income in future periods to fully realize its existing deferred tax assets.

The Company's Federal income tax returns are routinely audited by the Internal Revenue Service (IRS). The IRS completed its examination of the Company's 2003 and 2004 tax years during 2008. The Company was not materially impacted by that examination. During 2009, the IRS completed its review of the Company's 2005, 2006, and 2007 tax years. The Company recorded a $1.2 million tax benefit to reflect the results of the examination, including a reduction in its liability for uncertain tax positions relating to these years. The statute of limitations for the assessment of additional tax are closed for all tax years prior to 2006. Management believes that adequate provision has been made in the financial statements for any potential assessments that may result from the completed examinations, future tax examinations, and other tax-related matters for all open tax years.

A reconciliation of the beginning and ending amount of unrecognized tax benefits (excluding effects of accrued interest, net of federal tax benefits) for the years 2009 and 2008 is as follows:

	2009	2008
Balance — January 1	$ 1,750	$ 1,750
Increase based on tax positions taken in current period		
Increase related to tax positions taken in prior periods		
Decrease related to tax positions taken in prior periods	(1,750)	
Decrease due to expiration of statutes of limitation		
Decrease due to settlements		
Balance — December 31	$	$ 1,750

The Company transacts business in Canada through a branch. For tax years prior to 2003, Canadian income tax authorities asserted that the branch carried on business in Canada through a permanent establishment and proposed additional taxes and interest. The Company challenged their assertion and litigated the issue before the Tax Court of Canada. In the second quarter of 2008, the Tax Court in Canada ruled in the Company's favor and the Canadian tax authorities declined to appeal the Court's decision. As a result, the Company recorded an $11.9 million tax benefit in 2008, including $5.4 million relating to the removal of amounts previously recorded by the Company for interest expense anticipated to be owed, net of Federal income tax, and $6.5 million relating to estimated interest income, net of Federal income tax, required to be paid by the Canadian tax authorities on amounts previously deposited with the tax authorities. In 2009, the Company recorded $441 thousand of additional interest income, net of Federal income tax, on amounts remaining to be refunded. No tax years are currently under examination by Canadian tax authorities.

The Company's continuing practice is to recognize interest and/or penalties related to income tax matters in income tax expense. The Company has recognized interest income/(expense) of $(155) thousand and $11.9 million, net of Federal income tax benefits, in its Consolidated Statement of Operations for 2009 and 2008, respectively. The Company has an accrued interest payable/(receivable) of $453 thousand and $(2.6) million, net of Federal income tax expense/(benefit), for 2009 and 2008, respectively. The Company has no accrued penalties as of December 31, 2009.

6. POSTRETIREMENT EMPLOYEE BENEFIT PLANS

Defined Benefit Pension Plans — The Parent Company has a funded noncontributory defined benefit plan for all hourly employees who have completed one year of service with the Company. Certain assets of the Company in the form of a guaranteed investment contract in the amount of $10,491 were allocated in 2009 to pay future benefits. The benefits are set as a monthly amount for each year of service with the Company. Cost for the plan has been calculated on the projected unit credit actuarial cost method. Contributions are made periodically to fund plan obligations. All plan measurements are as of December 31 of the respective year.

Torchmark also has a Supplemental Executive Retirement Plan (SERP), which provides to a limited number of executives an additional supplemental defined pension benefit. The supplemental benefit is based on the participant's qualified plan benefit without consideration to the regulatory limits on compensation and benefit payments applicable to qualified plans, except that eligible compensation is capped at $1 million. The SERP is unfunded. However, life insurance policies on the lives of plan participants were established during 2009 for this plan with an unaffiliated insurance carrier. The Company's share of the premium for this coverage was $1.6 million in 2009, which was also the policy value at December 31, 2009. Because this plan is unqualified, the policyholder value of these policies is not included as defined benefit plan assets but as assets of the Company. The projected benefit liability for the SERP at December 31, 2009 was $710 thousand and was $492 thousand a year earlier.

The information about the Company's defined benefit pension plan as of December 31, 2009 and 2008, is as follows:

	2009	2008
Accumulated benefit obligation	$7,179	$6,161
Projected benefit obligation	7,179	6,161

The fair value of the guaranteed investment contract was $10,491 at December 31, 2009 and was $9,997 at December 31, 2008. This asset is classified as level 2 in the fair value hierarchy. Please refer to Note 2 for a discussion of the Company's valuation procedures for assets.

The following table discloses the assumptions used to determine the Company's pension liabilities and costs for the appropriate periods. The discount rate is used to determine current year projected benefit obligations and subsequent year pension expense. The discount rate is determined based on the expected duration of plan liabilities. A yield is then derived based on the current market yield of a hypothetical portfolio of higher-quality corporate bonds which match the liability duration. The rate of compensation increase for the SERP is projected based on Torchmark's experience, modified as appropriate for future expectations. Differences between assumptions and actual experience are included in actuarial gain or loss.

Weighted Average Pension Plan Assumptions	**2009**	**2008**
For benefit obligations — December 31:		
Discount rate	6.30 %	6.31 %
Rate of compensation increase*	5.00	4.00
For periodic benefit cost for the year:		
Discount rate	6.30	6.62
Expected long term rate of return	7.00	7.00
Rate of compensation increase*	6.00	4.00

*Pertains to SERP only

The following table presents the components of net periodic pension cost for the defined benefit pension plan.

	2009	**2008**
Service cost	$ 309	$ 221
Interest cost	408	351
Expected return on assets	(695)	(650)
Amortization of transition asset	(7)	(7)
Amortization of prior service cost	62	53
Amortization of net loss	34	
Net periodic benefit cost	$ 111	$ (32)

The following table presents a reconciliation from the beginning to the end of the year of the accumulated benefit obligation and plan assets of the defined benefit pension plan.

	2009	2008
Changes in benefit obligation:		
Obligation — beginning of year	$6,161	$5,385
Service cost	309	221
Interest cost	408	351
Actuarial (gain) loss	13	331
Benefits paid	(123)	(127)
Plan amendments	411	
Obligation — end of year	7,179	6,161
Changes in plan assets:		
Fair value — beginning of year	9,997	
Return on assets	617	545
Contributions		9,580
Benefits paid	(123)	(128)
Fair value — end of year	10,491	9,997
Funded status — end of year	$3,312	$3,836

The following table presents the components of expense for the SERP.

	2009	2008
Service cost — benefits earned during period	$ 1,308	$ 987
Interest cost on projected benefit obligation	1,731	1,279
Amortization of net loss	625	
Amortization of prior service cost	1,947	1,947
Total net periodic cost	5,611	4,213
Periodic cost allocated to other participating employers	(5,511)	(4,177)
American Income's net periodic cost	$ 100	$ 36

The following table presents a reconciliation from the beginning to the end of the year of the projected benefit obligation of the SERP, which is also the plan's funded status.

	2009	2008
Changes in benefit obligation:		
Obligation — beginning of year	$ 27,682	$ 17,309
Service cost	1,308	987
Interest cost	1,731	1,279
Actuarial (gain) loss	1,618	8,310
Benefits paid	(233)	(203)
Obligation — end of year	32,106	27,682
Obligation allocated to other participating employers	(31,396)	(27,190)
American Income's obligation — end of year	$ 710	$ 492

Torchmark's accumulated benefit obligation ("ABO") of the SERP was $23.0 million as of December 31, 2009 and was $19.5 million as of December 31, 2008.

The table below presents the amounts recognized in accumulated other comprehensive income for the period.

	2009	2008
Amounts recognized in accumulated other comprehensive income:		
Net loss	$ 1,980	$ 1,385
Prior service cost	555	625
Transition asset	(12)	(19)
Accumulated other comprehensive income	$ 2,523	$ 1,991

An analysis of the impact on other comprehensive (loss) income on a pre-tax basis is as follows:

	2009	2008
Balance — January 1	$ (1,991)	$ (1,280)
Adoption of SERP		
Amortization of:		
Prior service cost	70	67
Net actuarial (gain) loss	73	
Transition obligation	(7)	(7)
Total amortization	136	60
Experience gain (loss)	(668)	(771)
Balance — December 31	$ (2,523)	$ (1,991)

The portion of other comprehensive income that is expected to be reflected in pension expense in 2010 is as follows:

	Defined Benefit Plan	SERP	Total
Amortization of prior service cost	$ 79	$ 43	$ 122
Amortization of net loss	4	17	21
Amortization of transition obligation	(7)		(7)
Total	$ 76	$ 60	$ 136

The following table illustrates the estimated pension benefit payments, which reflect expected future service, as appropriate, that are projected to be paid:

	Defined Benefit Plan
2010	$ 145
2011	149
2012	186
2013	206
2014	215
2015–2019	1,667

The Company believes that benefit payments under the SERP will be immaterial over this period.

Defined Contribution Plans — In addition to the defined benefit plan, the Company has a qualified 401(k) and profit sharing plan for its exempt employees. The Company makes annual contributions to the plan of 6% of each employee's compensation, subject to limitation. All Company contributions are subject to a vesting schedule based on the employee's years of service. For the years ended December 31, 2009 and 2008, Company contributions totaled $535 and $470, respectively.

Plans Other Than Pension — The Company does not provide postretirement employment benefits to its employees other than those described above, except certain executive officers are covered by a post-retirement life insurance plan sponsored by Torchmark. The Company was allocated $43 and $10 for 2009 and 2008, respectively, as its share of the annual contributions to this plan. The Company's liability under this plan was $222 and $179 as of December 31, 2009 and 2008, respectively.

7. ACTUARY'S STATEMENT

The policy liabilities and reserves on December 31, 2009 and 2008, were certified by the Company's Appointed Actuary for each year. The Company's management, including the Company's Appointed Actuary, is responsible for reviewing the actuarial assumptions and underlying data and determining resulting policy liabilities are adequate.

Disclosure of Assumptions — Policy liabilities are measured as net present values of estimated future cash flows. All calculations have been carried out net of tax. The key assumptions used in determining the policy liabilities were:

Discount Rates — For policies issued up to 2001, a variable scale, ultimately at 6% per annum. For policies issued from 2001 to 2007, a level rate of 7% per annum. For policies issued in 2008 and 2009, a level rate of 6.75%.

Profit Carriers — The premium payable under each contract is the profit carrier. Future profits equal approximately 20% of the value of future premiums.

Initial Expenses — For policies issued up to 2001, 10.6% of premium plus $5.35 per policy. For subsequent policies up to 2006, 21% of premium plus $5 per policy. For policies issued beginning 2007, 22% of premium plus $8.50 per policy. For all issued policies, initial expenses also include underwriting expense per policy and per $1,000 of sum insured that varies by issue age, plus commission.

Management Expenses — For policies issued up to 2001, $7.45 per policy per annum plus 2.6% of premiums. For subsequent policies up to 2006, $10 per policy per annum plus 2.7% of premiums. For policies issued beginning 2007, 8.5% of premiums.

Mortality Rates — 1965–70 basic tables adjusted in line with expected portfolio experience.

Rates of Discontinuance — Variable scales per expected portfolio experience.

8. ACCIDENT AND HEALTH RESERVES FOR POLICY AND CONTRACT CLAIMS

The activity in the liability for policy and contract claims for accident and health policies is summarized as follows:

Consolidated	**2009**	**2008**
Balance — January 1	$ 12,334	$ 11,944
Incurred related to:		
Current year	28,972	28,579
Prior years	(13)	(586)
Total incurred	28,959	27,993
Paid related to:		
Current year	18,755	18,474
Prior years	9,974	9,129
Total paid	28,729	27,603
Balance — December 31	$ 12,564	$ 12,334

Parent Company	**2009**	**2008**
Balance — January 1	$ 11,421	$ 11,533
Incurred related to:		
Current year	26,424	26,234
Prior years	127	(1,041)
Total incurred	26,551	25,193
Paid related to:		
Current year	16,929	16,891
Prior years	9,322	8,414
Total paid	26,251	25,305
Balance — December 31	$ 11,721	$ 11,421

The development of prior year claims in 2009 and 2008 reflects normal changes in actuarial estimates. The development of life claims was insignificant in 2009 and 2008.

9. COMMITMENTS AND CONTINGENCIES

The Company is a defendant in various lawsuits arising in the ordinary course of operations. Management is of the opinion, after reviewing these matters with legal and tax counsel, that the ultimate liability, if any, resulting from these matters would not have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

As described in Note 1, the Company has invested in low-income housing partnerships that provide low-income housing tax credits and other related Federal income tax and state premium tax benefits to the Company. The Company has committed to invest $20.4 million in entities which provide these certain tax benefits. As of December 31, 2009, the company had unpaid contributions of $11,383.

10. STATUTORY INFORMATION

The Parent Company is required to report its results of operations and financial position to state insurance regulatory authorities in conformity with statutory accounting practices prescribed or permitted by the Indiana Department of Insurance, which differ in certain respects from GAAP. Net income and capital and surplus on a statutory basis were as follows:

Net Income Year Ended December 31		**Capital and Surplus at December 31**	
2009	**2008**	**2009**	**2008**
$ 85,462	$ 98,778	$ 188,073	$ 228,066

The Indiana Department of Insurance imposes risk-based capital (RBC) requirements on life insurance enterprises, including the Company. The RBC calculation serves as a benchmark for the regulation of life insurance companies by state insurance regulators. The Company exceeded the minimum RBC requirements at December 31, 2009 and 2008.

11. STOCKHOLDER'S EQUITY

In 2009 and 2008, the Parent Company declared cash dividends of $160,670 and $83,623, respectively, to Globe, its parent. The maximum amount of dividends that can be paid by insurance companies to shareholders under Indiana State Insurance Law without prior approval of the Indiana Department of Insurance is subject to restrictions relating to statutory surplus. The maximum dividend that can be made without prior approval in 2010 is approximately $85,141.

The change in equity during 2009 and 2008 is as follows:

	2009	2008
Consolidated:		
Planned margin of revenue over expenses	$ 116,673	$ 109,523
Difference between actual and assumed experience	201,352	(156,561)
Investment earnings on assets in excess of policy liabilities	(9,820)	7,709
Dividends to stockholders	(160,670)	(83,623)
	$ 147,535	$ (122,952)
Parent only:		
Planned margin of revenue over expenses	$ 110,476	$ 104,306
Difference between actual and assumed experience	202,607	(155,060)
Investment earnings on assets in excess of policy liabilities	(4,878)	11,425
Dividends to stockholders	(160,670)	(83,623)
	$ 147,535	$ (122,952)

12. SOLVENCY

The Company calculates the New Zealand solvency reserves as the difference between the reserves prepared on the Parent Company's statutory reporting basis for the State of Indiana and the Company's reserves on a GAAP basis. The New Zealand solvency reserves stated in New Zealand dollars is $15,482 (2008: $12,173). Statutory reporting basis reserves are a modified net premium basis with the elimination of negative reserves.

13. EMPLOYEE STOCK OPTIONS

Certain employees of the Parent Company have been granted fixed equity options to buy shares of Torchmark stock at the market value of the stock on the date of grant, under the provisions of the Torchmark stock option plans. The options are exercisable during the period commencing from the date they vest until expiring according to the terms of the grant. Options generally expire the earlier of employee termination or option contract term, which ranges from seven to eleven years. Employee and consultant stock options generally vest one-half in two years and one-half in three years. Stock options awarded in connection with compensation deferrals by certain executives generally vest over a range of six to ten years. All options vest immediately upon the attainment of age 65, generally subject to a minimum vesting period of six months.

An analysis of Torchmark shares available for grant to employees of all subsidiaries is as follows:

	2009	2008
Balance — January 1	$2,136,806	$3,136,000
Adoption of new plans		
Expired and forfeited during year	25,000	8,000
Options granted during year	(928,850)	(949,750)
Restricted stock granted during year	(83,263)	(57,444)
Balance — December 31	$1,149,693	$2,136,806

A summary of stock option activity for the years ended December 31, 2009 and 2008, are as follows:

	2009	2008
Stock-based compensation expense recognized*	$ 340	$ 364
Tax benefit recognized	119	127
Weighted-average grant-date fair value of options granted	5.41	8.96
Intrinsic value of options exercised	0	19
Cash received by Torchmark from options exercised	0	45
Actual tax benefit received from exercises	0	7

* No stock-based expense was capitalized in any period.

Additional information about stock option activity for the years ended December 31, 2009 and 2008, is as follows:

	2009		2008	
	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price
Outstanding — beginning of year	196,204	$56.73	155,704	$55.08
Granted	54,150	23.50	42,500	62.68
Exercised	0	0.00	(1,000)	44.89
Expired	0	0.00	(1,000)	64.15
Outstanding — end of year	250,354	49.54	196,204	56.73
Exercisable — end of year	149,329	54.37	126,704	53.13

Additional information about the Company's applicable stock-based compensation as of December 31, 2009 and 2008, is as follows:

	2009	2008
Outstanding options:		
Weighted-average remaining contractual term (in years)	4.39	5.06
Aggregate intrinsic value	$ 1,163	$ 62
Exercisable options:		
Weighted-average remaining contractual term (in years)	3.58	4.70
Aggregate intrinsic value	$ 86	$ 62
Unrecognized compensation	$ 346	$ 397

Additional information concerning unvested options is as follows:

	2009	2008
Number of shares outstanding	101,025	69,500
Weighted-average exercise price (per share)	$ 42.42	$ 63.31
Weighted-average remaining contractual term (in years)	5.59	5.72
Aggregate intrinsic value	1,077	0

Torchmark expects that substantially all unvested options will vest.

The following table summarizes information about stock options outstanding at December 31, 2009.

	Options Outstanding			Options Exercisable	
Exercise Price Range	Number Outstanding	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
$23.50–$23.50	54,150	6.2	$ 23.50	1,500	$ 23.50
$37.44–$44.89	28,946	3.6	42.68	28,946	42.68
$54.77–$54.77	30,708	2.3	54.77	30,708	54.77
$55.48–$55.48	31,650	3.0	55.48	31,650	55.48
$56.24–$56.24	26,400	5.0	56.24	26,400	56.24
$62.68–$62.68	42,500	5.2	62.68	2,500	62.68
$63.70–$63.70	18,000	4.0	63.70	18,000	63.70
$64.59–$64.59	18,000	4.1	64.59	9,625	64.59
$23.50–$64.59	250,354	4.4	49.54	149,329	54.37

14. RELATED-PARTY TRANSACTIONS

The Company has an investment management agreement with Torchmark to manage certain investments, and a service agreement with respect to reimbursement of direct costs for services Torchmark may provide. The Company paid Torchmark $2,664 and $2,568 in investment management fees, and $2,508 and $2,604 under the service agreement in 2009 and 2008, respectively. The Company had accounts payable balances to related parties of $289 and $177 at December 31, 2009 and 2008, respectively, included in general insurance expenses and other liabilities.

Previously, Torchmark issued a guarantee to an unaffiliated third party, which purchased certain agents' receivables of the Company. The guarantee covered all obligations and recovery of capital to the third party under the receivables purchase agreement up to a maximum amount of $95 million. Under the terms of the revolving purchase arrangement, the third party purchased the agents' receivables and received the earned commissions as they were applied to the balance. The term of the guarantee corresponded with the purchase arrangement, which was annually renewable. Torchmark was liable to the extent that future commission collections were insufficient to repay the purchased amount. As of December 31, 2009 the guarantee to an unaffiliated third party has expired and all obligations to the unaffiliated third parties were fulfilled in 2009.

During 2009, the Company received payment of a $35,000 loan made to Torchmark Re during 2008. This note had an interest rate of 3.25%. The interest income related to this note of $19 is included in the accompanying financial statements.

During 2009, the Company repaid a note of $11,000 from Torchmark. This note had an interest rate of 3.25%. During 2009, the Company borrowed in a series of notes $125,000 from Globe Life, Torchmark, and United American. These notes had an interest rate of 3.25% and were repaid during 2009. The interest expense related to these notes of $487 is included in the accompanying financial statements.

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