American Income Life Insurance Company

Consolidated Financial Statements and
Separate Parent Company Only
Financial Statements as of and for the Years Ended
December 31, 2011 and 2010, and
Independent Auditors' Report

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, 2011 and 2010, 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, 2011 and 2010, and the respective results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Deloitte + Touche LLP

June 28, 2012

AMERICAN INCOME LIFE INSURANCE COMPANY

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2011 AND 2010
(Dollar amounts in thousands, except per share data)

ASSETS	**2011**	**2010**
CASH AND INVESTMENTS:		
Fixed maturities — available for sale — at fair value (amortized cost of $1,828,023 and $1,681,900 in 2011 and 2010, respectively)	$2,014,639	$1,717,665
Equity securities — available for sale — at fair value (cost of $426)	710	670
Preferred stock of affiliate — at cost	39,169	39,169
Policy loans — at unpaid balances	103,940	91,506
Other long-term investments	5,286	5,954
Cash and cash equivalents	44,599	77,789
Total cash and investments	2,208,343	1,932,753
LIFE INSURANCE PREMIUMS DUE AND UNCOLLECTED	267	265
ACCIDENT AND HEALTH PREMIUMS DUE AND UNPAID	1,506	1,596
INVESTMENT INCOME DUE AND ACCRUED	33,975	30,398
DEFERRED POLICY ACQUISITION COSTS	856,030	779,129
COST OF INSURANCE ACQUIRED	21,485	23,322
GOODWILL	330,657	330,657
AGENTS' BALANCES — Net of allowance of $0	54,999	34,013
INCOME TAXES RECEIVABLE FROM PARENT	14,154	7,733
PROPERTY AND EQUIPMENT — Net of accumulated depreciation	3,485	3,208
OTHER ASSETS	73,028	63,698
TOTAL	$3,597,929	$3,206,772

(Continued)

AMERICAN INCOME LIFE INSURANCE COMPANY

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2011 AND 2010
(Dollar amounts in thousands, except per share data)

LIABILITIES AND STOCKHOLDER'S EQUITY	2011	2010
LIABILITIES:		
Aggregate reserves for future policy benefits:		
Life	$1,658,141	$1,530,026
Accident and health, including unearned premiums of $5,700 and $5,767 in 2011 and 2010, respectively	72,587	69,159
Total aggregate reserves for future policy benefits	1,730,728	1,599,185
Reserves for policy and contract claims:		
Life	21,343	22,354
Accident and health	13,681	14,060
Total reserves for policy and contract claims	35,024	36,414
Other policyholder funds	83,803	82,800
General insurance expenses and other liabilities	48,958	68,009
Borrowed funds - affiliated (Note 14)	33,500	
Taxes, licenses, and fees	1,652	1,554
Deferred income taxes	361,275	280,300
Total liabilities	2,294,940	2,068,262
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	645,946	644,812
Retained earnings	503,718	434,710
Accumulated other comprehensive income (loss) — net of provision for taxes of $76,946 and $25,467, in 2011 and 2010, respectively	141,645	47,308
Total stockholder's equity	1,302,989	1,138,510
TOTAL	$3,597,929	$3,206,772

See notes to consolidated financial statements. (Concluded)

AMERICAN INCOME LIFE INSURANCE COMPANY

CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2011 AND 2010
(Dollar amounts in thousands)

	2011	2010
REVENUES:		
Premiums	$ 688,355	$ 640,055
Net investment income	111,337	103,121
Other income	81	91
Net realized investment gains	2,088	10,948
Total revenues	801,861	754,215
BENEFITS AND OTHER DEDUCTIONS:		
Death benefits	103,097	99,279
Accident and health benefits	30,004	29,416
Surrender benefits and other fund withdrawals	47,794	44,676
Interest and other benefits on policy and contract funds	2,043	629
Interest credited to deposit account fund holders	3,864	3,811
Amortization of deferred policy acquisition costs and cost of insurance acquired	136,153	126,902
Increase in aggregate reserves for future policy benefits	136,174	120,663
Commissions	34,321	33,638
General expenses	31,642	26,872
Insurance taxes, licenses, and fees	17,938	14,890
Total benefits and other deductions	543,030	500,776
INCOME FROM OPERATIONS BEFORE DIVIDENDS TO POLICYHOLDERS AND INCOME TAXES	258,831	253,439
DIVIDENDS TO POLICYHOLDERS	18	18
INCOME FROM OPERATIONS BEFORE INCOME TAXES	258,813	253,421
PROVISION FOR INCOME TAXES:		
Current	51,401	39,570
Deferred	35,046	45,999
Total income taxes	86,447	85,569
NET INCOME	$ 172,366	$ 167,852

See notes to consolidated financial statements.

AMERICAN INCOME LIFE INSURANCE COMPANY

STATEMENTS OF STOCKHOLDER'S EQUITY AND COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2011 AND 2010
(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, 2010	$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	11,680	644,812	434,710	23,401	26,256	(2,349)	47,308	1,138,510
Exercise of options	-	333	-	-	-	-	-	333
Stock-based compensation	-	801	-	-	-	-	-	801
Comprehensive income:								
Net income	-	-	172,366	-	-	-	-	172,366
Change in net unrealized gains and losses — net of $52,813 tax	-	-	-	98,081	-	-	98,081	98,081
Change in translation adjustment — net of $(670) tax	-	-	-	-	(2,500)	-	(2,500)	(2,500)
Pension adjustments — net of $(670) tax	-	-	-	-	-	(1,244)	(1,244)	(1,244)
Total comprehensive income								266,703
Dividends declared	-	-	(103,358)	-	-	-	-	(103,358)
BALANCE — December 31, 2011	$11,680	$645,946	$ 503,718	$121,482	$23,756	$(3,593)	$141,645	$1,302,989

See notes to financial statements.

AMERICAN INCOME LIFE INSURANCE COMPANY

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2011 AND 2010
(Dollar amounts in thousands)

	2011	2010
OPERATING ACTIVITIES:		
Net income	$ 172,366	$ 167,852
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	658	435
Deferred income taxes	35,046	45,999
Amortization of low income housing investments	4,235	783
Amortization of bond discount	1,688	873
Realized (gain) loss on sales of investments	(2,088)	(10,948)
Amortization of deferred policy acquisition costs and cost of insurance acquired	136,153	126,902
Deferred policy acquisition costs	(211,224)	(207,070)
Changes in assets and liabilities:		
Life insurance premiums due and uncollected	(2)	38
Accident and health premiums due and unpaid	90	26
Investment income due and accrued	(3,577)	(3,925)
Agents' balances	(20,986)	(14,496)
Other assets	(9,330)	(23,888)
Aggregate reserves for future policy benefits	131,543	129,856
Reserves for policy and contract claims	(1,390)	4,508
Other policyholder funds	1,003	778
General insurance expenses and other liabilities	(12,437)	7,153
Taxes, licenses, and fees	98	(32)
Income taxes	(6,421)	3,706
Net cash provided by operating activities	215,425	228,550
INVESTING ACTIVITIES:		
Purchases of fixed maturity available for sale investments	(253,335)	(392,810)
Proceeds from sales, maturities, and repayments of fixed maturity available for sale investments	103,312	178,359
Funds loaned to affiliates	(25,000)	-
Repayment of funds loaned to affiliates	25,000	11,500
Purchases of property, plant, and equipment	(928)	(1,323)
Purchases of real estate	-	(259)
Proceeds from sale of real estate	-	260
Proceeds from other long-term invested assets	207	588
Increase in policy loans	(12,434)	(13,934)
Net cash used in investing activities	(163,178)	(217,619)
FINANCING ACTIVITIES:		
Dividends paid to stockholder	(103,358)	(85,140)
Borrowed money from affiliates	263,300	500
Repayment of borrowed money from affiliates	(241,300)	-
Tax benefit of stock option exercises	333	65
Net cash used in financing activities	(81,025)	(84,575)
EFFECT OF FOREIGN CURRENCY TRANSLATION ON CASH AND CASH EQUIVALENTS	(4,412)	(7,570)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(33,190)	(81,214)
CASH AND CASH EQUIVALENTS — Beginning of year	77,789	159,003
CASH AND CASH EQUIVALENTS — End of year	$ 44,599	$ 77,789

See notes to consolidated financial statements.

AMERICAN INCOME LIFE INSURANCE COMPANY

BALANCE SHEETS (PARENT COMPANY ONLY)
DECEMBER 31, 2011 AND 2010
(Dollar amounts in thousands, except per share data)

ASSETS	2011	2010
CASH AND INVESTMENTS:		
Fixed maturities — available for sale — at fair value (amortized cost of $1,761,694 and $1,631,797 in 2011 and 2010, respectively)	$1,940,427	$1,666,509
Equity securities — available for sale — at fair value (cost of $426)	710	670
Preferred stock of affiliate — at cost	39,169	39,169
Common stock of subsidiaries — at equity	82,116	54,537
Policy loans — at unpaid balances	102,286	90,355
Other long-term investments	5,286	5,954
Cash and cash equivalents	25,750	66,611
Total cash and investments	2,195,744	1,923,805
LIFE INSURANCE PREMIUMS DUE AND UNCOLLECTED	267	265
ACCIDENT AND HEALTH PREMIUMS DUE AND UNPAID	1,354	1,457
INVESTMENT INCOME DUE AND ACCRUED	33,023	29,674
DEFERRED POLICY ACQUISITION COSTS	823,129	749,806
COST OF INSURANCE ACQUIRED	21,485	23,322
GOODWILL	330,657	330,657
AGENTS' BALANCES — Net of allowance of $0	5,236	2,570
INCOME TAXES RECEIVABLE FROM PARENT	14,379	9,155
PROPERTY AND EQUIPMENT — Net of accumulated depreciation	1,578	1,070
OTHER ASSETS	78,256	69,316
TOTAL	$3,505,108	$3,141,097

(Continued)

AMERICAN INCOME LIFE INSURANCE COMPANY

BALANCE SHEETS (PARENT COMPANY ONLY)
DECEMBER 31, 2011 AND 2010
(Dollar amounts in thousands, except per share data)

LIABILITIES AND STOCKHOLDER'S EQUITY	2011	2010
LIABILITIES:		
Aggregate reserves for future policy benefits:		
Life	$1,610,697	$1,491,486
Accident and health, including unearned premiums of $5,212 and $5,323 in 2011 and 2010, respectively	70,540	67,383
Total aggregate reserves for future policy benefits	1,681,237	1,558,869
Reserves for policy and contract claims:		
Life	20,452	21,519
Accident and health	12,650	13,105
Total reserves for policy and contract claims	33,102	34,624
Other policyholder funds	83,787	82,784
General insurance expenses and other liabilities	57,574	56,258
Borrowed funds - affiliated (Note 14)	9,000	
Taxes, licenses, and fees	1,578	1,649
Deferred income taxes	344,841	268,403
Total liabilities	2,202,119	2,002,587
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	645,946	644,812
Retained earnings	503,718	434,710
Accumulated other comprehensive income (loss)	141,645	47,308
Total stockholder's equity	1,302,989	1,138,510
TOTAL	$3,505,108	$3,141,097

See notes to Parent Company only financial statements. (Concluded)

AMERICAN INCOME LIFE INSURANCE COMPANY

STATEMENTS OF OPERATIONS (PARENT COMPANY ONLY)
YEARS ENDED DECEMBER 31, 2011 AND 2010
(Dollar amounts in thousands)

	2011	2010
REVENUES:		
Premiums	$ 648,441	$ 604,214
Net investment income	104,875	97,420
Equity in earnings of subsidiaries	8,888	9,374
Other income	81	91
Net realized investment gains	2,087	9,532
Total revenues	764,372	720,631
BENEFITS AND OTHER DEDUCTIONS:		
Death benefits	100,223	96,337
Accident and health benefits	26,874	27,185
Surrender benefits and other fund withdrawals	46,522	43,587
Interest and other benefits on policy and contract funds	2,022	616
Interest credited to deposit account fund holders	3,864	3,811
Amortization of deferred policy acquisition costs and cost of insurance acquired	126,877	118,381
Increase in aggregate reserves for future policy benefits	127,000	112,916
Commissions	32,632	32,087
General expenses	27,989	23,327
Insurance taxes, licenses, and fees	16,429	13,993
Total benefits and other deductions	510,432	472,240
INCOME FROM OPERATIONS BEFORE DIVIDENDS TO POLICYHOLDERS AND INCOME TAXES	253,940	248,391
DIVIDENDS TO POLICYHOLDERS	18	18
INCOME FROM OPERATIONS BEFORE INCOME TAXES	253,922	248,373
PROVISION FOR INCOME TAXES:		
Current	48,657	38,583
Deferred	32,899	41,938
Total income taxes	81,556	80,521
NET INCOME	$ 172,366	$ 167,852

See notes to Parent Company only financial statements.

AMERICAN INCOME LIFE INSURANCE COMPANY

STATEMENTS OF CASH FLOWS (PARENT COMPANY ONLY)
YEARS ENDED DECEMBER 31, 2011 AND 2010
(Dollar amounts in thousands)

	2011	2010
OPERATING ACTIVITIES:		
Net income	$ 172,366	$ 167,852
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	427	270
Deferred income taxes	32,899	41,938
Amortization of low income housing investments	4,235	783
Amortization of bond discount	1,695	889
Income of unconsolidated affiliates	(8,888)	(9,374)
Adj for realized gains (losses) on sales of investments	(2,087)	(9,532)
Amortization of deferred policy acquisition costs and cost of insurance acquired	126,877	118,381
Deferred policy acquisition costs	(198,370)	(194,092)
Changes in assets and liabilities:		
Life insurance premiums due and uncollected	(2)	38
Accident and health premiums due and unpaid	103	29
Investment income due and accrued	(3,349)	(3,723)
Agents' balances	(2,666)	(762)
Other assets	(8,940)	(44,182)
Aggregate reserves for future policy benefits	122,368	122,110
Reserves for policy and contract claims	(1,522)	3,999
Other policyholder funds	1,003	774
General insurance expenses and other liabilities	(12,570)	26,037
Taxes, licenses, and fees	(71)	148
Income taxes	(5,224)	3,261
Net cash provided by operating activities	218,284	224,844
INVESTING ACTIVITIES:		
Purchases of fixed maturity available for sale investments	(236,297)	(370,580)
Proceeds from sales, maturities, and repayments of fixed maturity available for sale investments	102,492	171,691
Funds loaned to affiliate	(25,000)	-
Repayments of funds loaned to affiliate	25,000	-
Purchases of property, plant, and equipment	(928)	(251)
Contributed capital to subsidiaries	(15,513)	-
Proceeds from other long-term invested assets	207	589
Increase in policy loans	(11,931)	(13,492)
Net cash used in investing activities	(161,970)	(212,043)
FINANCING ACTIVITIES:		
Dividends paid to stockholder	(103,358)	(85,140)
Repayment of funds borrowed from affiliate	(5,000)	-
Funds borrowed from affiliate	14,000	-
Tax benefit of stock option exercises	333	65
Net cash used in financing activities	(94,025)	(85,075)
EFFECT OF FOREIGN CURRENCY TRANSLATION ON CASH AND CASH EQUIVALENTS	(3,150)	(7,570)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(40,861)	(79,844)
CASH AND CASH EQUIVALENTS — Beginning of year	66,611	146,455
CASH AND CASH EQUIVALENTS — End of year	$ 25,750	$ 66,611

See notes to Parent Company only financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The Company is engaged in the marketing, underwriting and issuing of individual life and supplemental accident and health insurance. In 2011 and 2010, premium income from life insurance was 88% of total premiums earned, and premium income from health insurance was 12% 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 funded a new foreign insurance subsidiary, United Heritage Life Assurance Company, Ltd. (UHL), during 2011 in the amount of $15,513. At December 31, 2011, the Company owned 100% of the outstanding common stock of UHL.

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

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 accompanying parent company only financial statements also include activity and balances from Canadian and New Zealand operations. The foreign operations are not conducted through separate legal entities, and as such are included in both the consolidated financial statements and the separate parent company only financial statements.

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). Only primary beneficiaries are required or allowed 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.

Additionally, 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 2010 or 2011, 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 — The liability for future policy benefits for life and health products is provided on the net level premium method based on estimated investment yields, mortality, morbidity, persistency and other assumptions which were considered appropriate at the time the policies were issued. Assumptions used are based on the Company's previous experience with similar products. Once established, assumptions for these products are generally not changed. An additional provision is made on most products to allow for possible adverse deviation from the assumptions. These estimates are periodically reviewed and compared with actual experience. If it is determined that existing contract liabilities, together with the present value of future gross premiums, will not be sufficient to cover the present value of future benefits and to recover unamortized acquisition costs, then a premium deficiency exists. Such a deficiency would be recognized immediately by a charge to earnings and either a reduction of unamortized acquisition costs or an increase in the liability for future policy benefits. From that point forward, the liability for future policy benefits would be based on the revised assumptions.

Policy and Contract Claims — The Company establishes a liability for known policy benefits payable and an estimate of claims that have been incurred but not yet reported to the Company. The estimate of unreported claims is based on prior experience. The Company makes an estimate after careful evaluation of all information available to the Company. However, there is no certainty the stated liability for claims and other benefits, including the estimate of unsubmitted claims, will be the Company's ultimate obligation.

Deferred Policy Acquisition Costs and Cost of Insurance Acquired — The costs of acquiring new business are generally deferred and recorded as an asset. Deferred acquisition costs consist primarily of sales commissions and other underwriting costs of new insurance sales. Deferred acquisition costs are amortized in a systematic manner with interest over the estimated premium-paying period of the policies in a manner which charges each year's operations in proportion to the receipt of premium income. Limited-payment contracts are amortized over the contract period. The assumptions used to amortize acquisition costs with regard to interest, mortality, morbidity, and persistency are consistent with those used to estimate the liability for future policy benefits. Amortization assumptions are generally not revised once established. Deferred acquisition costs are subject to periodic recoverability and loss recognition testing to determine if there is a premium deficiency. These tests ensure that the present value of future contract-related cash flows will support the capitalized deferred acquisition cost asset. These cash flows consist primarily of premium income, less benefits and expenses taking inflation into account. The present value of these cash flows, less the benefit reserve, is then compared with the unamortized deferred acquisition cost balance. In the event the estimated present value of net cash flows is less, the deficiency would be recognized by a charge to earnings and either a reduction of unamortized acquisition costs or an increase in the liability for future benefits, as described under the caption *Future Policy Benefits*.

The policy acquisition costs deferred and amortized for the years ended December 31, 2011 and 2010, are summarized as follows:

Consolidated	**2011**	**2010**
Balance — beginning of year	$ 779,129	$ 697,048
Acquisition costs capitalized	211,224	207,053
Amortization	(134,323)	(124,972)
Balance — end of year	$ 856,030	$ 779,129

Parent Company	**2011**	**2010**
Balance — beginning of year	$ 749,806	$ 672,182
Acquisition costs capitalized	198,370	194,075
Amortization	(125,047)	(116,451)
Balance — end of year	$ 823,129	$ 749,806

No additions were made to the cost of insurance acquired during 2011 or 2010. Amortization of these costs was $1,830 and $1,930 in 2011 and 2010, respectively, for both consolidated and parent company only.

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

Dividend and interest income are recognized when earned. Realized gains and losses for securities are included in earnings and are determined using the specific identification method. In the separate parent company only financial statements dividends are recorded within equity in earnings of subsidiaries.

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, 2011, the Company had $57 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 investments in these entities was $62 million at December 31, 2010. 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, 2011, the Company was obligated under future commitments of $27 million, which is included in the above carrying value.

The Federal income benefits accrued during the year, net of the amortization associated with guaranteed interests, are recorded in current provision for income taxes. Amortization associated with non-guaranteed interests is reflected as a component of "Net Investment Income." All state premium tax

benefits, net of the related amortization, are recorded in "Net investment income." At December 31, 2011, $54 million is included in "Other assets" with the remaining $3 million included in "Other invested assets." At December 31, 2010, the comparable amounts were $58 million and $3 million, respectively. Any unpaid commitments to invest are recorded in "Other liabilities" with a corresponding asset within "Other Assets."

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 Parent 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 Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 350, *Intangibles – Goodwill and Other*, 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*.

Financial Instruments — The following information relates to estimated fair values of the Company's financial instruments as of December 31, 2011 and 2010.

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, 2011 and 2010, 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, 2011 and 2010, the Company had interest bearing, net agents' balances of approximately $54,999 and $34,013, 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, 2011 and 2010, other policyholder funds included interest bearing deposit type accounts of approximately $80,201 and $79,114, 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, New Zealand, and Ireland), 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 2011 and 2010 is as follows:

	2011	**2010**
Volatility factor	41.20 %	40.20 %
Dividend yield	1.00 %	1.30 %
Expected term (in years)	4.96	4.75
Risk-free rate	2.10 %	2.50 %

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 2010, were determined based on the simplified method as permitted by Staff Accounting Bulletins 107 and 110. This method was used because the 2005 and 2007 Plans limited grants to a maximum contract term of seven years, and the Company had no previous experience with seven-year contract terms, and Torchmark had no previous experience with seven-year contract terms. Prior to 2005, substantially all grants contained ten-year terms. Because a large portion of these grants vest over a three-year period, the Company did not have sufficient exercise history during 2010 or previous years to determine an appropriate expected term on these grants. Beginning in 2011, all grants with seven-year terms are based on Company experience. The Torchmark Corporation 2011 Incentive Plan replaced the previous plans and allows for option grants with a ten-year contractual term which vest over five years in addition to seven-year grants which vest over three years as permitted by the previous plans. The Company has no historical experience with five-year vesting, and will therefore use the simplified method to determine

the expected term for these grants until such experience is developed. 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 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 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. As a result of this new standard, certain costs that have been deferred and amortized through deferred acquisition costs will no longer be allowed to be deferred and will be expensed as incurred. The new guidance limits the deferral of costs to those incremental costs related only to the successful issuance of an insurance contract. Previously, the Company was allowed to defer any cost that varied with and related to the production of new business. For the Company, these costs that are no longer deferrable primarily relate to our agent distribution systems, and include such costs as training, recruiting, office space, and certain management and underwriting expenses. The Company has elected to adopt retroactively, meaning in 2012 the deferred acquisition cost will be written down to a level as if the new guidance had been in effect in prior periods. Going forward, the reduction in deferrals will cause commissions and expenses to increase. However, as a result of the retroactive writedown, the amortization of previously deferred acquisition costs will decrease, greatly offsetting the impact of the increased expenses. The Company currently expects it to reduce the deferred acquisition cost asset approximately 19%, total assets approximately 4%, and stockholders' equity approximately 8% at the time of adoption. The Company also expects it will reduce 2012 earnings and earnings per share less than 2%. The adoption of this guidance will delay the recognition of underwriting margin on newly issued business, but not the ultimate profitability of that business. It will have no impact on cash flows, liquidity, or statutory earnings.

Comprehensive Loss: Under this guidance, the components of comprehensive income must be presented as either 1) a continuous statement (including the components of net income) or 2) as two separate but consecutive statements (an income statement followed by a comprehensive income statement). This guidance is effective for periods beginning on or after January 1, 2012.

Fair Value Measurement and Disclosure: The primary purpose of this new guidance is to converge the measurement criteria and disclosures of fair value in U.S. GAAP with those of International Accounting Standards. The measurement principles are generally consistent with current U.S. GAAP and are not expected to have a material impact on our financial statements. The guidance will require additional disclosures, including expanded disclosures for fair value measurements categorized in Level 3 of the fair value hierarchy and a requirement to disclose the level in the fair value hierarchy of items whose fair value is disclosed but not measured at fair value on the balance sheet. The guidance is effective for the Company in calendar 2012, with early adoption prohibited.

Goodwill Impairment Testing: The issuance of this update permits an optional qualitative assessment in order to simplify how an entity tests its goodwill for impairment. Under this assessment, if an entity concludes that a reporting units' fair value is more likely than not greater than its carrying amount, it

would not be required to perform any further impairment testing for that reporting unit. Otherwise, the two-step impairment test under current guidance would be required for the reporting unit. This new guidance lists factors to consider in making the qualitative assessment. The revised guidance is effective for periods beginning on or after January 1, 2012. We do not expect this new guidance to impact the value of the Company's goodwill, only to modify the way it is evaluated for impairment.

Health Insurer's Fees Paid to the Federal Government: Private health insurance carriers will be required to pay a new fee to the Federal government beginning in calendar year 2014 under the Patient Protection and Affordable Care Act. This guidance addresses questions about how to recognize and classify the fees, basically requiring that it be expensed ratably throughout the year. It is effective for the Company beginning in the year 2014. Because the majority of the Company's health products are excluded from the mandate, the impact of adoption should be immaterial.

Subsequent Events:

We have evaluated subsequent events after the balance sheet date of December 31, 2011 through June 28, 2012 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, 2011 and 2010, are as follows:

	2011			
Consolidated	**Cost or Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
U.S. Government direct, guaranteed, & government-sponsored agencies	$ 6,128	$ 181	$ -	$ 6,309
States, municipalities, and political subdivisions	74,484	9,223	-	83,707
Foreign governments	21,832	1,327	-	23,159
Corporate securities	1,496,877	201,019	(17,887)	1,680,009
Asset-backed securities	12,733	707	(1,117)	12,323
Redeemable preferred stocks	215,969	4,560	(11,397)	209,132
Total	1,828,023	217,017	(30,401)	2,014,639
Equity Securities	426	284	-	710
Total	$ 1,828,449	$ 217,301	$ (30,401)	$ 2,015,349

Parent Company	2011 Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government direct, guaranteed, & government-sponsored agencies	$ 3,419	$ 115	$ -	$ 3,534
States, municipalities, and political subdivisions	74,484	9,223	-	83,707
Foreign governments	21,832	1,327	-	23,159
Corporate securities	1,434,308	192,642	(17,344)	1,609,606
Asset-backed securities	12,437	686	(1,117)	12,006
Redeemable preferred stocks	215,214	4,560	(11,359)	208,415
Total	1,761,694	208,553	(29,820)	1,940,427
Equity securities	426	284	-	710
Total	$ 1,762,120	$ 208,837	$ (29,820)	$ 1,941,137

Consolidated	2010 Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government direct, guaranteed, & government-sponsored agencies	$ 24,957	$ 124	$ (487)	$ 24,594
States, municipalities, and political subdivisions	74,615	517	(1,478)	73,654
Foreign governments	22,352	679	-	23,031
Corporate securities	1,321,898	71,987	(28,411)	1,365,474
Asset-backed securities	12,997	533	(543)	12,987
Redeemable preferred stocks	225,081	4,568	(11,724)	217,925
Total	1,681,900	78,408	(42,643)	1,717,665
Equity securities	426	244	-	670
Total	$ 1,682,326	$ 78,652	$ (42,643)	$ 1,718,335

Parent Company	2010 Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government direct, guaranteed, & government-sponsored agencies	$ 24,557	$ 122	$ (487)	$ 24,192
States, municipalities, and political subdivisions	74,615	517	(1,478)	73,654
Foreign governments	22,352	679	-	23,031
Corporate securities	1,273,571	69,933	(27,517)	1,315,987
Asset-backed securities	12,697	529	(543)	12,683
Redeemable preferred stocks	224,005	4,569	(11,612)	216,962
Total	1,631,797	76,349	(41,637)	1,666,509
Equity securities	426	244	-	670
Total	$ 1,632,223	$ 76,593	$ (41,637)	$ 1,667,179

The amortized cost and estimated fair value of fixed maturity investments at December 31, 2011, 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	$ 10,183	$ 10,315
Due after 1–5 years	67,825	71,663
Due after 5–10 years	75,244	78,144
Due after 10–20 years	474,240	524,715
Due after 20 years	1,187,463	1,317,059
Mortgaged-backed and asset-backed securities	13,068	12,743
Total	$1,828,023	$2,014,639

Parent Company	Amortized Cost	Fair Value
Due in 1 year or less	$ 8,783	$ 8,909
Due after 1–5 years	67,825	71,663
Due after 5–10 years	75,216	78,114
Due after 10–20 years	467,496	517,152
Due after 20 years	1,129,601	1,252,164
Mortgaged-backed and asset-backed securities	12,773	12,425
Total	$1,761,694	$1,940,427

Consolidated — Proceeds from sales of fixed maturity investments during 2011 and 2010 were $37,913 and $46,818, respectively. In 2011 and 2010, the gross realized gains were $5,100 and $3,929 and gross realized losses were $6,720 and $1,925, respectively, on those sales.

Parent Company — Proceeds from sales of fixed maturity investments during 2011 and 2010, were $37,913 and $41,050, respectively. In 2011 and 2010, the gross realized gains were $5,100 and $2,514 and gross realized losses were $6,720 and $1,925, respectively, on those sales.

Net investment income for the years ended December 31, 2011 and 2010, consists of the following:

Consolidated	**2011**	**2010**
Investment income:		
Fixed maturities	$ 111,631	$ 104,278
Equity securities	2,671	2,676
Policy loans	7,524	6,444
Other investments	898	(341)
Total investment income	122,724	113,057
Investment expenses	(11,387)	(9,936)
Net investment income	$ 111,337	$ 103,121

Parent Company	**2011**	**2010**
Investment income:		
Fixed maturities	$ 108,183	$ 101,755
Equity securities	2,671	2,676
Policy loans	7,415	6,374
Other investments	1,084	(25)
Total investment income	119,353	110,780
Investment expenses	(14,478)	(13,360)
Net investment income	$ 104,875	$ 97,420

Aside from investments in securities issued by the U.S. government or U.S. government sponsored agencies, the Company did not have, at December 31, 2011 or 2010, a material concentration of financial instruments in a single investee (except for the preferred stock of affiliate), industry, or geographic location.

At December 31, 2011 and 2010, the Company had bonds on deposit with various insurance regulatory agencies, as required by law, with estimated fair values of approximately $162,461 and $151,104, respectively.

During the year ended December 31, 2011 and 2010, the Company had no realized losses related to declines in the value of 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 based on a hierarchy consisting of three levels, which 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, 2011 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
U.S. Government direct, guaranteed, & government-sponsored agencies	$ -	$ 6,309	$ -	$ 6,309
States, municipalities, and political subdivisions	-	83,707	-	83,707
Foreign governments	-	23,159	-	23,159
Corporate securities	-	1,680,009	-	1,680,009
Asset-backed securities	-	6,600	5,723	12,323
Redeemable preferred stocks	23,169	185,963	-	209,132
Total fixed maturities	23,169	1,985,747	5,723	2,014,639
Equity securities	-	-	710	710
Total	$ 23,169	$ 1,985,747	$ 6,433	$ 2,015,349
Percent of total	1.2 %	98.5 %	0.3 %	100.0 %

Parent Company	Fair Value Measurements at December 31, 2011 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
U.S. Government direct, guaranteed, & government-sponsored agencies	$ -	$ 3,534	$ -	$ 3,534
States, municipalities, and political subdivisions	-	83,707	-	83,707
Foreign governments	-	23,159	-	23,159
Corporate securities	-	1,609,606	-	1,609,606
Asset-backed securities	-	6,283	5,723	12,006
Redeemable preferred stock	23,169	185,246	-	208,415
Total fixed maturities	23,169	1,911,535	5,723	1,940,427
Equity securitites	-	-	710	710
Total	$23,169	$1,911,535	$6,433	$1,941,137
Percent of total	1.2 %	98.5 %	0.3 %	100.0 %

Consolidated	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
U.S. Government direct, guaranteed, & government-sponsored agencies	$ -	$ 24,594	$ -	$ 24,594
States, municipalities, and political subdivisions	-	73,654	-	73,654
Foreign governments	-	23,031	-	23,031
Corporate securities	-	1,326,635	38,839	1,365,474
Asset-backed securities	-	6,524	6,463	12,987
Redeemable preferred stock	27,834	190,091	-	217,925
Total fixed maturities	27,834	1,644,529	45,302	1,717,665
Equity securities	-	-	670	670
Total	$27,834	$1,644,529	$45,972	$1,718,335
Percent of total	1.6 %	95.8 %	2.6 %	100.0 %

Parent Company	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
U.S. Government direct, guaranteed, & government-sponsored agencies	$ -	$ 24,192	$ -	$ 24,192
States, municipalities, and political subdivisions	-	73,654	-	73,654
Foreign governments	-	23,031	-	23,031
Corporate securities	-	1,277,148	38,839	1,315,987
Asset-backed securities	-	6,220	6,463	12,683
Redeemable preferred stock	27,834	189,128	-	216,962
Total fixed maturities	27,834	1,593,373	45,302	1,666,509
Equity securities	-	-	670	670
Total	$27,834	$1,593,373	$45,972	$1,667,179
Percent of total	1.7 %	95.5 %	2.8 %	100.0 %

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 98% of the fair value reported at December 31, 2011, 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. As part of the Company's controls over pricing, management reviews and analyzes all prices obtained to insure the reasonableness of the values, taking all available information into account. One very important control is the corroboration of prices obtained from third-party sources 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, 2011 and 2010, 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, 2011 and 2010, fair value measurements classified as Level 3 represented approximately 0.3% and 2.6%, respectively, 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	2011 Analysis of Changes in Fair Value Measurements Using Significant Unobservable Inputs (Level 3)				
	Corporates	Asset-Backed Securities	Other	Equities	Total
Balance — January 1, 2011	$38,839	$6,463	$ -	$670	$45,972
Total gains or losses:					
Included in realized gains/losses	(6,271)	-	-	-	(6,271)
Included in other comprehensive income	7,815	(574)	-	40	7,281
Sales	(6,938)	-	-	-	(6,938)
Amortization	231	(166)	-	-	65
Transfers in and/or out of Level 3	(33,676)	-	-	-	(33,676)
Balance — December 31, 2011	$ -	$5,723	$ -	$710	$ 6,433

Parent Company	2011 Analysis of Changes in Fair Value Measurements Using Significant Unobservable Inputs (Level 3)				
	Corporates	Asset-Backed Securities	Other	Equities	Total
Balance — January 1, 2011	$38,839	$6,463	$ -	$670	$45,972
Total gains or losses:					
Included in realized gains/losses	(6,271)	-	-	-	(6,271)
Included in other comprehensive income	7,815	(574)	-	40	7,281
Sales	(6,938)	-	-	-	(6,938)
Amortization	231	(166)	-	-	65
Transfers in and/or out of Level 3	(33,676)	-	-	-	(33,676)
Balance — December 31, 2011	$ -	$5,723	$ -	$710	$ 6,433

Consolidated	2010 Analysis of Changes in Fair Value Measurements Using Significant Unobservable Inputs (Level 3)				
	Corporates	Asset-Backed 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	$38,839	$6,463	$ -	$670	$45,972

Parent Company	2010 Analysis of Changes in Fair Value Measurements Using Significant Unobservable Inputs (Level 3)				
	Corporates	Asset-Backed 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	$38,839	$6,463	$ -	$670	$45,972

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, $(6,271) and $758 of net realized investment (losses) gains were included in net income in 2011 and 2010, respectively.

During 2011 and 2010, there were no investments transferred between Level 1 and Level 2. During 2011 and 2010, securities with a fair value of $33,676 and $4,029, respectively, transferred from Level 3 to Level 2 due to the availability of observable market data.

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 evaluation of the Company's securities for other-than-temporary impairments is a process that is undertaken not less frequently than quarterly and is overseen by a team of investment and accounting professionals. Each security which is impaired because the fair value is less than the cost or amortized cost is identified and evaluated. 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
- Expected future cash flows

The relative weight given to each of these factors can change over time as facts and circumstances change. In many cases, management believe it is appropriate to give relatively more weight to prospective factors than to retrospective factors. Prospective factors that are given more weight include prospects for recovery, the Company's ability and intent to hold the security until anticipated recovery, and expected future cash flows.

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
- The value of underlying collateral
- 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
- Recent cash flows

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, 2011 and 2010. The Company considers these investments to be only temporarily impaired.

	2011					
	Less Than Twelve Months		Twelve Months or Longer		Total	
Consolidated	Market Value	Unrealized Losses	Market Value	Unrealized Losses	Market Value	Unrealized Losses
Corporate securities	$167,435	$ (9,024)	$ 65,667	$ (8,863)	$233,102	$(17,887)
Asset-backed securities			5,723	(1,117)	5,723	(1,117)
Redeemable preferred stocks	37,750	(1,933)	66,572	(9,464)	104,322	(11,397)
Total unrealized losses	$205,185	$(10,957)	$137,962	$(19,444)	$343,147	$(30,401)

	2011					
	Less Than Twelve Months		Twelve Months or Longer		Total	
Parent Company	Market Value	Unrealized Losses	Market Value	Unrealized Losses	Market Value	Unrealized Losses
Corporate securities	$161,967	$ (8,513)	$ 64,090	$ (8,831)	$226,057	$(17,344)
Asset-backed securities	-	-	5,723	(1,117)	5,723	(1,117)
Redeemable preferred stocks	37,034	(1,895)	66,572	(9,464)	103,606	(11,359)
Total unrealized losses	$199,001	$(10,408)	$136,385	$(19,412)	$335,386	$(29,820)

	2010					
	Less Than Twelve Months		Twelve Months or Longer		Total	
Consolidated	Market Value	Unrealized Losses	Market Value	Unrealized Losses	Market Value	Unrealized Losses
Government-sponsored enterprises	$ 20,616	$ (487)	$ -	$ -	$ 20,616	$ (487)
States, municipals, and political subs	47,571	(1,478)	-	-	47,571	(1,478)
Corporate securities	188,615	(4,314)	133,402	(24,097)	322,017	(28,411)
Asset-backed securities			6,462	(543)	6,462	(543)
Redeemable preferred stock	36,283	(396)	113,229	(11,328)	149,512	(11,724)
Total unrealized losses	$293,085	$(6,675)	$253,093	$(35,968)	$546,178	$(42,643)

	2010					
	Less Than Twelve Months		Twelve Months or Longer		Total	
Parent Company	Market Value	Unrealized Losses	Market Value	Unrealized Losses	Market Value	Unrealized Losses
Government-sponsored enterprises	$ 20,616	$ (487)	$ -	$ -	$ 20,616	$ (487)
States, municipals, and political subs	47,571	(1,478)	-	-	47,571	(1,478)
Corporate securities	174,821	(3,782)	130,080	(23,735)	304,901	(27,517)
Asset-backed securities	-	-	6,462	(543)	6,462	(543)
Redeemable preferred stock	36,283	(397)	112,266	(11,215)	148,549	(11,612)
Total unrealized losses	$279,291	$(6,144)	$248,808	$(35,493)	$528,099	$(41,637)

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, 2011 and 2010, 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, 2011 and 2010, the Company's noncash transactions, which are not reflected on the Statements of Cash Flows:

Parent and Consolidated	2011	2010
Paid-in capital from tax benefit of stock option exercises	$ 333	$ 65
Stock-based compensation not involving cash	801	457
Commitments for low-income housing interests	26,771	37,325

The following table summarizes for the years ended December 31, 2011 and 2010, certain amounts paid during the period:

Consolidated	2011	2010
Interest paid — affiliated	$ 3,864	$ 3,811
Income taxes paid	62,052	40,768

Parent Company	2011	2010
Interest paid — affiliated	$ 3,864	$ 3,811
Income taxes paid	58,110	40,227

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, 2011 and 2010, differs from the amount computed by applying the federal income tax rate of 35% to pretax income as a result of the following:

Consolidated	2011	2010
Computed tax expense at statutory rate	$ 90,585	$ 88,697
Low-Income Housing Investments	(3,338)	(1,906)
Other	(800)	(1,222)
Total income taxes	$ 86,447	$ 85,569

Parent Company	2011	2010
Computed tax expense at statutory rate	$ 88,873	$ 86,931
Low-Income Housing Investments	(3,338)	(1,906)
Dividends received deduction	(4,046)	(5,983)
Other	67	1,479
Total income taxes	$ 81,556	$ 80,521

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2011 and 2010 are as follows:

Consolidated	**2011**	**2010**
Deferred tax liabilities:		
Future policy benefits, unearned and advance premiums and policy claims	$ 23,266	$ 20,017
Deferred policy acquisition costs and cost of insurance acquired	227,481	208,527
Unrealized gains	55,129	9,200
Other	55,399	42,556
Total deferred tax liability	$361,275	$280,300

Parent Company	**2011**	**2010**
Deferred tax liabilities:		
Future policy benefits, unearned and advance premiums and policy claims	$ 23,179	$ 20,458
Deferred policy acquisition costs and cost of insurance acquired	219,747	201,511
Unrealized gains	52,370	8,831
Other	49,545	37,604
Total deferred tax liability	$344,841	$268,404

The Company's Federal income tax returns are routinely audited by the Internal Revenue Service (IRS). The statute of limitations for the assessment of additional tax are closed for all tax years prior to 2008. 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. There were no of unrecognized tax benefits (excluding effects of accrued interest, net of federal tax benefits) at the beginning or end of 2011 and 2010.

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 of $0, net of Federal income tax benefits, in its statements of operations for 2011 and 2010. The Company has an accrued interest receivable of $3.2 million, net of Federal income tax expense, as of December 31, 2011. The Company has no accrued penalties as of December 31, 2011.

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, issued by the Company, were allocated in 2011 to pay future benefits. The benefits are set as a monthly amount for each year of service with the Company. Costs for the plan have been calculated on the projected unit credit actuarial cost method. All plan measurements are as of December 31 of the respective year.

The accumulated benefit obligation and projected benefit obligation for the Company's defined benefit pension plan totaled $11,039 and $8,615 as of December 31, 2011 and 2010, respectively.

The fair value of the guaranteed investment contract was $12,745 at December 31, 2011 and $10,959 at December 31, 2010. 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.

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 $1,000. The SERP is unfunded. However, life insurance policies on the lives of plan participants were established for this plan with an unaffiliated insurance carrier. The Company's share of premium for this coverage paid in 2011 and 2010 were $1,100 and $250, respectively. The cash value of these policies at December 31, 2011 was $3,000 and was $1,900 a year earlier. Because this plan is unqualified, the policyholder value of these policies is not included as defined benefit plan assets but as other assets of the Company. The projected benefit liability for the SERP at December 31, 2011 was $1,700 and at December 31, 2010 was $1,100.

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	**2011**	**2010**
For benefit obligations — December 31:		
Discount rate	5.09 %	5.77 %
Rate of compensation increase*	6.00	6.00
For periodic benefit cost for the year:		
Discount rate	5.77	6.31
Expected long term rate of return	7.00	7.24
Rate of compensation increase*	6.00	5.00

* Pertains to SERP only

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

	2011	**2010**
Service cost	$ 534	$ 346
Interest cost	506	448
Expected return on assets	(761)	(729)
Amortization of transition asset	(5)	(7)
Amortization of prior service cost	79	79
Amortization of net loss	78	4
Net periodic benefit cost	$ 431	$ 141

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.

	2011	2010
Changes in benefit obligation:		
Obligation — beginning of year	$ 8,615	$ 7,179
Service cost	534	346
Interest cost	506	448
Actuarial loss	1,512	770
Benefits paid	(128)	(128)
Obligation — end of year	11,039	8,615
Changes in plan assets:		
Fair value — beginning of year	10,959	10,491
Return on assets	631	596
Contributions	1,283	-
Benefits paid	(128)	(128)
Fair value — end of year	12,745	10,959
Funded status — end of year	$ 1,706	$ 2,344

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

	2011	2010
Service cost — benefits earned during period	$ 1,518	$ 1,441
Interest cost on projected benefit obligation	2,159	2,009
Amortization of net loss	912	759
Amortization of prior service cost	1,947	1,947
Total net periodic cost	6,536	6,156
Periodic cost allocated to other participating employers	(6,344)	(6,020)
Parent Company's net periodic cost	$ 192	$ 136

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.

	2011	2010
Changes in benefit obligation:		
Obligation — beginning of year	$ 37,745	$ 32,106
Service cost	1,518	1,441
Interest cost	2,159	2,009
Actuarial loss	5,977	2,429
Benefits paid	(608)	(240)
Obligation — end of year	46,791	37,745
Obligation allocated to other participating employers	(45,109)	(36,635)
Parent Company's obligation — end of year	$ 1,682	$ 1,110

Torchmark's accumulated benefit obligation ("ABO") of the SERP was $36,454 as of December 31, 2011 and $28,898 as of December 31, 2010.

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

	2011	2010
Amounts recognized in accumulated other comprehensive income:		
Net loss	$ 4,760	$ 3,083
Prior service cost	885	433
Transition asset	-	(5)
Accumulated other comprehensive income	$ 5,645	$ 3,511

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

	2011	2010
Balance — January 1	$ (3,775)	$ (2,523)
Amortization of:		
Prior service cost	137	122
Net actuarial loss	105	21
Transition obligation	(5)	(7)
Total amortization	237	136
Experience loss	(2,107)	(1,388)
Balance — December 31	$ (5,645)	$ (3,775)

The portion of other comprehensive income that is expected to be reflected in pension expense in 2012 is as follows:

	Defined Benefit Plan	SERP	Total
Amortization of prior service cost	$ 80	$ 70	$ 150
Amortization of net loss	167	56	223
Total	$ 247	$ 126	$ 373

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

	Defined Benefit Plan
2012	$ 190
2013	214
2014	230
2015	258
2016	338
2017–2021	2,349

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, 2011 and 2010, Company contributions totaled $606 and $565, 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 $26 and $66 for 2011 and 2010, respectively, as its share of the annual contributions to this plan. The Company's liability under this plan was $356 and $287 as of December 31, 2011 and 2010, respectively.

7. FUTURE POLICY BENEFIT RESERVES

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%. In 2011, a 5 year graded discount rate was used from 5.75% to 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 from 2007-2010, 22% of premium plus $8.50 per policy. For all issued policies prior to 2011, initial expenses also include underwriting expense per policy and per $1,000 of sum insured that varies by issue age, plus commission. For policies issued in 2011, 40.5% of life premium and 33.5% of accident and health premium with no per policy or per $1,000 expenses.

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	**2011**	**2010**
Balance — January 1	$ 14,060	$ 12,564
Incurred related to:		
Current year	30,247	29,510
Prior years	(243)	(94)
Total incurred	30,004	29,416
Paid related to:		
Current year	19,366	18,086
Prior years	11,017	9,834
Total paid	30,383	27,920
Balance — December 31	$ 13,681	$ 14,060

Parent Company	**2011**	**2010**
Balance — January 1	$ 13,105	$ 11,721
Incurred related to:		
Current year	27,004	27,107
Prior years	(130)	78
Total incurred	26,874	27,185
Paid related to:		
Current year	17,027	16,491
Prior years	10,302	9,310
Total paid	27,329	25,801
Balance — December 31	$ 12,650	$ 13,105

The development of prior year claims in 2011 and 2010 reflects normal changes in actuarial estimates. The development of life claims was insignificant in 2011 and 2010.

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, 2011, the company had unpaid contributions of $26,771.

On March 15, 2011, purported class action litigation was filed against the Company and Torchmark in the District Court for the Northern District of Ohio (*Fitzhugh v. American Income Life Insurance Company and Torchmark Corporation*, Case No. 1:11-cv-00533). The plaintiff, a formerly independently contracted agent of the Company, alleges that the Company intentionally misclassified its agents as independent contractors rather than as employees in order to escape minimum wage and overtime requirements of the Fair Labor Standards Act, as well as to avoid payroll taxes, workers compensation premiums and other benefits required to be provided by employers. Monetary damages in the amount of unpaid compensation plus liquidated damages and/or prejudgment interest as well as injunctive and/or declaratory relief is sought by the plaintiff on behalf of the purported class. On November 3, 2011, the Court granted the Company's motion to compel arbitration and dismissed the case. Plaintiffs have appealed this decision.

10. STATUTORY INFORMATION

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

Net Income Year Ended December 31		Capital and Surplus at December 31	
2011	2010	2011	2010
$ 107,702	$ 116,689	$ 195,436	$ 200,072

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, 2011 and 2010.

Actuary's Statement - The statutory policy liabilities and reserves on December 31, 2011 and 2010 were certified by the Company's Appointed Actuary.

11. STOCKHOLDER'S EQUITY

In 2011 and 2010, the Parent Company declared cash dividends of $103,358 and $85,140, 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 and statutory gains from operations before federal income taxes and net realized capital (losses) gains. The maximum dividend that can be made without prior approval in 2012 is approximately $109,242.

The change in equity during 2011 and 2010 is as follows:

	2011	2010
Consolidated:		
Planned margin of revenue over expenses	$ 137,671	$ 128,011
Difference between actual and assumed experience	119,190	93,059
Investment earnings on assets in excess of policy liabilities	10,976	20,233
Dividends to stockholders	(103,358)	(85,140)
	$ 164,479	$ 156,163
Parent only:		
Planned margin of revenue over expenses	$ 129,688	$ 120,843
Difference between actual and assumed experience	121,790	95,553
Investment earnings on assets in excess of policy liabilities	16,359	24,907
Dividends to stockholders	(103,358)	(85,140)
	$ 164,479	$ 156,163

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 $29,236 and $22,005 as of December 31, 2011 and 2010, 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 ten years. Employee stock options generally vest one-half in two years and one-half in three years. Beginning in 2011, with the approval by Shareholders of the Torchmark Corporation 2011 Incentive Plan, some employee grants vest one-fourth over two years and the remaining three-fourths vest one-fourth over each of the next three years. All options vest immediately upon the attainment of age 65, generally subject to a minimum vesting period of six months.

Note, number of shares and share price for 2010 amounts disclosed in this footnote have been retroactively adjusted for Torchmark's three for two stock split that occurred in June 2011.

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

	2011	2010
Balance — January 1	$ 255,263	$ 1,724,540
Adoption of new plans	7,950,000	-
Cancellation of available shares from plans	(229,333)	-
Expired and forfeited during year	-	26,269
Options granted during year	(1,338,013)	(1,358,175)
Restricted stock granted under the Torchmark Corporation 2011 Incentive Plan (counted as 3.1 options per grant)*	(519,558)	-
Restricted stock and restricted stock units granted during the year under previous plans	(19,017)	(137,371)
Balance — December 31	$ 6,099,342	$ 255,263

* Plan allows for grant of restricted stock such that each stock grant reduces 3.1 options available for grant

A summary of stock option activity for the years ended December 31, 2011 and 2010, are as follows:

	2011	2010
Stock-based compensation expense recognized*	$ 801	$ 457
Tax benefit recognized	280	160
Weighted-average grant-date fair value of options granted	15.58	15.54
Intrinsic value of options exercised	1,179	351
Cash received by Torchmark from options exercised	1,978	2,813
Actual tax benefit received from exercises	413	123

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

Additional information about stock option activity for the years ended December 31, 2011 and 2010, is as follows:

	2011		2010	
	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price
Outstanding — beginning of year	385,575	$ 32.44	375,528	$ 33.03
Granted	89,250	44.39	88,875	30.87
Exercised	(74,160)	26.68	(82,203)	36.87
Transferred	18,682	35.12	3,375	34.28
Expired	-	-	-	-
Outstanding — end of year	419,347	36.12	385,575	32.44
Exercisable — end of year	200,234	38.84	185,853	38.59

Additional information about the Company's applicable stock-based compensation as of December 31, 2011 and 2010, is as follows:

	2011	2010
Outstanding options:		
Weighted-average remaining contractual term (in years)	4.12	4.24
Aggregate intrinsic value	$ 3,137	$ 3,143
Exercisable options:		
Weighted-average remaining contractual term (in years)	2.30	2.94
Aggregate intrinsic value	$ 911	$ 462
Unrecognized compensation	$ 1,379	$ 804

Additional information concerning unvested options is as follows:

	2011	2010
Number of shares outstanding	219,113	199,725
Weighted-average exercise price (per share)	$ 33.64	$ 26.71
Weighted-average remaining contractual term (in years)	5.79	5.45
Aggregate intrinsic value	2,226	2,681

Torchmark expects that substantially all unvested options will vest.

The following table summarizes information about stock options outstanding at December 31, 2011.

	Options Outstanding			Options Exercisable	
Exercise Price Range	Number Outstanding	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
$15.67–$30.40	56,100	3.9	$ 16.87	16,612	$ 19.72
$30.87–$36.33	90,375	5.2	30.87	-	
$36.51–$36.51	24,022	0.3	36.51	24,022	36.51
$36.70–$37.20	17,550	1.0	36.99	17,550	36.99
$37.49–$40.45	16,050	3.0	37.49	16,050	37.49
$41.79–$41.78	68,250	3.2	41.79	68,250	41.79
$42.47–$43.06	57,750	2.0	42.76	57,750	42.76
$44.39–$45.45	89,250	7.2	44.39	-	
$15.67–$45.45	419,347	4.1	36.12	200,234	38.84

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 $2,964 and $2,628 in investment management fees, and $3,480 and $3,456 under the service agreement in 2011 and 2010, respectively. The Company had accounts payable balances to related parties of $423 and $309 at December 31, 2011 and 2010, respectively, included in general insurance expenses and other liabilities.

During 2011, Torchmark borrowed a note of $25,000 from the company. This note had an interest rate of 3.25% and was repaid during 2011. The interest income related to this note of $102 is included in the accompanying financial statements.

During 2011, the Company borrowed a note of $5,000 from Torchmark. This note had an interest rate of 3.25% and was repaid during 2011. The interest expense related to this note of $16 is included in the accompanying financial statements.

During 2011, the Company borrowed a note of $9,000 from Liberty National Life Insurance Company. This note had an interest rate of 3.25% and is outstanding as of December 31, 2011. The interest expense related to this note of $13 is included in the accompanying financial statements.

During 2011, AILIC Receivables Corporation ("ARC") borrowed a series of notes of $12,000, $13,000, $14,000, $15,200, $16,200, $17,900, $19,000, $21,500, $50,000 and $23,000 from Torchmark. These notes had an interest rate of 3.25% and were repaid during 2011. The interest expense related to these notes of $462 is included in the accompanying financial statements.

During 2011, ARC borrowed a note of $23,000 from Liberty National Life Insurance Company. This note had an interest rate of 3.25% and was repaid during 2011. ARC also borrowed a note of $24,500 from Liberty National Life Insurance Company. This note had an interest rate of 3.25% and is outstanding as of December 31, 2011. The interest expense related to these notes of $83 is included in the accompanying financial statements.

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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American Income Life Insurance Company — New Zealand Branch

Financial Statements for the Years Ended
31 December, 2011

AMERICAN INCOME LIFE INSURANCE COMPANY
NEW ZEALAND BRANCH

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Deloitte.

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 3 to 24, which comprise the balance sheet as at 31 December 2011, 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 3 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 2011, 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 17, 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 2011:

- 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.

Deloitte

Chartered Accountants
3 July 2012
Christchurch, New Zealand

AMERICAN INCOME LIFE INSURANCE COMPANY — NEW ZEALAND BRANCH

Financial Statements
For the year ended 31 December 2011

APPROVAL BY DIRECTORS

The directors are pleased to present the financial statements of American Income Life Insurance Company — New Zealand Branch for the year ended 31 December 2011.

Director

Director

For and on behalf of the Directors

Date: June 27, **2012**

AMERICAN INCOME LIFE INSURANCE COMPANY
NEW ZEALAND BRANCH

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE YEAR ENDED 31 DECEMBER 2011

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 is conducted as required by the Life Insurance Act 1908 and are reported in aggregate in the Statement of Comprehensive Income, Balance Sheet and Statement of Movements 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, 3055 Great North Road, New Lynn, Auckland, New Zealand.

Basis of Preparation — The financial statements presented are those solely for the Branch and are prepared on the basis of historical costs except for certain assets and liabilities as noted. The financial statements comply with the Financial Reporting Act 1993 and comprise statements of the following: significant accounting policies, statement of comprehensive income, statement of movements 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.

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 - 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 all Standards, Interpretations and Amendments which have become effective in the current year 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.

2. 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 stated at fair value, with any resulting gain or loss recognized in 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.

PARTICULAR ACCOUNTING POLICIES (CONTINUED)

d) **Financial Instruments (Continued)**

Loan and deposits are recognised at settlement date, which is the date that the assets are delivered or received.

Short term deposits and cash and cash equivalents 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.

PARTICULAR ACCOUNTING POLICIES (CONTINUED)

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 (if any) 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

PARTICULAR ACCOUNTING POLICIES (CONTINUED)

g) Impairment of assets (Continued)

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 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 – The financial statement effect of all changes to underlying assumptions (other than the discount rate) 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.

PARTICULAR ACCOUNTING POLICIES (CONTINUED)

h) **Policy liabilities (Continued)**

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.

3. 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.

SIGNIFICANT JUDGEMENTS, ESTIMATES, AND ASSUMPTIONS (CONTINUED)

a) **Estimation of Insurance Contract Liabilities (Continued)**

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 the 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 2011

	2011	2010
INCOME:		
Premiums (Note 1)	22,417,079	16,219,175
Interest income on investments (Note 2)	352,195	354,864
Change in liability for future policy benefits (Note 15)	(521,363)	3,590,594
Unrealized surplus on revaluation of debt security investments to fair value	248,269	206,188
Other interest	245,039	193,588
	22,741,219	20,564,409
EXPENDITURE:		
Claims (Note 3)	6,291,508	4,621,243
Commissions (Note 4)	13,871,411	11,737,835
Management expenses (Note 5)	4,299,490	4,043,723
	24,462,409	20,402,801
(LOSS) PROFIT BEFORE TAXATION	(1,721,190)	161,608
TAXATION (Note 13)	1,584,319	-
(LOSS) PROFIT AFTER TAXATION ATTRIBUTABLE TO HEAD OFFICE (Note 6)	(3,305,509)	161,608
TOTAL COMPREHENSIVE (LOSS) INCOME	(3,305,509)	161,608

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 MOVEMENTS IN THE HOME OFFICE ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2011

	2011	2010
BALANCE — Beginning of the year	26,982,826	23,304,070
CONTRIBUTIONS FROM THE HOME OFFICE:		
General advances	5,988,076	969,781
Expenses paid on behalf of the Branch (Note 9)	2,673,854	2,547,367
	8,661,930	3,517,148
(Loss) Profit after tax	(3,305,509)	161,608
Total Comprehensive (Loss) Income	(3,305,509)	161,608
BALANCE — End of the year	32,339,247	26,982,826

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 2011

	2011	2010
ASSETS		
CASH AND CASH EQUIVALENTS	2,860,579	365,765
SHORT TERM DEPOSITS	4,424,724	1,129,583
INVESTMENTS (Note 8)	6,085,078	5,754,660
OUTSTANDING PREMIUMS	675,512	591,927
ACCRUED INVESTMENT INCOME	107,773	97,563
PREMIUM TAXES DUE	66,000	0
AGENT BALANCE RECEIVABLES	13,680,492	11,949,599
NET RESERVE FOR FUTURE POLICY BENEFITS (Note 15)	8,309,465	8,830,828
PREPAYMENTS	50,687	49,901
DEFERRED TAX ASSET (Note 13)	10,343,771	6,410,606
TOTAL ASSETS	**46,604,081**	**35,180,432**
LIABILITIES AND HOME OFFICE ACCOUNT		
POLICY AND CONTRACT CLAIMS	1,785,942	1,183,698
UNEARNED PREMIUMS	41,930	32,075
PREMIUM TAXES DUE	0	6,000
TRADE AND OTHER LIABILITIES	486,632	565,227
DEFERRED TAX LIABILITY (Note 13)	11,950,330	6,410,606
TOTAL LIABILITIES	**14,264,834**	**8,197,606**
ADVANCES FROM HOME OFFICE (Note 9)	24,422,657	15,760,727
ACCUMULATED SURPLUS	7,916,590	11,222,099
TOTAL HOME OFFICE ACCOUNT	**32,339,247**	**26,982,826**
TOTAL LIABILITIES & HOME OFFICE ACCOUNT	**46,604,081**	**35,180,432**

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

STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2011

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Premiums and other considerations received from policyholders	$ 22,333,494	16,162,337
Interest income	351,485	363,052
Other interest	245,039	193,588
Payment of claims	(5,679,409)	(3,787,493)
Payments of taxes	(48,224)	(36,584)
Payments of commissions	(15,602,304)	(15,833,883)
Payments to suppliers, agents etc.	(4,380,408)	(4,213,692)
Net cash used in operating activities (Note 12)	(2,780,327)	(7,152,675)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net change in short term investments	(3,295,141)	704,860
Cash paid for long term investments	(91,648)	-
Net cash (used in) provided by investing activities	(3,386,789)	704,860
CASH FLOWS FROM FINANCING ACTIVITIES — Advances provided by related party	8,661,930	3,517,148
Net cash provided by financing activities	8,661,930	3,517,148
NET INCREASE (DECREASE) IN CASH ON HAND	2,494,814	(2,930,667)
CASH ON HAND — Beginning of year	365,765	3,296,432
CASH ON HAND — End of year	2,860,579	365,765

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 2011

1. PREMIUMS

	2011	2010
Individual life	18,798,359	13,437,033
Accident and health	3,618,720	2,782,142
	22,417,079	16,219,175

2. INTEREST INCOME ON INVESTMENTS

	2011	2010
Government securities	227,826	161,435
Other debt securities	124,369	193,429
	352,195	354,864

3. CLAIMS

	2011	2010
Individual life	2,735,333	1,642,964
Accident and health	3,556,175	2,978,279
	6,291,508	4,621,243

4. COMMISSIONS (POLICY ACQUISITION EXPENSES)

	2011	2010
In respect of new policies:		
Individual life	12,815,934	10,807,301
Accident and health	1,055,477	930,534
	13,871,411	11,737,835

5. MANAGEMENT EXPENSES

	2011	2010
Policy maintenance expenses	0	0
Home office charges:		
General expenses	833,452	870,706
Salaries	1,840,403	1,676,661
General office expenses	1,022,120	945,699
Auditor remuneration - audit services	85,526	66,417
- tax compliance services	15,000	14,000
Other expenses	469,704	437,030
Investment expenses	33,285	33,210
	4,299,490	4,043,723

6. (LOSS) PROFIT AFTER TAX

	2011	2010
The (Deficit)/Surplus for the year has arisen as follows:	(3,305,509)	161,608
Planned margins	2,650,528	1,917,764
Actual and assumed experience	(3,172,399)	(2,842,189)
Basis change	(3,599,369)	(90,739)
Loss recognition on new A&H business	(543,981)	0
Investment earnings on assets in excess of policy liabilities	1,359,712	1,176,772
	(3,305,509)	161,608

7. CAPITAL COMMITMENTS

There are no commitments for capital expenditure entered into at 31 December 2011 and 2010.

8. INVESTMENTS

	2011	2010
New Zealand debt securities — fair value	6,085,078	5,754,660

These securities mature in 2015 and carry an effective interest rate of approximately 5.78%.

9. RELATED PARTY TRANSACTIONS

American Income Life Insurance Company incurs expenses for the Branch 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 Branch. The advance payable to the Home Office as at 31 December 2011 was $24,422,657 (2010: $15,760,727). The total value of these expenses for the year were $2,673,854 (2010: $2,547,367) and a general advance was paid during the year of $5,988,076 (2010: $969,781). 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 (2010: 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.

11. FINANCIAL INSTRUMENTS (CONTINUED)

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 claims, policy discontinuances and administration costs.

	December 2011		December 2010	
Assumption Variation	Impact on Policy Liability	Impact on Future Profit Margins	Impact on Policy Liability	Impact on Future Profit Margins
Discount rate 1% higher	(3,258,094)	(1,037,321)	(954,310)	(533,522)
Discount rate 1% lower	5,063,772	1,222,609	1,423,302	606,918
Deaths and disablements 10% higher	1,392,440	(2,289,595)		(2,380,947)
Deaths and disablements 10% lower	(543,981)	3,224,844		2,421,331
Annual surrenders 10% higher	19,744	(863,933)		(2,222,717)
Annual surrenders 10% lower	(10,546)	840,688		2,522,645
Administration costs 10% higher	92,867	(366,489)		(326,383)
Administration costs 10% lower	(92,867)	366,489		326,383

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

11. FINANCIAL INSTRUMENTS (CONTINUED)

The following table illustrates the market risk sensitivity of our interest-rate sensitive fixed-maturity portfolio at 31 December 2011 and 2010. 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	
	2011	2010
Change in interest rate (bps):		
-200	405,584	404,747
-100	198,372	197,320
0		
+100	(189,993)	(187,811)
+200	(372,040)	(366,671)

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

Investments in government securities, public utilities, and registered banks totaling $13.4m.

Premiums due of $0.7m. There is a possibility that a proportion of these premiums will not be received. Agent balances of $13.7m. 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.

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 2015. The Branch's other investments have an expected term to maturity of less than 12 months.

11. FINANCIAL INSTRUMENTS (CONTINUED)

The average term of the Branch's liabilities for notified and unnotified claims, unearned premiums, premium taxes, and trade liabilities, totaling $2.3m, is less than 12 months.

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

	2011	2010
Operating surplus after taxation	$ (3,305,509)	$ 161,608
Add (less) non cash items:		
Change in reserve for future policy benefits	521,363	(3,590,594)
Unrealized fair value change	(248,269)	(206,188)
Change in deferred taxes	1,606,559	
Other	9,499	5,051
Total non cash items	1,889,152	(3,791,731)
	(1,416,357)	(3,630,123)
Movements in working capital:		
(Increase) in agents' receivables	(1,730,893)	(4,096,048)
(Increase) decrease in accrued investment income	(10,210)	3,137
(Increase) in outstanding premiums	(83,585)	(56,838)
(Increase) in prepayments	(786)	(227)
Increase in policy claims and unearned premiums	612,099	833,750
(Decrease) in other current liabilities	(150,595)	(206,326)
	(1,363,970)	(3,522,552)
Net cash used in operating activities	$ (2,780,327)	$ (7,152,675)

13. INCOME TAXES

	2011	2010
Income taxes:		
Current tax benefit	$ (22,240)	$ -
Deferred tax expense	2,745,040	-
Prior period adjustment	(1,138,481)	-
Total expense	$ 1,584,319	$ -
The income tax expense on pre-tax accounting profit from operations reconciles to the income tax expense in the financial statements as follows:		
(Loss) profit before taxation	(1,721,190)	161,608
Income tax (benefit) expense calculated at 28% and 30%	-	-
in 2011 and 2010, respectively	(481,933)	48,482
Effect pf life insurance business	3,131,921	(1,583,056)
Effect of non-life insurance business	-	(30,502)
Transition adjustment for new life tax regime	-	(789,588)
Current year losses utilised against Policyholder Base	95,052	-
Unused losses not recognised/ (recognised) as	-	-
deferred tax assets	(4,062,863)	2,354,664
Prior period adjustment	2,924,382	-
Resident withholding tax credit	(22,240)	-
	$ 1,584,319	$ -
Deferred tax balances:		
Deferred tax asset comprise — tax losses	$ 10,343,771	$ 6,410,606
Deferred tax liability comprise —		
Deferred acquisition costs	(9,575,732)	(6,313,492)
Premium smoothing reserve	(2,324,909)	(31,846)
Unearned premium reserve	(81,108)	(65,269)
Other	31,419	
Total deferred tax liabilities	(11,950,330)	(6,410,606)
Net deferred tax balance	$ (1,606,559)	$ -
Unrecognized deferred tax balances — the following deferred tax assets have not been brought to account as assets:		
Shareholder base:		
Losses	$ -	$ 14,510,226
Tax effect	-	4,062,863

13. INCOME TAXES (CONTINUED)

In May 2007 legislation was passed to reduce the company tax rate from 33% to 30%. This is effective for the Branch from 1 January 2008 through 31 December 2010. For 2011, company tax rate was reduced to 28%. The availability of the income tax losses is subject to statutory requirements being met.

14. CONTROLLING ENTITIES

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

15. ACTUARY'S STATEMENT

The effective date of the actuarial report on policy liabilities and reserves is 31 December 2011. 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.

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

	2011	2010
Policy liabilities:		
Balance at beginning of year	$ (8,830,828)	$ (5,240,234)
Movement in current year	521,363	(3,590,594)
Net reserve for future policy benefits	(8,309,465)	(8,830,828)
Policy liabilities comprises the following:		
Value of future claims	$ 72,999,514	$ 42,939,879
Value of future expenses	25,719,588	19,173,419
Value of future profit margins	14,635,846	9,397,368
Less value of future premiums	(121,664,413)	(80,341,494)
Net reserve for future policy benefits	$ (8,309,465)	$ (8,830,828)

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.

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).

15. ACTUARY'S STATEMENT (CONTINUED)

Discount rate: The 2011 discount rate decreased to 3.8% per annum from 2010 discount rate of 5.9%. This change increased total net reserves by $3.6 million.

Profit carrier: the premium payable under each contract is the profit carrier. Future profits equal approximately 14% of the value of future premiums for Life and 0% of the value of future premiums for A&H.

Initial expenses: For Life issues before July 2011, 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 Life issues after June 2011, 22% of premium plus per policy and underwriting expense per thousand that varies by issue age, plus 120% of commission. For A&H, 40% of premium, plus commission.

Management expenses: For Life issues before July 2011, $10.00 per policy per annum plus 2.3% of premium. For Life issues after June 2011, 7.5% 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: The mortality assumption is based on a review of the AIL New Zealand Branch claims experience over the past 3 years. The impact of this year's investigation was to reduce mortality assumption by 14%.

Morbidity: Assumptions have gone up based on recent experience. The morbidity rates are increased by a sliding scale of 50% in first year reducing to 0% in year 10.

Impact of assumption changes on future profit margins:

Demographic and expense assumptions:	+$1,045,247
Discount rate assumption:	+$1,365,444
Total impact:	+$2,410,691

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. For Life plans without surrender values, the rate of discontinuance grades to 1% in duration 15 and stays at 1% onwards.

Sensitivity analyses for other assumptions were performed (refer to note 11).

16. SOLVENCY

The portion of the Home Office balance retained for solvency purposes is $ 20,924,268 for 2011 and $18,072,014 for 2010. The solvency reserve has been prepared on the Home Office's statutory reporting basis for the State of Indiana in the United States of America. This is a modified net premium basis with the elimination of negative reserves, on conservative valuation assumptions.

17. BRANCH STATUS

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

18. CONTINGENT LIABILITIES

There are no contingent liabilities at 31 December 2011 and 2010.

19. CREDIT RATING

American Income Life Insurance Company has an A+ credit rating from AM Best.

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