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American Income Life Insurance Company — New Zealand Branch

Financial Statements for the Year Ended
31 December 2010



NPC # 07
01 JUL 2011

**AMERICAN INCOME LIFE INSURANCE COMPANY
NEW ZEALAND BRANCH**

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the financial statements of American Income Life Insurance Company – New Zealand Branch on pages 2 to 24, which comprise the balance sheet as at 31 December 2010, and the statement of comprehensive income, statement of changes in the home office account and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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' Responsibility for the Financial Statements

The Board of Directors is responsible for the preparation of financial statements, in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate, and for such internal control as the Board of Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing and International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates, as well as the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Our firm carries out other assignments for American Income Life Insurance Company – New Zealand Branch in the area of taxation advice. In addition to this, partners and employees of our firm deal with American Income Life Insurance Company – New Zealand Branch on normal terms within the ordinary course of trading activities of the business of American Income Life Insurance Company – New Zealand Branch. The firm has no other relationship with, or interests in, American Income Life Insurance Company – New Zealand Branch.

Opinion

In our opinion, the financial statements on pages 2 to 24:

- 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 2010, and its financial performance and its cash flows for the year ended on that date.

Emphasis of Matter

The New Zealand branch is part of American Income Life Insurance Company. As described in Note 20, the assets of the branch are legally available for the satisfaction of debts of the entire company, not solely those appearing on the accompanying balance sheet and its debts may result in claims against assets not appearing thereon. Our opinion is not qualified in respect of this matter.

Report on Other Legal and Regulatory Requirements

We also report in accordance with section 16 of the Financial Reporting Act 1993. In relation to our audit of the financial statements for the year ended 31 December 2010:

- we have obtained all the information and explanations we have required; and
- 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.




Chartered Accountants

23 June 2011

Christchurch, New Zealand

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:


Director


Director

6/20/11
Date

AMERICAN INCOME LIFE INSURANCE COMPANY NEW ZEALAND BRANCH

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES FOR THE YEAR ENDED 31 DECEMBER 2010

1. General Accounting Policies

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

The life insurance operations of the Branch are 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 the Branch. The life insurance operations of the Branch comprise the selling and administration of life insurance contracts. All contracts are non-investment linked business. All business written by the 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, 2165 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 24.

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.

AMERICAN INCOME LIFE INSURANCE COMPANY NEW ZEALAND BRANCH

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES FOR THE YEAR ENDED 31 DECEMBER 2010

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 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.

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.

Adoption of New and Revised Standards and Interpretations

The Branch has adopted the following Standards, Interpretations and Amendments which 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:

Standard/Interpretation

Improvements to NZ IFRS (2009)

Improvements to NZ IFRS (2008)

NZ IAS 27 (revised 2008) Consolidated and Separate Financial Statements

NZ IFRS 2 Share-based Payment: Group Cash-settled Share-based Payment Transactions

NZ IFRS 3 (revised 2008) Business Combinations

Amendments to NZ IAS 39 Financial Instruments: Recognition and Measurement - Eligible Hedged items

NZ Specific Omnibus Amendments (2009-1)

NZ IFRIC 17 Distributions of Non-Cash Assets to Owners

NZ IFRIC 18 Transfers of Assets from Customers

AMERICAN INCOME LIFE INSURANCE COMPANY NEW ZEALAND BRANCH

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES FOR THE YEAR ENDED 31 DECEMBER 2010

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.

- 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 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 recognized 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 recognized for all taxable temporary differences, and deferred tax assets are generally recognized 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 utilized.

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

The 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:

Financial assets are classified as fair value through profit or loss. These financial assets are stated at fair value, with any resulting gain or loss recognized in the profit or loss. All purchases or sales of financial 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 Company commits to purchase or sell the assets.

AMERICAN INCOME LIFE INSURANCE COMPANY NEW ZEALAND BRANCH

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES FOR THE YEAR ENDED 31 DECEMBER 2010

PARTICULAR ACCOUNTING POLICIES (CONT)

d) Financial Instruments (Cont)

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 amortized cost using the effective interest method, with revenue recognized on an effective yield basis. The effective interest method is a method of calculating the amortized 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 amortized cost using the effective interest method, less any impairment. Interest income is recognized 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.

- e) **Trade and Other Liabilities** — Trade payables and other liabilities are recognized when the entity becomes obliged to make future payments resulting from the purchase of goods and services and are measured at amortized cost.
- f) **Statement of Cash Flows** — The Statement of Cash Flows has been prepared using the direct approach modified by the netting of certain items disclosed below.

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 Branch.

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

AMERICAN INCOME LIFE INSURANCE COMPANY NEW ZEALAND BRANCH

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES FOR THE YEAR ENDED 31 DECEMBER 2010

PARTICULAR ACCOUNTING POLICIES (CONT)

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.

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

AMERICAN INCOME LIFE INSURANCE COMPANY NEW ZEALAND BRANCH

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES FOR THE YEAR ENDED 31 DECEMBER 2010

PARTICULAR ACCOUNTING POLICIES (CONT)

g) Impairment of assets

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.

(h) Policy liabilities

Policy liabilities consist of life insurance contract liabilities (including unvested policy holder benefits) and life investment contract liabilities.

Life Insurance Contract liabilities

The value of life insurance contract liabilities is calculated using the Margin on Services (MoS) methodology in accordance with New Zealand Society of Actuaries Professional Standard 3 "Determination of Life Insurance Policy Liabilities", (PS3). Under this methodology, planned profit margins and an estimate of future liabilities are calculated separately for each related product group using best estimate assumptions at each reporting date. Profit margins are released over each reporting period in line with the services that have been provided. The balance of the planned profits is deferred by including them in the value of policy liabilities. Further details of the actuarial assumptions used in these calculations are set out in note 15.

MoS profit can be analysed into the following categories:

- (i) Planned margins of revenues over expenses - At the time of writing a policy and at each balance date, best estimate assumptions are used to determine all expected future payments and premiums. Where actual experience replicates best estimate assumptions, the expected profit margin will be released to profit over the life of the policy.
- (ii) The difference between actual and assumed experience - Experience profits/(losses) are realised where actual experience differs from best estimate assumptions. Instances giving rise to experience profits/(losses) include variations in claims, expenses, mortality, discontinuance and investment returns. For example, an experienced profit will emerge when the expenses of maintaining all in-force business in a year are lower than the best estimate assumption in respect of those expenses.
- (iii) Changes to underlying assumptions - Assumptions used for measuring policy liabilities are reviewed each year. Where the review leads to a change in assumptions, the change is deemed to have occurred from the end of the year, except for changes in discount rates which are recognised in the year that the rates are changed.

AMERICAN INCOME LIFE INSURANCE COMPANY NEW ZEALAND BRANCH

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES FOR THE YEAR ENDED 31 DECEMBER 2010

PARTICULAR ACCOUNTING POLICIES (CONT)

The financial effect of all other changes to the assumptions underlying the measurement of policy liabilities made during the reporting period is recognised in profit or loss over the future reporting periods during which services are provided to policyholders.

- (iv) Loss recognition on groups of related products - If based on best estimate assumptions, written business for a group of related products is expected to be unprofitable, the total expected loss for that related product group is recognised in profit or loss immediately. When loss-making business becomes profitable, it is necessary to reverse previously recognised losses.
- (v) Investment earnings on assets in excess of policy liabilities - Profits are generated from investment assets, which are in excess of those required to meet policy liabilities. Investment earnings are directly influenced by market conditions and as such this component of MoS profit will vary from year to year.

SIGNIFICANT JUDGEMENTS, ESTIMATES, AND ASSUMPTIONS

In the application of NZ IFRS management is required to make judgments, 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 judgments. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized 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 judgments, 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.

AMERICAN INCOME LIFE INSURANCE COMPANY NEW ZEALAND BRANCH

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES FOR THE YEAR ENDED 31 DECEMBER 2010

SIGNIFICANT JUDGEMENTS, ESTIMATES, AND ASSUMPTIONS (CONT)

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 calculate the present value of future benefits;

In addition, factors such as regulation, inflation, interest rates, taxes, 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 2010**

	2010	2009
INCOME:		
Premiums (Note 1)	16,219,175	9,103,646
Interest income on investments (Note 2)	354,864	355,177
Change in liability for future policy benefits (Note 15)	3,590,594	1,985,395
Unrealized surplus on revaluation of debt security investments to fair value	206,188	-
Other interest income	193,588	219,862
	<u>20,564,409</u>	<u>11,664,080</u>
EXPENDITURE:		
Claims (Note 3)	4,621,243	2,385,905
Commissions (Note 4)	11,737,835	5,716,160
Unrealized deficit on revaluation of debt security investments to fair value	-	263,020
Management expenses (Note 5)	4,043,723	3,070,840
	<u>20,402,801</u>	<u>11,435,925</u>
PROFIT BEFORE TAXATION	161,608	228,155
TAXATION (Note 13)	-	-
PROFIT AFTER TAXATION ATTRIBUTABLE TO HEAD OFFICE (Note 6)	<u>161,608</u>	<u>228,155</u>
TOTAL COMPREHENSIVE INCOME	<u>161,608</u>	<u>228,155</u>

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 CHANGES IN THE HOME OFFICE ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2010**

	2010	2009
BALANCE — Beginning of the year	<u>23,304,070</u>	<u>20,249,713</u>
CONTRIBUTIONS FROM THE HOME OFFICE:		
General advances	969,781	742,416
Expenses paid on behalf of the Branch (Note 9)	<u>2,547,367</u>	<u>2,083,786</u>
	<u>3,517,148</u>	<u>2,826,202</u>
Net profit after tax	161,608	228,155
Other Comprehensive Income	-	-
Total Comprehensive Income	<u>161,608</u>	<u>228,155</u>
BALANCE — End of the year	<u>26,982,826</u>	<u>23,304,070</u>

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**

**BALANCE SHEET
AS OF 31 DECEMBER 2010**

	2010	2009
ASSETS		
CASH AND CASH EQUIVALENTS	365,765	3,296,432
SHORT TERM DEPOSITS	1,129,583	1,834,443
INVESTMENTS (Note 8)	5,754,660	5,553,523
OUTSTANDING PREMIUMS	591,927	535,089
ACCRUED INVESTMENT INCOME	97,563	100,700
AGENT BALANCE RECEIVABLES	11,949,599	7,853,551
NET RESERVE FOR FUTURE POLICY BENEFITS (Note 15)	8,830,828	5,240,234
PREPAYMENTS	49,901	49,674
DEFERRED TAX ASSET (Note 13)	<u>6,410,606</u>	<u>4,530,032</u>
TOTAL ASSETS	<u>35,180,432</u>	<u>28,993,678</u>
LIABILITIES AND HOME OFFICE ACCOUNT		
POLICY AND CONTRACT CLAIMS	1,183,698	374,422
UNEARNED PREMIUMS	32,075	7,601
PREMIUM TAXES DUE	6,000	9,000
TRADE AND OTHER LIABILITIES	565,227	768,553
DEFERRED TAX LIABILITY (Note 13)	<u>6,410,606</u>	<u>4,530,032</u>
TOTAL LIABILITIES	<u>8,197,606</u>	<u>5,689,608</u>
ADVANCES FROM HOME OFFICE (Note 9)	15,760,727	12,243,579
ACCUMULATED SURPLUS	<u>11,222,099</u>	<u>11,060,491</u>
TOTAL HOME OFFICE ACCOUNT	<u>26,982,826</u>	<u>23,304,070</u>
TOTAL LIABILITIES & HOME OFFICE ACCOUNT	<u>35,180,432</u>	<u>28,993,678</u>

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 2010**

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Premiums and other considerations received from policyholders	16,162,337	8,834,045
Interest income	363,052	363,851
Other Interest	193,588	219,862
Payment of claims	(3,787,493)	(2,289,680)
Payments of taxes	(36,584)	(45,151)
Payments of commissions	(15,833,883)	(9,991,189)
Payments to suppliers, agents etc.	<u>(4,213,692)</u>	<u>(2,375,656)</u>
Net cash (used in) provided by operating activities (Note 12)	<u>(7,152,675)</u>	<u>(5,283,918)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash paid for the short term investments	704,860	(301,532)
Net cash used in investing activities	<u>704,860</u>	<u>(301,532)</u>
CASH FLOWS FROM FINANCING ACTIVITIES — Advances		
provided by related party	<u>3,517,148</u>	<u>2,826,202</u>
Net cash provided by financing activities	<u>3,517,148</u>	<u>2,826,202</u>
NET INCREASE IN CASH ON HAND	(2,930,667)	(2,759,248)
CASH ON HAND — Beginning of year	<u>3,296,432</u>	<u>6,055,680</u>
CASH ON HAND — End of year	<u>365,765</u>	<u>3,296,432</u>

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**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

1. PREMIUMS

	2010	2009
Individual life	13,437,033	7,197,642
Accident and health	<u>2,782,142</u>	<u>1,906,004</u>
	<u>16,219,175</u>	<u>9,103,646</u>

2. INTEREST INCOME

	2010	2009
Government securities	161,435	163,714
Other debt securities	<u>193,429</u>	<u>191,463</u>
	<u>354,864</u>	<u>355,177</u>

3. CLAIMS

	2010	2009
Individual life	1,642,964	1,300,918
Accident and health	<u>2,978,279</u>	<u>1,084,987</u>
	<u>4,621,243</u>	<u>2,385,905</u>

4. COMMISSIONS (POLICY ACQUISITION EXPENSES)

	2010	2009
In respect of new policies:		
Individual life	10,807,301	5,168,317
Accident and health	<u>930,534</u>	<u>547,843</u>
	<u>11,737,835</u>	<u>5,716,160</u>

AMERICAN INCOME LIFE INSURANCE COMPANY NEW ZEALAND BRANCH

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

5. MANAGEMENT EXPENSES

	2010	2009
Policy maintenance expenses	-	-
Home office charges:		
General expenses	870,706	485,598
Salaries	1,676,661	1,598,188
General office expenses	945,699	670,733
Auditor remuneration — audit services	80,417	78,037
Other expenses	437,030	209,654
Investment expenses	33,210	28,630
	<u>4,043,723</u>	<u>3,070,840</u>

6. NET PROFIT AFTER TAX

	2010	2009
The surplus for the year of \$ 161,608 (2009:\$228,155) has arisen as follows:		
Planned margin of revenue over expenses	1,917,764	1,110,538
Difference between actual and assumed experience	(2,932,928)	(1,449,254)
Investment earnings on assets in excess of policy liabilities	<u>1,176,772</u>	<u>566,871</u>
	<u>161,608</u>	<u>228,155</u>

7. CAPITAL COMMITMENTS

There are no commitments for capital expenditure entered into at 31 December 2010 and 2009.

8. INVESTMENTS

	2010	2009
New Zealand debt securities — fair value	<u>5,754,660</u>	<u>5,553,523</u>

These securities mature in 2011 and 2015 and carry an effective interest rate of approximately 6.33% and 6.33% respectively.

AMERICAN INCOME LIFE INSURANCE COMPANY NEW ZEALAND BRANCH

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

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 2010 was \$15,760,727 (2009: \$12,243,579). The total value of these expenses for the year were \$2,547,367 (2009: \$2,083,786) and a general advance was paid during the year of \$969,781 (2009: 742,416). 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 (2009: 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 program, 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.

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.

AMERICAN INCOME LIFE INSURANCE COMPANY NEW ZEALAND BRANCH

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

11. FINANCIAL INSTRUMENTS (CONT)

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.

Assumption Variation	December 2010		December 2009	
	Impact on Policy Liability	Impact on Future Profit Margins	Impact on Policy Liability	Impact on Future Profit Margins
Discount rate 1% higher	(954,310)	(533,522)	(609,750)	(369,729)
Discount rate 1% lower	1,423,302	606,918	897,377	419,249
Deaths and disablements 10% higher		(2,380,947)		(1,610,112)
Deaths and disablements 10% lower		2,421,331		1,638,182
Annual surrenders 10% higher		(2,222,717)		(1,530,473)
Annual surrenders 10% lower		2,522,645		1,739,504
Administration costs 10% higher		(326,383)		(226,840)
Administration costs 10% lower		326,383		226,840

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.

AMERICAN INCOME LIFE INSURANCE COMPANY NEW ZEALAND BRANCH

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

11. FINANCIAL INSTRUMENTS (CONT)

The following table illustrates the market risk sensitivity of our interest-rate sensitive fixed-maturity portfolio at 31 December 2010 and 2009. 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	
	2010	2009
Change in discount rate (bps):		
-200	404,747	470,851
-100	197,320	228,741
0		
+100	(187,811)	(216,257)
+200	(366,671)	(420,847)

Credit Risk — The Branch's major categories of asset comprise the following:

Investments in government securities, public utilities, and registered banks totaling \$7.3m. There is very little credit risk involved with these assets.

Premiums due of \$0.6m. There is a possibility that a proportion of these premiums will not be received. Agent balances of \$11.9m. 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 \$1.8m, is less than 12 months.

AMERICAN INCOME LIFE INSURANCE COMPANY NEW ZEALAND BRANCH

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

11. FINANCIAL INSTRUMENTS (CONT)

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 financial instruments have been derived using quoted prices (unadjusted) in active markets for identical assets or liabilities. Therefore the Branch has categorized these assets as Level 1 under the fair value hierarchy.

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

	2010	2009
Operating surplus after taxation	\$ 161,608	\$ 228,155
Add (less) non cash items:		
Change in liability for future policy benefits	(3,590,594)	(1,985,395)
Unrealized fair value change	(206,188)	263,020
Other	5,051	4,738
Total non-cash items	(3,791,731)	(1,717,637)
	(3,630,123)	(1,489,482)
Movements in working capital:		
(Increase) in agents' receivables	(4,096,048)	(4,275,029)
(Decrease) in accrued investment income	3,137	3,936
(Increase) in outstanding premiums	(56,838)	(269,601)
Decrease (Increase) in prepayments	(227)	7,561
(Decrease) Increase in policy claims and unearned premiums	833,750	96,225
(Decrease) increase in other current liabilities	(206,326)	642,472
	(3,522,552)	(3,794,436)
Net cash provided by operating activities	\$ (7,152,675)	\$ (5,283,918)

AMERICAN INCOME LIFE INSURANCE COMPANY NEW ZEALAND BRANCH

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

13. INCOME TAXES

	2010	2009
a) Current tax expense/(income)		
Current tax expense/(income)	-	-
Total expense/(income)	-	-

The income tax expense on pre-tax accounting profit from operations reconciles to the income tax expense in the financial statements as follows:

Operating Surplus/(Loss) before Taxation	161,608	228,155
Income tax expense calculated at 30%	48,482	68,447
Tax effect of:		
Effect of Life insurance business	(1,583,056)	(1,545,232)
Effect of Non-life insurance business	(30,502)	163,245
Transition adjustment for new life tax regime	(789,588)	-
Unused losses not recognised as deferred tax assets	2,354,663	1,313,541
Income tax expense	-	-

b) Deferred tax balances

	2010	2009
Deferred tax assets comprise:		
Tax losses (Shareholder base)	6,410,606	4,530,032
	6,410,606	4,530,032
Deferred tax liabilities comprise:		
Deferred acquisition costs	(6,313,492)	(4,530,032)
Premium smoothing reserve	(31,846)	-
Non-life unearned premium reserve	(65,269)	-
	(6,410,606)	(4,530,032)
Total deferred tax asset/(liability)	-	-

c) Unrecognised deferred tax balances

The following deferred tax assets have not been brought to account as assets:

	2010	2009
Shareholder base		
Losses	14,510,226	8,183,478
Tax effect at 28% (2009: 30%)	4,062,863	2,455,043

AMERICAN INCOME LIFE INSURANCE COMPANY NEW ZEALAND BRANCH

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

14. INCOME TAXES (CONT)

Policyholder Tax Losses

Under the new life insurance tax regime which took effect from 1 July 2010, the Policyholder Tax Base no longer exists and any Policyholder Tax Losses calculated under that base are forfeited, as they are not able to be carried forward into the new regime. As at 30 June 2010 (the last date of the old life insurance tax regime), the Branch had Policyholder Tax Losses of \$43,653,139 (31 December 2009: \$37,500,840). The Policyholder Tax Losses were previously unrecognized for deferred tax purposes.

Deferred tax on insurance contract liabilities

Life insurance contract liabilities represent the net present value of estimated future cash flows and planned profit margins. Using the margin on services methodology, planned after tax profit margins are recognized in the statement of comprehensive income over the period services are provided to policyholders. A deferred tax liability of \$6,313,492 has been recognized on the deferred acquisition cost component of the policy liabilities.

Tax rate change

The tax rate used for the reconciliation above is the corporate tax rate of 30% (2009: 30%) payable by New Zealand corporate entities on taxable profits under New Zealand tax law. With effect from 1 January 2011, the corporate tax rate has changed to 28%. The deferred tax assets/liabilities have been adjusted to reflect the reduction in the tax rate.

15. 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.

16. ACTUARY'S STATEMENT

The effective date of the actuarial report on policy liabilities and reserves is 31 December 2010. 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, 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.

AMERICAN INCOME LIFE INSURANCE COMPANY NEW ZEALAND BRANCH

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

17. ACTUARY'S STATEMENT (CONT)

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

	2010	2009
Policy liabilities:		
Balance at beginning of year	\$ (5,240,234)	\$ (3,254,839)
Movement in current year	<u>(3,590,594)</u>	<u>(1,985,395)</u>
Net reserve for future policy benefits	<u>(8,830,828)</u>	<u>(5,240,234)</u>
Policy liabilities comprises the following:		
Value of future claims	\$ 42,939,879	\$ 29,051,881
Value of future expenses	19,173,419	12,325,714
Value of future profit margins	9,397,368	6,575,428
Less value of future premiums	<u>(80,341,494)</u>	<u>(53,193,257)</u>
Net reserves for future policy benefits	<u>\$ (8,830,828)</u>	<u>\$ (5,240,234)</u>

The Actuary has performed a liability adequacy test in accordance with NZ IFRS 4 and is satisfied as to the accuracy of the data using the assumptions below. The net reserves for future policy benefits has been disclosed net of available tax losses which have been separately disclosed as a deferred tax asset.

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 2010 discount rate decreased to 5.9% per annum from 2009 discount rate of 6%. This change increased total net reserves by \$91,000.

Profit carrier: the premium payable under each contract is the profit carrier. Future profits equal approximately 12% of the value of future premiums for Life and 10% 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 120% of commission. For A&H, 40% of premium, plus commission.

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

All calculations have been computed without tax, as the Branch is in a tax loss position and expects to remain so for many years.

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

AMERICAN INCOME LIFE INSURANCE COMPANY NEW ZEALAND BRANCH

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

18. ACTUARY'S STATEMENT (CONT)

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 (refer to note 11).

19. SOLVENCY

The portion of the Home Office balance retained for solvency purposes is \$18,072,014 for 2010 and \$12,755,594 for 2009. 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.

20. 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 Balance Sheet and its debts may result in claims against assets not appearing thereon.

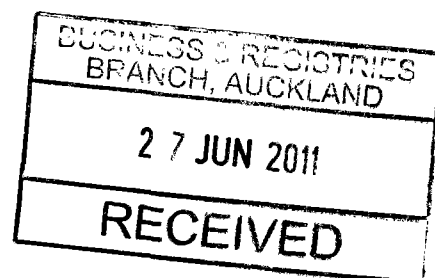
21. CONTINGENT LIABILITIES

There are no contingent liabilities at 31 December 2010 and 2009.

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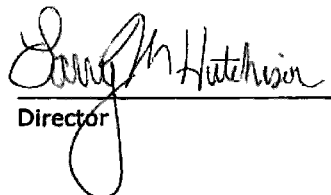
American Income Life Insurance Company

Consolidated Financial Statements and
Separate Parent Company Only
Financial Statements as of and for the Years Ended
December 31, 2010 and 2009, 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:


Director


Director

6/20/11
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, 2010 and 2009, 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, 2010 and 2009, 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 22, 2011

AMERICAN INCOME LIFE INSURANCE COMPANY

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2010 AND 2009

(Dollar amounts in thousands, except per share data)

	2010	2009
ASSETS		
CASH AND INVESTMENTS:		
Fixed maturities — available for sale — at fair value (amortized cost of \$1,681,900 and \$1,450,881 in 2010 and 2009, respectively)	\$ 1,717,665	\$ 1,377,648
Equity securities — available for sale — at fair value (cost of \$426)	670	641
Preferred stock of affiliate — at cost	39,169	39,169
Policy loans — at unpaid balances	91,506	77,572
Other long-term investments	5,954	7,055
Cash and cash equivalents	<u>77,789</u>	<u>159,003</u>
Total cash and investments	1,932,753	1,661,088
LIFE INSURANCE PREMIUMS DUE AND UNCOLLECTED	265	303
ACCIDENT AND HEALTH PREMIUMS DUE AND UNPAID	1,596	1,622
INVESTMENT INCOME DUE AND ACCRUED	30,398	26,473
DEFERRED POLICY ACQUISITION COSTS	779,129	697,048
COST OF INSURANCE ACQUIRED	23,322	25,235
GOODWILL	330,657	330,657
AGENTS' BALANCES — Net of allowance of \$0	34,013	19,517
INCOME TAXES RECEIVABLE FROM PARENT	7,733	11,439
PROPERTY AND EQUIPMENT — Net of accumulated depreciation	3,208	2,320
OTHER ASSETS	<u>63,698</u>	<u>39,810</u>
TOTAL	<u>\$ 3,206,772</u>	<u>\$ 2,815,512</u>

(Continued)

AMERICAN INCOME LIFE INSURANCE COMPANY

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2010 AND 2009

(Dollar amounts in thousands, except per share data)

	2010	2009
LIABILITIES AND STOCKHOLDER'S EQUITY		
LIABILITIES:		
Aggregate reserves for future policy benefits:		
Life	\$ 1,530,026	\$ 1,403,703
Accident and health, including unearned premiums of \$5,767 and \$5,677 in 2010 and 2009, respectively	<u>69,159</u>	<u>65,626</u>
Total aggregate reserves for future policy benefits	<u>1,599,185</u>	<u>1,469,329</u>
Reserves for policy and contract claims:		
Life	22,354	19,342
Accident and health	<u>14,060</u>	<u>12,564</u>
Total reserves for policy and contract claims	36,414	31,906
Other policyholder funds	82,800	82,022
General insurance expenses and other liabilities	68,009	47,790
Taxes, licenses, and fees	1,554	1,586
Deferred income taxes	<u>280,300</u>	<u>200,532</u>
Total liabilities	<u>2,068,262</u>	<u>1,833,165</u>
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	644,812	644,290
Retained earnings	434,710	351,998
Accumulated other comprehensive income (loss) — net of provision for taxes of \$25,467 and \$(13,803), in 2010 and 2009, respectively	<u>47,308</u>	<u>(25,621)</u>
Total stockholder's equity	<u>1,138,510</u>	<u>982,347</u>
TOTAL	<u>\$3,206,772</u>	<u>\$2,815,512</u>

See notes to consolidated financial statements.

(Concluded)

AMERICAN INCOME LIFE INSURANCE COMPANY

CONSOLIDATED STATEMENTS OF OPERATIONS

YEARS ENDED DECEMBER 31, 2010 AND 2009

(Dollar amounts in thousands)

	2010	2009
REVENUES:		
Premiums	\$ 640,055	\$ 583,364
Net investment income	103,121	94,988
Other income	91	23
Net realized investment gains (losses)	<u>10,948</u>	<u>(19,058)</u>
Total revenues	<u>754,215</u>	<u>659,317</u>
BENEFITS AND OTHER DEDUCTIONS:		
Death benefits	99,279	88,933
Accident and health benefits	29,416	28,959
Surrender benefits and other fund withdrawals	44,676	38,935
Interest and other benefits on policy and contract funds	629	827
Interest credited to deposit account fund holders	3,811	3,776
Amortization of deferred policy acquisition costs and cost of insurance acquired	126,902	113,449
Increase in aggregate reserves for future policy benefits	120,663	112,124
Commissions	33,638	31,202
General expenses	26,872	24,005
Insurance taxes, licenses, and fees	<u>14,890</u>	<u>16,150</u>
Total benefits and other deductions	<u>500,776</u>	<u>458,360</u>
INCOME FROM OPERATIONS BEFORE DIVIDENDS TO POLICYHOLDERS AND INCOME TAXES	253,439	200,957
DIVIDENDS TO POLICYHOLDERS	<u>18</u>	<u>25</u>
INCOME FROM OPERATIONS BEFORE INCOME TAXES	<u>253,421</u>	<u>200,932</u>
PROVISION FOR INCOME TAXES:		
Current	39,570	30,339
Deferred	<u>45,999</u>	<u>38,388</u>
Total income taxes	<u>85,569</u>	<u>68,727</u>
NET INCOME	<u>\$ 167,852</u>	<u>\$ 132,205</u>

See notes to consolidated financial statements.

AMERICAN INCOME LIFE INSURANCE COMPANY

STATEMENTS OF STOCKHOLDER'S EQUITY AND COMPREHENSIVE INCOME YEARS ENDED DECEMBER 31, 2010 AND 2009 (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 Income (Loss)	Total Accumulated Other Comprehensive Income	Total Stockholder's Equity
BALANCE — January 1, 2009	\$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
Exercise of options		65						65
Stock-based compensation		457						457
Comprehensive income:								
Net income			167,852					167,852
Change in net unrealized gains and losses — net of \$38,160 tax				70,866			70,866	70,866
Change in translation adjustment — net of \$1,549 tax					2,877		2,877	2,877
Pension adjustments — net of \$(438) tax						(814)	(814)	(814)
Total comprehensive income								240,781
Dividends declared			(85,140)					(85,140)
BALANCE — December 31, 2010	<u>\$11,680</u>	<u>\$644,812</u>	<u>\$ 434,710</u>	<u>\$ 23,401</u>	<u>\$26,256</u>	<u>\$(2,349)</u>	<u>\$ 47,308</u>	<u>\$1,138,510</u>

See notes to financial statements.

AMERICAN INCOME LIFE INSURANCE COMPANY

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2010 AND 2009

(Dollar amounts in thousands)

	2010	2009
OPERATING ACTIVITIES:		
Net income	\$ 167,852	\$ 132,205
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	435	529
Deferred income taxes	45,999	38,388
Amortization of low income housing investments	783	652
Amortization of bond discount	873	605
Realized (gain) loss on sales of investments	(10,948)	19,058
Amortization of deferred policy acquisition costs and cost of insurance acquired	126,902	113,449
Deferred policy acquisition costs	(207,070)	(191,359)
Changes in assets and liabilities:		
Life insurance premiums due and uncollected	38	28
Accident and health premiums due and unpaid	26	(230)
Investment income due and accrued	(3,925)	(112)
Agents' balances	(14,496)	(8,937)
Other assets	(23,888)	(28,073)
Aggregate reserves for future policy benefits	129,856	132,106
Reserves for policy and contract claims	4,508	(160)
Other policyholder funds	778	420
General insurance expenses and other liabilities	7,153	23,692
Taxes, licenses, and fees	(32)	1,565
Income taxes	3,706	29,136
Net cash provided by operating activities	<u>228,550</u>	<u>262,962</u>
INVESTING ACTIVITIES:		
Purchases of fixed maturity available for sale investments	(392,810)	(175,628)
Proceeds from sales, maturities, and repayments of fixed maturity available for sale investments	178,359	150,936
Net amounts loaned to affiliates	11,500	35,000
Purchases of property, plant, and equipment	(1,323)	(351)
Purchases of real estate	(259)	
Proceeds from sale of real estate	260	
Purchases of other long-term invested assets		(562)
Proceeds from other long-term invested assets	588	
Increase in policy loans	(13,934)	(12,715)
Net cash used in investing activities	<u>(217,619)</u>	<u>(3,320)</u>
FINANCING ACTIVITIES:		
Dividends paid to stockholder	(85,140)	(160,670)
Capital paid in		20,000
Net amounts borrowed from affiliates	500	(11,000)
Tax benefit of stock option exercises	65	
Other financing activities		
Net cash used in financing activities	<u>(84,575)</u>	<u>(151,670)</u>
EFFECT OF FOREIGN CURRENCY TRANSLATION ON CASH AND CASH EQUIVALENTS	<u>(7,570)</u>	<u>1,568</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(81,214)	109,540
CASH AND CASH EQUIVALENTS — Beginning of year	<u>159,003</u>	<u>49,463</u>
CASH AND CASH EQUIVALENTS — End of year	<u>\$ 77,789</u>	<u>\$ 159,003</u>

See notes to consolidated financial statements.

AMERICAN INCOME LIFE INSURANCE COMPANY

BALANCE SHEETS (PARENT COMPANY ONLY)

DECEMBER 31, 2010 AND 2009

(Dollar amounts in thousands, except per share data)

	2010	2009
ASSETS		
CASH AND INVESTMENTS:		
Fixed maturities — available for sale — at fair value (amortized cost of \$1,631,797 and \$1,417,772 in 2010 and 2009, respectively)	\$ 1,666,509	\$ 1,344,203
Equity securities — available for sale — at fair value (cost of \$426)	670	641
Preferred stock of affiliate — at cost	39,169	39,169
Common stock of affiliate — at equity	54,537	44,698
Policy loans — at unpaid balances	90,355	76,863
Other long-term investments	5,954	7,055
Cash and cash equivalents	<u>66,611</u>	<u>146,455</u>
Total cash and investments	1,923,805	1,659,084
LIFE INSURANCE PREMIUMS DUE AND UNCOLLECTED	265	303
ACCIDENT AND HEALTH PREMIUMS DUE AND UNPAID	1,457	1,486
INVESTMENT INCOME DUE AND ACCRUED	29,674	25,951
DEFERRED POLICY ACQUISITION COSTS	749,806	672,182
COST OF INSURANCE ACQUIRED	23,322	25,235
GOODWILL	330,657	330,657
AGENTS' BALANCES — Net of allowance of \$0	2,570	1,808
INCOME TAXES RECEIVABLE FROM PARENT	9,155	12,416
PROPERTY AND EQUIPMENT — Net of accumulated depreciation	1,070	1,089
OTHER ASSETS	<u>69,316</u>	<u>25,134</u>
TOTAL	<u>\$ 3,141,097</u>	<u>\$ 2,755,345</u>

(Continued)

AMERICAN INCOME LIFE INSURANCE COMPANY

BALANCE SHEETS (PARENT COMPANY ONLY)

DECEMBER 31, 2010 AND 2009

(Dollar amounts in thousands, except per share data)

	2010	2009
LIABILITIES AND STOCKHOLDER'S EQUITY		
LIABILITIES:		
Aggregate reserves for future policy benefits:		
Life	\$ 1,491,486	\$ 1,372,677
Accident and health, including unearned premiums of \$5,323 and \$5,263 in 2010 and 2009, respectively	<u>67,383</u>	<u>64,082</u>
Total aggregate reserves for future policy benefits	<u>1,558,869</u>	<u>1,436,759</u>
Reserves for policy and contract claims:		
Life	21,519	18,904
Accident and health	<u>13,105</u>	<u>11,721</u>
Total reserves for policy and contract claims	34,624	30,625
Other policyholder funds	82,784	82,010
General insurance expenses and other liabilities	56,258	29,155
Taxes, licenses, and fees	1,649	1,501
Deferred income taxes	<u>268,403</u>	<u>192,948</u>
Total liabilities	<u>2,002,587</u>	<u>1,772,998</u>
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	644,812	644,290
Retained earnings	434,710	351,998
Accumulated other comprehensive income (loss)	<u>47,308</u>	<u>(25,621)</u>
Total stockholder's equity	<u>1,138,510</u>	<u>982,347</u>
TOTAL	<u>\$3,141,097</u>	<u>\$2,755,345</u>

See notes to Parent Company only financial statements.

(Concluded)

AMERICAN INCOME LIFE INSURANCE COMPANY

STATEMENTS OF OPERATIONS (PARENT COMPANY ONLY)

YEARS ENDED DECEMBER 31, 2010 AND 2009

(Dollar amounts in thousands)

	2010	2009
REVENUES:		
Premiums	\$ 604,214	\$ 552,379
Net investment income	97,420	89,419
Equity in earnings of subsidiaries	9,374	8,585
Other income	91	23
Net realized investment gains (losses)	<u>9,532</u>	<u>(19,076)</u>
Total revenues	<u>720,631</u>	<u>631,330</u>
BENEFITS AND OTHER DEDUCTIONS:		
Death benefits	96,337	87,163
Accident and health benefits	27,185	26,551
Surrender benefits and other fund withdrawals	43,587	37,975
Interest and other benefits on policy and contract funds	616	815
Interest available to deposit account fund holders	3,811	3,776
Amortization of deferred policy acquisition costs and cost of insurance acquired	118,381	106,248
Increase in aggregate reserves for future policy benefits	112,916	105,583
Commissions	32,087	29,936
General expenses	23,327	21,640
Insurance taxes, licenses, and fees	<u>13,993</u>	<u>15,337</u>
Total benefits and other deductions	<u>472,240</u>	<u>435,024</u>
INCOME FROM OPERATIONS BEFORE DIVIDENDS TO POLICYHOLDERS AND INCOME TAXES	248,391	196,306
DIVIDENDS TO POLICYHOLDERS	<u>18</u>	<u>25</u>
INCOME FROM OPERATIONS BEFORE INCOME TAXES	<u>248,373</u>	<u>196,281</u>
PROVISION FOR INCOME TAXES:		
Current	38,583	26,047
Deferred	<u>41,938</u>	<u>38,029</u>
Total income taxes	<u>80,521</u>	<u>64,076</u>
NET INCOME	<u>\$ 167,852</u>	<u>\$ 132,205</u>

See notes to Parent Company only financial statements.

AMERICAN INCOME LIFE INSURANCE COMPANY

STATEMENTS OF CASH FLOWS (PARENT COMPANY ONLY)

YEARS ENDED DECEMBER 31, 2010 AND 2009

(Dollar amounts in thousands)

	2010	2009
OPERATING ACTIVITIES:		
Net income	\$ 167,852	\$ 132,205
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	270	357
Deferred income taxes	41,938	38,029
Amortization of low income housing investments	783	652
Amortization of bond discount	889	622
Income of unconsolidated affiliates	(9,374)	(8,585)
Dividend from unconsolidated affiliates		
Adj for realized gains (losses) on sales of investments	(9,532)	19,076
Amortization of deferred policy acquisition costs and cost of insurance acquired	118,381	106,248
Deferred policy acquisition costs	(194,092)	(180,343)
Changes in assets and liabilities:		
Life insurance premiums due and uncollected	38	28
Accident and health premiums due and unpaid	29	(218)
Investment income due and accrued	(3,723)	(147)
Agents' balances	(762)	232
Other assets	(44,182)	(15,902)
Aggregate reserves for future policy benefits	122,110	125,564
Reserves for policy and contract claims	3,999	69
Other policyholder funds	774	417
General insurance expenses and other liabilities	26,037	5,263
Taxes, licenses, and fees	148	1,537
Income taxes	3,261	28,324
Net cash provided by operating activities	<u>224,844</u>	<u>253,428</u>
INVESTING ACTIVITIES:		
Purchases of fixed maturity available for sale investments	(370,580)	(174,627)
Proceeds from sales, maturities, and repayments of fixed maturity available for sale investments	171,691	148,420
Net amount loaned to affiliate		35,000
Purchases of property, plant, and equipment	(251)	(80)
Purchases of other long-term invested assets	589	(562)
Proceeds from other long-term invested assets		
Increase in policy loans	<u>(13,492)</u>	<u>(12,406)</u>
Net cash used in investing activities	<u>(212,043)</u>	<u>(4,255)</u>
FINANCING ACTIVITIES:		
Dividends paid to stockholder	(85,140)	(160,670)
Capital paid in		20,000
Net amount borrowed from affiliate		(11,000)
Tax benefit of stock option exercises	65	
Net cash used in financing activities	<u>(85,075)</u>	<u>(151,670)</u>
EFFECT OF FOREIGN CURRENCY TRANSLATION ON CASH AND CASH EQUIVALENTS	<u>(7,570)</u>	<u>1,568</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	<u>(79,844)</u>	<u>99,071</u>
CASH AND CASH EQUIVALENTS — Beginning of year	<u>146,455</u>	<u>47,384</u>
CASH AND CASH EQUIVALENTS — End of year	<u>\$ 66,611</u>	<u>\$ 146,455</u>

See notes to Parent Company only financial statements.

AMERICAN INCOME LIFE INSURANCE COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AND SEPARATE PARENT COMPANY ONLY FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2010 AND 2009 (Dollar amounts in thousands, except per share data)

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 2010 and 2009, premium income from life insurance was 88% and 87% of total premiums earned, and premium income from health insurance was 12% 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.

The Company accounts for its variable interest entities under accounting guidance which clarifies the definition of a variable interest and the instructions for consolidating variable interest entities (VIE's). Primary beneficiaries only are required to consolidate VIE's. Therefore, a company may have voting control of a VIE but if it is not the primary beneficiary of the VIE, it is not permitted to consolidate the VIE.

As further described under the caption *Low-Income Housing Tax Credit Interests* below in this note, the Company holds passive interests in limited partnerships which provide investment returns through the provision of tax benefits (principally from the transfer of federal or state tax credits related to federal low-income housing). These interests are also considered to be VIEs. They are not consolidated because the Company has no power to control the activities that most significantly affect the economic performance of these entities and therefore the Company is not the primary beneficiary of any of these interests. The Company's involvement is limited to its limited partnership interest in the entity. The Company has not provided any other financial support to the entities beyond its commitments to fund its limited partnership interests during 2009 or 2010, and there are no arrangements or agreements with any of the interests to provide other financial support. The maximum loss exposure relative to these interests is limited to their carrying value.

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, 2010 and 2009, are summarized as follows:

Consolidated	2010	2009
Balance — beginning of year	\$ 697,048	\$ 617,135
Acquisition costs capitalized	207,053	191,313
Amortization	<u>(124,972)</u>	<u>(111,400)</u>
Balance — end of year	<u>\$ 779,129</u>	<u>\$ 697,048</u>
Parent Company	2010	2009
Balance — beginning of year	\$ 672,182	\$ 596,084
Acquisition costs capitalized	194,075	180,297
Amortization	<u>(116,451)</u>	<u>(104,199)</u>
Balance — end of year	<u>\$ 749,806</u>	<u>\$ 672,182</u>

No additions were made to the cost of insurance acquired during 2010 or 2009. Amortization of these costs was \$1,930 and \$2,049 in 2010 and 2009, 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 which 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 — As of December 31, 2010, the Company had \$62 million 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 carrying value of these entities was \$18 million at December 31, 2009. Interests for which the return has been guaranteed by unrelated third-parties are accounted for using the effective-yield method. The remaining interests are accounted for using the amortized-cost method. As of December 31, 2010, the Company was obligated under future commitments of \$37 million, which is included in the above carrying value.

For 2010, the Federal income benefits accrued during the year, net of the amortization associated with guaranteed interests, are recorded in "Income Tax Expense." Amortization associated with non-guaranteed interests was reflected as a component of "Net Investment Income." For years prior to 2010, the Federal income tax benefits accrued during the year, net of amortization associated with all interests, were recorded in "Income tax expense." All state premium tax benefits, net of the related amortization, are recorded in "Net investment income." At December 31, 2010, \$58 million is included in "Other assets" with the remaining \$3 million included in "Other invested assets." At December 31, 2009, the comparable amounts were \$15 million and \$4 million, 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 — Fair values for cash, short-term investments, short-term debt, receivables and payables approximate carrying value. Fair values for long-term debt investments and equity securities are determined in accordance with specific 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. For specific information regarding the Company's measurements and procedures in valuing financial

instruments, please see Note 2—Investments under the caption Fair value measurements. The fair values of the Company's long-term debt issues, along with the trust preferred securities, are based on quoted market prices. Mortgage loans are valued at discounted cash flows.

Financial Instruments — The following information relates to estimated fair values of the Company's financial instruments as of December 31, 2010 and 2009.

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% as of December 31, 2010 and 2009, 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, 2010 and 2009, the Company had interest bearing, net agents' balances of approximately \$34,013 and \$19,517, 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, 2010 and 2009, other policyholder funds included interest bearing deposit type accounts of approximately \$79,114 and \$78,462, 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.

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 2010 and 2009 is as follows:

	2010	2009
Volatility factor	40.30 %	29.70 %
Dividend yield	1.30 %	2.40 %
Expected term (in years)	4.75	4.75
Risk-free rate	2.50 %	2.60 %

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 Company 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. This method was used because the 2005 and 2007 Plans limited grants to a maximum contract term of seven years, and the Company 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:

The Company adopted additional new guidance concerning the disclosures of fair value as of January 1, 2010. This new guidance expanded fair value disclosures by requiring the disclosure of transfers between the Level 1 and Level 2 classifications and the reasons for the transfers; more detail about the activity within the Level 3 classification by reporting purchases, sales, issuances, and settlements on a gross rather than net basis; proper classification of assets and liabilities; and complete information about valuation inputs and techniques. The disclosure of the additional detail regarding the Level 3 activity was not required for the Company until 2011. However, the Company early adopted this guidance as of January 1, 2010 as permitted.

New Unadopted Accounting Rules:

The FASB has issued new accounting guidance potentially applicable to the Company, effective in future periods:

Policy Acquisition Costs: This new accounting guidance amends the accounting for costs associated with acquiring or renewing insurance contracts in order to address the diversity in practice surrounding the capitalization and deferral of these costs. This guidance will be effective for the Company beginning January 1, 2012, with early adoption permitted. Prospective or retrospective application is permitted. We are currently evaluating the new guidance. At this time we expect its adoption to reduce our

shareholders' equity approximately 8% at the time of adoption. We intend to adopt this guidance retrospectively. Because both the deferral and amortization of acquisition costs will be lower in future periods, and those effects are largely offsetting, we do not expect that there will be a material impact on operating results going forward.

Subsequent Events:

We have evaluated subsequent events after the balance sheet date of December 31, 2010 through June 22, 2011 which is the date the financial statements were available to be issued.

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, 2010 and 2009, are as follows:

Consolidated	2010			Fair Value
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
U.S. Treasury securities and obligations of U.S. government agencies	\$ 3,450	\$ 28	\$ -	\$ 3,478
Government-sponsored enterprises	21,103		(487)	20,616
GNMA's	404	96		500
Residential mortgage-backed securities	1,453	74		1,527
States, municipalities, and political subdivisions	74,615	517	(1,478)	73,654
Securities issued by foreign governments	22,352	679		23,031
Corporate securities	1,321,898	71,987	(28,411)	1,365,474
Asset-backed securities	11,544	459	(543)	11,460
Redeemable preferred stocks	<u>225,081</u>	<u>4,568</u>	<u>(11,724)</u>	<u>217,925</u>
Total	1,681,900	78,408	(42,643)	1,717,665
Common stock	<u>426</u>	<u>244</u>	<u>-</u>	<u>670</u>
Total	<u>\$1,682,326</u>	<u>\$78,652</u>	<u>\$ (42,643)</u>	<u>\$1,718,335</u>

	2010			
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Parent Company				
U.S. Treasury securities and obligations of U.S. government agencies	\$ 3,050	\$ 26	\$ -	\$ 3,076
Government-sponsored enterprises	21,103		(487)	20,616
GNMA's	404	96		500
Residential mortgage-backed securities	1,453	74		1,527
States, municipalities, and political subdivisions	74,615	517	(1,478)	73,654
Securities issued by foreign governments	22,352	679		23,031
Corporate securities	1,273,571	69,934	(27,518)	1,315,987
Asset-backed securities	11,244	454	(542)	11,156
Redeemable preferred stocks	<u>224,005</u>	<u>4,569</u>	<u>(11,612)</u>	<u>216,962</u>
Total	1,631,797	76,349	(41,637)	1,666,509
Common stock	<u>426</u>	<u>244</u>	<u>-</u>	<u>670</u>
Total	<u>\$ 1,632,223</u>	<u>\$ 76,593</u>	<u>\$ (41,637)</u>	<u>\$ 1,667,179</u>

	2009			
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Consolidated				
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
Residential 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	<u>231,554</u>	<u>2,068</u>	<u>(36,764)</u>	<u>196,858</u>
Total	1,450,881	35,187	(108,420)	1,377,648
Common stock	<u>426</u>	<u>215</u>	<u>-</u>	<u>641</u>
Total	<u>\$ 1,451,307</u>	<u>\$ 35,402</u>	<u>\$ (108,420)</u>	<u>\$ 1,378,289</u>

	2009			
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Parent Company				
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
Residential 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	<u>230,476</u>	<u>2,068</u>	<u>(36,617)</u>	<u>195,927</u>
Total	1,417,772	33,370	(106,939)	1,344,203
Common stock	<u>426</u>	<u>215</u>	<u>-</u>	<u>641</u>
Total	<u>\$ 1,418,198</u>	<u>\$ 33,585</u>	<u>\$ (106,939)</u>	<u>\$ 1,344,844</u>

The amortized cost and estimated fair value of fixed maturity investments at December 31, 2010, 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	\$ 30,039	\$ 30,559
Due after 1-5 years	72,304	75,721
Due after 5-10 years	71,642	73,644
Due after 10-20 years	420,536	431,835
Due after 20 years	1,073,978	1,092,419
Mortgaged-backed and asset-backed securities	<u>13,401</u>	<u>13,487</u>
Total	<u>\$ 1,681,900</u>	<u>\$ 1,717,665</u>

Parent Company	Amortized Cost	Fair Value
Due in 1 year or less	\$ 29,539	\$ 30,058
Due after 1–5 years	70,903	74,285
Due after 5–10 years	71,615	73,614
Due after 10–20 years	413,454	424,598
Due after 20 years	1,033,185	1,050,771
Mortgaged-backed and asset-backed securities	<u>13,101</u>	<u>13,183</u>
Total	<u>\$1,631,797</u>	<u>\$1,666,509</u>

Consolidated — Proceeds from sales of fixed maturity investments during 2010 and 2009 were \$46,818 and \$73,888, respectively. In 2010 and 2009, the gross realized gains were \$3,929 and \$6,675 and gross realized losses were \$1,925 and \$11,865, respectively, on those sales.

Parent Company — Proceeds from sales of fixed maturity investments during 2010 and 2009, were \$41,050 and \$73,372, respectively. In 2010 and 2009, the gross realized gains were \$2,514 and \$6,656 and gross realized losses were \$1,925 and \$11,865, respectively, on those sales.

Net investment income for the years ended December 31, 2010 and 2009, consists of the following:

Consolidated	2010	2009
Investment income:		
Fixed maturities	\$ 104,278	\$ 93,634
Equity securities	2,676	2,680
Policy loans	6,444	5,372
Other investments	<u>(341)</u>	<u>1,163</u>
Total investment income	113,057	102,849
Investment expenses	<u>(9,936)</u>	<u>(7,861)</u>
Net investment income	<u>\$ 103,121</u>	<u>\$ 94,988</u>
Parent Company	2010	2009
Investment income:		
Fixed maturities	\$ 101,755	\$ 91,438
Equity securities	2,676	2,680
Policy loans	6,374	5,329
Other investments	<u>(25)</u>	<u>1,233</u>
Total investment income	110,780	100,680
Investment expenses	<u>(13,360)</u>	<u>(11,261)</u>
Net investment income	<u>\$ 97,420</u>	<u>\$ 89,419</u>

Aside from investments in securities issued by the U.S. government or U.S. government agencies, the Company did not have, at December 31, 2010 and 2009, a material concentration of financial instruments in a single investee (except for the preferred stock of affiliate), industry, or geographic location.

At December 31, 2010 and 2009, the Company had bonds on deposit with various insurance regulatory agencies, as required by law, with estimated fair values of approximately \$151,104 and \$135,099, respectively.

During the year ended December 31, 2010 and 2009, the Company had realized losses of \$0 and \$13,167, 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	Fair Value Measurements at December 31, 2010 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
Description				
Corporates	\$ 27,834	\$ 1,516,726	\$ 38,839	\$ 1,583,399
Mortgage-backed securities		2,027		2,027
Asset-backed securities		4,997	6,463	11,460
Other*	-	120,779	-	120,779
Total fixed maturities	27,834	1,644,529	45,302	1,717,665
Equities	-	-	670	670
Total	<u>\$ 27,834</u>	<u>\$ 1,644,529</u>	<u>\$ 45,972</u>	<u>\$ 1,718,335</u>
Percent of total	<u>1.6%</u>	<u>95.7%</u>	<u>2.6%</u>	<u>100.0%</u>

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

Fair Value Measurements at December 31, 2010 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	\$ 27,834	\$ 1,466,276	\$ 38,839	\$ 1,532,949
Mortgage-backed securities		2,027		2,027
Asset-backed securities		4,693	6,463	11,156
Other*	-	120,377	-	120,377
Total fixed maturities	27,834	1,593,373	45,302	1,666,509
Equities	-	-	670	670
Total	<u>\$ 27,834</u>	<u>\$ 1,593,373</u>	<u>\$ 45,972</u>	<u>\$ 1,667,179</u>
Percent of total	<u>1.7%</u>	<u>95.6%</u>	<u>2.8%</u>	<u>100.0%</u>

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

Fair Value Measurements at December 31, 2009 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	\$ 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	<u>\$ 13,128</u>	<u>\$ 1,320,202</u>	<u>\$ 44,959</u>	<u>\$ 1,378,289</u>
Percent of total	<u>1.00 %</u>	<u>95.80 %</u>	<u>3.20 %</u>	<u>100 %</u>

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

Parent Company	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
Description				
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	<u>\$ 13,128</u>	<u>\$ 1,286,757</u>	<u>\$ 44,959</u>	<u>\$ 1,344,844</u>
Percent of total	<u>1 %</u>	<u>95.70 %</u>	<u>3.30 %</u>	<u>100 %</u>

*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, 2010, 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 corroborated prices produce small variations, the close correlation indicates observable inputs, and the median value is used. When corroborated prices present greater variations, additional analysis is required to determine which value is the most appropriate. When only one price is available, management evaluates observable inputs and performs additional analysis to confirm that the price is appropriate. All fair value measurements based on prices determined with observable market data are reported as Level 1 or Level 2 measurements.

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% (suggesting that the independent quotes were likely derived using similar observable inputs), the Company uses the median quote and classifies the measurement as Level 2. At December 31, 2010 and 2009, there were no assets valued as Level 2 in this manner with broker quotes.

When the standard deviation is 3% or greater, or the Company cannot obtain three quotes, then additional information and management judgment are required to establish the fair value. The measurement is then classified as Level 3. The Company uses information and valuation techniques deemed appropriate for determining the point within the range of reasonable fair value estimates that is most representative of fair value under current market conditions. As of December 31, 2010 and 2009, fair value measurements classified as Level 3 represented approximately 3% of total fixed maturities and equity securities.

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

Consolidated	2010 Analysis of Changes in Fair Value Measurements Using Significant Unobservable Inputs (Level 3)				
	Asset-Backed				
	Corporates	Securities	Other	Equities	Total
Balance — January 1, 2010	\$34,508	\$ 6,414	\$3,398	\$639	\$44,959
Total gains or losses:					
Included in realized gains/losses	632		126		758
Included in other comprehensive income	6,462	205	(101)	31	6,597
Sales	(2,600)		(416)		(3,016)
Amortization	859	(156)			703
Transfers in and/or out of Level 3	(1,022)	-	(3,007)	-	(4,029)
Balance — December 31, 2010	<u>\$38,839</u>	<u>\$ 6,463</u>	<u>\$ -</u>	<u>\$670</u>	<u>\$45,972</u>

Parent Company	2010 Analysis of Changes in Fair Value Measurements Using Significant Unobservable Inputs (Level 3)				
	Asset-Backed				
	Corporates	Securities	Other	Equities	Total
Balance — January 1, 2009	\$34,508	\$6,414	\$3,398	\$639	\$44,959
Total gains or losses:					
Included in realized gains/losses	632		126		758
Included in other comprehensive income	6,462	205	(101)	31	6,597
Sales	(2,600)		(416)		(3,016)
Amortization	859	(156)			703
Transfers in and/or out of Level 3	(1,022)	-	(3,007)	-	(4,029)
Balance — December 31, 2009	<u>\$38,839</u>	<u>\$6,463</u>	<u>\$ -</u>	<u>\$670</u>	<u>\$45,972</u>

Consolidated	2009 Analysis of Changes in Fair Value Measurements Using Significant Unobservable Inputs (Level 3)				
	Asset-Backed				
	Corporates	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	<u>\$34,508</u>	<u>\$ 6,414</u>	<u>\$3,398</u>	<u>\$639</u>	<u>\$44,959</u>

Parent Company	2009 Analysis of Changes in Fair Value Measurements Using Significant Unobservable Inputs (Level 3)				
	Asset-Backed				
	Corporates	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	<u>21,311</u>	<u>-</u>	<u>2,638</u>	<u>-</u>	<u>23,949</u>
Balance — December 31, 2009	<u>\$ 34,508</u>	<u>\$ 6,414</u>	<u>\$ 3,398</u>	<u>\$ 639</u>	<u>\$ 44,959</u>

The collateral underlying asset-backed securities for which fair values are reported as Level 3 consists of leases. None of the collateral is subprime or Alt-A mortgages (loans for which the typical documentation was not provided). Of the change in the fair value of Level 3 assets, \$758 thousand of net realized investment gains was included in net income in 2010. There were no realized investments gains or losses in Level 3 assets in 2009.

During 2010, there were no investments transferred from Level 1 to Level 2.

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, 2010 and 2009. The Company considers these investments to be only temporarily impaired.

	2010					
	Less Than Twelve Months		Twelve Months or Longer		Total	
	Market Value	Unrealized Losses	Market Value	Unrealized Losses	Market Value	Unrealized Losses
Consolidated						
Government-sponsored enterprises	\$ 20,616	\$ (487)	\$ -	\$ -	\$ 20,616	\$ (487)
States, municipalities, and political subs	47,571	(1,478)			47,571	(1,478)
Corporate securities	<u>224,898</u>	<u>(4,710)</u>	<u>253,093</u>	<u>(35,968)</u>	<u>477,991</u>	<u>(40,678)</u>
Total unrealized losses	<u>\$293,085</u>	<u>\$ (6,675)</u>	<u>\$253,093</u>	<u>\$ (35,968)</u>	<u>\$546,178</u>	<u>\$ (42,643)</u>

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

	2010					
	Less Than Twelve Months		Twelve Months or Longer		Total	
	Market Value	Unrealized Losses	Market Value	Unrealized Losses	Market Value	Unrealized Losses
Parent Company						
Government-sponsored enterprises	\$ 20,616	\$ (487)	\$ -	\$ -	\$ 20,616	\$ (487)
States, municipalities, and political subs	47,571	(1,478)			47,571	(1,478)
Corporate securities	<u>211,104</u>	<u>(4,179)</u>	<u>248,808</u>	<u>(35,493)</u>	<u>459,912</u>	<u>(39,672)</u>
Total unrealized losses	<u>\$279,291</u>	<u>\$ (6,144)</u>	<u>\$248,808</u>	<u>\$ (35,493)</u>	<u>\$528,099</u>	<u>\$ (41,637)</u>

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

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 Swiss Re Life and Health America 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, 2010 and 2009, 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, 2010 and 2009, the Company's noncash transactions, which are not reflected on the Statements of Cash Flows:

Parent and Consolidated	2010	2009
Paid-in capital from tax benefit of stock option exercises	\$ 65	\$ -
Stock-based compensation	457	340
Commitments for low-income housing interests	37,325	11,383

The following table summarizes for the years ended December 31, 2010 and 2009, certain amounts paid during the period:

Consolidated	2010	2009
Interest paid	\$ 3,811	\$ 3,776
Income taxes paid	40,768	(4,008)
Parent Company	2010	2009
Interest paid	\$ 3,811	\$ 3,776
Income taxes paid	40,227	(7,487)

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, 2010 and 2009, differs from the amount computed by applying the federal income tax rate of 35% to pretax income as a result of the following:

Consolidated	2010	2009
Computed tax expense at statutory rate	\$ 88,697	\$ 70,326
Low-Income Housing Investments	(1,906)	(232)
Other	<u>(1,222)</u>	<u>(1,367)</u>
Total income taxes	<u>\$ 85,569</u>	<u>\$ 68,727</u>

Parent Company	2010	2009
Computed tax expense at statutory rate	\$ 86,931	\$ 68,698
Low-Income Housing Investments	(1,906)	(232)
Dividends received deduction	(5,983)	(5,568)
Other	<u>1,479</u>	<u>1,178</u>
Total income taxes	<u>\$ 80,521</u>	<u>\$ 64,076</u>

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2010 and 2009 are as follows:

Consolidated	2010	2009
Deferred tax assets:		
Unrealized losses	\$ -	\$ 24,569
Total gross deferred tax assets	<u>-</u>	<u>24,569</u>
Deferred tax liabilities:		
Future policy benefits, unearned and advance premiums and policy claims	20,017	8,821
Deferred policy acquisition costs and cost of insurance acquired	208,527	188,821
Unrealized gains	9,200	-
Other	<u>42,556</u>	<u>27,459</u>
Total gross deferred tax liabilities	<u>280,300</u>	<u>225,101</u>
Net deferred tax liability	<u>\$ 280,300</u>	<u>\$ 200,532</u>

Parent Company	2010	2009
Deferred tax assets:		
Unrealized losses	\$ -	\$ 24,687
Total gross deferred tax assets	-	24,687
Deferred tax liabilities:		
Future policy benefits, unearned and advance premiums and policy claims	20,458	9,564
Deferred policy acquisition costs and cost of insurance acquired	201,511	182,837
Unrealized gains	8,831	-
Other	37,604	25,234
Total gross deferred tax liabilities	268,404	217,635
Net deferred tax liability	<u>\$ 268,404</u>	<u>\$ 192,948</u>

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). During 2009, the IRS has 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 2007. Management believes that adequate provision has been made in the financial statements for any potential assessments that may result from the completed examinations, future 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 2010 and 2009 is as follows:

	2010	2009
Balance — January 1	\$ -	\$ 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	<u>\$ -</u>	<u>\$ -</u>

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. 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 \$0 and \$(155) thousand, net of Federal income tax benefits, in its Consolidated Statement of Operations for 2010 and 2009, respectively. The Company has an accrued interest payable/(receivable) of \$(4.1) million, net of Federal income tax expense/(benefit), as of December 31, 2010. The Company has no accrued penalties as of December 31, 2010.

6. POSTRETIREMENT EMPLOYEE BENEFIT PLANS

Defined Benefit Pension Plans — The 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 \$10,959 were allocated in 2010 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 premium for this coverage paid in 2010 and 2009 were \$1.9 million, respectively, and the cash values was zero. 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, 2010 was \$1,110 thousand and at December 31, 2009 was \$710 thousand.

The information about the Company's defined benefit pension plan as of December 31, 2010 and 2009, is as follows:

	2010	2009
Accumulated benefit obligation	\$ 8,615	\$ 7,179
Projected benefit obligation	8,615	7,179

The fair value of the guaranteed investment contract was \$10,959 at December 31, 2010, and \$10,491 at December 31, 2009. 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	2010	2009
For benefit obligations — December 31:		
Discount rate	5.77 %	6.30 %
Rate of compensation increase*	6.00	5.00
For periodic benefit cost for the year:		
Discount rate	6.31	6.30
Expected long term rate of return	7.24	7.00
Rate of compensation increase*	5.00	6.00

*Pertains to SERP only

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

	2010	2009
Service cost	\$ 346	\$ 309
Interest cost	448	408
Expected return on assets	(729)	(695)
Amortization of transition asset	(7)	(7)
Amortization of prior service cost	79	62
Amortization of net loss	<u>4</u>	<u>34</u>
Net periodic benefit cost	<u>\$ 141</u>	<u>\$ 111</u>

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.

	2010	2009
Changes in benefit obligation:		
Obligation — beginning of year	\$ 7,179	\$ 6,161
Service cost	346	309
Interest cost	448	408
Actuarial (gain) loss	770	13
Benefits paid	(128)	(123)
Plan amendments	<u> </u>	<u>411</u>
Obligation — end of year	<u>8,615</u>	<u>7,179</u>
Changes in plan assets:		
Fair value — beginning of year	10,491	9,997
Return on assets	596	617
Contributions		
Benefits paid	<u>(128)</u>	<u>(123)</u>
Fair value — end of year	<u>10,959</u>	<u>10,491</u>
Funded status — end of year	<u>\$ 2,344</u>	<u>\$ 3,312</u>

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

	2010	2009
Service cost — benefits earned during period	\$ 1,441	\$ 1,308
Interest cost on projected benefit obligation	2,009	1,731
Amortization of net loss	759	625
Amortization of prior service cost	<u>1,947</u>	<u>1,947</u>
Total net periodic cost	6,156	5,611
Periodic cost allocated to other participating employers	<u>(6,020)</u>	<u>(5,511)</u>
American Income's net periodic cost	<u>\$ 136</u>	<u>\$ 100</u>

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.

	2010	2009
Changes in benefit obligation:		
Obligation — beginning of year	\$ 32,106	\$ 27,682
Service cost	1,441	1,308
Interest cost	2,009	1,731
Actuarial (gain) loss	2,429	1,618
Benefits paid	<u>(240)</u>	<u>(233)</u>
Obligation — end of year	37,745	32,106
Obligation allocated to other participating employers	<u>(36,635)</u>	<u>(31,396)</u>
American Income's obligation — end of year	<u>\$ 1,110</u>	<u>\$ 710</u>

Torchmark's accumulated benefit obligation ("ABO") of the SERP was \$28.9 million as of December 31, 2010, and \$23.0 million as of December 31, 2009.

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

	2010	2009
Amounts recognized in accumulated other comprehensive income:		
Net loss	\$ 2,758	\$ 1,980
Prior service cost	1,022	555
Transition asset	<u>(5)</u>	<u>(12)</u>
Accumulated other comprehensive income	<u>\$ 3,775</u>	<u>\$ 2,523</u>

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

	2010	2009
Balance — January 1	\$ (2,523)	\$ (1,991)
Amortization of:		
Prior service cost	122	70
Net actuarial (gain) loss	21	73
Transition obligation	<u>(7)</u>	<u>(7)</u>
Total amortization	136	136
Experience gain (loss)	<u>(1,388)</u>	<u>(668)</u>
Balance — December 31	<u>\$ (3,775)</u>	<u>\$ (2,523)</u>

The portion of other comprehensive income that is expected to be reflected in pension expense in 2011 is as follows:

	Defined Benefit Plan	SERP	Total
Amortization of prior service cost	\$ 79	\$ 57	\$ 136
Amortization of net loss	66	27	93
Amortization of transition obligation	<u>(5)</u>	<u>—</u>	<u>(5)</u>
Total	<u>\$ 140</u>	<u>\$ 84</u>	<u>\$ 224</u>

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

2011	\$ 153
2012	190
2013	210
2014	224
2015	244
2016–2020	1,935

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, 2010 and 2009, Company contributions totaled \$565 and \$535, 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 \$66 and \$43 for 2010 and 2009, respectively, as its share of the annual contributions to this plan. The Company's liability under this plan was \$287 and \$222 as of December 31, 2010 and 2009, respectively.

7. ACTUARY'S STATEMENT

The policy liabilities and reserves on December 31, 2010 and 2009, 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, 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 \$1000 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	2010	2009
Balance — January 1	<u>\$ 12,564</u>	<u>\$ 12,334</u>
Incurred related to:		
Current year	29,510	28,972
Prior years	<u>(94)</u>	<u>(13)</u>
Total incurred	<u>29,416</u>	<u>28,959</u>
Paid related to:		
Current year	18,086	18,755
Prior years	<u>9,834</u>	<u>9,974</u>
Total paid	<u>27,920</u>	<u>28,729</u>
Balance — December 31	<u>\$ 14,060</u>	<u>\$ 12,564</u>
Parent Company	2010	2009
Balance — January 1	<u>\$ 11,721</u>	<u>\$ 11,421</u>
Incurred related to:		
Current year	27,107	26,424
Prior years	<u>78</u>	<u>127</u>
Total incurred	<u>27,185</u>	<u>26,551</u>
Paid related to:		
Current year	16,491	16,929
Prior years	<u>9,310</u>	<u>9,322</u>
Total paid	<u>25,801</u>	<u>26,251</u>
Balance — December 31	<u>\$ 13,105</u>	<u>\$ 11,721</u>

The development of prior year claims in 2010 and 2009 reflects normal changes in actuarial estimates. The development of life claims was insignificant in 2010 and 2009.

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 \$65.6 million in entities which provide these certain tax benefits. As of December 31, 2010, the company had unpaid contributions of \$35,428.

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		Capital and Surplus	
Year Ended December 31		at December 31	
2010	2009	2010	2009
<u>\$ 116,689</u>	<u>\$ 85,462</u>	<u>\$ 200,072</u>	<u>\$ 188,073</u>

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, 2010 and 2009.

11. STOCKHOLDER'S EQUITY

In 2010 and 2009, the Parent Company declared cash dividends of \$85,140 and \$160,670, 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 2011 is approximately \$103,358.

The change in equity during 2010 and 2009 is as follows:

	2010	2009
Consolidated:		
Planned margin of revenue over expenses	\$ 128,011	\$ 116,673
Difference between actual and assumed experience	93,059	201,352
Investment earnings on assets in excess of policy liabilities	20,233	(9,820)
Dividends to stockholders	<u>(85,140)</u>	<u>(160,670)</u>
	<u>\$ 156,163</u>	<u>\$ 147,535</u>
Parent only:		
Planned margin of revenue over expenses	\$ 120,843	\$ 110,476
Difference between actual and assumed experience	95,553	202,607
Investment earnings on assets in excess of policy liabilities	24,907	(4,878)
Dividends to stockholders	<u>(85,140)</u>	<u>(160,670)</u>
	<u>\$ 156,163</u>	<u>\$ 147,535</u>

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 \$22,005 and \$15,482 as of December 31, 2010 and 2009, respectively. Statutory reporting basis reserves are a modified net premium basis with the elimination of negative reserves.

13. EMPLOYEE STOCK OPTIONS

Certain employees of the 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:

	2010	2009
Balance — January 1	\$ 1,149,693	\$ 2,136,806
Adoption of new plans		
Expired and forfeited during year	17,513	25,000
Options granted during year	(905,450)	(928,850)
Restricted stock granted during year	<u>(91,580)</u>	<u>(83,263)</u>
Balance — December 31	<u>\$ 170,176</u>	<u>\$ 1,149,693</u>

A summary of stock option activity for the years ended December 31, 2010 and 2009, are as follows:

	2010	2009
Stock-based compensation expense recognized*	\$ 457	\$ 340
Tax benefit recognized	160	119
Weighted-average grant-date fair value of options granted	15.54	5.41
Intrinsic value of options exercised	351	-
Cash received by Torchmark from options exercised	2,813	-
Actual tax benefit received from exercises	123	-

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

Additional information about stock option activity for the years ended December 31, 2010 and 2009, is as follows:

	2010		2009	
	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price
Outstanding — beginning of year	250,354	\$ 49.54	196,204	\$ 56.73
Granted	59,250	46.31	54,150	23.50
Exercised	(54,802)	54.80	-	-
Transferred	2,250	51.42	-	-
Expired	<u>-</u>	-	<u>-</u>	-
Outstanding — end of year	<u>257,052</u>	48.66	<u>250,354</u>	49.54
Exercisable — end of year	<u>123,902</u>	57.89	<u>149,329</u>	54.37

Additional information about the Company's applicable stock-based compensation as of December 31, 2010 and 2009, is as follows:

	2010	2009
Outstanding options:		
Weighted-average remaining contractual term (in years)	4.24	4.39
Aggregate intrinsic value	\$ 3,143	\$ 1,163
Exercisable options:		
Weighted-average remaining contractual term (in years)	2.94	3.58
Aggregate intrinsic value	\$ 462	\$ 86
Unrecognized compensation	\$ 804	\$ 346

Additional information concerning unvested options is as follows:

	2010	2009
Number of shares outstanding	133,150	101,025
Weighted-average exercise price (per share)	\$ 40.07	\$ 42.42
Weighted-average remaining contractual term (in years)	5.45	5.59
Aggregate intrinsic value	2,681	1,077

Torchmark expects that substantially all unvested options will vest.

The following table summarizes information about stock options outstanding at December 31, 2010.

Exercise Price Range	Number Outstanding	Options Outstanding		Options Exercisable	
		Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
\$23.50–\$23.50	53,150	5.2	\$ 23.50	1,500	\$ 23.50
\$37.44–\$46.31	71,696	5.6	45.76	11,446	42.89
\$54.77–\$54.77	16,406	1.3	54.77	16,406	54.77
\$55.48–\$55.48	19,400	2.0	55.48	19,400	55.48
\$56.24–\$56.24	14,400	4.0	56.24	14,400	56.24
\$62.68–\$62.68	45,000	4.2	62.68	23,750	62.68
\$63.70–\$63.70	18,500	3.0	63.70	18,500	63.70
\$64.59–\$64.59	<u>18,500</u>	3.1	64.59	<u>18,500</u>	64.59
\$23.50–\$64.59	<u>257,052</u>	4.2	48.66	<u>123,902</u>	48.66

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 \$2,628 and \$2,664 in investment management fees, and \$3,456 and \$2,508 under the service agreement in 2010 and 2009, respectively. The Company had accounts payable balances to related parties of \$309 and \$289 at December 31, 2010 and 2009, respectively, included in general insurance expenses and other liabilities.

During 2010, the company borrowed a note of \$25,000 from Torchmark. This note had an interest rate of 3.25% and was repaid during 2010. The interest expense related to this notes of \$279 is included in the accompanying financial statements.

During 2010, AILIC Receivables Corporation ("ARC") borrowed a note of \$11,500 from Torchmark. This note had an interest rate of 3.25% and was repaid during 2011. The interest expense related to this notes of \$138 is included in the accompanying financial statements.

During 2010, Torchmark repaid to ARC note of \$500 borrowed during 2009. This note had an interest rate of 3.25% and was repaid during 2010. The interest income related to this notes of \$1 is included in the accompanying financial statements.

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