American Income Life Insurance Company — New Zealand Branch

Financial Statements for the Year Ended
31 December, 2012,

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 23, which comprise the balance sheet as at 31 December 2012, and the statement of comprehensive income, statement of movements 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 23:
- 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 2012, 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 2012:

- 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
19 June 2013
Christchurch, New Zealand

AMERICAN INCOME LIFE INSURANCE COMPANY — NEW ZEALAND BRANCH

Financial Statements
As of and for the years ended 31 December 2012 and 2011

APPROVAL BY DIRECTORS

The directors are pleased to present the financial statements of American Income Life Insurance Company — New Zealand Branch as of and for the years ended 31 December 2012 and 2011.

Director | Director

For and on behalf of the Directors

Date: 6/13, 2013

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE YEAR ENDED 31 DECEMBER 2012

1. GENERAL ACCOUNTING POLICIES

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

The life insurance operations of the Branch are conducted as required by the Life Insurance Act 1908 and are reported in aggregate in the Statement of Comprehensive (Loss) Income, Balance Sheets 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 is 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 23.

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.

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

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

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 recognised 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.

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 recognised 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 recognised by applying the effective interest rate. Agent balance receivables primarily represent claw back commission, advances to agents and interest accrued on these amounts. Where considered necessary the asset has been written down to its estimated recoverable amount.

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

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

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

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

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 JUDGMENTS, 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 recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Significant 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.

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 (LOSS) INCOME
FOR THE YEAR ENDED 31 DECEMBER 2012

	2012	2011
INCOME:		
Premiums (Note 1)	$23,797,177	$22,417,079
Interest income on investments (Note 2)	328,365	352,195
Unrealized surplus on revaluation of debt security investments to fair value	(67,461)	248,269
Other interest	349,131	245,039
	24,407,212	23,262,582
EXPENDITURE:		
Claims (Note 3)	5,534,400	6,291,508
Change in liability for future policy benefits (Note 15)	1,187,698	521,363
Commissions (Note 4)	11,952,336	13,871,411
Management expenses (Note 5)	4,114,972	4,299,490
	22,789,406	24,983,772
PROFIT (LOSS) BEFORE TAXATION	1,617,806	(1,721,190)
TAXATION (Note 13)	(1,501,732)	1,584,319
LOSS AFTER TAXATION ATTRIBUTABLE TO HEAD OFFICE (Note 6)	$ 3,119,538	$ (3,305,509)
TOTAL COMPREHENSIVE LOSS	$ 3,119,538	$ (3,305,509)

The Statements 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 2012

	2012	2011
BALANCE — Beginning of the year	$32,339,247	$26,982,826
Contributions from the home office:		
General advances (Note 9)	636,651	5,988,076
Expenses paid on behalf of the Branch (Note 9)	2,586,443	2,673,854
	3,223,094	8,661,930
Income (Loss) after tax	3,119,538	(3,305,509)
Total comprehensive loss	3,119,538	(3,305,509)
BALANCE — End of the year	$38,681,879	$32,339,247

The Statements 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 2012

	2012	2011
ASSETS		
CASH AND CASH EQUIVALENTS	$ 7,029,249	$ 2,860,579
SHORT TERM DEPOSITS	4,719,865	4,424,724
INVESTMENTS (Note 8)	5,985,855	6,085,078
OUTSTANDING PREMIUMS	814,189	675,512
ACCRUED INVESTMENT INCOME	120,447	107,773
PREMIUM TAXES DUE	12,000	66,000
AGENT BALANCE RECEIVABLES	14,606,583	13,680,492
NET RESERVE FOR FUTURE POLICY BENEFITS (Note 15)	7,121,767	8,309,465
PREPAYMENTS	686,291	50,687
DEFERRED TAX ASSET (Note 13)	7,314,183	10,343,771
TOTAL	$48,410,429	$ 46,604,081
LIABILITIES AND HOME OFFICE ACCOUNT		
POLICY AND CONTRACT CLAIMS	$ 1,782,155	$ 1,785,942
UNEARNED PREMIUMS	45,158	41,930
TRADE AND OTHER LIABILITIES	482,228	486,632
CURRENT AND DEFERRED TAX LIABILITIES (Note 13)	7,419,009	11,950,330
Total liabilities	9,728,550	14,264,834
ADVANCES FROM HOME OFFICE (Note 9)	27,645,750	24,422,657
ACCUMULATED SURPLUS	11,036,129	7,916,590
Total home office account	38,681,879	32,339,247
TOTAL	$48,410,429	$ 46,604,081

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

AMERICAN INCOME LIFE INSURANCE COMPANY
NEW ZEALAND BRANCH

STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED 31 DECEMBER 2012 AND 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Premiums and other considerations received from policyholders	$ 23,658,500	$ 22,333,494
Interest income	347,454	351,485
Other interest	349,131	245,039
Payment of claims	(5,534,959)	(5,679,409)
Payments of taxes	(671,752)	(48,224)
Payments of commissions	(12,878,427)	(15,602,304)
Payments to suppliers, agents etc.	(4,029,229)	(4,380,408)
Net cash provided by (used in) operating activities (Note 12)	1,240,718	(2,780,327)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net change in short term investments	(295,141)	(3,295,141)
Cash paid for long term investments		(91,648)
Net cash used in investing activities	(295,141)	(3,386,789)
CASH FLOWS FROM FINANCING ACTIVITIES — Advances provided by related party	3,223,093	8,661,930
Net cash provided by financing activities	3,223,093	8,661,930
NET INCREASE IN CASH ON HAND	4,168,670	2,494,814
CASH ON HAND — Beginning of year	2,860,579	365,765
CASH ON HAND — End of year	$ 7,029,249	$ 2,860,579

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

1. PREMIUMS

	2012	2011
Individual life	$20,053,384	$18,798,359
Accident and health	3,743,793	3,618,720
	$23,797,177	$22,417,079

2. INTEREST INCOME ON INVESTMENTS

	2012	2011
Government securities	$203,793	$227,826
Other debt securities	124,572	124,369
	$328,365	$352,195

3. CLAIMS

	2012	2011
Individual life	$2,610,109	$2,735,333
Accident and health	2,924,291	3,556,175
	$5,534,400	$6,291,508

4. COMMISSIONS (POLICY ACQUISITION EXPENSES)

	2012	2011
In respect of new policies:		
Individual life	$10,999,681	$12,815,934
Accident and health	952,655	1,055,477
	$11,952,336	$13,871,411

5. MANAGEMENT EXPENSES

	2012	2011
Policy maintenance expenses	$	$ -
Home office charges:		
General expenses	963,294	833,452
Salaries	1,623,148	1,840,403
General office expenses	818,084	1,022,120
Auditor remuneration:		
Audit services	38,021	85,526
Tax compliance services	5,750	15,000
Other expenses	634,112	469,704
Investment expenses	32,563	33,285
	$4,114,972	$4,299,490

6. LOSS AFTER TAX

The (deficit)/surplus for the year has arisen as follows:

	2012	2011
Planned margins	$ 2,849,803	$ 2,650,528
Actual and assumed experience	1,209,768	(3,172,399)
Basis change	(1,611,390)	(3,599,369)
Loss recognition on new A&H business	(401,615)	(543,981)
Investment earnings on assets in excess of policy liabilities	1,072,972	1,359,712
	$ 3,119,538	$(3,305,509)

7. CAPITAL COMMITMENTS

There are no commitments for capital expenditure entered into at 31 December 2012 and 2011.

8. INVESTMENTS

	2012	2011
New Zealand debt securities — fair value	$5,985,855	$6,085,078

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 2012 was $27,645,750 (2011: $24,422,657). The total value of these expenses for the year were $2,586,443 (2011: $2,673,854) and a general advance was paid during the year of $636,651 (2011: $5,988,076). 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 (2011: 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.

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.

2012

	Life		A&H
Assumption variation	Policy	Margins	Margins
Discount rate 1% higher	(4,445,987)	(1,440,212)	
Discount rate 1% lower	7,110,727	1,731,684	
Deaths and disablements 10% higher		(2,870,872)	
Deaths and disablements 10% lower		3,002,493	1,066,239
Annual surrenders 10% higher		(639,926)	
Annual surrenders 10% lower		541,678	
Administration costs 10% higher		(477,721)	
Administration costs 10% lower		477,721	

2011

	Life		A&H
Assumption variation	Liabilities	Margins	Margins
Discount rate 1% higher	(3,175,509)	(1,037,321)	
Discount rate 1% lower	4,936,288	1,222,609	
Deaths and disablements 10% higher		(2,289,595)	
Deaths and disablements 10% lower		2,375,687	849,157
Annual surrenders 10% higher		(863,933)	
Annual surrenders 10% lower		840,688	
Administration costs 10% higher		(366,489)	
Administration costs 10% lower		366,489	

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.

The following table illustrates the market risk sensitivity of our interest-rate sensitive fixed-maturity portfolio at 31 December 2012 and 2011. 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	
	2012	**2011**
Change in interest rate (bps):		
-200	$ 294,410	$ 405,584
-100	144,659	198,372
0		
+100	(139,789)	(189,993)
+200	(274,918)	(372,040)

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

Investments in government securities, public utilities, and registered banks totalling $17.7 million.

Premiums due of $0.8 million. There is a possibility that a proportion of these premiums will not be received. Agent balances of $14.6 million. 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.

The average term of the Branch's liabilities for notified and unnotified claims, unearned premiums, premium taxes, and trade liabilities, totalling $2.3 million, 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 $1 million 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 has 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

	2012	2011
Operating surplus after taxation	$ 3,119,538	$(3,305,509)
Add (less) non cash items:		
Change in reserve for future policy benefits	1,187,698	521,363
Unrealized fair value change	67,461	(248,269)
Change in current and deferred taxes	(1,501,732)	1,606,559
Other	31,761	9,499
Total non cash items	(214,812)	1,889,152
	2,904,726	(1,416,357)
Movements in working capital:		
(Increase) in agents' receivables	(926,091)	(1,730,893)
(Increase) decrease in accrued investment income	(12,674)	(10,210)
(Increase) in outstanding premiums	(138,677)	(83,585)
(Increase) in prepayments	(635,604)	(786)
Increase in policy claims and unearned premiums	(559)	612,099
(Decrease) in other current liabilities	49,597	(150,595)
	(1,664,008)	(1,363,970)
Net cash used in operating activities	$ 1,240,718	$(2,780,327)

13. INCOME TAXES

	2012	2011
Income taxes:		
Current tax benefit	$ 104,826	$ (22,240)
Deferred tax expense		2,745,040
Prior period adjustment	(1,606,558)	(1,138,481)
Total expense	$(1,501,732)	$ 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:

	2012	2011
(Loss) profit before taxation	$ 1,617,806	$(1,721,190)
Income tax (benefit) expense calculated at 28% and 28% *in 2012 and 2011, respectively*	$ 452,986	$ (481,933)
Effect of life insurance business	296,283	3,131,921
Effect of non-life insurance business	104,826	
Transition adjustment for new life tax regime	(21,917)	
Current year losses utilized against Policyholder Base	69,791	95,052
Unused losses not recognised/(recognised) as deferred tax assets	3,293,357	(4,062,863)
Prior period adjustment	(5,697,058)	2,924,382
Resident withholding tax credit		(22,240)
	$(1,501,732)	$ 1,584,319

	2012	2011
Deferred tax balances:		
Deferred tax asset comprise — tax losses	$ 7,314,183	$ 10,343,771
Deferred tax liability comprise:		
Net reserve for future policy benefits	(7,314,183)	(11,950,330)
Net deferred tax balance	$	$ (1,606,559)

Unrecognised Deferred Tax Balances — The following deferred tax assets have not been brought to account as assets:

	2012	2011
Shareholder base:		
Losses	$ 11,761,989	$ -
Tax effect at 28%	3,293,357	

The availability of the income tax losses is subject to statutory requirements being met.

Income tax (payable)/receivable	2012	2011
Opening balance	$ -	$ -
Provisional tax paid		
Current year charge	(104,826)	
Total income tax (payable)/receivable for the year	(104,826)	

14. CONTROLLING ENTITIES

The 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 2012. 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.

	2012	2011
Policy liabilities:		
Balance at beginning of year	$(8,309,465)	$(8,830,828)
Movement in current year	1,187,698	521,363
Net reserve for future policy benefits	$(7,121,767)	$(8,309,465)

Policy liabilities comprises the following:

	2012	2011
Value of future claims	$ 84,648,764	$ 72,999,514
Value of future expenses	27,790,105	25,719,588
Value of future profit margins	18,174,257	14,635,846
Less value of future premiums	(137,734,893)	(121,664,413)
Net reserve for future policy benefits	$ (7,121,767)	$ (8,309,465)

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).

Discount Rate — The 2012 discount rate decreased to 3.53% per annum from 2011 discount rate of 3.8%. This change increased total net reserves by $1.1 million.

Profit Carrier — The premium payable under each contract is the profit carrier. Future profits equal approximately 15% 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. Based on this review, the mortality assumptions remain the same as 2011 assumptions.

Morbidity — Assumptions for 2011 issues and below have gone up based on recent experience. The morbidity rates for 2011 issues and below are increased by a sliding scale of 75% in first year reducing to 0% in year 10. The morbidity rate in 2011 valuation has a sliding scale of 50% in first year reducing to 0% in year 10. The 2012 issues are not subject to the sliding scale. The impact of this basis change to the best estimate liability is around $500 thousand.

Impact of assumption changes on future profit margins:

(in thousands)		
Demographic and expense assumptions	$	
Discount rate assumption	$	257
Total impact	$	257

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 $23,978,725 for 2012 and $20,924,268 for 2011. 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 Sheets and its debts may result in claims against assets not appearing thereon.

18. CONTINGENT LIABILITIES

There are no contingent liabilities at 31 December 2012 and 2011.

19. CREDIT RATING

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

* * * * * *

American Income Life Insurance Company

Consolidated Financial Statements and
Separate Parent Company Only
Financial Statements as of and for the
Years Ended December 31, 2012 and 2011, and
Independent Auditors' Report

AMERICAN INCOME LIFE INSURANCE COMPANY

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Deloitte.

Deloitte & Touche LLP
2200 Ross Ave.
Suite 1600
Dallas, TX 75201
USA

Tel: +1 214 840 7000
Fax: +1 214 840 7050
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

Board of Directors
American Income Life Insurance Company
Waco, Texas

We have audited the accompanying consolidated financial statements of American Income Life Insurance Company and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2012, and 2011, and the related consolidated statements of operations, comprehensive income, stockholder's equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements. We also have audited the separate parent company only financial statements of American Income Life Insurance Company, which comprise the balance sheets as of December 31, 2012 and 2011, and the related statements of operations, comprehensive income, stockholder's equity, and cash flows for the years then ended, and the related notes to the financial statements. Such separate parent company only financial statements have been included for the purposes of additional disclosure and regulatory compliance, and are not required under accounting principles generally accepted in the United States of America.

Management's Responsibility for the Consolidated Financial Statements and Separate Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 consolidated financial statements and separate parent company only 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 judgment, 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 Company's preparation and fair presentation of the financial statements 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 Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of American Income Life Insurance Company and its subsidiaries and the separate parent company only financial position of American Income Life Insurance Company as of December 31, 2012 and 2011, and the respective results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the accompanying financial statements have been retrospectively adjusted for the Company's adoption of guidance relating to a change in accounting for costs associated with acquiring or renewing insurance contracts. As further discussed in Note 1 to the financial statements, the Company adopted new accounting guidance resulting in the components of comprehensive income presented within a separate statement directly following the statement of operations. Our opinion is not modified with respect to these matters.

Deloitte & Touche LLP

June 19, 2013

AMERICAN INCOME LIFE INSURANCE COMPANY

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2012 AND 2011
(Dollar amounts in thousands, except per share data)

	2012	2011* (As adjusted)
ASSETS		
CASH AND INVESTMENTS:		
Fixed maturities — available for sale — at fair value (amortized cost of $2,067,788 and $1,828,023 in 2012 and 2011, respectively)	$2,359,180	$2,014,639
Equity securities — available for sale — at fair value (cost of $426)	739	710
Preferred stock of affiliate — at fair value (cost of $39,169)	39,169	39,169
Policy loans — at unpaid balances	117,874	103,940
Other long-term investments	5,880	5,286
Cash and cash equivalents	53,660	44,599
Total cash and investments	2,576,502	2,208,343
LIFE INSURANCE PREMIUMS DUE AND UNCOLLECTED	246	267
ACCIDENT AND HEALTH PREMIUMS DUE AND UNPAID	1,523	1,506
INVESTMENT INCOME DUE AND ACCRUED	35,317	33,975
DEFERRED POLICY ACQUISITION COSTS	782,379	698,043
COST OF INSURANCE ACQUIRED	19,746	21,485
GOODWILL	330,657	330,657
AGENTS' BALANCES — Net of allowance of $0	78,559	54,999
INCOME TAXES RECEIVABLE FROM PARENT		14,154
PROPERTY AND EQUIPMENT — Net of accumulated depreciation	3,084	3,485
OTHER ASSETS	65,805	73,028
TOTAL	$3,893,818	$3,439,942

* The 2011 balances have been retroactively adjusted to give effect to the adoption of new accounting guidance as described in Note 1 under the caption "Adoption of New Accounting Standard".

(Continued)

AMERICAN INCOME LIFE INSURANCE COMPANY

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2012 AND 2011
(Dollar amounts in thousands, except per share data)

	2012	2011* (As adjusted)
LIABILITIES AND STOCKHOLDER'S EQUITY		
LIABILITIES:		
Aggregate reserves for future policy benefits:		
Life	$1,815,533	$1,658,141
Accident and health, including unearned premiums of $5,734 and $5,700 in 2012 and 2011, respectively	77,390	72,587
Total aggregate reserves for future policy benefits	1,892,923	1,730,728
Reserves for policy and contract claims:		
Life	21,948	21,343
Accident and health	14,438	13,681
Total reserves for policy and contract claims	36,386	35,024
Other policyholder funds	85,535	83,803
General insurance expenses and other liabilities	40,133	48,958
Borrowed funds - affiliated (Note 14)	96,200	33,500
Taxes, licenses, and fees	2,187	1,652
Current and deferred income taxes	396,612	305,980
Total liabilities	2,549,976	2,239,645
COMMITMENTS AND 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	647,696	645,946
Retained earnings	476,196	400,918
Accumulated other comprehensive income (loss) — net of provision for taxes of $112,654 and $76,946 in 2012 and 2011, respectively	208,270	141,753
Total stockholder's equity	1,343,842	1,200,297
TOTAL	$3,893,818	$3,439,942

* The 2011 balances have been retroactively adjusted to give effect to the adoption of new accounting guidance as described in Note 1 under the caption "Adoption of New Accounting Standard".

See notes to consolidated financial statements and separate parent company only financial statements.

(Concluded)

AMERICAN INCOME LIFE INSURANCE COMPANY

CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2012 AND 2011
(Dollar amounts in thousands)

	2012	2011* (As adjusted)
REVENUES:		
Premiums	$ 743,532	$ 688,355
Net investment income	114,339	111,337
Net realized investment gains	8,939	2,088
Other income (loss), net	(18)	81
Total revenues	866,792	801,861
BENEFITS AND OTHER DEDUCTIONS:		
Death benefits	112,388	103,097
Accident and health benefits	28,066	30,004
Surrender benefits and other fund withdrawals	44,390	47,794
Interest and other benefits on policy and contract funds	2,220	2,043
Interest credited to deposit account fund holders	3,915	3,864
Amortization of deferred policy acquisition costs and cost of insurance acquired	137,251	125,627
Increase in aggregate reserves for future policy benefits	155,687	136,174
Nondeferred acquisition expenses	20,405	30,203
Commissions	38,253	34,321
General expenses	34,517	31,642
Insurance taxes, licenses, and fees	18,113	17,938
Total benefits and other deductions	595,205	562,707
INCOME FROM OPERATIONS BEFORE DIVIDENDS TO POLICYHOLDERS AND INCOME TAXES	271,587	239,154
DIVIDENDS TO POLICYHOLDERS	10	18
INCOME FROM OPERATIONS BEFORE INCOME TAXES	271,577	239,136
PROVISION FOR INCOME TAXES:		
Current	43,602	51,401
Deferred	45,697	28,159
Total income taxes	89,299	79,560
NET INCOME	$ 182,278	$ 159,576

* The 2011 balances have been retroactively adjusted to give effect to the adoption of new accounting guidance as described in Note 1 under the caption "Adoption of New Accounting Standard".

See notes to consolidated financial statements and separate parent company only financial statements.

AMERICAN INCOME LIFE INSURANCE COMPANY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2012 AND 2011
(Dollar amounts in thousands)

	2012	2011* (As adjusted)
Net income	$ 182,278	$ 159,576
Other comprehensive income (loss):		
Unrealized gains (losses) on securities:		
Unrealized holding gains (losses) arising during period	115,374	146,993
Reclassification adjustment for (gains) losses on securities included in net income	(9,134)	(1,064)
Reclassification adjustment for amortization of (discount) premium	2,635	1,688
Foreign exchange adjustment on securities marked to market	(4,069)	3,277
Unrealized gains (losses) on securities	104,806	150,894
Less applicable taxes	(36,676)	(52,813)
Unrealized gains (losses) on securities, net of taxes	68,130	98,081
Foreign exchange translation adjustments, other than securities	3,168	(3,004)
Less applicable taxes	(1,006)	612
Foreign exchange translation adjustments, other than securities, net of taxes	2,162	(2,392)
Pension adjustments:		
Amortization of pension costs	526	236
Experience gain (loss)	(2,881)	(2,150)
Plan amendments	(3,452)	
Pension adjustments	(5,807)	(1,914)
Less applicable taxes	2,032	670
Pension adjustments, net of tax	(3,775)	(1,244)
Other comprehensive income (loss):	66,517	94,445
Comprehensive income (loss)	$ 248,795	$ 254,021

* The 2011 balances have been retroactively adjusted to give effect to the adoption of new accounting guidance as described in Note 1 under the caption "Adoption of New Accounting Standard".

See notes to consolidated financial statements and separate parent company only financial statements.

AMERICAN INCOME LIFE INSURANCE COMPANY

CONSOLIDATED STATEMENTS OF STOCKHOLDER'S EQUITY
YEARS ENDED DECEMBER 31, 2012 AND 2011
(Dollar amounts in thousands)

	Common Stock	Additional Paid-In Capital	Retained Earnings* (As adjusted)	Accumulated Other Comprehensive Income* (As adjusted)	Total Stockholder's Equity* (As adjusted)
BALANCE — January 1, 2011	$11,680	$644,812	$ 344,700	$ 47,308	$1,048,500
Exercise of options		333			333
Stock-based compensation		801			801
Comprehensive income			159,576	94,445	254,021
Dividends declared			(103,358)		(103,358)
BALANCE — December 31, 2011	11,680	645,946	400,918	141,753	$1,200,297
Exercise of options		675			675
Stock-based compensation		1,075			1,075
Comprehensive income			182,278	66,517	248,795
Dividends declared			(107,000)		(107,000)
BALANCE — December 31, 2012	$11,680	$647,696	$ 476,196	$208,270	$1,343,842

* The 2011 balances have been retroactively adjusted to give effect to the adoption of new accounting guidance as described in Note 1 under the caption "Adoption of New Accounting Standard".

See notes to consolidated financial statements and separate parent company only financial statements.

AMERICAN INCOME LIFE INSURANCE COMPANY

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2012 AND 2011
(Dollar amounts in thousands)

	2012	2011* (as adjusted)
OPERATING ACTIVITIES:		
Net income	$ 182,278	$ 159,576
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	636	658
Amortization of low income housing investments	7,918	4,235
Amortization of bond discount	2,636	1,688
Realized (gain) loss on sales of investments	(8,939)	(2,088)
Amortization of deferred policy acquisition costs and cost of insurance acquired	137,251	125,627
Deferred policy acquisition costs	(219,840)	(181,188)
Changes in assets and liabilities:		
Life insurance premiums due and uncollected	21	(2)
Accident and health premiums due and unpaid	(17)	90
Investment income due and accrued	(1,342)	(3,577)
Agents' balances	(23,560)	(20,986)
Other assets	7,223	(9,330)
Aggregate reserves for future policy benefits	162,195	131,543
Reserves for policy and contract claims	1,362	(1,390)
Other policyholder funds	1,732	1,003
General insurance expenses and other liabilities	(21,016)	(12,437)
Taxes, licenses, and fees	535	98
Income taxes	66,136	21,739
Net cash provided by operating activities	295,209	215,259
INVESTING ACTIVITIES:		
Purchases of fixed maturity available for sale investments	(409,603)	(253,335)
Proceeds from sales, maturities, and repayments of fixed maturity available for sale investments	180,397	103,312
Funds loaned to affiliates	(19,000)	(25,000)
Repayment of funds loaned to affiliates	19,000	25,000
Purchases of property, plant, and equipment	(244)	(928)
Purchases of other long-term invested assets	(1,131)	
Proceeds from other long-term invested assets	79	207
Increase in policy loans	(13,934)	(12,434)
Net cash used in investing activities	(244,436)	(163,178)
FINANCING ACTIVITIES:		
Dividends paid to stockholder	(107,000)	(103,358)
Borrowed money from affiliates	590,900	263,300
Repayment of borrowed money from affiliates	(528,200)	(241,300)
Tax benefit of stock option exercises	675	333
Net cash used in financing activities	(43,625)	(81,025)
EFFECT OF FOREIGN CURRENCY TRANSLATION ON CASH AND CASH EQUIVALENTS	1,913	(4,246)
NET CHANGE IN CASH AND CASH EQUIVALENTS	9,061	(33,190)
CASH AND CASH EQUIVALENTS — Beginning of year	44,599	77,789
CASH AND CASH EQUIVALENTS — End of year	$ 53,660	$ 44,599

* The 2011 balances have been retroactively adjusted to give effect to the adoption of new accounting guidance as described in Note 1 under the caption "Adoption of New Accounting Standard".

See notes to consolidated financial statements and separate parent company only financial statements.

AMERICAN INCOME LIFE INSURANCE COMPANY

SEPARATE PARENT COMPANY ONLY BALANCE SHEETS
DECEMBER 31, 2012 AND 2011
(Dollar amounts in thousands, except per share data)

ASSETS	2012	2011* (As adjusted)
CASH AND INVESTMENTS:		
Fixed maturities — available for sale — at fair value (amortized cost of $1,973,181 and $1,761,694 in 2012 and 2011, respectively)	$2,252,200	$1,940,427
Equity securities — available for sale — at fair value (cost of $426)	739	710
Preferred stock of affiliate — at cost	39,169	39,169
Common stock of subsidiaries — at equity	96,000	80,821
Policy loans — at unpaid balances	115,528	102,286
Other long-term investments	5,880	5,286
Cash and cash equivalents	47,067	25,750
Total cash and investments	2,556,583	2,194,449
LIFE INSURANCE PREMIUMS DUE AND UNCOLLECTED	246	267
ACCIDENT AND HEALTH PREMIUMS DUE AND UNPAID	1,352	1,354
INVESTMENT INCOME DUE AND ACCRUED	34,175	33,023
DEFERRED POLICY ACQUISITION COSTS	745,706	667,135
COST OF INSURANCE ACQUIRED	19,746	21,485
GOODWILL	330,657	330,657
AGENTS' BALANCES — Net of allowance of $0	3,764	5,236
INCOME TAXES RECEIVABLE FROM PARENT		14,379
PROPERTY AND EQUIPMENT — Net of accumulated depreciation	1,321	1,578
OTHER ASSETS	58,301	78,256
TOTAL	$3,751,851	$3,347,819

* The 2011 balances have been retroactively adjusted to give effect to the adoption of new accounting guidance as described in Note 1 under the caption "Adoption of New Accounting Standard".

(Continued)

AMERICAN INCOME LIFE INSURANCE COMPANY

SEPARATE PARENT COMPANY ONLY BALANCE SHEETS
DECEMBER 31, 2012 AND 2011
(Dollar amounts in thousands, except per share data)

	2012	2011* (As adjusted)
LIABILITIES AND STOCKHOLDER'S EQUITY		
LIABILITIES:		
Aggregate reserves for future policy benefits:		
Life	$1,757,182	$1,610,697
Accident and health, including unearned premiums of $5,188 and $5,212 in 2012 and 2011, respectively	74,266	70,540
Total aggregate reserves for future policy benefits	1,831,448	1,681,237
Reserves for policy and contract claims:		
Life	20,970	20,452
Accident and health	13,379	12,650
Total reserves for policy and contract claims	34,349	33,102
Other policyholder funds	85,518	83,787
General insurance expenses and other liabilities	39,683	48,574
Borrowed funds - affiliated (Note 14)	39,000	9,000
Taxes, licenses, and fees	2,048	1,578
Current and deferred income taxes	375,963	290,244
Total liabilities	2,408,009	2,147,522
COMMITMENTS AND 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	647,696	645,946
Retained earnings	476,196	400,918
Accumulated other comprehensive income (loss)	208,270	141,753
Total stockholder's equity	1,343,842	1,200,297
TOTAL	$3,751,851	$3,347,819

* The 2011 balances have been retroactively adjusted to give effect to the adoption of new accounting guidance as described in Note 1 under the caption "Adoption of New Accounting Standard".

See notes to consolidated financial statements and separate parent company only financial statements. (Concluded)

AMERICAN INCOME LIFE INSURANCE COMPANY

SEPARATE PARENT COMPANY ONLY STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2012 AND 2011
(Dollar amounts in thousands)

	2012	2011* (As adjusted)
REVENUES:		
Premiums	$ 696,567	$ 648,441
Net investment income	106,938	104,875
Equity in earnings of subsidiaries	11,174	8,933
Net realized investment gains	8,939	2,087
Other Income (loss), net	(18)	81
Total revenues	823,600	764,417
BENEFITS AND OTHER DEDUCTIONS:		
Death benefits	108,516	100,223
Accident and health benefits	25,166	26,874
Surrender benefits and other fund withdrawals	42,985	46,522
Interest and other benefits on policy and contract funds	2,190	2,022
Interest credited to deposit account fund holders	3,915	3,864
Amortization of deferred policy acquisition costs and cost of insurance acquired	127,959	117,445
Increase in aggregate reserves for future policy benefits	143,703	127,000
Nondeferred acquisition expenses	19,826	29,179
Commissions	36,272	32,632
General expenses	31,065	27,989
Insurance taxes, licenses, and fees	17,049	16,429
Total benefits and other deductions	558,646	530,179
INCOME FROM OPERATIONS BEFORE DIVIDENDS TO POLICYHOLDERS AND INCOME TAXES	264,954	234,238
DIVIDENDS TO POLICYHOLDERS	10	18
INCOME FROM OPERATIONS BEFORE INCOME TAXES	264,944	234,220
PROVISION FOR INCOME TAXES:		
Current	39,860	48,657
Deferred	42,806	25,987
Total income taxes	82,666	74,644
NET INCOME	$ 182,278	$ 159,576

* The 2011 balances have been retroactively adjusted to give effect to the adoption of new accounting guidance as described in Note 1 under the caption "Adoption of New Accounting Standard".

See notes to consolidated financial statements and separate parent company only financial statements.

AMERICAN INCOME LIFE INSURANCE COMPANY

SEPARATE PARENT COMPANY ONLY STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2012 AND 2011
(Dollar amounts in thousands)

	2012	2011* (As adjusted)
Net income	$ 182,278	$ 159,576
Other comprehensive income (loss):		
Unrealized gains (losses) on securities:		
Unrealized holding gains (losses) arising during period	110,879	140,155
Reclassification adjustment for (gains) losses on securities included in net income	(9,134)	(1,064)
Reclassification adjustment for amortization of (discount) premium	2,631	1,695
Foreign exchange adjustment on securities marked to market	(4,061)	3,277
Unrealized gains (losses) on securities	100,315	144,063
Unrealized gains (losses) on investment in subsidiaries	2,925	4,440
Less applicable taxes	(35,110)	(50,422)
Unrealized gains (losses) on securities, net of taxes	68,130	98,081
Foreign exchange translation adjustments, other than securities	3,168	(3,004)
Less applicable taxes	(1,006)	612
Foreign exchange translation adjustments, other than securities, net of taxes	2,162	(2,392)
Pension adjustments:		
Amortization of pension costs	526	236
Experience gain (loss)	(2,881)	(2,150)
Plan amendments	(3,452)	
Pension adjustments	(5,807)	(1,914)
Less applicable taxes	2,032	670
Pension adjustments, net of tax	(3,775)	(1,244)
Other comprehensive income (loss):	66,517	94,445
Comprehensive income (loss)	$ 248,795	$ 254,021

* The 2011 balances have been retroactively adjusted to give effect to the adoption of new accounting guidance as described in Note 1 under the caption "Adoption of New Accounting Standard".

See notes to consolidated financial statements and separate parent company only financial statements.

AMERICAN INCOME LIFE INSURANCE COMPANY

SEPARATE PARENT COMPANY ONLY STATEMENTS OF STOCKHOLDER'S EQUITY
YEARS ENDED DECEMBER 31, 2012 AND 2011
(Dollar amounts in thousands)

	Common Stock	Additional Paid-In Capital	Retained Earnings* (As adjusted)	Accumulated Other Comprehensive Income* (As adjusted)	Total Stockholder's Equity* (As adjusted)
BALANCE — January 1, 2011	$11,680	$644,812	$ 344,700	$ 47,308	$1,048,500
Exercise of options		333			333
Stock-based compensation		801			801
Comprehensive income			159,576	94,445	254,021
Dividends declared			(103,358)		(103,358)
BALANCE — December 31, 2011	11,680	645,946	400,918	141,753	$1,200,297
Exercise of options		675			675
Stock-based compensation		1,075			1,075
Comprehensive income			182,278	66,517	248,795
Dividends declared			(107,000)		(107,000)
BALANCE — December 31, 2012	$11,680	$647,696	$ 476,196	$208,270	$1,343,842

* The 2011 balances have been retroactively adjusted to give effect to the adoption of new accounting guidance as described in Note 1 under the caption "Adoption of New Accounting Standard".

See notes to consolidated financial statements and separate parent company only financial statements.

AMERICAN INCOME LIFE INSURANCE COMPANY

SEPARATE PARENT COMPANY ONLY STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2012 AND 2011
(Dollar amounts in thousands)

	2012	2011* (As adjusted)
OPERATING ACTIVITIES:		
Net income	$ 182,278	$ 159,576
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	383	427
Amortization of low income housing investments	7,918	4,235
Amortization of bond discount	2,631	1,695
Income of unconsolidated affiliates	(11,174)	(8,933)
Adj for realized gains (losses) on sales of investments	(8,939)	(2,087)
Amortization of deferred policy acquisition costs and cost of insurance acquired	127,959	117,445
Deferred policy acquisition costs	(204,783)	(169,358)
Changes in assets and liabilities:		
Life insurance premiums due and uncollected	21	(2)
Accident and health premiums due and unpaid	2	103
Investment income due and accrued	(1,152)	(3,349)
Agents' balances	1,472	(2,666)
Other assets	19,955	(8,940)
Aggregate reserves for future policy benefits	150,211	122,368
Reserves for policy and contract claims	1,247	(1,522)
Other policyholder funds	1,731	1,003
General insurance expenses and other liabilities	(21,082)	(12,569)
Taxes, licenses, and fees	470	(71)
Income taxes	63,013	20,763
Net cash provided by operating activities	312,161	218,118
INVESTING ACTIVITIES:		
Purchases of fixed maturity available for sale investments	(379,665)	(236,297)
Proceeds from sales, maturities, and repayments of fixed maturity available for sale investments	178,742	102,492
Funds loaned to affiliate	(19,000)	(25,000)
Repayments of funds loaned to affiliate	19,000	25,000
Purchases of property, plant, and equipment	(135)	(928)
Contributed capital to subsidiaries	(788)	(15,513)
Purchases of other long-term invested assets	(1,131)	
Proceeds from other long-term invested assets	79	207
Increase in policy loans	(13,242)	(11,931)
Net cash used in investing activities	(216,140)	(161,970)
FINANCING ACTIVITIES:		
Dividends paid to stockholder	(107,000)	(103,358)
Repayment of funds borrowed from affiliate	(158,000)	(108,358)
Funds borrowed from affiliate	188,000	117,358
Tax benefit of stock option exercises	675	333
Net cash used in financing activities	(76,325)	(94,025)
EFFECT OF FOREIGN CURRENCY TRANSLATION ON CASH AND CASH EQUIVALENTS	1,621	(2,984)
NET CHANGE IN CASH AND CASH EQUIVALENTS	21,317	(40,861)
CASH AND CASH EQUIVALENTS — Beginning of year	25,750	66,611
CASH AND CASH EQUIVALENTS — End of year	$ 47,067	$ 25,750

* The 2011 balances have been retroactively adjusted to give effect to the adoption of new accounting guidance as described in Note 1 under the caption "Adoption of New Accounting Standard".

See notes to consolidated financial statements and separate 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 ("NIL"), United Heritage Life Assurance Company, Ltd. (UHL), 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 2012 and 2011, premium income from life insurance was 89% and 88% respectively of total premiums earned, and premium income from health insurance was 11% and 12% respectively 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, UHL, during 2011 for $15,513. The Company acquired 634,999 additional capital shares of UHL during 2012 in the amount of $789 (635 Euro).

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) and are the primary, general purpose financial statements of the Company. All significant intercompany accounts and transactions have been eliminated in consolidation. The accompanying parent company only financial statements have been included for the purposes of additional disclosure and regulatory compliance and have been prepared in accordance with GAAP, except that subsidiaries have not been consolidated, but accounted for on the equity basis. The accompanying consolidated and parent company only financial statements also include activity and balances from Canadian and New Zealand branch operations. The foreign operations that 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. These notes include disclosures for the consolidated financial statements, and where materially different, for 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.

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 2011 or 2012, 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.

Recognition of Premium Revenue and Related Expenses — Premium income for traditional long-duration life and health insurance products is recognized when due from the policyholder. Premiums for short-duration health contracts are recognized as revenue over the contract period in proportion to the insurance protection provided. Profits for limited-payment life insurance contracts are recognized over the contract period. The related benefits and expenses are matched with revenues by means of the provision of future policy benefits and the amortization of deferred policy acquisition costs in a manner which recognizes profits as they are earned over the same period.

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 — Certain costs of acquiring new insurance business are deferred and recorded as an asset. These costs are essential to the acquisition of new insurance business and are directly related to the successful issuance of an insurance contract including sales commissions, policy issue costs, and underwriting costs for policies that are successfully issued. Deferred acquisition costs are amortized in a systematic manner which matches these costs with the associated revenues. The method of amortization has not changed due to the adoption of the new guidance described under the caption *Adoption of New Accounting Standard* following in this Note.

Deferred acquisition costs are amortized 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. 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, 2012 and 2011, are summarized as follows:

Consolidated	**2012**	**2011* (As adjusted)**
Balance — beginning of year	$ 698,043	$ 640,652
Acquisition costs capitalized	219,840	181,188
Amortization	(135,504)	(123,797)
Balance — end of year	$ 782,379	$ 698,043

Parent Company	**2012**	**2011* (As adjusted)**
Balance — beginning of year	$ 667,135	$ 613,392
Acquisition costs capitalized	204,783	169,358
Amortization	(126,212)	(115,615)
Balance — end of year	$ 745,706	$ 667,135

* The 2011 balances have been retroactively adjusted to give effect to the adoption of new accounting guidance as described in Note 1 under the caption "Adoption of New Accounting Standard".

No additions were made to the cost of insurance acquired during 2012 or 2011. Amortization of these costs was $1,747 and $1,830 in 2012 and 2011, respectively, for both consolidated and parent company only.

Adoption of New Accounting Standard — The Company has adopted the new accounting guidance under Accounting Standard Update 2010-26 (ASU 2010-26), issued by the FASB concerning policy acquisition costs. While the guidance was not effective until January 1, 2012, the Company elected to retrospectively adopt the new guidance as permitted by ASU 2010-26. Retrospective adoption means that the deferred acquisition cost asset has been adjusted to a level as if the new guidance had been in effect in prior periods presented, with an adjustment to the opening balance of retained earnings for the cumulative effect of the change in accounting guidance. This new guidance amends the previous 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. As a result of this new standard, certain costs that were previously capitalized (deferred) and amortized as deferred acquisition costs are no longer allowed to be deferred and are expensed as incurred. The new guidance limits the deferral of costs to those direct incremental costs related to the successful issuance of an insurance contract, and includes primarily sales commissions, policy issue, and underwriting costs for policies that are successfully issued. Previously, the Company was allowed to defer any cost that varied with and related to the production of new business. For Torchmark, the costs that are no longer deferrable primarily relate to agent distribution systems, and include such costs as training, recruiting, office space, and certain management and underwriting expenses.

The limitations on acquisition cost deferrals resulting from the retrospective adoption have resulted in an increase in commissions and expenses from those previously reported. However, as a result of the retrospective writedown of the deferred acquisition cost asset, the amortization of previously deferred costs decreased, partially offsetting the impact of the increased expenses. The cumulative effect of the retrospective adoption of the standard resulted in a decrease in shareholders' equity of $41 million as of January 1, 2011. A summary of the impact on previously reported financial statement balances due to the adoption is as follows:

	Consolidated		Parent Company	
	2011		2011	
	Previously Reported	As Adjusted	Previously Reported	As Adjusted
Statement of Operations:				
Amortization of deferred policy acquisition costs and cost of insurance acquired	$ 136,153	$ 125,627	$ 126,877	$ 117,445
Nondeferred acquisition expenses		30,203		29,179
Provision for income taxes:				
Current	51,401	51,401	48,657	48,657
Deferred	35,046	28,159	32,899	25,987
Total income taxes	86,447	79,560	81,556	74,644
Balance Sheet:				
Assets:				
Deferred policy acquisition costs	856,030	698,043	823,129	667,135
Common stock of subsidiaries	N/A	N/A	82,116	80,821
Liabilities and Stockholder's equity:				
Deferred income taxes	361,275	305,980	344,841	290,244
Retained earnings	503,718	400,918	503,718	400,918
Accumulated other comprehensive income (loss)	141,645	141,753	141,645	141,753
Total stockholder's equity	1,302,989	1,200,297	1,302,989	1,200,297

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. Preferred stock of affiliate is carried at fair value. 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.

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 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 99% of the fair value reported at December 31, 2012, 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 the 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, 2012 and 2011, 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. Further review is performed on the available quotes to determine if they can be corroborated within reasonable tolerance to any other observable evidence. If one of the quotes or the median of the available quotes can be corroborated with other observable evidence, then the value is reported as Level 2. Otherwise, the value is reported 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, 2012 and 2011, fair value measurements classified as Level 3 represented approximately 2.6% and 0.3%, respectively, of total fixed maturities and equity securities on a consolidated basis. Transfers between levels are recognized as of the end of the period of transfer.

Beginning in 2012, the Company began investing in a portfolio of private placement bonds which are not actively traded. This portfolio is managed by a third party and was $28 million at amortized cost on December 31, 2012. The portfolio manager provides valuations for the bonds based on a matrix utilizing observable inputs, such as the benchmark treasury rate and published sector indices, and unobservable inputs such as an internally-developed credit rating. If the unobservable inputs can be closely corroborated with publicly available information, the fair values are classified as Level 2. If they cannot be corroborated, the fair values are classified as Level 3. As of December 31, 2012, all the bonds in this private placement portfolio were classified as Level 3.

The fair values for each class of security and by valuation hierarchy level are indicated in *Note 2 — Investments* under the caption *Fair value measurements.*

Fair Value Measurements, Other Financial Instruments — The following information relates to estimated fair values of the Company's financial instruments as of December 31, 2012 and 2011.

Fair values for cash, short-term investments, short-term debt, receivables and payables approximate carrying value. The preferred stock of affiliate is valued at fair value, which approximates cost. The preferred stocks are not subject to a sinking fund and they have a call provision at par within 30 days' notice.

Policy loans have weighted average interest rates of 7.9% as and 7.8% as of December 31, 2012 and 2011, 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, 2012 and 2011, the Company had interest bearing, net agents' balances of approximately $78,559 and $54,999 on a consolidated basis ($3,764 and $5,236 on a parent only basis), 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, 2012 and 2011, other policyholder funds included interest bearing deposit type accounts of approximately $81,850 and $80,201, respectively, representing amounts 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.

Other-Than-Temporary Impairments of Investments — 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 at least quarterly and is overseen by a team of Company 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 believes 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. 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 in the period the determination is made. The written-down security will be amortized and revenue recognized in accordance with estimated future cash flows.

Current accounting guidance is such that if an entity intends to sell or if it is more likely than not that it will be required to sell an impaired security prior to recovery of its cost basis, the security is to be considered other-than-temporarily impaired and the full amount of impairment must be charged to earnings. Otherwise, losses on fixed maturities which are other-than-temporarily impaired are separated into two categories, the portion of loss which is considered credit loss and the portion of loss which is due to other factors. The credit loss portion is charged to earnings while the loss due to other factors I charged to other comprehensive income. The credit loss portion of an impairment is determined as the difference between the security's amortized cost and the present value of expected future cash flows discounted at the security's original effective yield rate. The temporary portion is the difference between this present value of expected future cash flows and fair value (as discounted by a market yield). The expected cash flows are determined using judgment and the best information available to the Company. Inputs used to derive expected cash flows include expected default rates, current levels of subordination, and loan-to-collateral value ratios. Management believes that the present value of future cash flows at the original effective yield is a better measure of valuation, because fair value is based on limited observable market data, and the market for these securities is neither active nor orderly.

Low-Income Housing Tax Credit Interest — The Company invested in limited partnerships that provide low-income housing tax credits and other related Federal income tax and state premium tax benefits to the Company. The carrying value of these entities was $49 million and $57 million at December 31, 2012 and 2011, respectively. 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, 2012 and 2011, the Company was obligated under future commitments of $1.9 million and $26.8 million, respectively, which are included in the above carrying value.

The fair value of the Company's investment in low-income housing tax credit partnerships is estimated to be $57,448 at December 31, 2012. The fair value is estimated by calculating the net present value of expected cash flows and is classified as a Level 3 fair value measurement.

The Federal income benefits accrued during the year, net of the amortization associated with guaranteed interests, are recorded in "Income Tax Expense". Amortization associated with non-guaranteed interests was reflected as a component of "Net Investment Income." All state premium tax benefits, net of the related amortization, are recorded in "Net investment income." At December 31, 2012, $47 million is included in "Other assets" with the remaining $2 million included in "Other invested assets." At December 31, 2011, the comparable amounts were $54 million and $3 million, respectively. Any unpaid commitments to invest are recorded in "Other liabilities".

Goodwill — The excess cost of business acquired over the fair value of net assets acquired is reported as goodwill. Goodwill is subject to annual impairment testing based on certain procedures outlined by GAAP. These procedures include a qualitative assessment as to whether it is more likely than not that goodwill is impaired. If it is determined that an impairment is likely, the procedures then involve measuring the carrying value of each of the Company's reporting units, including the goodwill of that reporting unit, against the estimated fair value of the corresponding reporting unit. If the carrying value of a reporting unit including goodwill exceeds its estimated fair value, then the goodwill in that reporting unit could potentially be impaired. In that event, further testing is required under the accounting guidance to determine the amount of impairment, if any. If there is an impairment in the goodwill of any reporting unit, it is written down and charged to earnings in the period of test.

The Company tested its goodwill in both of the years 2011 and 2012. These tests, performed in the third quarter each year, involved assigning carrying value by allocating the Company's net assets to each of the reporting units, including the portion of goodwill assigned to the reporting unit. In 2012, the qualitative assessment was employed as permitted by accounting guidance. Based on the analyses as outlined in the guidance, it was determined that an impairment of goodwill was not likely. In 2011, the fair values of the various reporting units were developed. The fair value of each reporting unit is determined using discounted expected cash flows associated with that reporting unit. Judgment and assumptions are used in developing the projected cash flows for the reporting unit, and such estimates are subject to change. The Company also exercises judgment in the determination of the discount rate, which management believes to be appropriate for the risk associated with the cash flow expectations. The fair value of each reporting unit is then measured against that reporting unit's corresponding carrying value. Because the estimated fair value exceeded the carrying value, including goodwill, of each reporting unit in each period, the Company's goodwill was not impaired in either year.

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. At December 31, 2011, the liability for deferred income taxes is reported separately from current taxes receivable which is included at the accompanying balance sheets as income taxes receivable from parent. At December 31, 2012, the liability for deferred income taxes has been combined with current taxes payable and reported as current and deferred taxes at the accompanying balance sheets.

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 — Assets, liabilities and operations of for foreign operations (Canada, New Zealand, and Ireland) are recorded based on the functional currency of each entity. The determination of the functional currency is made based on the appropriate economic indicators. 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, net of applicable taxes.

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 2012 and 2011 is as follows:

	2012	2011
Volatility factor	37.83 %	41.20 %
Dividend yield	1.06 %	1.00 %
Expected term (in years)	6.05	4.96
Risk-free rate	1.47 %	2.10 %

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).

Correction of General Insurance Expenses and Other Liabilities — Subsequent to the issuance of the 2011 financial statements, the Company discovered a typographical error in the amount reported in the accompanying separate parent company only balance sheet as general insurance expenses and other liabilities as of December 31, 2011. As a result, the balance of general insurance expenses and other liabilities, which was previously reported as $57,574, has been restated as $48,574 in order to correct the typographical error. No other line items or captions within the accompanying financial statements were affected.

New Accounting Rules — *Comprehensive Income (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 became effective for the Company for periods beginning on or after January 1, 2012. The Company elected to present the components of comprehensive income within a separate consecutive statement.

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 did not have a material impact on the accompanying financial statements. The guidance requires 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 became effective for the Company in 2012, and the additional disclosures required by this new guidance have been included within Note 2.

Goodwill Impairment Testing — New accounting guidance 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 became effective for periods beginning on or after January 1, 2012. As previously disclosed in this Note under the caption *Goodwill,* this new guidance did not impact the value of the Company's goodwill, but did modify the way management evaluated goodwill 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 — The Company has evaluated subsequent events after the balance sheet date of December 31, 2012 through June 19, 2013 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, 2012 and 2011, are as follows:

	2012			
Consolidated	**Cost or Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
U.S. Government direct, guaranteed, and government-sponsored agencies	$ 6,069	$ 171	$ -	$ 6,240
States, municipalities, and political subdivisions	74,630	14,114		88,744
Foreign governments	33,577	988		34,565
Corporate securities	1,808,722	275,367	(7,064)	2,077,025
Asset-backed securities	15,449	1,191	(264)	16,376
Redeemable preferred stocks	129,341	8,110	(1,221)	136,230
Total	2,067,788	299,941	(8,549)	2,359,180
Equity Securities	426	313		739
Total	$2,068,214	$300,254	$ (8,549)	$2,359,919

Parent Company	2012 Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government direct, guaranteed, and government-sponsored agencies	$ 3,362	$ 82	$ -	$ 3,444
States, municipalities, and political subdivisions	74,426	14,111		88,537
Foreign governments	22,396	968		23,364
Corporate securities	1,731,999	263,111	(6,876)	1,988,234
Asset-backed securities	12,157	994	(264)	12,887
Redeemable preferred stocks	128,841	8,110	(1,217)	135,734
Total	1,973,181	287,376	(8,357)	2,252,200
Equity securities	426	313		739
Total	$ 1,973,607	$ 287,689	$ (8,357)	$ 2,252,939

Consolidated	2011 Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government direct, guaranteed, and 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, and 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

The amortized cost and estimated fair value of fixed maturity investments at December 31, 2012, 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	$ 23,957	$ 24,234
Due after 1–5 years	66,489	70,752
Due after 5–10 years	84,207	94,518
Due after 10–20 years	458,416	538,960
Due after 20 years	1,418,989	1,613,986
Mortgaged-backed and asset-backed securities	15,730	16,730
Total	$2,067,788	$2,359,180

Parent Company	Amortized Cost	Fair Value
Due in 1 year or less	$ 23,957	$ 24,234
Due after 1–5 years	54,908	59,151
Due after 5–10 years	84,180	94,486
Due after 10–20 years	449,755	529,081
Due after 20 years	1,347,943	1,532,007
Mortgaged-backed and asset-backed securities	12,438	13,241
Total	$1,973,181	$2,252,200

Consolidated — Proceeds from sales of fixed maturity investments during 2012 and 2011 were $50,883 and $37,913, respectively. In 2012 and 2011, the gross realized gains were $7,628 and $5,100 and gross realized losses were $219 and $6,720, respectively, on those sales.

Parent Company — Proceeds from sales of fixed maturity investments during 2012 and 2011, were $50,883 and $37,913, respectively. In 2012 and 2011, the gross realized gains were $7,628 and $5,100 and gross realized losses were $219 and $6,720, respectively, on those sales.

Net investment income for the years ended December 31, 2012 and 2011, consists of the following:

Consolidated	**2012**	**2011**
Investment income:		
Fixed maturities	$ 115,379	$ 111,631
Equity securities	2,671	2,671
Policy loans	8,605	7,524
Other investments	832	898
Total investment income	127,487	122,724
Investment expenses	(13,148)	(11,387)
Net investment income	$ 114,339	$ 111,337

Parent Company	**2012**	**2011**
Investment income:		
Fixed maturities	$ 111,234	$ 108,183
Equity securities	2,671	2,671
Policy loans	8,447	7,415
Other investments	1,143	1,084
Total investment income	123,495	119,353
Investment expenses	(16,557)	(14,478)
Net investment income	$ 106,938	$ 104,875

Financial instruments that potentially subject the Company to concentrations of credit risk are primarily bonds, equity securities, short-term investments, and cash on deposit. Such investments include investments in commercial paper of companies with high credit ratings, investments in money market securities and securities backed by the U.S. Government. The Company limits the amount of credit exposure with any one financial issuer or institution and believes that no significant concentration of credit risk exists with respect to its portfolio.

The Company maintains a diversified investment portfolio with limited concentration in any one issuer. The portfolio consists of investment-grade corporate securities (85%); contract loans (5%), which are secured by the underlying insurance policy values; municipal bonds (4%); below investment-grade securities (3%); preferred affiliated stocks (2%); and other governments (1%).The Company did not have any exposure to a single issuer in excess of 2% of assets.

At December 31, 2012 and 2011, the Company had bonds on deposit with various insurance regulatory agencies, as required by law, with estimated fair values of approximately $161,314 and $162,461, respectively.

During the year ended December 31, 2012 and 2011, 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 following table represents assets measured at fair value on a recurring basis:

Consolidated	**Fair Value Measurements at December 31, 2012 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, and government-sponsored agencies	$ -	$ 6,240	$ -	$ 6,240
States, municipalities, and political subdivisions		88,744		88,744
Foreign governments		34,565		34,565
Corporate securities	4,970	2,024,985	47,070	2,077,025
Asset-backed securities		9,962	6,414	16,376
Redeemable preferred stocks	18,108	112,152	5,970	136,230
Total fixed maturities	23,078	2,276,648	59,454	2,359,180
Equity securities			739	739
Total	$23,078	$2,276,648	$ 60,193	$2,359,919
Percent of total	0.97 %	96.5 %	2.6 %	100.0 %

Parent Company	**Fair Value Measurements at December 31, 2012 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, and government-sponsored agencies	$ -	$ 3,444	$ -	$ 3,444
States, municipalities, and political subdivisions		88,537		88,537
Foreign governments		23,364		23,364
Corporate securities	4,970	1,936,194	47,070	1,988,234
Asset-backed securities		6,473	6,414	12,887
Redeemable preferred stock	18,108	111,656	5,970	135,734
Total fixed maturities	23,078	2,169,668	59,454	2,252,200
Equity securities			739	739
Total	$ 23,078	$ 2,169,668	$ 60,193	$ 2,252,939
Percent of total	1.0 %	96.3 %	2.7 %	100.0 %

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, and 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, and 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 securities			710	710
Total	$ 23,169	$ 1,911,535	$ 6,433	$ 1,941,137
Percent of total	1.2 %	98.5 %	0.3 %	100.0 %

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

Consolidated and Parent Company	2012 Analysis of Changes in Fair Value Measurements Using Significant Unobservable Inputs (Level 3)				
	Corporate Securities and Redeemable Preferred Stock	Asset-Backed Securities	Other	Equities	Total
Balance — January 1, 2012	$ -	$ 5,723	$ -	$ 710	$ 6,433
Total gains or losses:					
Included in realized gains/losses					
Included in other comprehensive income	2,078	867		29	2,974
Purchases	27,871				27,871
Sales					
Amortization	1	(176)			(175)
Transfers in and/or out of Level 3	23,090				23,090
Balance — December 31, 2012	$ 53,040	$ 6,414	$ -	$ 739	$ 60,193

Consolidated and Parent Company	2011 Analysis of Changes in Fair Value Measurements Using Significant Unobservable Inputs (Level 3)				
	Corporate Securities and Redeemable Preferred Stock	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

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, $0 and $(6,271) of net realized investment gains (losses) were included in net income in 2012 and 2011, respectively. Purchases of Level 3 investments in 2012 are comprised of private-placement fixed maturities managed by an unaffiliated third party.

Quantitative Information about Level 3 Fair Value Measurements As of December 31, 2012

	Fair Value	Valuation Techniques	Unobservable Input	Range	Weighted Average
Private placement fixed maturities	$ 27,796	Discounted cash flows	Credit rating	BBB- to BBB+	BBB
Other investments	32,397	Third-party pricing without adjustment	N/A	N/A	N/A
	$ 60,193				

The private placement fixed maturities are valued based on discounted cash flows, resulting from the contractual cash flows discounted by a yield determined as a treasury benchmark adjusted for a credit spread. The credit spread is developed from observable indices for similar public fixed maturities and unobservable indices for private fixed maturities for corresponding credit ratings. However, the credit ratings for the private placements are unobservable inputs and are assigned by the third party provider based on a quantitative and qualitative assessment of the credit underwritten. A higher (lower) credit rating would result in a higher (lower) valuation. For more information regarding valuation procedures, please refer to Note *1 — Significant Accounting Policies* under the caption *Fair Value Measurements, Investments in Securities.*

The following table presents transfers in and out of each of the valuation levels of fair value:

	2012			2011		
	In	Out	Net	In	Out	Net
Level 1	$ 18,108	$ -	$ 18,108	$ -	$ -	$ -
Level 2		(41,198)	(41,198)	33,676		33,676
Level 3	23,090		23,090		(33,676)	(33,676)

Transfers into Level 2 from Level 3 result from the availability of observable market data when a security is valued at the end of a period. Transfers into Level 3occur when there is a lack of observable market information. Transfers into Level 1 from Level 2 occur when direct quotes are available; transfers from Level 1 into Level 2 result when there are no direct quotes and only observable market data available.

The following tables disclose unrealized investment losses by class of investment at December 31, 2012 and 2011. The Company considers these investments to be only temporarily impaired.

	2012					
	Less Than Twelve Months		Twelve Months or Longer		Total	
Consolidated	Market Value	Unrealized Losses	Market Value	Unrealized Losses	Market Value	Unrealized Losses
Corporate securities	$224,568	$ (4,480)	$ 42,574	$ (2,584)	$267,142	$ (7,064)
Asset-backed securities	1,264	(14)	6,414	(250)	7,678	(264)
Redeemable preferred stocks	7,473	(30)	25,041	(1,191)	32,514	(1,221)
Total unrealized losses	$233,305	$ (4,524)	$ 74,029	$ (4,025)	$307,334	$ (8,549)

	2012					
	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	$217,054	$ (4,374)	$ 40,564	$ (2,502)	$257,618	$ (6,876)
Asset-backed securities	1,264	(14)	6,414	(250)	7,678	(264)
Redeemable preferred stocks	6,976	(27)	25,041	(1,190)	32,017	(1,217)
Total unrealized losses	$225,294	$ (4,415)	$ 72,019	$ (3,942)	$297,313	$ (8,357)

	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)

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, for United States and Canadian branch operations only, 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, a third-party reinsurance 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, 2012 and 2011, 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, 2012 and 2011, the Company's noncash transactions, which are not reflected on the Statements of Cash Flows:

Consolidated and Parent	**2012**	**2011**
Paid-in capital from tax benefit of stock option exercises	$ 675	$ 333
Stock-based compensation not involving cash	1,075	801
Commitments for low-income housing interests	123	26,771

The following table summarizes for the years ended December 31, 2012 and 2011, certain amounts paid during the period:

Consolidated	**2012**	**2011**
Interest paid	$ 3,915	$ 3,864
Income taxes paid	20,097	62,052

Parent Company	**2012**	**2011**
Interest paid	$ 3,915	$ 3,864
Income taxes paid	16,590	58,110

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, 2012 and 2011, differs from the amount computed by applying the federal income tax rate of 35% to pretax income as a result of the following:

Consolidated	**2012**	**2011***
Computed tax expense at statutory rate	$95,052	$83,698
Low-income housing investments	(4,733)	(3,338)
Other	(1,020)	(800)
Total income taxes	$89,299	$79,560

Parent Company	**2012**	**2011***
Computed tax expense at statutory rate	$92,730	$81,977
Low-income housing investments	(4,733)	(3,338)
Dividends received reduction	(4,846)	(4,046)
Other	(485)	51
Total income taxes	$82,666	$74,644

* The 2011 balances have been retroactively adjusted to give effect to the adoption of new accounting guidance as described in Note 1 under the caption "Adoption of New Accounting Standard ".

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2012 and 2011, are as follows:

Consolidated	**2012**	**2011***
Deferred tax liabilities:		
Future policy benefits, unearned and advance premiums and policy claims	$ 32,697	$ 23,266
Deferred policy acquisition costs and cost of insurance acquired	195,873	172,186
Unrealized gains	93,837	55,129
Other, net	67,977	55,399
Total deferred tax liability	$390,384	$305,980

At December 31, 2012 and 2011, the amount included in other within the consolidated table above is primarily comprised of a deferred tax liability for agents' balances of $68,897 and $52,880, respectively. The remaining balance is comprised of other deferred tax liabilities of $2,920 and $5,298, respectively, and other deferred tax assets of $3,840 and $2,779, respectively.

Parent Company	2012	2011*
Deferred tax liabilities:		
Future policy benefits, unearned and advance premiums and policy claims	$ 32,326	$ 23,179
Deferred policy acquisition costs and cost of insurance acquired	187,430	165,150
Unrealized gains	89,513	52,370
Other, net	60,923	49,545
Total deferred tax liability	$ 370,192	$ 290,244

* The 2011 balances have been retroactively adjusted to give effect to the adoption of new accounting guidance as described in Note 1 under the caption "Adoption of New Accounting Standard ".

At December 31, 2012 and 2011, the amount included in other within the parent company table above is primarily comprised of a deferred tax liability for agents' balances of $62,360 and $47,018, respectively. The remaining balance is comprised of other deferred tax liabilities of $2,807 and $5,426, respectively, and other deferred tax assets of $4,244 and $2,899, respectively.

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 unrecognized tax benefits (excluding effects of accrued interest, net of federal tax benefits) at the beginning or end of 2012 and 2011.

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 $56 and $0 of interest expense, net of Federal income tax benefits, in its statements of operations for 2012 and 2011. The Company has no accrued interest or penalties as of December 31, 2012.

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 plan 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 $17,763 and $11,039 as of December 31, 2012 and 2011, respectively. The increase during 2012 was primarily due to a $3,452 increase from a plan amendment that changed the benefit formula and a $2,003 increase due to changes in actuarial estimates.

The fair value of the guaranteed investment contract issued by the Company for the benefit of the pension plan was $13,277 at December 31, 2012, and $12,745 at December 31, 2011. 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 2012 and 2011 were $250 and $1,100, respectively. The cash value of these policies at December 31, 2012 was $3,308 and was $3,000 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, 2012, was $2,548 and at December 31, 2011, was $1,700.

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	**2012**	**2011**
For benefit obligations — December 31:		
Discount rate	4.18 %	5.09 %
Rate of compensation increase*	6.00	6.00
For periodic benefit cost for the year:		
Discount rate	5.09	5.77
Expected long term rate of return	6.25	7.00
Rate of compensation increase*	6.00	6.00

* Pertains to SERP only as the pension plan does not include compensation in the benefit formula

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

	2012	**2011**
Service cost	$ 839	$ 534
Interest cost	609	506
Expected return on assets	(790)	(761)
Amortization of transition asset		(5)
Amortization of prior service cost	163	79
Amortization of net loss	237	78
Net periodic benefit cost	$ 1,058	$ 431

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

	2012	2011
Changes in benefit obligation:		
Obligation — beginning of year	$ 11,039	$ 8,615
Service cost	839	534
Interest cost	609	506
Actuarial loss	2,003	1,512
Benefits paid	(179)	(128)
Plan amendments	3,452	
Obligation — end of year	17,763	11,039
Changes in plan assets:		
Fair value — beginning of year	12,745	10,959
Return on assets	711	631
Contributions		1,283
Benefits paid	(179)	(128)
Fair value — end of year	13,277	12,745
Funded status — end of year	$ (4,486)	$ 1,706

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

	2012	2011
Service cost — benefits earned during period	$ 1,761	$ 1,518
Interest cost on projected benefit obligation	2,359	2,159
Amortization of net loss	1,561	912
Amortization of prior service cost	1,947	1,947
Total net periodic cost	7,628	6,536
Periodic cost allocated to other participating employers	(7,354)	(6,344)
Parent Company's net periodic cost	$ 274	$ 192

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.

	2012	2011
Changes in benefit obligation:		
Obligation — beginning of year	$ 46,791	$ 37,745
Service cost	1,761	1,518
Interest cost	2,359	2,159
Actuarial loss	8,463	5,977
Benefits paid	(835)	(608)
Obligation — end of year	58,539	46,791
Obligation allocated to other participating employers	(55,991)	(45,109)
Parent Company's obligation — end of year	$ 2,548	$ 1,682

Torchmark's accumulated benefit obligation (ABO) of the SERP was $48,706 as of December 31, 2012 and $36,454 as of December 31, 2011.

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

	2012	2011
Amounts recognized in accumulated other comprehensive income:		
Net loss	$ 10,916	$ 4,760
Prior service cost	579	885
Accumulated other comprehensive income	$ 11,495	$ 5,645

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

	2012	2011
Balance — January 1	$ (5,688)	$ (3,775)
Amortization of:		
Prior service cost	307	137
Net actuarial loss	219	105
Transition obligation		(5)
Total amortization	526	237
Plan amendments	(3,452)	
Experience loss	(2,881)	(2,107)
Balance — December 31	$ (11,495)	$ (5,645)

The portion of other comprehensive income that is expected to be reflected in pension expense in 2013 is as follows:

	Defined Benefit Plan	SERP	Total
Amortization of prior service cost	$ 329	$ 85	$ 414
Amortization of net loss	272	107	379
Total	$ 601	$ 192	$ 793

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
2013	$ 243
2014	268
2015	304
2016	417
2017	449
2018–2022	3,450

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

Torchmark estimates as of December 31, 2012 that it will contribute an amount not to exceed $5.5 million to these plans in 2013. The actual amount of the contribution may be different from the estimate.

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, 2012 and 2011, Company contributions totaled $750 and $606, 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 $95 and $26 for 2012 and 2011, respectively, as its share of the annual contributions to this plan. The Company's liability under this plan was $534 and $356 as of December 31, 2012 and 2011, 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.

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 from 2008 to 2010, a level rate of 6.75%. In 2011, a 5 year graded discount rate was used from 5.75% to 6.75%. In 2012, a level rate of 4.25% for 5 years then graded to 6.25% over the next 8 years.

Mortality Rates — 1965–70 basic tables adjusted for expected Company experience.

Rates of Morbidity — Variable scales based on expected Company 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	**2012**	**2011**
Balance — January 1	$ 13,681	$ 14,060
Incurred related to:		
Current year	29,258	30,247
Prior years	(1,192)	(243)
Total incurred	28,066	30,004
Paid related to:		
Current year	17,583	19,366
Prior years	9,726	11,017
Total paid	27,309	30,383
Balance — December 31	$ 14,438	$ 13,681

Parent Company	**2012**	**2011**
Balance — January 1	$ 12,650	$ 13,105
Incurred related to:		
Current year	26,302	27,004
Prior years	(1,136)	(130)
Total incurred	25,166	26,874
Paid related to:		
Current year	15,514	17,027
Prior years	8,923	10,302
Total paid	24,437	27,329
Balance — December 31	$ 13,379	$ 12,650

The development of prior year claims in 2012 and 2011 reflects normal changes in actuarial estimates. The development of life claims was insignificant in 2012 and 2011.

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.

The Company is named defendant in the following purported class action lawsuits alleging wrongful acts by the Company:

Martha Hoover and Frances Williams, individually and on behalf of all other similarly situated individuals in the State of California vs. American Income Life Insurance Company, et al, Superior Court of San Bernardino County, California. The Company continues to defend the Hoover putative class action lawsuit in which independently contracted agents allege that they were treated as employees. Last year the Company received an opinion from the Court of Appeals as to the lower Court's denial of the Company's motion to exercise the arbitration clauses of the agent contracts. The appellate court's opinion denied arbitration as to Hoover, but clarified that the denial of arbitration applied specifically to Hoover, and did not necessarily apply to other, unnamed class members because the denial was based on Ms. Hoover's own record, which reflects the experience of an agent who was not contracted long and had limited sales activity. The Company filed a petition with the California Supreme Court asking for review of this matter on a "grant and hold" basis, meaning that the Court would grant the review now but hold its review until the Court reviews other cases involving the scope of arbitration issues. The California Supreme Court denied the petition on September 12, 2012, but to secure the denial, Hoover's attorneys admitted the Court of Appeal's opinion was fact-specific to Ms. Hoover's situation and made no broader rulings as to the scope of arbitration generally. Discovery is continuing in the case.

Brandon Taylor, for himself and all others similarly situated vs. American Income Life Insurance Company and Surace Agencies Limited, dba Surace & Smith and James Surace, United States District Court, Northern District of Ohio, Eastern Division. Plaintiff, a former independently contracted agent of the Company, alleges in this putative class action that the Company intentionally misclassified him and 14 other former agents as independent contractors rather than 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. Earlier this month, the Company received a favorable ruling wherein its motion to compel arbitration was granted and the Taylor lawsuit was dismissed. Plaintiffs will likely file an appeal to the court's decision. This case is very similar to the now-settled Fitzhugh case, in which the court also granted the Company's motion to compel arbitration. In Fitzhugh, the Plaintiff appealed the court's decision, but the parties reached an agreement to settle the matter for $39.

The Torchmark insurance subsidiaries are undergoing unclaimed property audits by three separate audit teams covering all but four states. These audits require the Companies to provide the auditors with certain policy data dating back to 1992, which data will be checked against the Social Security Death Master File to determine whether any unclaimed insurance benefits are due. The companies are currently meeting the deadlines to provide information to the outside audit firms. In a related matter, along with approximately 65 other insurers, the Company, Globe and United American have been sued in separate lawsuits alleging that the companies failed to identify unclaimed life insurance proceeds and make payments to West Virginia's treasury. The companies, along with many of the other defendants, respectively filed motions to dismiss and stay the action. Counsel for the Treasurer of West Virginia has agreed with the stay pending the Torchmark subsidiaries' on-going unclaimed property audits.

With respect to its current litigation, at this time management believes that the possibility of a material judgment adverse to the Company is remote and no estimate of range can be made for loss contingencies that are at least reasonably possible but not accrued.

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 $65.8 million in entities which provide these certain tax benefits. As of December 31, 2012, the company had unpaid contributions of $1,861.

10. STATUTORY INFORMATION

The Parent Company is required to file statutory-basis financial statements with state insurance regulatory authorities. Accounting principles used to prepare these statutory financial statements differ from GAAP. Net income and shareholders' equity (capital and surplus) on a statutory basis were as follows:

Net Income Year Ended December 31		Capital and Surplus at December 31	
2012	2011	2012	2011
$ 122,168	$ 107,702	$ 219,744	$ 195,436

The excess, if any, of shareholder's equity on a GAAP basis over that determined on a statutory basis is not available for distribution to its Parent Company without regulatory approval. The statutory capital and surplus necessary to satisfy regulatory requirements was $38,531 at December 31, 2012. More information on the restriction on the payment of dividends can be found in *Note 11- Stockholder's Equity.*

The Parent Company's statutory financial statements are presented on the basis of accounting practices prescribed by the insurance department of its state of domicile, Indiana. All states have adopted the National Association of Insurance Commissioners' (NAIC) statutory accounting practices (NAIC SAP) as the basis for statutory accounting. However, certain states have retained the prescribed practices of their respective insurance code or administrative code which can differ from NAIC SAP. There are no significant differences between NAIC SAP and the accounting practices prescribed by the state of Indiana that affect statutory surplus.

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, 2012 and 2011.

Actuary's Statement - The statutory policy liabilities and reserves on December 31, 2012 and 2011, were certified by the Company's Appointed Actuary for each year.

11. STOCKHOLDER'S EQUITY

In 2012 and 2011, the Parent Company declared cash dividends of $107,000 and $103,358, 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 2013 is approximately $122,435.

The change in equity during 2012 and 2011 is as follows:

Consolidated	**2012**	**2011 ***
Planned margin of revenue over expenses	$ 148,706	$ 137,671
Difference between actual and assumed experience	90,028	106,508
Investment earnings on assets in excess of policy liabilities	11,811	10,976
Dividends to stockholders	(107,000)	(103,358)
	$ 143,545	$ 151,797
Parent Company		
Planned margin of revenue over expenses	$ 139,313	$ 129,688
Difference between actual and assumed experience	92,060	109,108
Investment earnings on assets in excess of policy liabilities	19,172	16,359
Dividends to stockholders	(107,000)	(103,358)
	$ 143,545	$ 151,797

* The 2011 balances have been retroactively adjusted to give effect to the adoption of new accounting guidance as described in Note 1 under the caption "Adoption of New Accounting Standard ".

The planned margin of revenue over expenses is estimated based on future profits equal to approximately 20% of the value of future premiums.

12. SOLVENCY

The Company calculates the New Zealand solvency reserves as the difference between the reserves for the Company's New Zealand branch operations prepared on the Parent Company's statutory reporting basis for the State of Indiana and the Company's New Zealand branch operations' reserves on a GAAP basis, less deferred acquisition costs of the Company's New Zealand branch operations. The New Zealand solvency reserves stated in New Zealand dollars is $32,175 and $29,236 ($26,638 and $22,734 in U.S. dollars) as of December 31, 2012 and 2011, respectively. Statutory reporting basis reserves are a modified net premium basis with the elimination of negative reserves and are net of any due and deferred premium balances.

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. Options generally vest in accordance with the following schedule:

Grants under the Torchmark Corporation 2011 Incentive Plan:

- Employees:
  - Seven year grants — vest one half in two years, and one half in three years.
  - Ten year grants — vest one fourth in two years, and one fourth in each of the next three years.
- Grants under all previous compensation plans:
  - Employees — vest one half in two years, and one half in three years

All options vest immediately upon the attainment of age 65, generally subject to a minimum vesting period of six months.

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

	2012	2011
Balance — January 1	$ 6,099,342	$ 255,263
Adoption of new plans		7,950,000
Cancellation of available shares from plans		(229,333)
Expired and forfeited during year	5,850	
Options granted during year	(1,072,725)	(1,338,013)
Restricted stock granted under the Torchmark Corporation 2011 Incentive Plan (counted as 3.1 options per grant)*	(496,166)	(519,558)
Restricted stock and restricted stock units granted during the year under previous plans		(19,017)
Balance — December 31	$ 4,536,301	$ 6,099,342

* 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 Company's employees who have been awarded options for the years ended December 31, 2012 and 2011, are as follows:

	2012	2011
Stock-based compensation expense recognized*	$ 1,075	$ 801
Tax benefit recognized	376	280
Weighted-average grant-date fair value of options granted	15.57	15.58
Intrinsic value of options exercised	2,937	1,179
Cash received by Torchmark from options exercised	5,867	1,978
Actual tax benefit received from exercises	1,028	413

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

Additional information about stock option activity for the Company's employees who have been awarded options for the years ended December 31, 2012 and 2011, is as follows:

	2012		2011	
	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price
Outstanding — beginning of year	419,347	$36.12	385,575	$32.44
Granted	78,150	45.49	89,250	44.39
Exercised	(176,797)	33.18	(74,160)	26.68
Transferred			18,682	35.12
Expired	(750)	44.83		
Outstanding — end of year	319,950	40.01	419,347	36.12
Exercisable — end of year	108,113	36.30	200,234	38.84

Additional information about the Company's applicable stock-based compensation for the Company's employees who have been awarded options as of December 31, 2012 and 2011, is as follows:

	2012	2011
Outstanding options:		
Weighted-average remaining contractual term (in years)	4.90	4.12
Aggregate intrinsic value	$3,729	$3,137
Exercisable options:		
Weighted-average remaining contractual term (in years)	2.21	2.30
Aggregate intrinsic value	$1,662	$ 911
Unrecognized compensation	$1,498	$1,379

Additional information concerning unvested options for the Company's employees who have been awarded options for the years ended December 31, 2012 and 2011, is as follows:

	2012	2011
Number of shares outstanding	211,837	219,113
Weighted-average exercise price (per share)	$ 41.91	$ 33.64
Weighted-average remaining contractual term (in years)	6.28	5.79
Aggregate intrinsic value	2,067	2,226

Torchmark expects that substantially all unvested options will vest.

The following table summarizes information about stock options outstanding at December 31, 2012.

	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	16,125	3.2	$ 15.67	16,125	$ 15.67
$30.87–$30.87	58,875	4.2	30.87	13,688	30.87
$35.33–$40.45	12,300	2.0	37.49	12,300	37.49
$41.79–$42.97	50,625	1.8	41.99	50,625	41.99
$43.06–$44.39	103,875	5.4	44.19	15,375	43.06
$44.79–$48.72	78,150	7.7	45.49		
$15.67–$45.45	319,950	4.9	40.01	108,113	36.30

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 $3,204 and $2,964 in investment management fees, and $6,228 and $3,480 under the service agreement in 2012 and 2011, respectively. The Company had accounts payable balances to related parties of $424 and $423 at December 31, 2012 and 2011, respectively, included in general insurance expenses and other liabilities.

The Company owns 19,169 shares of Torchmark 7.15% Cumulative Preferred Stock, Series A and 20,000 shares of Torchmark 6.5% Cumulative Preferred Stock, Series A at December 31, 2012 and 2011, respectively. The carrying value of the stock was $39,169 and $39,169, at December 31, 2012 and 2011, respectively. The Company received cash dividends of $1,371 for the 7.15% Cumulative Preferred Stock and $1,300 for the 6.5% Cumulative Preferred Stock during 2012 and 2011.

Pursuant to an agreement, approved on December 31, 2012 by the Superintendent of the New York State Department of Financial Services, between NIL and Torchmark, Torchmark purchased agent debit balances from the Company totaling $13,514. The Company reported $13,075 as amounts due from Torchmark at December 31, 2012 within other assets at the accompanying consolidated balance sheet.

Pursuant to a services agreement, American Income Marketing Services, Inc. had a receivable from Globe in the amount of $262 at December 31, 2012.

Pursuant to a services agreement, the Company had a receivable from United American Insurance Company in the amount of $321 at December 31, 2012.

During 2012, Torchmark borrowed $15,000 from the Company. This note had an interest rate of 3.25% and was repaid during 2012. The interest income related to this note of $244 is included in the accompanying financial statements.

During 2012, United American Insurance Company borrowed a note of $4,000 from the Company. This note had an interest rate of 3.25% and was repaid during 2012. The interest income related to this note of $37 is included in the accompanying financial statements.

During 2012, the Company borrowed a series of notes of $14,000, $15,000, and $25,000 from Torchmark. These notes had an interest rate of 3.25%. The second and third borrowings were repaid in 2012, and the first one was repaid in 2013. The interest expense related to these notes of $165 is included in the accompanying financial statements.

During 2012, the Company borrowed a surplus note of $25,000 from Torchmark. This note has an interest rate of 5.25% and is outstanding as of December 31, 2012. The date of maturity of the surplus note is 12/31/2042. The interest expense related to this note of $4 is included in the accompanying financial statements.

During 2012, the Company borrowed a series of notes of $29,492, $25,840, $25,834, and $25,834 from Globe. These notes were non-interest bearing and were repaid during 2012.

During 2012, the Company borrowed a note of $2,000 from United American Insurance Company. This note had an interest rate of 3.25% and was repaid during 2012. The interest expense related to this note of $2 is included in the accompanying financial statements.

During 2012, AILIC Receivables Corporation (ARC) borrowed a note of $5,000 from Torchmark. This note had an interest rate of 3.25% and was repaid during 2012. The interest expense related to this note of $11 is included in the accompanying financial statements.

During 2012, ARC borrowed a series of notes of $28,500, $36,000, $39,000, $42,800, $43,800, $48,500, $49,100, $50,000 and $57,200 from Liberty National Life Insurance Company. These notes had an interest rate of 3.25% and were repaid during 2012, with the exception of the last one, which was repaid in 2013. ARC also borrowed a note of $24,500 from Liberty National Life Insurance Company during 2011 which was repaid during 2012. This note had an interest rate of 3.25%. The interest expense related to these notes of $1,294 is included in the accompanying financial statements.

During 2012, ARC borrowed a note of $3,000 from United American Insurance Company. This note had an interest rate of 3.25% and was repaid during 2012. The interest expense related to this note of $9 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 was repaid during 2012. The interest expense related to this notes of $7 is included in the accompanying financial statements.

NIL has an agreement with First United American Life Insurance Company (FUA), an affiliate, which provides supervisory and managerial services, and with Torchmark to provide investment management services. NIL incurred $7 for 2012 and 2011, for supervisory and managerial services provided by FUA. NIL incurred $304 and $238 for 2012 and 2011, respectively, for investment management services provided by Torchmark.

NIL reported $83 and $67 as amounts due to Torchmark at December 31, 2012 and 2011, respectively.

* * * * * *

AMERICAN INCOME LIFE INSURANCE COMPANY

Approval by Directors

The directors are pleased to present the Consolidated Financial Statements and Separate Parent Company Only Financial Statements as of and for the Years Ended 31 December 2012 and 2011 and Independent Auditor's report for American Income Life Insurance Company.

Director

For and on behalf of the directors

Date: June 19, 2013