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American Income Life Insurance Company — New Zealand Branch

Financial Statements as of and for the Year Ended December 31, 2013, and Independent Auditors' Report

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 22, which comprise the balance sheet as at 31 December 2013, 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 22:

- 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 2013, and its financial performance and its cash flows for the year ended on that date.

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 2013:

- 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
12 June 2014
Christchurch, New Zealand

AMERICAN INCOME LIFE INSURANCE COMPANY — NEW ZEALAND BRANCH

Financial Statements
As of and for the year ended December 31, 2013

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 year ended December 31, 2013.

Director
Ben Lutek
For and on behalf of the Directors

Director
Scott Smith

Date: June 12, 2014

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.

Effective 31 July 2013, the Company established a statutory fund in accordance with the Insurance (Prudential Supervision) Act 2010 ("IPSA-2010"). As all of the Branch's business relates to "life policies" for the purpose of the IPSA-2010, all of the assets and liabilities of the Branch are included in the statutory fund. The Company was granted a full licence by the Reserve Bank of New Zealand under IPSA-2010 on 23 August 2013. The life insurance operations of the Branch are conducted as required by the IPSA - 2010 and are reported in aggregate in the statement of comprehensive income, balance sheet and statement of movements in the home office account of the Branch. The life insurance operations of the Branch comprise the selling and administration of life insurance contracts. All contracts are non-investment linked business. All business written by the Branch is non-participating and all profits and losses are allocated to the statutory fund.

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 American Income Life Insurance Company, 1200 Wooded Acres, Waco, Texas, United States of America. The contact address for the Branch is c/o AIL New Zealand Limited (an independently owned company and independent contractor), AIL House, 2165 Great North Road, Avondale, 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 13 to 22.

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 third party pricing services, 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 Financial Assets** — Financial assets, other than those at Fair Value Through Profit or Loss, 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 INCOME
FOR THE YEAR ENDED DECEMBER 31, 2013

	2013	2012
INCOME:		
Premiums (Note 1)	$ 24,542,987	$ 23,797,177
Interest income on investments (Note 2)	353,970	328,365
Unrealized surplus on revaluation of debt security investments to fair value	(142,947)	(67,461)
Other interest	509,126	349,131
	25,263,136	24,407,212
EXPENDITURE:		
Claims (Note 3)	4,571,969	5,534,400
Change in liability for future policy benefits (Note 15)	(4,587,077)	1,187,698
Commissions (Note 4)	10,511,621	11,952,336
Management expenses (Note 5)	4,383,608	4,114,972
	14,880,121	22,789,406
PROFIT BEFORE TAXATION	10,383,015	1,617,806
TAXATION (Note 13)	220,431	(1,501,732)
PROFIT AFTER TAXATION ATTRIBUTABLE TO HEAD OFFICE (Note 6)	$ 10,162,584	$ 3,119,538
TOTAL COMPREHENSIVE PROFIT	$ 10,162,584	$ 3,119,538

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 DECEMBER 31, 2013

	2013	2012
BALANCE — Beginning of the year	$38,681,879	$32,339,247
Contributions from the home office:		
General advances (Note 9)	604,247	636,651
Expenses paid on behalf of the Branch (Note 9)	2,772,074	2,586,443
	3,376,321	3,223,094
Income after tax	10,162,584	3,119,538
Total comprehensive income	10,162,584	3,119,538
BALANCE — End of the year	$52,220,784	$38,681,879

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 DECEMBER 31, 2013

	2013	2012
ASSETS		
CASH AND CASH EQUIVALENTS	$ 4,443,809	$ 7,029,249
SHORT TERM DEPOSITS	127,094	4,719,865
INVESTMENTS (Note 8)	21,637,706	5,985,855
OUTSTANDING PREMIUMS	1,186,579	814,189
ACCRUED INVESTMENT INCOME	322,188	120,447
PREMIUM TAXES DUE	9,000	12,000
AGENT BALANCE RECEIVABLES	14,302,019	14,606,583
NET RESERVE FOR FUTURE POLICY BENEFITS (Note 15)	11,708,844	7,121,767
PREPAYMENTS	660,159	686,291
DEFERRED TAX ASSET (Note 13)	8,458,268	7,314,183
TOTAL	$ 62,855,666	$ 48,410,429
LIABILITIES AND HOME OFFICE ACCOUNT		
POLICY AND CONTRACT CLAIMS	$ 1,329,928	$ 1,782,155
UNEARNED PREMIUMS	41,866	45,158
TRADE AND OTHER LIABILITIES	492,471	482,228
CURRENT AND DEFERRED TAX LIABILITIES (Note 13)	8,770,617	7,419,009
Total liabilities	10,634,882	9,728,550
ADVANCES FROM HOME OFFICE (Note 9)	31,022,071	27,645,750
ACCUMULATED SURPLUS	21,198,713	11,036,129
Total home office account	52,220,784	38,681,879
TOTAL	$ 62,855,666	$ 48,410,429

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 YEAR ENDED DECEMBER 31, 2013

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Premiums and other considerations received from policyholders	$ 24,170,597	$ 23,658,500
Interest income	187,638	347,454
Other interest	509,126	349,131
Payment of claims	(5,027,488)	(5,534,959)
Payments of taxes	24,850	(671,752)
Payments of commissions	(10,207,057)	(12,878,427)
Payments to suppliers, agents etc.	(4,381,990)	(4,029,229)
Net cash provided by (used in) operating activities (Note 12)	5,275,676	1,240,718
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net change in short term investments	4,592,771	(295,141)
Cash paid for long term investments	(15,830,208)	
Net cash used in investing activities	(11,237,437)	(295,141)
CASH FLOWS FROM FINANCING ACTIVITIES — Advances provided by related party	3,376,321	3,223,093
Net cash provided by financing activities	3,376,321	3,223,093
NET (DECREASE)/INCREASE IN CASH ON HAND	(2,585,440)	4,168,670
CASH ON HAND — Beginning of year	7,029,249	2,860,579
CASH ON HAND — End of year	$ 4,443,809	$ 7,029,249

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

	2013	2012
Individual life	$20,801,024	$20,053,384
Accident and health	3,741,963	3,743,793
	$24,542,987	$23,797,177

2. INTEREST INCOME ON INVESTMENTS

	2013	2012
Government securities	$ 238,511	$ 203,793
Other debt securities	115,459	124,572
	$ 353,970	$ 328,365

3. CLAIMS

	2013	2012
Individual life	$ 2,757,939	$ 2,610,109
Accident and health	1,814,030	2,924,291
	$ 4,571,969	$ 5,534,400

4. COMMISSIONS (POLICY ACQUISITION EXPENSES)

	2013	2012
In respect of new policies:		
Individual life	$ 9,644,831	$10,999,681
Accident and health	866,790	952,655
	$10,511,621	$11,952,336

5. MANAGEMENT EXPENSES

	2013	2012
Policy maintenance expenses	$ -	$ -
Home office charges:		
General expenses	967,384	963,294
Salaries	1,804,690	1,623,148
General office expenses	851,047	818,084
Auditor remuneration:		
Audit services	113,672	38,021
Tax compliance services	47,176	5,750
Other expenses	570,124	634,112
Investment expenses	29,515	32,563
	$4,383,608	$4,114,972

6. PROFIT AFTER TAX

The surplus for the year has arisen as follows:

	2013	2012
Planned margins	$ 3,695,971	$ 2,849,803
Actual and assumed experience	112,594	1,209,768
Basis change	5,068,952	(1,611,390)
Loss recognition on new Life - Accident & Hospital plans		(401,615)
Investment earnings on assets in excess of policy liabilities	1,285,067	1,072,972
	$ 10,162,584	$ 3,119,538

7. CAPITAL COMMITMENTS

There are no commitments for capital expenditure entered into at December 31, 2013 and 2012.

8. INVESTMENTS

	2013	2012
Bonds		
Governments	$ 20,048,491	$4,353,225
Corporates	1,589,215	1,632,630
Total Bonds	$ 21,637,706	$5,985,855

These securities mature in 2015 and 2023 and carry an effective interest rate of approximately 5.03%.

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 December 31, 2013 was $31,022,071 (2012: $27,645,750). The total value of these expenses for the year were $2,772,074 (2012: $2,586,443) and a general advance was paid during the year of $604,247 (2012: $636,651). 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 (2012: 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.

2013

	Life		Life (Accident & Hospital Indemnity)	
Assumption variation	**Policy Liabilities**	**Margins**	**Policy Liabilities**	**Margins**
Discount rate 1% higher	$ (2,885,741)	$ (1,581,229)	$ (13,061)	$ (7,673)
Discount rate 1% lower	4,520,276	1,868,296	44,806	8,831
Deaths and disablements 10% higher		(2,942,085)		(1,308,097)
Deaths and disablements 10% lower		3,066,644		1,308,706
Annual surrenders 10% higher		(1,407,995)		(135,848)
Annual surrenders 10% lower		1,469,892		141,416
Administration costs 10% higher		(501,471)		(88,668)
Administration costs 10% lower		501,471		88,668

2012

	Life		Life (Accident & Hospital Indemnity)	
Assumption variation	**Policy Liabilities**	**Margins**	**Policy Liabilities**	**Margins**
Discount rate 1% higher	$ (4,445,987)	$ (1,440,212)	$ (63,841)	$ -
Discount rate 1% lower	7,110,727	1,731,684	113,012	
Deaths and disablements 10% higher		(2,870,872)	1,467,093	
Deaths and disablements 10% lower		3,002,493	(401,615)	1,066,239
Annual surrenders 10% higher		(639,926)	90,896	
Annual surrenders 10% lower		541,678	(89,026)	
Administration costs 10% higher		(477,721)	94,207	
Administration costs 10% lower		477,721	(94,207)	

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 December 31, 2013 and 2012. 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	
	2013	**2012**
Change in interest rate (bps):		
-200	$ 2,732,724	$ 294,410
-100	1,305,274	144,659
0		
+100	(1,195,248)	(139,789)
+200	(2,291,290)	(274,918)

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

Investments in government securities, public utilities, and registered banks total $26.2 million as of December 31, 2013.

The Branch recorded premiums due of $1.2 million at December 31, 2013. There is a possibility that a proportion of these premiums will not be received. Agent balances of $14.3 million 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 and public utility securities which are readily marketable in the event of unforeseen extraordinary liquidity needs.

The Branch's government securities mature in 2015 and 2023. The Branch's other investments mature in 2015.

The average term of the Branch's liabilities for notified and unnotified claims, unearned premiums, premium taxes, and trade liabilities, totalling $1.9 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 Branch measures the fair value of its financial assets based on a hierarchy of three levels that 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 Branch 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 Branch 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 Branch's own data or bid and ask prices in the dealer market.

All of the fair values reported at December 31, 2013 were determined using data provided by third-party pricing services. Prices provided by third-party 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 Branch'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 of the available prices is used as the Branch's final valuation. When corroborated prices present greater variations, additional analysis is required to determine which value is the most appropriate. When 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. As of December 31, 2013 and 2012, all securities were classified as Level 2.

Fair Value Measurements at December 31, 2013

Description	**Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total Fair Value**
Bonds: Fair Value through Profit and Loss				
Governments	$ -	20,048,491	$ -	20,048,491
Corporates		1,589,215		1,589,215
Total Bonds	$ -	21,637,706	$ -	21,637,706

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

	2013	2012
Operating surplus after taxation	$ 10,162,584	$ 3,119,538
Add (less) non cash items:		
Change in reserve for future policy benefits	(4,587,077)	1,187,698
Unrealized fair value change	142,947	67,461
Change in current and deferred taxes	220,431	(1,501,732)
Other	35,410	31,761
Total non cash items	(4,188,289)	(214,812)
	5,974,295	2,904,726
Movements in working capital:		
(Increase) in agents' receivables	304,564	(926,091)
(Increase) decrease in accrued investment income	(201,741)	(12,674)
(Increase) in outstanding premiums	(372,390)	(138,677)
(Increase) in prepayments	26,132	(635,604)
Increase in policy claims and unearned premiums	(455,519)	(559)
(Decrease) in other current liabilities	335	49,597
	(698,619)	(1,664,008)
Net cash used in operating activities	$ 5,275,676	$ 1,240,718

13. INCOME TAXES

	2013	2012
Income taxes:		
Current tax expense	$ 170,742	$ 104,826
Deferred tax benefit		(1,606,558)
Prior period adjustment	49,689	
Total expense / (credit)	$ 220,431	$ (1,501,732)

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

	2013	2012
Profit before taxation	$ 10,383,015	$ 1,617,806
Income tax (benefit) expense calculated at 28% and 28% in 2013 and 2012, respectively	$ 2,907,244	$ 452,986
Effect of life insurance business	(23,355)	296,283
Effect of non-life insurance business	(340,528)	104,826
Transition adjustment for new life tax regime	(18,206)	(21,917)
Current year losses utilized against Policyholder Base	83,411	69,791
Unused losses not recognized/(recognized) as deferred tax assets	(1,435,456)	3,293,357
Prior period adjustment	(952,679)	(5,697,058)
	$ 220,431	$ (1,501,732)

	2013	2012
Deferred tax balances:		
Deferred tax asset comprise — tax losses	$ 8,458,268	$ 7,314,183
Deferred tax liability comprise — net reserve for future policy benefits	(8,458,268)	(7,314,183)
Net deferred tax balance	$ -	$ -

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

	2013	2012
Shareholder base:		
Losses	$ 8,362,170	$ 11,761,989
Tax effect at 28%	2,341,407	3,293,357

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

Income Tax (Payable)/Receivable	2013	2012
Opening balance	$ (104,826)	$ -
Prior period adjustment	(49,689)	
Provisional tax paid	12,908	
Current year charge	(170,742)	(104,826)
Total income tax (payable)/receivable for the year	$ (312,349)	$ (104,826)

14. CONTROLLING ENTITIES

The 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 December 2013. 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.

	2013	2012
Policy liabilities:		
Balance at beginning of year	$ (7,121,767)	$ (8,309,465)
Movement in current year	(4,587,077)	1,187,698
Net reserve for future policy benefits	$ (11,708,844)	$ (7,121,767)

Policy liabilities comprises the following:

	2013	2012
Value of future claims	$ 76,722,873	$ 84,648,764
Value of future expenses	26,968,326	27,790,105
Value of future profit margins	21,296,679	18,174,257
Less value of future premiums	(136,696,722)	(137,734,893)
Net reserve for future policy benefits	$ (11,708,844)	$ (7,121,767)

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 the Life business, Life plans and Accident and Hospital Indemnity plans.

Discount Rate — The 2013 discount rate increased to 4.71% per annum from 2012 discount rate of 3.53%. This change decreased total net reserves by $ 4.9 million.

Profit Carrier — The premium payable under each contract is the profit carrier. Future profits equal approximately 18% of the value of future premiums for Life plans and 1% of the value of future premiums for Accident & Hospital Indemnity plans.

Initial Expenses — For Life plans issued 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 plans issued after June 2011, 27.5% of premium plus per policy and underwriting expense per thousand that varies by issue age, plus 120% of commission. For Accident & Hospital Indemnity plans, 40% of premium, plus commission.

Management Expenses — For Life plans issued before July 2011, $10.00 per policy per annum plus 2.3% of premium. For Life issues after June 2011, 8.0% of premium. For Accident & Hospital Indemnity plans, 6.3% of premium. These expenses are inclusive of maintenance and investment management expenses. The rate of inflation is assumed to be zero.

All calculations have been computed without tax, as the Branch is in a cumulative 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 2012 assumptions.

Morbidity — The morbidity rates for 2011 issues and below has a sliding scale of 75% in first year reducing to 0% in year 10. The morbidity rates for issues after 2011 are not subject to the sliding scale. The morbidity rates remain the same as 2012 assumptions.

Impact of assumption changes on future profit margins (in thousands):

Demographic and expense assumptions	$ 3,296
Discount rate assumption	(1,712)
Total impact	$ 1,584

Rates of Discontinuance — Variable scales per expected portfolio experience. The Life plans discontinuance rates were updated based on recent experience. The Accident & Hospital plans discontinuance rates remain the same as 2012 assumptions.

Surrender Values – All Whole Life plans except "Permanent Life" plans have surrender values which are guaranteed upon issue and expressed in terms of unit of coverage.

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

16. SOLVENCY

The solvency margin at December 31, 2013 for the Branch (inclusive of the Statutory Fund solvency margin of $6,200,549) is $12,376,815. This is in compliance with the Solvency Standard for Life Insurance Business issued by the RBNZ in terms of the Insurance (Prudential Supervision) Act 2010.

17. CONTINGENT LIABILITIES

There are no contingent liabilities at December 31, 2013 and 2012.

18. NEW ZEALAND CUSTODY ACCOUNT

Assets (Cash and Securities) in the amount of $20.58 million are held in the Public Trust Custody account. This balance is sufficient to meet the solvency requirements set forth in ISPA 2010.

19. CREDIT RATING

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

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American Income Life Insurance Company

Consolidated Financial Statements and
Separate Parent Company Only
Financial Statements as of and for the
Years Ended December 31, 2013 and 2012, and
Independent Auditors' Report

AMERICAN INCOME LIFE INSURANCE COMPANY

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INDEPENDENT AUDITORS' REPORT

Board of Directors
American Income Life Insurance Company
Waco, Texas

We have audited the accompanying consolidated financial statements of American Income Life Insurance Company and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2013, and 2012, 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, 2013 and 2012, 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, 2013 and 2012, 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 Company was formerly a wholly-owned subsidiary of Globe Life and Accident Insurance Company ("Globe"), a wholly-owned subsidiary of Torchmark Corporation ("Torchmark"). During 2013, Globe distributed all of the issued and outstanding common stock of American Income Life Insurance Company to Torchmark through an extraordinary dividend and an extraordinary distribution. Our opinion is not modified with respect to this matter.

Deloitte & Touche LLP

June 19, 2014

AMERICAN INCOME LIFE INSURANCE COMPANY

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2013 AND 2012
(Dollar amounts in thousands, except per share data)

ASSETS	2013	2012
CASH AND INVESTMENTS:		
Fixed maturities — available for sale — at fair value (amortized cost of $2,239,915 and $2,067,788 in 2013 and 2012, respectively)	$ 2,299,330	$ 2,359,180
Equity securities — available for sale — at fair value (cost of $426)	776	739
Preferred stock of affiliate — at fair value (cost of $39,169)	39,169	39,169
Policy loans	130,904	117,874
Other long-term investments	5,549	5,880
Cash and cash equivalents	39,359	53,660
Total cash and investments	2,515,087	2,576,502
LIFE INSURANCE PREMIUMS DUE AND UNCOLLECTED	227	246
ACCIDENT AND HEALTH PREMIUMS DUE AND UNPAID	1,449	1,523
INVESTMENT INCOME DUE AND ACCRUED	37,447	35,317
DEFERRED POLICY ACQUISITION COSTS	826,567	782,379
COST OF INSURANCE ACQUIRED	18,034	19,746
GOODWILL	330,657	330,657
AGENTS' BALANCES	90,993	78,559
PROPERTY AND EQUIPMENT — Net of accumulated depreciation	2,706	3,084
OTHER ASSETS	67,051	65,805
TOTAL	$ 3,890,218	$ 3,893,818

(Continued)

AMERICAN INCOME LIFE INSURANCE COMPANY

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2013 AND 2012
(Dollar amounts in thousands, except per share data)

LIABILITIES AND STOCKHOLDER'S EQUITY	2013	2012
LIABILITIES:		
Aggregate reserves for future policy benefits:		
Life	$1,970,061	$1,815,533
Accident and health, including unearned premiums of $5,639 and $5,734 in 2013 and 2012, respectively	79,999	77,390
Total aggregate reserves for future policy benefits	2,050,060	1,892,923
Reserves for policy and contract claims:		
Life	23,465	21,948
Accident and health	12,711	14,438
Total reserves for policy and contract claims	36,176	36,386
Other policyholder funds	86,531	85,535
General insurance expenses and other liabilities	37,065	40,133
Borrowed funds - affiliated (Note 14)	94,000	96,200
Taxes, licenses, and fees	1,931	2,187
Current and deferred income taxes	331,554	396,612
Total liabilities	2,637,317	2,549,976
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	649,487	647,696
Retained earnings	532,918	476,196
Accumulated other comprehensive income — net of provision for taxes of $31,940 and $112,654 in 2013 and 2012, respectively	58,816	208,270
Total stockholder's equity	1,252,901	1,343,842
TOTAL	$3,890,218	$3,893,818

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, 2013 AND 2012
(Dollar amounts in thousands)

	2013	2012
REVENUES:		
Premiums	$ 781,293	$ 743,532
Net investment income	119,620	114,339
Net realized investment gains	3,090	8,939
Other loss, net	(15)	(18)
Total revenues	903,988	866,792
BENEFITS AND OTHER DEDUCTIONS:		
Death benefits	123,864	112,388
Accident and health benefits	25,408	28,066
Surrender benefits and other fund withdrawals	48,135	44,390
Interest and other benefits on policy and contract funds	2,580	2,220
Interest credited to deposit account fund holders	3,996	3,915
Amortization of deferred policy acquisition costs and cost of insurance acquired	141,535	137,251
Increase in aggregate reserves for future policy benefits	168,757	155,687
Non-deferred acquisition expenses	21,952	20,405
Commissions	40,300	38,253
General expenses	41,863	34,517
Insurance taxes, licenses, and fees	20,013	18,113
Total benefits and other deductions	638,403	595,205
INCOME FROM OPERATIONS BEFORE DIVIDENDS TO POLICYHOLDERS AND INCOME TAXES	265,585	271,587
DIVIDENDS TO POLICYHOLDERS	11	10
INCOME FROM OPERATIONS BEFORE INCOME TAXES	265,574	271,577
PROVISION FOR INCOME TAXES:		
Current	67,377	43,602
Deferred	19,325	45,697
Total income taxes	86,702	89,299
NET INCOME	$ 178,872	$ 182,278

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, 2013 AND 2012
(Dollar amounts in thousands)

	2013	2012
Net income	$ 178,872	$ 182,278
Other comprehensive income (loss):		
Unrealized gains (losses) on securities:		
Unrealized holding gains (losses) arising during period	(230,116)	115,374
Reclassification adjustment for (gains) losses on securities included in net income	(3,176)	(9,134)
Reclassification adjustment for amortization of premium	2,437	2,635
Foreign exchange adjustment on securities marked to market	(1,085)	(4,069)
Unrealized gains (losses) on securities	(231,940)	104,806
Less applicable taxes	81,150	(36,676)
Unrealized gains (losses) on securities, net of taxes	(150,790)	68,130
Foreign exchange translation adjustments, other than securities	(2,187)	3,168
Less applicable taxes	949	(1,006)
Foreign exchange translation adjustments, other than securities, net of taxes	(1,238)	2,162
Pension adjustments:		
Amortization of pension costs	778	526
Experience gain (loss)	3,181	(2,881)
Plan amendments		(3,452)
Pension adjustments	3,959	(5,807)
Less applicable taxes	(1,385)	2,032
Pension adjustments, net of tax	2,574	(3,775)
Other comprehensive income (loss):	(149,454)	66,517
Comprehensive income	$ 29,418	$ 248,795

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, 2013 AND 2012
(Dollar amounts in thousands)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholder's Equity
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
Exercise of options		608			608
Stock-based compensation		1,183			1,183
Comprehensive income			178,872	(149,454)	29,418
Dividends declared			(122,150)		(122,150)
BALANCE — December 31, 2013	$ 11,680	$ 649,487	$ 532,918	$ 58,816	$1,252,901

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, 2013 AND 2012
(Dollar amounts in thousands)

	2013	2012
OPERATING ACTIVITIES:		
Net income	$ 178,872	$ 182,278
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	575	636
Amortization of low income housing investments	4,712	7,918
Amortization of bond discount	2,437	2,636
Realized (gain) loss on sales of investments	(3,090)	(8,939)
Amortization of deferred policy acquisition costs and cost of insurance acquired	141,535	137,251
Deferred policy acquisition costs	(184,027)	(219,840)
Changes in assets and liabilities:		
Life insurance premiums due and uncollected	19	21
Accident and health premiums due and unpaid	74	(17)
Investment income due and accrued	(2,130)	(1,342)
Agents' balances	(12,434)	(23,560)
Other assets	(1,246)	7,223
Aggregate reserves for future policy benefits	157,137	162,195
Reserves for policy and contract claims	(210)	1,362
Other policyholder funds	996	1,732
General insurance expenses and other liabilities	(2,159)	(21,016)
Taxes, licenses, and fees	(257)	535
Income taxes	17,940	66,136
Net cash provided by operating activities	298,744	295,209
INVESTING ACTIVITIES:		
Purchases of fixed maturity available for sale investments	(277,132)	(409,603)
Proceeds from sales, maturities, and repayments of fixed maturity available for sale investments	94,940	180,397
Funds loaned to affiliates	(30,000)	(19,000)
Repayment of funds loaned to affiliates	30,000	19,000
Purchases of property, plant, and equipment	(194)	(244)
Purchases of other long-term invested assets	(591)	(1,131)
Proceeds from other long-term invested assets	439	79
Increase in policy loans	(13,030)	(13,934)
Net cash used in investing activities	(195,568)	(244,436)
FINANCING ACTIVITIES:		
Dividends paid to stockholder	(122,150)	(107,000)
Borrowed money from affiliates	387,150	590,900
Repayment of borrowed money from affiliates	(389,350)	(528,200)
Tax benefit of stock option exercises	608	675
Net cash used in financing activities	(123,742)	(43,625)
EFFECT OF FOREIGN CURRENCY TRANSLATION ON CASH AND CASH EQUIVALENTS	6,265	1,913
NET CHANGE IN CASH AND CASH EQUIVALENTS	(14,301)	9,061
CASH AND CASH EQUIVALENTS — Beginning of year	53,660	44,599
CASH AND CASH EQUIVALENTS — End of year	$ 39,359	$ 53,660

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, 2013 AND 2012
(Dollar amounts in thousands, except per share data)

	2013	2012
ASSETS		
CASH AND INVESTMENTS:		
Fixed maturities — available for sale — at fair value (amortized cost of $2,125,540 and $1,973,181 in 2013 and 2012, respectively)	$2,183,497	$2,252,200
Equity securities — available for sale — at fair value (cost of $426)	776	739
Preferred stock of affiliate — at cost	39,169	39,169
Common stock of subsidiaries — at equity	100,782	96,000
Policy loans	127,795	115,528
Other long-term investments	5,549	5,880
Cash and cash equivalents	22,025	47,067
Total cash and investments	2,479,593	2,556,583
LIFE INSURANCE PREMIUMS DUE AND UNCOLLECTED	227	246
ACCIDENT AND HEALTH PREMIUMS DUE AND UNPAID	1,290	1,352
INVESTMENT INCOME DUE AND ACCRUED	35,936	34,175
DEFERRED POLICY ACQUISITION COSTS	784,671	745,706
COST OF INSURANCE ACQUIRED	18,034	19,746
GOODWILL	330,657	330,657
AGENTS' BALANCES	2,604	3,764
PROPERTY AND EQUIPMENT — Net of accumulated depreciation	1,162	1,321
OTHER ASSETS	72,205	58,301
TOTAL	$3,726,379	$3,751,851

(Continued)

AMERICAN INCOME LIFE INSURANCE COMPANY

SEPARATE PARENT COMPANY ONLY BALANCE SHEETS
DECEMBER 31, 2013 AND 2012
(Dollar amounts in thousands, except per share data)

LIABILITIES AND STOCKHOLDER'S EQUITY	2013	2012
LIABILITIES:		
Aggregate reserves for future policy benefits:		
Life	$ 1,899,014	$ 1,757,182
Accident and health, including unearned premiums of $5,112 and $5,188 in 2013 and 2012, respectively	76,490	74,266
Total aggregate reserves for future policy benefits	1,975,504	1,831,448
Reserves for policy and contract claims:		
Life	22,765	20,970
Accident and health	11,732	13,379
Total reserves for policy and contract claims	34,497	34,349
Other policyholder funds	86,510	85,518
General insurance expenses and other liabilities	36,616	39,683
Borrowed funds - affiliated (Note 14)	25,000	39,000
Taxes, licenses, and fees	1,916	2,048
Current and deferred income taxes	313,435	375,963
Total liabilities	2,473,478	2,408,009
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	649,487	647,696
Retained earnings	532,918	476,196
Accumulated other comprehensive income (loss)	58,816	208,270
Total stockholder's equity	1,252,901	1,343,842
TOTAL	$ 3,726,379	$ 3,751,851

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, 2013 AND 2012
(Dollar amounts in thousands)

	2013	2012
REVENUES:		
Premiums	$ 729,063	$ 696,567
Net investment income	112,122	106,938
Equity in earnings of subsidiaries	11,380	11,174
Net realized investment gains	3,102	8,939
Other loss, net	(15)	(18)
Total revenues	855,652	823,600
BENEFITS AND OTHER DEDUCTIONS:		
Death benefits	119,989	108,516
Accident and health benefits	22,733	25,166
Surrender benefits and other fund withdrawals	46,308	42,985
Interest and other benefits on policy and contract funds	2,556	2,190
Interest credited to deposit account fund holders	3,996	3,915
Amortization of deferred policy acquisition costs and cost of insurance acquired	131,708	127,959
Increase in aggregate reserves for future policy benefits	155,676	143,703
Non-deferred acquisition expenses	21,104	19,826
Commissions	38,166	36,272
General expenses	37,176	31,065
Insurance taxes, licenses, and fees	17,645	17,049
Total benefits and other deductions	597,057	558,646
INCOME FROM OPERATIONS BEFORE DIVIDENDS TO POLICYHOLDERS AND INCOME TAXES	258,595	264,954
DIVIDENDS TO POLICYHOLDERS	11	10
INCOME FROM OPERATIONS BEFORE INCOME TAXES	258,584	264,944
PROVISION FOR INCOME TAXES:		
Current	61,841	39,860
Deferred	17,871	42,806
Total income taxes	79,712	82,666
NET INCOME	$ 178,872	$ 182,278

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, 2013 AND 2012
(Dollar amounts in thousands)

	2013	2012
Net income	$ 178,872	$ 182,278
Other comprehensive income (loss):		
Unrealized gains (losses) on securities:		
Unrealized holding gains (losses) arising during period	(219,077)	110,879
Reclassification adjustment for (gains) losses on securities included in net income	(3,188)	(9,134)
Reclassification adjustment for amortization of (discount) premium	2,322	2,631
Foreign exchange adjustment on securities marked to market	(1,083)	(4,061)
Unrealized gains (losses) on securities	(221,026)	100,315
Unrealized gains (losses) on investment in subsidiaries	(7,123)	2,925
Less applicable taxes	77,359	(35,110)
Unrealized gains (losses) on securities, net of taxes	(150,790)	68,130
Foreign exchange translation adjustments, other than securities	(2,187)	3,168
Less applicable taxes	949	(1,006)
Foreign exchange translation adjustments, other than securities, net of taxes	(1,238)	2,162
Pension adjustments:		
Amortization of pension costs	778	526
Experience gain (loss)	3,181	(2,881)
Plan amendments		(3,452)
Pension adjustments	3,959	(5,807)
Less applicable taxes	(1,385)	2,032
Pension adjustments, net of tax	2,574	(3,775)
Other comprehensive income (loss):	(149,454)	66,517
Comprehensive income	$ 29,418	$ 248,795

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, 2013 AND 2012
(Dollar amounts in thousands)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholder's Equity
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
Exercise of options		608			608
Stock-based compensation		1,183			1,183
Comprehensive income			178,872	(149,454)	29,418
Dividends declared			(122,150)		(122,150)
BALANCE — December 31, 2013	$11,680	$649,487	$ 532,918	$ 58,816	$1,252,901

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, 2013 AND 2012
(Dollar amounts in thousands)

	2013	2012
OPERATING ACTIVITIES:		
Net income	$ 178,872	$ 182,278
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	351	383
Amortization of low income housing investments	4,712	7,918
Amortization of bond discount	2,322	2,631
Income of unconsolidated affiliates	(11,380)	(11,174)
Realized gains (losses) on sales of investments	(3,102)	(8,939)
Amortization of deferred policy acquisition costs and cost of insurance acquired	131,708	127,959
Deferred policy acquisition costs	(168,977)	(204,783)
Changes in assets and liabilities:		
Life insurance premiums due and uncollected	19	21
Accident and health premiums due and unpaid	62	2
Investment income due and accrued	(1,761)	(1,152)
Agents' balances	1,160	1,472
Other assets	(13,904)	19,955
Aggregate reserves for future policy benefits	144,056	150,211
Reserves for policy and contract claims	148	1,247
Other policyholder funds	992	1,731
General insurance expenses and other liabilities	(2,155)	(21,082)
Taxes, licenses, and fees	(132)	470
Income taxes	16,679	63,013
Net cash provided by operating activities	279,670	312,161
INVESTING ACTIVITIES:		
Purchases of fixed maturity available for sale investments	(257,033)	(379,665)
Proceeds from sales, maturities, and repayments of fixed maturity available for sale investments	94,274	178,742
Funds loaned to affiliate	(30,000)	(19,000)
Repayments of funds loaned to affiliate	30,000	19,000
Purchases of property, plant, and equipment	(192)	(135)
Contributed capital to subsidiaries		(788)
Purchases of other long-term invested assets	(591)	(1,131)
Proceeds from other long-term invested assets	439	79
Increase in policy loans	(12,267)	(13,242)
Net cash used in investing activities	(175,370)	(216,140)
FINANCING ACTIVITIES:		
Dividends paid to stockholder	(122,150)	(107,000)
Repayment of funds borrowed from affiliate	(208,150)	(158,000)
Funds borrowed from affiliate	194,150	188,000
Tax benefit of stock option exercises	608	675
Net cash used in financing activities	(135,542)	(76,325)
EFFECT OF FOREIGN CURRENCY TRANSLATION ON CASH AND CASH EQUIVALENTS	6,200	1,621
NET CHANGE IN CASH AND CASH EQUIVALENTS	(25,042)	21,317
CASH AND CASH EQUIVALENTS — Beginning of year	47,067	25,750
CASH AND CASH EQUIVALENTS — End of year	$ 22,025	$ 47,067

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 Torchmark Corporation ("Torchmark"). The Parent Company was formerly a wholly-owned subsidiary of Globe Life and Accident Insurance Company ("Globe"). Globe is a wholly-owned subsidiary of Torchmark and is domiciled in the State of Nebraska. During 2013, Globe transferred its ownership of the Parent Company to Torchmark by distributing all of the issued and outstanding common stock of the Parent Company to Torchmark through an extraordinary dividend and an extraordinary distribution. Regulatory approvals were obtained from the Indiana Department of Insurance and the Nebraska Department of Insurance for the aforementioned distribution.

The Company is engaged in the marketing, underwriting and issuing of individual life and supplemental accident and health insurance. In 2013 and 2012, premium income from life insurance was 90% and 89%, respectively, of total premiums earned, and premium income from health insurance was 10% and 11%, 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 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 branch operations are not conducted through separate legal entities, and as such are included in both the consolidated financial statements and the separate parent company only financial statements. 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 2012 or 2013, 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.

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 principle balances. Preferred stock of affiliate is carried at fair value. On the parent company only financial statements, common stock of subsidiaries are carried at net GAAP equity with changes in equity recorded in Equity in earnings of subsidiaries in the Statements of Operations and Unrealized gains (losses) on investment in subsidiaries in the Statements of Comprehensive 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, Investments in Securities — 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. Over 99% of the fair value reported at December 31, 2013 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. Management reviews and analyzes all prices obtained to insure the reasonableness of the values, taking all available information into account. In addition, management corroborates the 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, 2013 and 2012, 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, 2013 and 2012, fair value measurements classified as Level 3 represented approximately 2.3% and 2.6%, 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 $53,369 and $27,872 at amortized cost on December 31, 2013 and 2012. The portfolio manager provides valuations for the bonds based on a pricing 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, 2013 and 2012, all private placements were classified as Level 3.

The fair values for each class of security and by valuation hierarchy level are indicated in Note 3 — *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, 2013 and 2012.

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 stock is 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 of December 31, 2013 and 2012, 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, 2013 and 2012, the Company had interest bearing, net agents' balances of approximately $90,993 and $78,559 on a consolidated basis ($2,604 and $3,764 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, 2013 and 2012, other policyholder funds included interest bearing deposit type accounts of approximately $83,033 and $81,850, respectively, representing amounts payable on demand.

For cash and cash equivalents, accident and health premiums due and unpaid, dividends payable, payable to affiliate, 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 is 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 determined by a discounted market yield is often based on limited observable market data, and the market for these securities is generally neither active nor orderly.

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

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.

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. The key assumptions used in determining the policy liabilities were:

Discount Rates — For policies issued up to 2001, a variable scale, ultimately at 6% per annum. For policies issued from 2001 to 2007, a level rate of 7% per annum. For policies issued in 2008, a level rate of 6.75%. In 2011, a 5 year graded discount rate was used from 5.75% to 6.75%. In 2012, a level rate of 4.25% for 5 years then graded to 6.25% over the next 8 years. In 2013, a level rate of 4.25% for 3 years then graded to 6.25% over the next 8 years.

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

Rates of Discontinuance — Variable scales per expected portfolio experience.

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 and cost of insurance acquired are amortized in a systematic manner which matches these costs with the associated revenues. They 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, 2013 and 2012, are summarized as follows:

Consolidated	2013	2012
Balance — beginning of year	$ 782,379	$ 698,043
Additions:		
Deferred during period:		
Commissions	186,409	195,994
Other expenses	2,654	20,297
Total deferred	189,063	216,291
Foreign exchange adjustment		3,549
Total additions	189,063	219,840
Deductions:		
Amortized during period	(139,839)	(135,504)
Foreign exchange adjustment	(5,036)	
Total deductions	(144,875)	(135,504)
Balance — end of year	826,567	782,379

Parent Company	2013	2012
Balance — beginning of year	$ 745,706	$ 667,135
Additions:		
Deferred during period:		
Commissions	172,260	181,811
Other expenses	1,753	19,423
Total deferred	174,013	201,234
Foreign exchange adjustment		3,549
Total additions	174,013	204,783
Deductions:		
Amortized during period	(130,012)	(126,212)
Foreign exchange adjustment	(5,036)	
Total deductions	(135,048)	(126,212)
Balance — end of year	784,671	745,706

No additions were made to the cost of insurance acquired during 2013 or 2012. Amortization of these costs was $1,696 and $1,747 in 2013 and 2012, respectively, for both consolidated and parent company only.

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 is recorded within other assets and was $44,532 and $49,162 at December 31, 2013 and 2012, 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, 2013 and

2012, the Company was obligated under future commitments of $419 and $1,900, 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 $52,233 at December 31, 2013 as compared to $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, 2013, $43,000 is included in "Other assets" with the remaining $2,000 included in "Other invested assets." At December 31, 2012, the comparable amounts were $47,000 and $2,000, 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, and they also require consideration of a change in relevant events or circumstances that could possibly affect the valuation of a goodwill reporting unit. 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 2012 and 2013. 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 2013, 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 2013.

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.

Foreign Currency Translation — Assets, liabilities and operations of 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 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 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 2013 and 2012 is as follows:

	2013	**2012**
Volatility factor	38.79 %	37.83 %
Dividend yield	1.07 %	1.06 %
Expected term (in years)	5.79	6.05
Risk-free rate	1.10 %	1.47 %

The expected term is generally derived from Company experience. However, expected terms are determined based on the simplified method as permitted by Staff Accounting Bulletins 107 and 110 when company experience is insufficient.

The Torchmark Corporation 2011 Incentive Plan replaced all 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 sufficient experience with seven-year grants that vest in three years, but no historical experience with five-year vesting. Therefore, the Company has used the simplified method to determine the expected term for the ten-year grants with five-year vesting and will do so 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 to the date the grant is fully vested).

Reinsurance – The Company uses reinsurance on a limited basis for long duration traditional life insurance products and accounts for reinsurance and the recognition of the impact of reinsurance costs in accordance with the ASC Financial Services—Insurance Topic.

Ceded premiums of the Company's traditional life insurance products are treated as an offset to premiums and are recognized when due to the assuming company. Ceded claims are treated as an offset to death benefits when the claim is incurred. Ceded policy reserve changes are treated as an offset to increase in aggregate reserves for future policy benefits within the statement of operations and are recognized during the applicable financial reporting period. The amount and timing of expense allowances are contractually determined and approximate the amount of expenses actually incurred by the Company.

The allowances are intended to reimburse the ceding company for the proportional share of the Company's commissions, expenses, and taxes. The Company recognizes allowances according to the prescribed schedules in the reinsurance contracts, which may or may not bear a relationship to actual expenses incurred by the Company. A portion of these allowances is deferred while the non-deferrable allowances are recognized immediately as a reduction of the related expenses. Expense allowances related to deferred acquisition costs are treated as a reduction to deferred acquisition costs. Amortization of capitalized reinsurance expense allowances is treated as an offset to direct amortization of deferred acquisition costs. Amortization of deferred expense allowances is calculated as a level percentage of expected premiums in all durations given expected future lapses and mortality and accretion due to interest, which is consistent with the Company's accounting policies for deferred acquisition costs.

New and Unadopted Accounting Rules

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 is expected to be immaterial.

Revenue recognition - The FASB issued Accounting Standard Update No. 2014-09 Revenue from Contracts with Customers (ASU 2014-09), to clarify the principles for recognizing revenue, to provide more consistency and comparability in revenue recognition practices, and to simplify recognition requirements along with other improvements. ASU 2014-09 will be effective for the Company beginning in calendar year 2017. The Company is currently evaluating this new guidance. The Company's revenues consist of insurance premium and revenues related to financial instruments. These forms of revenue have been scoped out of ASC 2014-09 because they are covered by other guidance. Therefore, the Company does not expect that the implementation of this guidance will result in any significant change in the manner it recognizes its revenue.

Low income housing tax credits - The FASB has issued new accounting guidance, Investments-Equity Method and Joint Ventures: Accounting for Investments in Qualified Affordable Housing Projects (ASU 2014-01). This accounting guidance replaces the effective yield method of accounting with respect to investments in qualified affordable housing projects and, if certain conditions are present, provides for a new method of accounting. The new method of accounting allows an investor to amortize the cost of its investment based on the proportion of the tax credits/benefits received during the year to the total expected tax credits/benefits to be received over the life of the investment and will be recognized in the Consolidated Statements of Operations as a component of "Income tax expense." Additional disclosures are required concerning investments in qualified affordable housing.

The new guidance for ASU 2014-09 and 2014-01 is effective for the Company beginning January 1, 2017, and January 1, 2014, respectively, with early adoption permitted. The guidance continues to permit the effective-yield method for investments held as of the date of adoption. Adoption is required on a retrospective basis. The Company is currently evaluating the impact of adoption but does not expect that adoption will have a material impact on net income or shareholders' equity.

Subsequent Events — The Company has evaluated subsequent events after the balance sheet date of December 31, 2013 through June 19, 2014 which is the date the financial statements were available to be issued.

2. SUPPLEMENTAL INFORMATION ABOUT CHANGES TO ACCUMULATED OTHER COMPREHENSIVE INCOME

Effective during 2013, the Company adopted prospectively *Accounting Standards Update No. 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income.* This statement requires an analysis of the changes in the components of accumulated other comprehensive income as well as supplemental information about the amounts reclassified out of other comprehensive income.

An analysis in the change in balance by component of Accumulated Other Comprehensive Income is as follows for the twelve months ended December 31, 2013.

Components of Accumulated Other Comprehensive Income

	For the twelve months ended December 31, 2013			
Consolidated & Parent Company	**Available For Sale Assets**	**Foreign Exchange**	**Pension Adjustments**	**Total**
Balance at January 1, 2013	$ 189,613	$ 26,025	$ (7,368)	$ 208,270
Other comprehensive income (loss) before reclassifications, net of tax	(150,351)	(1,238)	2,068	(149,521)
Reclassifications, net of tax	(439)		506	67
Other comprehensive income (loss)	(150,790)	(1,238)	2,574	(149,454)
Balance at December 31, 2013	$ 38,823	$ 24,787	$ (4,794)	$ 58,816

Reclassifications out of Accumulated Other Comprehensive Income are presented below for the twelve months ended December 31, 2013.

Component Line Item	Reclassification Adjustments: Twelve months ended December 31, 2013	Affected line items in the Statement of Operations
Consolidated & Parent Company		
Unrealized gains (losses) on available for sale assets:		
Realized (gains) losses	$ (3,176)	Realized investment gains (losses)
Amortization of (discount) premium	2,437	Net investment income
Total before tax	(739)	
Tax	300	Income Taxes
Total after tax	(439)	
Pension adjustments:		
Amortization of prior service cost	$ 420	Other operating expenses
Amortization of actuarial (gain) loss	358	Other operating expenses
Total before tax	778	
Tax	(272)	Income Taxes
Total after tax	506	
Total reclassifications (after tax)	$ 67	

3. 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, 2013 and 2012, are as follows:

Consolidated	2013 Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government direct, guaranteed, and government-sponsored enterprises	$ 6,000	$ 40	$ (521)	$ 5,519
States, municipalities, and political subdivisions	74,390	5,317	(24)	79,683
Foreign governments	43,811	411	(66)	44,156
Corporates	2,022,505	125,967	(75,176)	2,073,296
Asset-backed securities	14,445	1,020	(23)	15,442
Redeemable preferred stocks	78,764	3,961	(1,491)	81,234
Total	2,239,915	136,716	(77,301)	2,299,330
Equity securities	426	350		776
Total	$2,240,341	$137,066	$(77,301)	$2,300,106

Parent Company	2013 Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government direct, guaranteed, and government-sponsored enterprises	$ 3,295	$ 40	$	$ 3,335
States, municipalities, and political subdivisions	74,186	5,317		79,503
Foreign governments	32,482	409		32,891
Corporates	1,926,145	120,450	(71,758)	1,974,837
Asset-backed securities	11,168	987	(12)	12,143
Redeemable preferred stocks	78,264	3,961	(1,437)	80,788
Total	2,125,540	131,164	(73,207)	2,183,497
Equity securities	426	350		776
Total	$ 2,125,966	$ 131,514	$ (73,207)	$ 2,184,273

Consolidated	2012 Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government direct, guaranteed, and government-sponsored enterprises	$ 6,069	$ 171	$ -	$ 6,240
States, municipalities, and political subdivisions	74,630	14,114		88,744
Foreign governments	33,577	988		34,565
Corporates	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 enterprises	$ 3,362	$ 82	$ -	$ 3,444
States, municipalities, and political subdivisions	74,426	14,111		88,537
Foreign governments	22,396	968		23,364
Corporates	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

A schedule of fixed maturities by contractual maturity at December 31, 2013, is shown below on an amortized cost basis and on a fair value basis. Actual maturities could differ from contractual maturities due to call or prepayment provisions.

Consolidated	Amortized Cost	Fair Value
Due in 1 year or less	$ 20,400	$ 20,717
Due after 1–5 years	68,425	73,558
Due after 5–10 years	115,329	123,633
Due after 10–20 years	458,537	500,204
Due after 20 years	1,562,566	1,565,523
Mortgaged-backed and asset-backed securities	14,658	15,695
Total	$2,239,915	$2,299,330

Parent Company	Amortized Cost	Fair Value
Due in 1 year or less	$ 20,000	$ 20,317
Due after 1–5 years	57,578	62,777
Due after 5–10 years	114,619	122,889
Due after 10–20 years	448,748	489,830
Due after 20 years	1,473,213	1,475,288
Mortgaged-backed and asset-backed securities	11,382	12,396
Total	$2,125,540	$2,183,497

Consolidated — Proceeds from sales of fixed maturity investments during 2013 and 2012 were $41,859 and $50,883, respectively. In 2013 and 2012, the gross realized gains were $3,347 and $7,628 and gross realized losses were $260 and $219, respectively, on those sales.

Parent Company — Proceeds from sales of fixed maturity investments during 2013 and 2012, were $41,203 and $50,883, respectively. In 2013 and 2012, the gross realized gains were $3,347 and $7,628 and gross realized losses were $247 and $219, respectively, on those sales.

Net investment income for the years ended December 31, 2013 and 2012, consists of the following:

Consolidated	**2013**	**2012**
Investment income:		
Fixed maturities	$ 123,002	$ 115,379
Equity securities	2,671	2,671
Policy loans	9,662	8,605
Other investments	949	832
Total investment income	136,284	127,487
Investment expenses	(16,664)	(13,148)
Net investment income	$ 119,620	$ 114,339

Parent Company	**2013**	**2012**
Investment income:		
Fixed maturities	$ 117,911	$ 111,234
Equity securities	2,671	2,671
Policy loans	9,451	8,447
Other investments	1,505	1,143
Total investment income	131,538	123,495
Investment expenses	(19,416)	(16,557)
Net investment income	$ 112,122	$ 106,938

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%); policy loans (5%), which are secured by the underlying insurance policy values; municipal bonds (3%); below investment-grade securities (2%); preferred affiliated stocks (2%); other governments (2%); and short term investments (1%).The Company did not have any exposure to a single issuer in excess of 2% of assets.

At December 31, 2013 and 2012, the Company had bonds on deposit with various insurance regulatory agencies, as required by law, with estimated fair values of approximately $195,857 and $161,314, respectively.

At December 31, 2013 and 2012, the Parent Company had bonds on deposit with various insurance regulatory agencies, as required by law, with estimated fair values of approximately $195,457 and $160,914, respectively.

During the year ended December 31, 2013 and 2012, 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, 2013 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 enterprises	$	$ 5,519	$	$ 5,519
States, municipalities, and political subdivisions		79,683		79,683
Foreign governments		44,156		44,156
Corporates	13,756	2,008,225	51,315	2,073,296
Asset-backed securities		15,442		15,442
Redeemable preferred stocks		81,234		81,234
Total fixed maturities	13,756	2,234,259	51,315	2,299,330
Equity securities			776	776
Total	$ 13,756	$ 2,234,259	$ 52,091	$ 2,300,106
Percent of total	0.7 %	97.1 %	2.3 %	100.0 %

Parent Company

Description	Fair Value Measurements at December 31, 2013 Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)	Total Fair Value
U.S. government direct, guaranteed, and government-sponsored enterprises	$	$ 3,335	$	$ 3,335
States, municipalities, and political subdivisions		79,503		79,503
Foreign governments		32,891		32,891
Corporates	13,756	1,909,766	51,315	1,974,837
Asset-backed securities		12,143		12,143
Redeemable preferred stock		80,788		80,788
Total fixed maturities	13,756	2,118,426	51,315	2,183,497
Equity securities			776	776
Total	$ 13,756	$ 2,118,426	$ 52,091	$ 2,184,273
Percent of total	0.6 %	97.0 %	2.4 %	100.0 %

Consolidated

Description	Fair Value Measurements at December 31, 2012 Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)	Total Fair Value
U.S. government direct, guaranteed, and government-sponsored enterprises	$ -	$ 6,240	$ -	$ 6,240
States, municipalities, and political subdivisions		88,744		88,744
Foreign governments		34,565		34,565
Corporates	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 enterprises	$ -	$ 3,444	$ -	$ 3,444
States, municipalities, and political subdivisions		88,537		88,537
Foreign governments		23,364		23,364
Corporates	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 %

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	**2013 Analysis of Changes in Fair Value Measurements Using Significant Unobservable Inputs (Level 3)**			
	Corporate Securities and Redeemable Preferred Stock	**Asset-Backed Securities**	**Equities**	**Total**
Balance — January 1, 2013	$ 53,040	$ 6,414	$ 739	$ 60,193
Total gains or losses:				
Included in realized gains/losses				
Included in other comprehensive income	(4,970)	342	37	(4,591)
Acquisitions	25,821			25,821
Sales				
Amortization	(1)	(46)		(47)
Other (sinking fund payments)	(325)			(325)
Transfers in and/or out of Level 3	(22,250)	(6,710)		(28,960)
Balance — December 31, 2013	$ 51,315	$ -	$ 776	$ 52,091

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	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
Acquisitions	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

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, there were no amounts from realized investment gains (losses) included in net income in 2013 or 2012. Purchases of Level 3 investments in 2013 and 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, 2013

	Fair Value	Valuation Techniques	Unobservable Input	Range	Weighted Average
Private placement fixed maturities	$ 51,315	Discounted cash flows	Credit rating	BBB- to BBB+	BBB-
Other investments	776	Third-party pricing without adjustment	N/A	N/A	N/A
	$ 52,091				

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 considered unobservable inputs, as they are assigned by the third party investment manager 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 into and out of each of the valuation levels of fair value:

	2013			2012		
	In	Out	Net	In	Out	Net
Level 1	$ 9,708	$ -	$ 9,708	$ 18,108	$ -	$ 18,108
Level 2	28,960	(9,708)	19,252		(41,198)	(41,198)
Level 3		(28,960)	(28,960)	23,090		23,090

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 3 occur 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 only observable market data and no direct quotes are available.

The following tables disclose unrealized investment losses by class of investment at December 31, 2013 and 2012. The Company considers these investments to be only temporarily impaired.

	2013					
	Less Than Twelve Months		Twelve Months or Longer		Total	
Consolidated	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government direct, guaranteed, & government-sponsored agencies	$ 1,784	$ (521)	$	$	$ 1,784	$ (521)
States, municipalities, and political subdivision	180	(24)			180	(24)
Foreign governments	11,966	(66)			11,966	(66)
Corporates	585,717	(48,615)	145,211	(26,561)	730,928	(75,176)
Asset-backed securities	2,989	(11)	617	(12)	3,606	(23)
Redeemable preferred stocks	20,544	(427)	11,841	(1,064)	32,385	(1,491)
Total unrealized losses	$623,180	$(49,664)	$157,669	$(27,637)	$780,849	$(77,301)

	2013					
	Less Than Twelve Months		Twelve Months or Longer		Total	
Parent Company	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Corporates	$552,422	$(45,738)	$141,408	$(26,020)	$693,830	$(71,758)
Asset-backed securities			617	(12)	617	(12)
Redeemable preferred stocks	20,098	(373)	11,841	(1,064)	31,939	(1,437)
Total unrealized losses	$572,520	$(46,111)	$153,866	$(27,096)	$726,386	$(73,207)

	2012					
	Less Than Twelve Months		Twelve Months or Longer		Total	
Consolidated	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Corporates	$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
Corporates	$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)

4. 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 of (i) the face amount of the policy if less than $260 or (ii) $250 for all policies having a face amount of $260 or more. Amounts not retained are ceded to Swiss Re Life Insurance Company on an automatic or facultative basis. In addition, certain annual renewable term policies in excess of $50 are ceded to Optimum Re Insurance Company. The Company is not relieved of its primary obligations to the policyholders and is therefore contingently liable in the event that assuming reinsurers are unable to meet their obligations. At December 31, 2013 and 2012, the amounts for life insurance ceded with non-affiliates were not significant.

Effective July 1, 2013, the Company entered into a reinsurance agreement with an affiliate, United American Insurance Company ("United American"). The agreement is on a modified coinsurance basis and the Company cedes to United American, on a 90% quota share basis, the risks on life policies issued during 2013 in the United States on or after the effective date. Under the terms of the modified coinsurance agreement, the Company retains, controls, and owns all assets for the modified coinsurance reserve. The terms of the modified coinsurance agreement include a provision where the Company pays United American interest on the balance of assets for the modified coinsurance reserve.

As of and for the year ended December 31, 2013, the Company's balance sheet and statement of operations reflected the following reinsurance adjustments for the reinsurance ceded to United American, which included activity from July 1, 2013 to December 31, 2013:

Balance Sheet

Other assets - due from reinsurer	$ 17,254
Deferred acquisition costs	(29,007)
Total assets	$ (11,753)

Income Statement

Premium	$ (13,806)
Total Income	(13,806)
Death Benefits	(197)
Increase in aggregate reserves for future policy benefits	(3,343)
Amortization of deferred policy acquisition costs	(3,804)
Commissions	(794)
General Expenses	(1,035)
Insurance taxes, licenses, and fees	(311)
Total Expense	$ (9,483)

5. SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

The following table summarizes for the years ended December 31, 2013 and 2012, the Company's noncash transactions, which are not reflected on the Statements of Cash Flows:

Consolidated and Parent	2013	2012
Paid-in capital from tax benefit of stock option exercises	$ 608	$ 675
Stock-based compensation not involving cash	1,183	1,075
Commitments for low-income housing interests	419	123

The following table summarizes for the years ended December 31, 2013 and 2012, certain amounts paid during the period:

Consolidated	2013	2012
Interest paid	$ 3,996	$ 3,915
Income taxes paid	68,341	20,097

Parent Company	**2013**	**2012**
Interest paid	$ 3,996	$ 3,915
Income taxes paid	62,610	16,590

6. 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, 2013 and 2012, differs from the amount computed by applying the federal income tax rate of 35% to pretax income as a result of the following:

Consolidated	**2013**	**2012**
Computed tax expense at statutory rate	$ 92,951	$ 95,052
Low-income housing investments	(5,783)	(4,733)
Other	(466)	(1,020)
Total income taxes	$ 86,702	$ 89,299

Parent Company	**2013**	**2012**
Computed tax expense at statutory rate	$ 90,504	$ 92,730
Low-income housing investments	(5,783)	(4,733)
Dividends received reduction	(4,918)	(4,846)
Other	(91)	(485)
Total income taxes	$ 79,712	$ 82,666

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2013 and 2012, are as follows:

Consolidated	**2013**	**2012**
Deferred tax liabilities:		
Future policy benefits, unearned and advance premiums and policy claims	$ 34,772	$ 32,697
Deferred policy acquisition costs and cost of insurance acquired	202,740	195,873
Unrealized gains	10,840	93,837
Other, net	78,359	67,977
Total deferred tax liability	$ 326,711	$ 390,384

At December 31, 2013 and 2012, the amount included in other within the consolidated table above is primarily comprised of a deferred tax liability for agents' balances of $76,222 and $68,897, respectively. The remaining balance is comprised of other deferred tax liabilities of $14,169 and $2,920, respectively, and other deferred tax assets of $12,032 and $3,840, respectively.

Parent Company	**2013**	**2012**
Deferred tax liabilities:		
Future policy benefits, unearned and advance premiums and policy claims	$ 33,940	$ 32,326
Deferred policy acquisition costs and cost of insurance acquired	193,113	187,430
Unrealized gains	10,308	89,513
Other, net	71,496	60,923
Total deferred tax liability	$308,857	$370,192

At December 31, 2013 and 2012, the amount included in other within the parent company table above is primarily comprised of a deferred tax liability for agents' balances of $69,918 and $62,360, respectively. The remaining balance is comprised of other deferred tax liabilities of $14,094 and $2,807, respectively, and other deferred tax assets of $12,516 and $4,244, 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 2013 and 2012.

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 $0 and $56 of interest expense, net of Federal income tax benefits, in its statements of operations for 2013 and 2012. The Company has no accrued interest or penalties as of December 31, 2013.

7. 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, are allocated 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 $16,244 and $17,763 as of December 31, 2013 and 2012, respectively. The decrease during 2013 was primarily due to a $3,168 decrease due to changes in actuarial estimates offset by service and interest costs of $1,812.

The fair value of the guaranteed investment contract issued by the Company for the benefit of the pension plan was $13,769 at December 31, 2013, and $13,277 at December 31, 2012. This asset is classified as level 2 in the fair value hierarchy. Please refer to Note 3 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 have been established for this plan with an unaffiliated insurance carrier. The Company's share of premium for this coverage paid in 2013 and 2012 were $573 and $250, respectively. The cash value of these policies at December 31, 2013 was $3,987 and was $3,308 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, 2013, was $2,666 and at December 31, 2012, was $2,548.

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	**2013**	**2012**
For benefit obligations — December 31:		
Discount rate	5.12 %	4.18 %
Rate of compensation increase*	6.00	6.00
For periodic benefit cost for the year:		
Discount rate	4.18	5.09
Expected long term rate of return	6.25	6.25
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.

	2013	**2012**
Service cost	$ 1,079	$ 839
Interest cost	733	609
Expected return on assets	(822)	(790)
Amortization of prior service cost	329	163
Amortization of net loss	251	237
Net periodic benefit cost	$ 1,570	$ 1,058

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.

	2013	2012
Changes in benefit obligation:		
Obligation — beginning of year	$ 17,763	$ 11,039
Service cost	1,079	839
Interest cost	733	609
Actuarial loss	(3,169)	2,003
Benefits paid	(162)	(179)
Plan amendments		3,452
Obligation — end of year	16,244	17,763
Changes in plan assets:		
Fair value — beginning of year	13,277	12,745
Return on assets	654	711
Benefits paid	(162)	(179)
Fair value — end of year	13,769	13,277
Funded status — end of year	$ (2,475)	$ (4,486)

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

	2013	2012
Service cost — benefits earned during period	$ 1,849	$ 1,761
Interest cost on projected benefit obligation	2,416	2,359
Amortization of net loss	2,454	1,561
Amortization of prior service cost	1,947	1,947
Total net periodic cost	8,666	7,628
Periodic cost allocated to other participating employers	(8,294)	(7,354)
Parent Company's net periodic cost	$ 372	$ 274

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.

	2013	2012
Changes in benefit obligation:		
Obligation — beginning of year	$ 58,539	$ 46,791
Service cost	1,849	1,761
Interest cost	2,416	2,359
Actuarial (gain) loss	(3,504)	8,463
Benefits paid	(1,003)	(835)
Obligation — end of year	58,297	58,539
Obligation allocated to other participating employers	(55,631)	(55,991)
Parent Company's obligation — end of year	$ 2,666	$ 2,548

Torchmark's accumulated benefit obligation ("ABO") of the SERP was $48,317 as of December 31, 2013 and $48,706 as of December 31, 2012.

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

	2013	2012
Amounts recognized in accumulated other comprehensive income:		
Net loss	$ 7,137	$ 10,683
Prior service cost	238	652
Accumulated other comprehensive income	$ 7,375	$ 11,335

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

	2013	2012
Balance — January 1	$ (11,335)	$ (5,528)
Amortization of:		
Prior service cost	420	233
Net actuarial loss	358	293
Total amortization	778	526
Plan amendments		(3,452)
Experience gain (loss)	3,182	(2,881)
Balance — December 31	$ (7,375)	$ (11,335)

The portion of other comprehensive income that is expected to be reflected in pension expense in 2014 is as follows:

	Defined Benefit Plan	SERP	Total
Amortization of prior service cost	$ 326	$ 148	$ 474
Amortization of net loss	41	135	176
Total	$ 367	$ 283	$ 650

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
2014	$ 283
2015	317
2016	429
2017	463
2018	500
2019–2023	4,062

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

For the 2013 plan year, the estimated minimum required contribution ("MRC") is $599 and the maximum deductible contribution is $9,122. For the 2014 plan year, the estimated MRC is $584. However, the employer intends to satisfy the 2013 and 2014 MRC through use of credit balances in lieu of cash contributions.

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, 2013 and 2012, Company contributions totaled $841 and $750, 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 $201and $95 for 2013 and 2012, respectively, as its share of the annual contributions to this plan. The Company's liability under this plan was $617 and $534 as of December 31, 2013 and 2012, respectively.

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	**2013**	**2012**
Balance — January 1	$ 14,438	$ 13,681
Incurred related to:		
Current year	26,790	29,258
Prior years	(1,382)	(1,192)
Total incurred	25,408	28,066
Paid related to:		
Current year	16,672	17,583
Prior years	10,463	9,726
Total paid	27,135	27,309
Balance — December 31	$ 12,711	$ 14,438

Parent Company	**2013**	**2012**
Balance — January 1	$ 13,379	$ 12,650
Incurred related to:		
Current year	23,915	26,302
Prior years	(1,182)	(1,136)
Total incurred	22,733	25,166
Paid related to:		
Current year	14,653	15,514
Prior years	9,727	8,923
Total paid	24,380	24,437
Balance — December 31	$ 11,732	$ 13,379

The development of prior year claims in 2013 and 2012 reflects normal changes in actuarial estimates. The development of life claims was insignificant in 2013 and 2012.

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 is in the process of settling the Hoover putative class action lawsuit for a non-material amount. The case was brought by independently contracted agents who 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. In February 2014, the parties entered settlement discussions to settle the case. The settlement agreement was fully executed in May 2014 and the parties are awaiting the court's approval of the settlement.

The Company also previously reported activity in another purported class action lawsuit, 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. During 2013, the Company received a favorable ruling wherein its motion to compel arbitration was granted and the Taylor lawsuit was effectively dismissed. Plaintiffs elected to move forward with having their individual claims heard in arbitration. However, rather than conduct 15 separate arbitration hearings, the parties are attempting a mediation of all claims via "global" mediation. The parties have attended one mediation session and are in the process of scheduling another.

Unclaimed Property Audits: Torchmark subsidiaries are currently the subject of audits regarding the identification, reporting, and escheatment of unclaimed property arising from life insurance policies and a limited number of annuity contracts. These audits are being conducted by private entities that have contracted with forty seven states through their respective Departments of Revenue, and have not resulted in any financial assessment from any state nor indicated any Company liability. These audits are wide-ranging, and seek large amounts of data regarding claims handling, procedures, and payments of contract benefits arising from unreported death claims. Additionally, the Torchmark subsidiary companies are the subject of multiple regulatory departments' inquiries and examinations with similar focus on abandoned property and unreported claims, but also which deal with the accounting for general expenses, commissions, and other payments. These audits and examinations could result in additional payments to insurance beneficiaries, the escheatment of abandoned property to various states, and/or possible administrative penalties. Amounts that could be payable to insurance beneficiaries and to the states for the escheatment of abandoned property represent insurance liabilities and are included in the Company's estimate of policy benefits under the caption "Total policy liabilities" on the Consolidated

Balance Sheets. No estimate of range can be made for loss contingencies related to possible administrative penalties at this time.

Commitments: 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 $65,976 in entities which provide these certain tax benefits. As of December 31, 2013, the company had unpaid contributions of $419.

The Company leases equipment under noncancelable operating leases that expire at various dates through 2017. Rental expense for 2013 and 2012 was approximately $235 and $285, respectively.

At December 31, 2013, the minimum aggregate rental commitments are as follows for the five succeeding years:

Years Ending December 31	
2014	$ 140
2015	122
2016	121
2017	71
2018	-
Aggregate total for all other years	-

The Company had no sublease or sale-leaseback transactions during 2013 or 2012.

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**	
2013	**2012**	**2013**	**2012**
$ 132,629	$ 122,168	$232,273	$219,744

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 $37,573 at December 31, 2013. 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, 2013 and 2012.

Actuary's Statement — The statutory policy liabilities and reserves on December 31, 2013 and 2012, were certified by the Company's Appointed Actuary for each year.

11. STOCKHOLDER'S EQUITY

In 2013 and 2012, the Parent Company declared and paid cash dividends of $96,333 and $107,000, respectively, to Globe, its former parent. The Parent Company declared and paid cash dividends of $25,817 to Torchmark during 2013. 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 2014 is approximately $132,938.

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 $37,947 and $32,175 ($31,197 and $26,638 in U.S. dollars) as of December 31, 2013 and 2012, 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:

- 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.

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

	2013	2012
Balance — January 1	4,536,301	6,099,342
Expired and forfeited during year	85,406	5,850
Restricted stock expired and forfeited during the year (counted as 3.1 options per grant)*	6,417	
Options granted during year	(1,084,575)	(1,072,725)
Restricted stock granted under the Torchmark Corporation 2011 Incentive Plan (counted as 3.1 options per grant)*	(631,047)	(496,166)
Balance — December 31	2,912,502	4,536,301

* 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, 2013 and 2012, are as follows:

	2013	2012
Stock-based compensation expense recognized*	$ 1,183	$ 1,075
Tax benefit recognized	414	376
Weighted-average grant-date fair value of options granted	18.94	15.57
Intrinsic value of options exercised	2,858	2,937
Cash received by Torchmark from options exercised	4,857	5,867
Actual tax benefit received from exercises	1,000	1,028

* 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, 2013 and 2012, is as follows:

	2013		2012	
	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price
Outstanding — beginning of year	319,950	$40.01	419,347	$ 36.12
Granted	91,650	56.10	78,150	45.49
Exercised	(124,720)	38.94	(176,797)	33.18
Transferred	(5,250)	38.47		
Expired			(750)	44.83
Outstanding — end of year	281,630	45.75	319,950	40.01
Exercisable — end of year	62,797	32.05	108,113	36.30

Additional information about the Company's applicable stock-based compensation for the Company's employees who have been awarded options as of December 31, 2013 and 2012, is as follows:

	2013	2012
Outstanding options:		
Weighted-average remaining contractual term (in years)	5.74	4.90
Aggregate intrinsic value	$9,124	$3,729
Exercisable options:		
Weighted-average remaining contractual term (in years)	3.11	2.21
Aggregate intrinsic value	$2,895	$1,662
Unrecognized compensation*	$2,169	$1,670

*Includes restricted stock

Additional information concerning unvested options for the Company's employees who have been awarded options for the years ended December 31, 2013 and 2012, is as follows:

	2013	2012
Number of shares outstanding	218,833	211,837
Weighted-average exercise price (per share)	$ 49.68	$ 41.91
Weighted-average remaining contractual term (in years)	6.50	6.28
Aggregate intrinsic value	6,229	2,067

The Company expects that substantially all unvested options will vest.

The following table summarizes information about stock options outstanding at December 31, 2013.

	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	14,625	2.2	\$ 15.67	14,625	\$ 15.67
\$30.87–\$30.87	24,175	3.2	30.87	24,175	30.87
\$35.93–\$42.97	9,750	1.1	41.46	9,750	41.46
\$43.06–\$44.39	63,280	5.3	44.39	13,597	44.39
\$44.79–\$48.72	78,150	6.7	45.49	650	45.49
\$56.10–\$64.59	91,650	7.0	56.10		
\$15.67–\$64.59	281,630	5.7	45.75	62,797	32.05

Certain senior executives of the Company have been granted restricted stock. A summary of restricted stock granted in 2012 is presented in the table below. No shares were granted in 2013. Restricted stock holders are entitled to dividends on the stock. Restricted stock vests over five years.

	2012
Shares	4,500
Price per share	\$ 46.69
Aggregate value	\$ 210

An analysis of unvested restricted stock is as follows:

2012:	
Balance at January 1, 2012	-
Grants	4,500
Restriction lapses	-
Forfeitures	-
Balance at December 31, 2012	4,500
2013:	
Balance at January 1, 2013	4,500
Grants	-
Restriction lapses	(900)
Forfeitures	-
Balance at December 31, 2013	3,600

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 \$3,564 and \$3,204 in investment management fees, and $8,043 and $6,228 under the service agreement in 2013 and 2012, respectively. The Company had accounts payable balances to related parties of $7,999 and $424 at December 31, 2013 and 2012, 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, 2013 and 2012, respectively. The carrying value of the stock was $39,169 at December 31, 2013 and 2012. 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 2013 and 2012.

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 $12,227 and $13,514, on December 31, 2013 and December 31, 2012. The Company reported $13,075 due from Torchmark at December 31, 2012 within other assets at the accompanying consolidated balance sheet.

During 2013 and 2012, the Parent Company sold agents' balances totaling $223,226 and $232,008, respectively, to its subsidiary AILIC Receivables Corporation ("AILRC"). Agent balances are sold to AILRC at a discount and amortized to investment expense, which is a component of investment income, evenly over the life of the agent balances. Amortization expense of $10,401 and $9,847 was recorded in 2013 and 2012, respectively. During 2008, AILRC entered into a Receivables Purchase Agreement with TMK Re, Ltd., a Bermuda insurance company and wholly-owned subsidiary of Torchmark. Under this agreement, TMK Re, Ltd. purchased agent balances from AILRC during 2013 and 2012 with agent balances receivable and outstanding of $125,000 at December 31, 2013 and 2012.

During 2013, the Company entered into a modified coinsurance agreement with United American Insurance Company, an affiliate. See Note 4.

Pursuant to a services agreement, American Income Marketing Services, Inc. had a receivable from Globe in the amount of $261 at December 31, 2013.

During 2013, Torchmark borrowed $30,000 from the Company. This note had an interest rate of 3.25% and was repaid during 2013. The interest income related to this note of $73 is included in the accompanying financial statements.

During 2013, the Company borrowed a series of notes of $14,000, $10,000 and $25,817 from Torchmark. These notes had an interest rate of 3.25% and were repaid during 2013. During 2012, the Company borrowed a note of $14,000 from Torchmark. This note had an interest rate of 3.25% and was repaid during 2013. The interest expense related to these notes of $273 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 $1,313 is included in the accompanying financial statements.

During 2013, the Company borrowed a note of $10,000 from Globe. This note had an interest rate of 3.25% and was repaid during 2013. The interest expense related to this note of $48 is included in the accompanying financial statements.

During 2013, the Company borrowed a series of notes of $44,642, $25,857, and $25,834 from Globe. These notes were non-interest bearing and were repaid during 2013.

During 2013, the Company borrowed notes of $10,000 and $8,000 from Liberty National Life Insurance Company. These notes had an interest rate of 3.25% and were repaid during 2013. The interest expense related to these notes of $235 is included in the accompanying financial statements.

During 2013, the Company borrowed a note of $20,000 from United American Insurance Company. This note had an interest rate of 3.25% and was repaid during 2013. The interest expense related to this note of $22 is included in the accompanying financial statements.

During 2013, AILIC Receivables Corporation ("ARC") borrowed a series of notes of $60,000, $64,000, and $69,000 from Liberty National Life Insurance Company. These notes had an interest rate of 3.25% and were repaid during 2013, with the exception of the $69,000 borrowing, which has a scheduled maturity date of June 16, 2014. ARC also borrowed a note of $57,200 from Liberty National Life Insurance Company during 2012 which was repaid during 2013. This note had an interest rate of 3.25%. The interest expense related to these notes in 2013 of $2,023 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 2013 and 2012, for supervisory and managerial services provided by FUA. NIL incurred $387 and $304 for 2013 and 2012, respectively, for investment management services provided by Torchmark.

NIL reported $103 and $83 as amounts due to Torchmark at December 31, 2013 and 2012, respectively.

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