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26 June 2015

Registrar of Companies
New Zealand Companies Office
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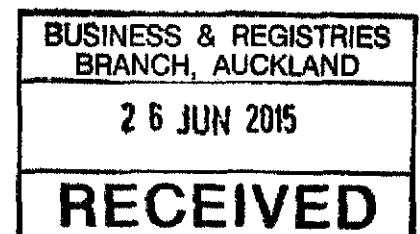
AMERICAN INCOME LIFE INSURANCE COMPANY – FINANCIAL STATEMENTS FOR FILING UNDER THE FINANCIAL REPORTING ACT 1993 AND NOTICE OF RELIANCE ON INDIVIDUAL EXEMPTION FROM THE FINANCIAL REPORTING ACT 1993

- 1 Please find **enclosed**, for registration under the Financial Reporting Act 1993, the following documents for American Income Life Insurance Company (AILIC):
 - 1.1 AILIC's Group Financial Statements and Audit Report, prepared in accordance with United States Statutory Accounting Principles (US SAP) for the year ended 31 December 2014;
 - 1.2 AILIC's Branch Financial Statements and Audit Report, prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP) for the year ended 31 December 2014; and
 - 1.3 a completed FRA 2 Fast Track filing form.
- 2 AILIC gives notice to the Registrar of its reliance on the **enclosed** Financial Reporting Act (American Income Life Insurance Company) Exemption Notice 2015 (gazetted on 25 June 2015), which exempts AILIC from sections 10(1) (obligation to sign by two directors), 11, 13-16 and 18(1) of the Financial Reporting Act 1993, provided that *inter alia*, it files Group Financial statements that have been prepared and audited in accordance with US SAP.
- 3 We also **enclose** the completed filing form and a cheque for the filing fee.

Yours faithfully

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American Income Life Insurance Company

**Statutory-Basis Financial Statements as of and
for the Years Ended December 31, 2014 and 2013,
Supplemental Schedules as of and for the
Year Ended December 31, 2014, and
Independent Auditors' Report**

AMERICAN INCOME LIFE INSURANCE COMPANY

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
American Income Life Insurance Company:

We have audited the accompanying statutory-basis financial statements of American Income Life Insurance Company (the "Company"), which comprise the statutory-basis statements of admitted assets, liabilities, and capital and surplus as of December 31, 2014 and 2013, and the related statutory-basis statements of operations, changes in capital and surplus, and cash flows for the years then ended, and the related notes to the statutory-basis financial statements.

Management's Responsibility for the Statutory-Basis Financial Statements

Management is responsible for the preparation and fair presentation of these statutory-basis financial statements in accordance with the accounting practices prescribed or permitted by the Indiana Department of Insurance. Management is also responsible for 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 statutory-basis 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 statutory-basis financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the statutory-basis financial statements. The procedures selected depend on the auditor's judgment including the assessment of the risks of material misstatement of the statutory-basis 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 statutory-basis 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 statutory-basis financial statements.

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

Basis for Adverse Opinion on Accounting Principles Generally Accepted in the United States of America

As described in Note 1 to the statutory-basis financial statements, the statutory-basis financial statements are prepared by American Income Life Insurance Company using the accounting practices prescribed or

permitted by the Indiana Department of Insurance. Management, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to meet the requirements of the Indiana Department of Insurance.

The effects on the statutory-basis financial statements of the variances between the statutory-basis of accounting described in Note 1 to the statutory-basis financial statements and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on Accounting Principles Generally Accepted in the United States of America

In our opinion, because of the significance of the matter described in the Basis for Adverse Opinion on Accounting Principles Generally Accepted in the United States of America paragraph, the statutory-basis financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of American Income Life Insurance Company as of December 31, 2014 and 2013, or the results of its operations or its cash flows for the years then ended.

Opinion on Statutory Basis of Accounting

In our opinion, the statutory-basis financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities, and capital and surplus of American Income Life Insurance Company as of December 31, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in accordance with the accounting practices prescribed or permitted by the Indiana Department of Insurance described in Note 1 to the statutory-basis financial statements.

Report on Supplemental Schedules

Our 2014 audit was conducted for the purpose of forming an opinion on the 2014 statutory-basis financial statements as a whole. The supplemental schedule of investment risk interrogatories, the supplemental summary investment schedule, and the supplemental schedule of selected financial data, as of and for the year ended December 31, 2014 are presented for purposes of additional analysis and are not a required part of the 2014 statutory-basis financial statements. These schedules are the responsibility of the Company's management and were derived from and relate directly to the underlying accounting and other records used to prepare the statutory-basis financial statements. Such schedules have been subjected to the auditing procedures applied in our audit of the 2014 statutory-basis financial statements and certain additional procedures, including comparing and reconciling such schedules directly to the underlying accounting and other records used to prepare the statutory-basis financial statements or to the statutory-basis financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, such schedules are fairly stated in all material respects in relation to the 2014 statutory-basis financial statements as a whole.

Deloitte & Touche LLP

May 22, 2015

AMERICAN INCOME LIFE INSURANCE COMPANY

STATUTORY-BASIS STATEMENTS OF ADMITTED ASSETS, LIABILITIES AND CAPITAL AND SURPLUS

AS OF DECEMBER 31, 2014 AND 2013

(Amounts in thousands, except share and per share data)

	2014	2013
ADMITTED ASSETS		
CASH AND INVESTMENTS (Note 2):		
Bonds — at amortized cost (fair value of \$2,572,424 and \$2,183,497 in 2014 and 2013, respectively)	\$ 2,287,351	\$ 2,125,552
Preferred stock — affiliated	39,189	39,189
Common stock (cost of \$35,851 in 2014 and 2013)	40,075	48,962
Real estate occupied by Company — at cost (net of accumulated depreciation \$3,210 and \$3,133 in 2014 and 2013, respectively)	470	498
Contract loans	140,766	127,796
Cash, cash equivalents and short-term investments	37,208	22,025
Other invested assets	51,851	47,582
Total cash and investments	2,596,890	2,411,562
LIFE INSURANCE PREMIUMS DEFERRED AND UNCOLLECTED (Note 5)	189,798	172,864
ACCIDENT AND HEALTH PREMIUMS DUE AND UNPAID	1,255	1,223
INVESTMENT INCOME DUE AND ACCRUED	38,024	35,936
ELECTRONIC DATA PROCESSING EQUIPMENT — Net of accumulated depreciation	462	42
DUE FROM AFFILIATE (Note 8)	8,678	4,334
NET CURRENT AND DEFERRED FEDERAL INCOME TAXES RECEIVABLE FROM AFFILIATE (Note 6)	22,797	30,274
OTHER AMOUNTS RECEIVABLE UNDER REINSURANCE — Affiliated (Note 4)	35,647	23,800
OTHER ADMITTED ASSETS	5,080	4,427
TOTAL	\$ 2,898,631	\$ 2,684,462

(Continued)

AMERICAN INCOME LIFE INSURANCE COMPANY

STATUTORY-BASIS STATEMENTS OF ADMITTED ASSETS, LIABILITIES AND CAPITAL AND SURPLUS

AS OF DECEMBER 31, 2014 AND 2013

(Amounts in thousands, except share and per share data)

	2014	2013
LIABILITIES AND CAPITAL AND SURPLUS		
LIABILITIES:		
Aggregate reserves for future policy benefits (Note 4):		
Life and annuity	\$ 2,328,280	\$ 2,157,947
Accident and health — including unearned premiums of \$5,111 and \$5,112 in 2014 and 2013, respectively	94,519	91,328
Total aggregate reserves for future policy benefits	2,422,799	2,249,273
Policy and contract claims (Note 4):		
Life	25,485	22,712
Accident and health	12,720	11,742
Other policyholder funds	87,837	88,513
General insurance expenses and other liabilities	41,218	35,055
Current federal and foreign income taxes payable	—	5,160
Payable to affiliate (Note 8)	654	568
Borrowed funds — affiliated (Note 8)	10,351	277
Payable for securities	—	—
Other amounts payable under reinsurance — affiliated (Note 4)	26,675	903
Interest maintenance reserve	21,001	21,180
Asset valuation reserve	21,030	18,808
Total liabilities	2,669,768	2,452,189
COMMITMENTS AND CONTINGENCIES (Note 10)		
CAPITAL AND SURPLUS (Note 9):		
Common stock, \$1 par value per share — 23,260,214 shares authorized; 11,680,107 shares issued and outstanding	11,680	11,680
Paid-in and contributed surplus	20,000	20,000
Surplus notes (Note 8)	25,000	25,000
Aggregate write-ins for special surplus funds	2	—
Unassigned surplus	172,181	175,593
Total capital and surplus	228,863	232,273
TOTAL	\$ 2,898,631	\$ 2,684,462

See notes to statutory-basis financial statements.

(Concluded)

AMERICAN INCOME LIFE INSURANCE COMPANY

STATUTORY-BASIS STATEMENTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013 (Amounts in thousands)

	2014	2013
REVENUE:		
Premiums	\$ 713,748	\$ 747,901
Net investment income	121,181	114,148
Amortization of interest maintenance reserve	1,137	830
Commissions and expense allowances on reinsurance ceded (Note 4)	108,850	34,641
Reserve adjustments on reinsurance ceded (Note 4)	4,926	(1,295)
Miscellaneous income	1,391	1,240
Total revenue	951,233	897,465
BENEFITS AND EXPENSES:		
Death benefits	127,983	119,613
Accident and health benefits	25,588	24,863
Surrender benefits and other fund withdrawals	48,759	46,308
Interest and other benefits on policy and contract funds	5,696	5,477
Increase in aggregate reserves for future policy benefits (Note 11)	195,943	185,854
Change in loading on deferred and uncollected premiums	(7,713)	8,930
Commissions on premiums	248,193	226,304
General expenses and insurance taxes, licenses, and fees	96,911	88,777
Total benefits and other expenses	741,360	706,126
GAIN FROM OPERATIONS BEFORE FEDERAL INCOME TAXES		
DIVIDENDS TO POLICYHOLDERS AND NET REALIZED CAPITAL LOSSES	209,873	191,339
DIVIDENDS TO POLICYHOLDERS	35	10
GAIN FROM OPERATIONS BEFORE FEDERAL INCOME TAXES AND NET REALIZED CAPITAL LOSSES	209,838	191,329
FEDERAL INCOME TAXES (Note 4)	58,270	58,391
NET GAIN FROM OPERATIONS BEFORE NET REALIZED CAPITAL LOSSES	151,568	132,938
NET REALIZED CAPITAL GAINS/(LOSSES) — Net of federal income tax expense of \$538 and \$1,110 in 2014 and 2013, respectively, and net gains of \$958 and \$2,301 transferred to the interest maintenance reserve net of tax in 2014 and 2013, respectively	80	(309)
NET INCOME	\$ 151,648	\$ 132,629

See notes to statutory-basis financial statements.

AMERICAN INCOME LIFE INSURANCE COMPANY

STATUTORY-BASIS STATEMENTS OF CHANGES IN CAPITAL AND SURPLUS

FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

(Amounts in thousands)

	2014	2013
CAPITAL AND SURPLUS — Beginning of year	\$ 232,273	\$ 219,744
Net income	151,648	132,629
Change in net unrealized capital gains or (losses) — net of tax	(15,514)	1,261
Change in net unrealized foreign exchange capital gain or (loss) — net of tax (Note 12)	(1,514)	2,589
Change in net deferred income taxes (Note 6)	(2,486)	1,920
Change in nonadmitted assets	(382)	(383)
Change in asset valuation reserve	(2,224)	(3,337)
Dividend to stockholders (Note 9)	(132,938)	(122,150)
Net change in capital and surplus	(3,410)	12,529
CAPITAL AND SURPLUS — End of year	\$ 228,863	\$ 232,273

See notes to statutory-basis financial statements.

AMERICAN INCOME LIFE INSURANCE COMPANY
STATUTORY-BASIS STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(Amounts in thousands)

	2014	2013
OPERATING ACTIVITIES:		
Premiums	\$ 714,775	\$ 728,995
Investment income received	127,933	120,117
Other income received	101,781	12,508
Total	944,489	861,620
Death and health claims paid	(156,422)	(149,524)
Surrender benefits paid	(48,759)	(46,308)
Commissions and other expenses paid	(342,894)	(312,789)
Dividends to policyholders paid	(24)	(11)
Federal income taxes paid	(58,902)	(62,610)
Total	(607,001)	(571,242)
Net cash from operating activities	337,488	290,378
INVESTING ACTIVITIES:		
Proceeds from investments sold, matured or repaid:		
Bonds	47,798	94,274
Other invested assets	761	445
Total investment proceeds	48,559	94,719
Cost of investments acquired:		
Bonds	(228,145)	(257,033)
Real estate	(52)	(17)
Other invested assets	(11,869)	(2,170)
Miscellaneous applications	—	(8,360)
Total cost of investments acquired	(240,066)	(267,570)
Net increase in contract loans	(12,969)	(12,267)
Net cash used in investing activities	(204,476)	(185,118)
FINANCING AND MISCELLANEOUS USES:		
Net deposits on deposit-type contracts and other insurance liabilities	1,316	1,129
Change in borrowed funds	10,000	(13,840)
Dividends to stockholder	(132,938)	(122,150)
Other cash provided	3,793	4,558
Net cash used in financing and miscellaneous uses	(117,829)	(130,303)
NET CHANGE IN CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS	15,183	(25,043)
CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS — Beginning of year	22,025	47,068
CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS — End of year	\$ 37,208	\$ 22,025

See notes to statutory-basis financial statements.

AMERICAN INCOME LIFE INSURANCE COMPANY

NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

(Dollar amounts in thousands, except per share data)

1. SUMMARY OF SIGNIFICANT STATUTORY ACCOUNTING POLICIES

American Income Life Insurance Company (the "Company"), an insurance company domiciled in the State of Indiana, is a wholly owned subsidiary of Torchmark Corporation (Torchmark). The 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 Company to Torchmark by distributing all of the issued and outstanding common stock of the Company to Torchmark through an extraordinary dividend and an extraordinary distribution. Regulatory approvals were obtained from the Indiana Department of Insurance (the "Department") and the Nebraska Department of Insurance for the aforementioned distribution.

The Company is subject to state insurance regulations and periodic examinations by state insurance departments.

The Company is engaged in the marketing, underwriting and issuing of individual supplemental life and fixed-benefit accident and health insurance. 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 following states represent the largest concentrations of premiums and annuity considerations: California 11%; Ohio 7%; Pennsylvania 5%; Texas 4%; Illinois 4%; Florida 4%; Michigan 3%; New Jersey 3%; Wisconsin 3%; Washington 3%. No other states represent greater than 3% of total premiums and annuity considerations.

Basis of Presentation — The accompanying statutory-basis financial statements have been prepared in accordance with accounting practices prescribed or permitted by the Indiana Department of Insurance. The State of Indiana has adopted the National Association of Insurance Commissioners' (NAIC) statutory accounting practices (NAIC SAP) as the basis of its statutory accounting practices, except it has retained the prescribed practices of the Indiana Insurance Code and the Indiana Administrative Code. There are no significant differences between NAIC SAP and the accounting practices prescribed for life and health insurance companies domiciled in the State of Indiana that are applicable to the Company.

NAIC SAP varies in some respects from accounting principles generally accepted in the United States of America (GAAP). The primary differences between statutory-basis and GAAP basis of accounting include policy acquisition costs which are charged to operations as incurred rather than deferred and amortized over the life of the policy; future policy benefit reserves related to life insurance policies, which are based on statutory mortality, morbidity and interest requirements without consideration of withdrawals and are reported net of the effects of indemnity reinsurance transactions; the interest maintenance reserve (IMR) and asset valuation reserve (AVR), which are statutory-basis only investment reserves; deferred premiums which are NAIC SAP basis only assets; cost of insurance acquired that is disallowed for statutory purposes; nonadmitted assets, which are disallowed for statutory purposes; subsidiaries are carried under the equity method, with the equity in net income of subsidiaries credited directly to surplus, rather than consolidated for GAAP; bonds available for sale are carried at fair value for GAAP and amortized cost for statutory purposes; the

differences that result from revaluing assets when applying purchase accounting are recorded for GAAP purposes only; goodwill reported under NAIC SAP is the difference between the cost of an acquired business and the reporting entity's share of historical book value of the acquired entity, subject to NAIC SAP limitations, whereas, goodwill under GAAP is recorded as the difference between the cost of an acquired business and the fair value of assets received less liabilities assumed; under GAAP, a provision is made for deferred income taxes on temporary differences between the financial reporting and the tax basis of assets and liabilities; whereas, NAIC SAP requires an amount to be recorded for deferred taxes, subject to limitations, as to the amount of deferred income tax assets that may be reported as admitted assets; and a statement of comprehensive income which is presented for GAAP reporting purposes only.

Significant accounting practices used in the preparation of the accompanying statutory-basis financial statements are as follows:

Revenue and Policy Acquisition Cost Recognition—Premiums are recognized over the premium-paying period of the policies. Unearned premiums on accident and health policies are calculated on a pro-rata basis. Consideration received on deposit-type contracts, which do not contain any life contingencies, is recorded directly to the related liability. Policy acquisition costs, such as commissions and other costs related to acquiring new business are charged to current operations as incurred.

Future Policy Benefits—Aggregate reserves for future policy benefits for individual life and health insurance policies have been provided on the net level premium method, the commissioner's reserve valuation method, or the two-year preliminary term method based on estimates of mortality, morbidity, and investment yields, without provisions for withdrawals, as prescribed by state insurance regulatory agencies. Interest rate assumptions range from 2.3% to 6.0%. For life insurance policies, mortality rates are obtained from statutory mortality tables, primarily the 1941 S.I., 1961 C.S.I., 1958 C.S.O., 1980 C.S.O. and 2001 C.S.O. Tables. For health insurance policies, morbidity rates are based primarily on the 1985 NAIC Cancer Claim Cost Tables. Future policy benefit reserves for annuity contracts are based on either the commissioner's annuity reserve valuation method, with appropriate statutory interest and mortality assumptions, or the accumulated contract value. Annuity reserve interest rate assumptions range from 3.00% to 6.00%. Reserves for deposit-type funds are equal to deposits received and interest credited to the benefit of contract holders, less withdrawals that represent a return to the contract holder.

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

Federal Income Taxes—The provision for federal income taxes on operations is based upon taxes that are currently payable. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement book values and tax bases of assets and liabilities. 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. Deferred tax assets are reduced by valuation allowances when it is determined that it is more likely than not the deferred tax asset will not be fully realized. Realizable deferred tax assets are further subject to admissibility tests performed pursuant to Statement of Statutory Accounting Principles (SSAP) No. 101, *Income Taxes, A Replacement of SSAP No. 10R and SSAP No. 10 (SSAP No. 101)*. 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.

Nonadmitted Assets—Nonadmitted assets (principally a portion of deferred income tax assets, certain furniture and equipment, agents' debit balances, and other amounts receivable) have been charged directly to unassigned surplus.

Interest Maintenance and Asset Valuation Reserves—The IMR is maintained as prescribed by the NAIC for the purpose of deferring realized gains and losses on the disposal of bonds resulting from changes in the overall level of interest rates. Such realized gains and losses are amortized into income over the approximate remaining life of bonds sold. In addition, an AVR is maintained as prescribed by the NAIC for the purpose of providing for default and equity risks related to the Company's invested assets. Changes in the AVR are charged directly to surplus.

Cash and cash equivalents — The Company considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Investments—Bonds and stocks are recorded in accordance with rules promulgated by the NAIC. Bonds eligible for amortization under such rules are stated at amortized cost using the interest method, except for those bonds with a NAIC designation of 6, which are stated at the lower of amortized cost or fair value. Preferred stocks of affiliates and nonaffiliates are stated at amortized cost except for preferred stocks with a NAIC designation of 4-6, which are stated at the lower of amortized cost or fair value. Common stock of nonaffiliates is stated at estimated fair value. Common stock of affiliates are stated at their underlying statutory-basis capital and surplus. Contract loans are carried at unpaid principal balances.

Short-term investments include reverse repurchase agreements, which are secured by bonds and have original maturities within one year. The Company's policy requires a minimum of 102% of the purchase price of reverse repurchase agreements to be maintained as collateral. The Company does not take possession of the collateral. As of December 31, 2014, the Company had no overnight reverse repurchase agreements.

Investments in surplus notes are accounted for under rules set forth by the NAIC. Surplus notes rated NAIC 1 are reported at amortized cost. Surplus notes rated NAIC 2 - 6 are reported based on the lower of amortized cost or a factored balance calculated by multiplying par value times a statement factor provided by the NAIC. If the factored balance is less than amortized cost, then the difference between the factored balance and amortized cost is non-admitted. As of December 31, 2014 and 2013, the Company did not have any non-admitted amounts related to surplus notes.

Loan-backed securities are stated at amortized cost, except for those with an NAIC designation of 6, which shall be reported at the lower of amortized cost or fair value. Premiums and discounts on loan-backed bonds and structured securities are amortized using the retrospective method based on anticipated prepayments at the date of purchase. Prepayment assumptions are obtained from broker dealer survey values or internal estimates. Changes in estimated cash flows from the original assumptions are accounted for using the retrospective method. The Company uses original cost as the basis for applying the retrospective method.

Unrealized gains and losses on common stock are reflected in surplus. Unrealized capital gains or losses on investments in stocks of nonaffiliates are accounted for as direct increases or decreases to unassigned surplus. Gains and losses on the sale of investments are determined on a specific identification method and are either deferred through the IMR or included in the accompanying statutory-basis statements of operations depending on the factors that caused the gain or loss.

Real estate, whether held for investment or occupied by the Company, and electronic data processing equipment are valued at cost less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the respective assets, ranging from 2 to 35 years. Real estate held for sale is valued at the lower of cost less accumulated depreciation or fair value. Real estate held for sale is not depreciated.

Investment income consists primarily of interest and dividends. Interest is recognized on an accrual basis and dividends are recorded as earned on a monthly basis. Interest income on mortgage-backed securities and asset-backed securities is determined on the effective yield method based on estimated principal repayments. Interest earned on contract loans is charged in arrears and recognized ratably. Realized gains and losses are determined on a specific identification method.

Reinsurance—The Company cedes and assumes insurance risks with other companies. Aggregate reserves for future policy benefits, premiums, and expenses are reported after deduction of amounts relating to reinsurance ceded and addition of amounts relating to reinsurance assumed. The Company remains obligated for amounts ceded in the event that the reinsurers do not meet their obligations.

Fair Values of Financial Instruments—Fair value of cash, cash equivalents, and short-term investments approximates carrying value. The fair values of bonds and preferred stock are based on quoted market values where available. Fair value for the Torchmark preferred stock was obtained from the Securities Valuation Office (SVO). Otherwise, fair values of securities are based on quoted market prices of comparable instruments in active markets, quotes in inactive markets, or other observable criteria. See Note 3 for more information regarding the Company's fair value measurements and procedures. Contract loans are an integral part of the life insurance policies which the Company has in force and, in the Company's opinion, cannot be valued separately. The fair value of investments in limited partnerships that provide low-income housing tax credits is based on discounted projected cash flows.

Affiliated common stock is based on the Company's ownership portion of the respective securities' stockholders' equity.

Preferred stocks of affiliates are carried at cost, subject to limitations by the Indiana Department of Insurance.

Contract loans have weighted average interest rates of 8% as of December 31, 2014 and 2013, and have no specified maturity dates. These loans are an integral part of the life insurance policies that the Company has in force and, in the Company's opinion, cannot be valued separately.

Other policyholder funds includes interest-bearing, deposit-type accounts of \$84,394 and \$83,033 at December 31, 2014 and 2013, respectively, representing amounts payable on demand. The fair value of such deposit-type accounts is equal to the amount payable on demand.

Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since December 31, 2014 and 2013, and therefore, current estimates of fair value may differ significantly from the amounts presented herein.

Low-Income Housing Tax Credit Interests—The Company has invested in flow-through entities that provide low-income housing tax credits (LIHTC) and other related federal income tax and state premium tax benefits to the Company. The return on a portion of the Company's investments has been guaranteed by unrelated third parties. The investments are accounted for using the amortized-cost method. The federal income tax benefits accrued during the year are recorded in income tax expense. The premium tax benefits, net of related amortization, are recorded in net investment income. At December 31, 2014 and 2013, the LIHTC investments are \$41,538 and \$43,828, respectively. The amounts recorded within other invested assets are presented net of encumbrances for unpaid contributions. At December 31, 2014 and 2013, the unpaid contributions are \$20,702 and \$419, respectively. All of the remaining unpaid contributions are expected to be paid by 2020.

The Company's involvement is limited to its limited partnership interest in the LIHTC entities. The Company has not provided any other financial support to the entities beyond its commitments to fund its limited partnership interests, 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.

At December 31, 2014, there are 12 years of remaining unexpired tax credits for low-income housing tax credit investments, with a required holding period of 16 years. Currently the LIHTC properties are not subject to any regulatory reviews.

Foreign Currency Translation—The Company records assets, liabilities and operations of foreign branches and subsidiaries based on the functional currency of each entity. The determination of the functional currency is made based on the appropriate economic indicators. Assets and liabilities of the foreign branches and subsidiaries are translated from the functional currency to US dollars at the exchange rates in effect at each year-end and income and expense accounts are translated at the weighted-average exchange rates during the year. The resulting translation adjustments are charged to or credited directly to surplus, net of applicable taxes.

Stock Options—Certain employees of the Company have been granted options to buy shares of Torchmark stock at the market value of the stock on the date of grant under the provisions of various Torchmark stock option plans. The Company has no legal obligation under the plans, however expense is allocated to the Company based upon the specific employees who have been granted options under the various plans and have been recorded in the General expenses and insurance taxes, licenses and fees line item within the accompanying statutory-basis financial statements. Excess tax benefits related to the exercise of stock options are recorded as a component of federal income tax expense. The allocated expense for stock compensation recorded during 2014 and 2013 totaled \$4,025 and \$3,302, respectively.

Risk-Based Capital—The Department has adopted risk-based capital (RBC) requirements for life insurance companies, as promulgated by the NAIC. These requirements are applicable to the Company. The RBC calculation serves as a benchmark for the regulation of life insurance companies by state insurance regulators. RBC provides for surplus formulas similar to target surplus formulas used by commercial rating agencies. The formulas specify various weighting factors that are applied to statutory-basis financial balances or various levels of activity based on the perceived degree of risk, and are set forth in the RBC requirements. The amount determined under such formulas is called the authorized control level capital (ACLC).

The RBC guidelines define specific capital levels based on a company's ACLC that are determined by the ratio of a company's total adjusted capital (TAC) to its ACLC. TAC is equal to statutory capital, plus the AVR and any voluntary investment reserves, 50% of dividend liability, and certain other specified adjustments. Companies where TAC is less than or equal to 2.0 times ACLC are subject to certain corrective actions, as set forth in RBC requirements.

At December 31, 2014 and 2013, the statutory TAC of the Company exceeded the level requiring corrective action.

Use of Estimates—The preparation of the financial statements in conformity with statutory accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the statutory-basis financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The estimates susceptible to significant change are those used in determining the liability for aggregate reserves for future policy benefits, losses, and claims. Although some variability is inherent in these estimates, management believes the amounts provided are adequate.

Concentrations of Credit Risk—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 investments in securities backed by the United States 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 the portfolio.

The Company maintains a diversified investment portfolio with limited concentration in any one issuer. The portfolio consists of investment-grade corporate securities (81%); contract loans (5%), which are secured by the underlying insurance policy values; below investment-grade securities (4%); affiliated stocks (3%); municipal bonds (3%); other long-term invested assets (2%); cash and short-term investments (1%); and other bonds, real estate and non-affiliated equities (1%). Excluding investments in affiliates, the Company's largest exposure to a single issuer of debt and equity securities was Caterpillar Inc. which represented 1.2% of cash and invested assets.

Municipal bond investments are made in various states, with 45% of the bonds invested in municipalities in the State of Texas. Corporate debt and equity investments are made in a wide range of industries. At December 31, 2014, the top ten industry concentrations, based on admitted value, were: electric utilities (18%); insurance (16%); pipelines (6%); transportation (6%); oil and gas (5%); chemicals (5%); banks (5%); mining (5%); gas utilities (3%) and telecommunications (2%).

At December 31, 2014, 4% of invested assets were represented by fixed maturities rated below investment grade by the NAIC (NAIC designations 3–6). Par value of these investments was \$95,477, book/adjusted carrying value (or admitted value as there is no difference) was \$97,378, and fair value was \$98,300. While these investments could be subject to additional credit risk, such risk should generally be reflected in fair value.

Vulnerability Due to Certain Concentrations — The Company monitors economic and regulatory developments that have the potential to impact its business. Federal legislation has allowed banks and other financial organizations to have greater participation in securities and insurance businesses. This legislation may present an increased level of competition for sales of the Company's products. Furthermore, the market for deferred annuities and interest-sensitive life insurance is enhanced by the tax incentives available under current law. Any legislative changes that lessen these incentives are likely to negatively impact the demand for these products. The demand for life insurance products that are used to address a customer's estate planning needs may be impacted to the extent any legislative changes occur to the current estate tax laws.

Subsequent Events—We have evaluated subsequent events after the balance sheet date of December 31, 2014 through May 22, 2015, which is the date the statutory-basis financial statements were available to be issued.

New or Pending Accounting Standards—In June 2014, the NAIC issued SSAP No. 106, *Affordable Care Act Assessments*, with an effective date of January 1, 2014. The guidance in SSAP No. 106 was originally reflected in SSAP No. 35R, *Guaranty Fund and Other Assessments* (SSAP No. 35R), which was effective December 31, 2013. The Affordable Care Act (ACA) imposes an annual fee, known as the Section 9010 fee, on health insurers for each calendar year on or after January 1, 2014. The Section 9010 fee is paid no later than September 30 of the applicable calendar year (fee year) and is not tax deductible. The amount of the Section 9010 fee is based on the ratio of the insurer's subject net health premium written during the preceding calendar year (data year) to the aggregate amount of subject net health premiums written by all subject U.S. health insurance providers during the data year. SSAP No. 106 requires insurers subject to the Section 9010 fee to reclassify from unassigned surplus to special surplus an estimate of the amount of the annual fee it expects to pay in the

subsequent year. The liability and expense associated with the Section 9010 fee is recorded in full on January 1 of the fee year.

During 2014, the Company incurred and paid Section 9010 fees of \$1 related to the 2013 data year and recorded the amount within the statement of operations in "General expenses and insurance taxes, licenses, and fees". In the 2014 data year, the Company estimated written health insurance premium of \$101 will be subject to the Section 9010 fee and estimates the portion of the annual fee payable by the Company on September 30, 2015, will be approximately \$2. This amount is reflected in special surplus at December 31, 2014, and will be recognized as a liability and expense on January 1, 2015. The 2015 estimated assessment recorded in special surplus would not have triggered an RBC action level if it had been recognized in 2014.

In December 2014, the NAIC issued SSAP No. 107, *Accounting for the Risk-Sharing Provisions of the Affordable Care Act*, with an effective date of December 15, 2014. The ACA imposes fees and premium stabilization provisions on health insurance issuers offering commercial health insurance. This statement provides accounting for three programs known as the risk adjustment, reinsurance, and risk corridors that took effect in 2014. Risk adjustment is a permanent risk-spreading program (ACA Section 1343). The temporary transitional reinsurance program (ACA Section 1341) and temporary risk corridors program (ACA 1342) are for years 2014 through 2016. The Company is not a participant in the health insurance exchanges, but is subject to fees under the transitional reinsurance program (ACA 1341). The adoption of this guidance did not have a material impact on the Company's statutory-basis financial statements.

2. INVESTMENTS

Net investment income for the years ended December 31, 2014 and 2013, is summarized as follows:

	2014	2013
Bonds	\$ 125,695	\$ 117,896
Preferred stock—affiliated	2,671	2,671
Common stock—affiliated	6,967	5,487
Contract loans	10,475	9,451
Cash and short-term investments	361	402
Other invested assets	390	626
Gross investment income	145,549	136,533
Less investment expenses	24,368	22,385
Net investment income	\$ 121,181	\$ 114,148

The cost or amortized cost, gross unrealized gains and losses and fair value of bonds and unaffiliated common stock as of December 31, 2014 and 2013, are as follows:

	2014				
	Book/Adj Carrying Value	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government	\$ 2,930	\$ 2,930	\$ 1	\$ —	\$ 2,931
Other government	17,174	17,174	1,186	(1)	18,359
Mortgage-backed securities	634	634	23	—	657
U.S. political subdivisions	22,208	22,208	3,459	—	25,667
U.S. special revenues	51,969	51,969	10,983	—	62,952
Industrial and miscellaneous	2,026,341	2,026,341	265,530	(14,098)	2,277,773
Asset-backed securities	6,277	6,277	507	—	6,784
Hybrid securities	159,818	159,818	17,534	(51)	177,301
Total bonds	\$ 2,287,351	\$ 2,287,351	\$ 299,223	\$ (14,150)	\$ 2,572,424
Common stocks—unaffiliated	\$ 833	\$ 99	\$ 734	\$ —	\$ 833

	2013				
	Book/Adj Carrying Value	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government	\$ 3,081	\$ 3,081	\$ 1	\$ —	\$ 3,082
Other government	32,482	32,482	409	—	32,891
Mortgage-backed securities	867	867	29	(12)	884
U.S. political subdivisions	22,222	22,222	1,993	—	24,215
U.S. special revenues	51,963	51,963	3,325	—	55,288
Industrial and miscellaneous	1,844,567	1,844,567	115,843	(71,758)	1,888,652
Asset-backed securities	10,527	10,527	985	—	11,512
Hybrid securities	159,843	159,843	8,567	(1,437)	166,973
Total bonds	\$ 2,125,552	\$ 2,125,552	\$ 131,152	\$ (73,207)	\$ 2,183,497
Common stocks—unaffiliated	\$ 776	\$ 99	\$ 677	\$ —	\$ 776

The amortized cost of bonds at December 31, 2014 and 2013 includes adjustments for those securities that are other-than-temporarily impaired, if any. The book/adjusted carrying value includes additional adjustments for lower rated securities stated at the lower of amortized cost or fair value, if any. Additionally, at December 31, 2014, the Company did not have any bonds with non-admitted amounts.

At December 31, 2014 and 2013, the Company owned 100% of the outstanding stock of National Income Life Insurance Company (National Income). National Income is carried at its underlying statutory-basis equity of \$30,142 and \$35,678 at December 31, 2014 and 2013, respectively. National Income reported total statutory-basis assets of \$145,476 and \$132,508 at December 31, 2014 and 2013, respectively, and statutory-basis net income of approximately \$5,831 and \$4,991 for the years ended December 31, 2014 and 2013, respectively.

At December 31, 2014 and 2013, the Company owned 100% of the outstanding common stock of American Income Life Insurance Company Receivables Corp (AILRC). AILRC is carried at statutory-basis equity of \$0 at December 31, 2014 and 2013. AILRC has total statutory-basis assets of approximately \$0 at December 31, 2014 and 2013, and statutory-basis net income of approximately \$2,033 and \$2,096 for the years ended December 31, 2014 and 2013, respectively.

At December 31, 2014 and 2013, the Company owned 100% of the outstanding common stock of American Income Marketing Services (AIMS), whose only significant asset is a building, which is nonadmitted for statutory reporting purposes. AIMS had net income of \$0 during 2014 and 2013. The carrying value of this stock is \$0 at December 31, 2014, and December 31, 2013.

At December 31, 2014 and 2013, the Company owned 100% of the outstanding common stock of Union Heritage Life Assurance Company, Ltd. (UHL.) UHL was carried at adjusted equity of \$9,100 and \$12,508 at December 31, 2014 and 2013, respectively. UHL had a total net loss of approximately \$(1,906) and \$(1,600) for the years ended December 31, 2014 and 2013, respectively.

The book/adjusted carrying value and fair value of bonds at December 31, 2014, by contractual maturity, are shown below and include nonadmitted amounts of \$0. Expected and actual maturities will differ from contractual maturities because the issuers of such bonds may have the right to call or prepay obligations with or without call or prepayment penalties.

	Book/Adj Carrying Value	Fair Value
Due in one year or less	\$ 13,286	\$ 13,513
Due after one year through five years	52,961	58,334
Due after five years through ten years	131,545	146,444
Due after ten years through twenty years	512,318	605,012
Due after twenty years	1,570,330	1,741,680
Mortgage-backed and asset-backed securities	6,911	7,441
Total	<u>\$ 2,287,351</u>	<u>\$ 2,572,424</u>

Proceeds from sales of bonds during 2014 and 2013 were \$12,499 and \$41,203, respectively. Gross gains were realized on those sales of \$446 and \$3,347, in 2014 and 2013, respectively. Gross losses of \$130 and \$247 were realized on those sales in 2014 and 2013, respectively. Total net gains on calls and redemptions during 2014 and 2013 were \$1,259 and \$88, respectively.

The Company had bonds with book/adjusted carrying value of approximately \$213,230 and \$195,457 on deposit with various state insurance and governmental regulatory agencies as required by law at December 31, 2014 and 2013, respectively.

The Company participates in overnight reverse repurchase agreements in which an unaffiliated authorized broker purchases securities and then resells the next day. The Company's policy requires a minimum of 102% of the purchase price of the agreements to be maintained as collateral, in accordance with SSAP No. 103. The Company does not take possession of the collateral. As of December 31, 2014 the Company had no overnight reverse repurchase agreements.

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

These factors include the following:

- 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 cash flows

Among the facts and information considered in the process:

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

For asset-backed securities additional information is gathered and analysis performed of the individual underlying collateral and estimates of potential future collateral performance. Multiple cash flow scenarios are calculated based on various loss rate assumptions and used to assess the likelihood of future possible impairment.

During 2014 and 2013, the Company did not write down any individual security holdings to fair value as a result of other-than-temporary impairment.

The following table discloses unrealized investment losses by class of investment at December 31, 2014 and 2013. The Company considers these investments to be only temporarily impaired.

Analysis of Gross Unrealized Investment Losses						
At December 31, 2014						
Description of Securities	Less than Twelve Months		Twelve Months or Longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Fixed maturities:						
Other government	\$ —	\$ —	\$ 800	\$ (1)	\$ 800	\$ (1)
Mortgage-backed securities	—	—	—	—	—	—
Industrial and miscellaneous	104,896	(4,155)	226,262	(9,943)	331,158	(14,098)
Hybrid securities	—	—	2,810	(51)	2,810	(51)
Total unrealized losses	\$ 104,896	\$ (4,155)	\$ 229,872	\$ (9,995)	\$ 334,768	\$ (14,150)

Analysis of Gross Unrealized Investment Losses

At December 31, 2013

Description of Securities	Less than Twelve Months		Twelve Months or Longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Fixed maturities:						
Other government	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Mortgage-backed securities	—	—	617	(12)	617	(12)
Industrial and miscellaneous	552,421	(45,738)	141,408	(26,020)	693,829	(71,758)
Hybrid securities	20,098	(373)	11,841	(1,064)	31,939	(1,437)
Total unrealized losses	\$ 572,519	\$ (46,111)	\$ 153,866	\$ (27,096)	\$ 726,385	\$ (73,207)

At December 31, 2014, the Company held 19 issues (CUSIP numbers) that had been in an unrealized loss position less than 12 months and 29 issues that had been in an unrealized loss position 12 months or longer. At December 31, 2014 and 2013, the Company's entire fixed maturity and equity portfolio consisted of 340 and 315 issues, respectively.

Included in the tables above are loan-backed and other structured securities that have an unrealized loss as of December 31, 2014 and 2013. Below are the aggregate amounts of loan-backed and other structured securities for the following:

	Less than 12 months		Greater than 12 months	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
2014	\$ —	\$ —	\$ 2,810	\$ (51)
2013	\$ 20,098	\$ (373)	\$ 6,699	\$ (731)

3. FAIR VALUE OF FINANCIAL INSTRUMENTS

The investments carried at fair value have been classified, for disclosure purposes, based on a hierarchy defined by SSAP No. 100, *Fair Value Measurements*. The hierarchy consists of three levels to indicate the quality of the fair value measurements as described below:

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

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

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

The great majority of the Company's fixed maturities are not actively traded and direct quotes are not generally available. Management therefore determines the fair values of these securities after consideration of data provided by third-party pricing services and independent broker/dealers. Approximately 96% of the fair value reported at December 31, 2014, 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 mean 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 mean quote and classifies the measurement as Level 2. At December 31, 2014 and 2013, 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 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 mean of the available quotes can be corroborated as evidence, then the value is reported as a Level 2. Otherwise, the value is classified as Level 3. The Company uses information and valuation techniques deemed appropriate for determining the point within the range of reasonable fair value estimates that is most representative of fair value under current market conditions. As of December 31, 2014 and 2013, fair value measurements classified as Level 3 represented 3.6% and 2.4% respectively, of unaffiliated bonds and equities.

During 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. Amortized cost was \$89,465 and \$53,369 as of December 31, 2014 and 2013, respectively. The portfolio manager provides valuations for the bonds based on a matrix utilizing observable inputs, such as the benchmark treasury rate and published sector indices, and unobservable inputs such as an internally-developed credit rating. If the unobservable inputs can be closely corroborated with publicly available information, the fair values are classified as Level 2. Otherwise, the fair values are classified as Level 3. As of December 31, 2014 and 2013, the fair value of these private placements was \$90,838 and \$51,315, respectively. The fair value measurements for all of these private placements were classified as Level 3 at December 31, 2014 and 2013.

NAIC SAP requires certain investments to be measured and reported at fair value. These include common stocks, bonds rated NAIC 6 and preferred stock rated NAIC 4-6 whose fair values are less than amortized cost, and loan-backed and other structured securities that are reported at fair value as a result of the modified filing exempt (FE) process.

The following tables summarize the investments measured and reported at fair value as of December 31, 2014 and 2013:

Description	Fair Value Measurements at December 31, 2014 Using:			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Assets at fair value:				
Common stock — Industrial and miscellaneous	\$ —	\$ —	\$ 833	\$ 833
Total	\$ —	\$ —	\$ 833	\$ 833

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 Unobservable Inputs (Level 3)	Total Fair Value
Assets at fair value:				
Common stock — industrial and miscellaneous	\$ —	\$ —	\$ 776	\$ 776
Total	\$ —	\$ —	\$ 776	\$ 776

The following table represents changes in assets measured and reported at fair value using significant unobservable inputs (Level 3):

	Analysis of Changes in Fair Value Measurements Using Significant Unobservable Inputs (Level 3)		
	Industrial and Miscellaneous	Common Stock	Total
Balance at January 1, 2013	\$ 6,414	\$ 739	\$ 7,153
Total gains or losses:			
Included in net income	—	—	—
Included in surplus	342	37	379
Purchases	—	—	—
Issuances	—	—	—
Sales	—	—	—
Settlements/amortization	(46)	—	(46)
Transfers into Level 3	—	—	—
Transfers out of Level 3	(6,710)	—	(6,710)
Balance at December 31, 2013	\$ —	\$ 776	\$ 776

Analysis of Changes in Fair Value Measurements Using Significant Unobservable Inputs (Level 3)			
	Industrial and Miscellaneous	Common Stock	Total
Balance at January 1, 2014	\$ —	\$ 776	\$ 776
Total gains or losses:			
Included in net income	—	—	—
Included in surplus	—	57	57
Purchases	—	—	—
Issuances	—	—	—
Sales	—	—	—
Settlements/amortization	—	—	—
Transfers into Level 3	—	—	—
Transfers out of Level 3	—	—	—
Balance at December 31, 2014	\$ —	\$ 833	\$ 833

Included in Level 3 are private placement common stocks for which observable market data are not available. During 2013, a loan-backed and other structured security that was measured and reported at fair value under the modified FE process was upgraded so that it was no longer required to be reported at fair value. In addition, it transferred out of Level 3 during 2013 due to the availability of observable market data.

The following table shows the fair values of all financial instruments by level within the fair value hierarchy as of December 31, 2014 and 2013:

2014						
Type of Financial Instrument	Admitted Assets/ Statement Value	Aggregate Fair Value	Level 1	Level 2	Level 3	Not Practicable (Carrying Value)
Assets:						
Bonds	\$ 2,287,351	\$ 2,572,424	\$ 15,788	\$ 2,465,818	\$ 90,838	\$ —
Preferred stock — affiliated	39,169	39,169	—	—	39,169	—
Common stock — unaffiliated	833	833	—	—	833	—
Contract loans	140,766	140,766	—	—	—	140,766
Cash, cash equivalents and short-term investments	37,208	37,208	37,208	—	—	—
Other invested assets:						
General partnership interest	3,236	3,236	—	—	3,236	—
LIHTC partnership interests	41,538	58,364	—	—	58,364	—
Surplus notes	7,077	7,453	—	7,453	—	—
Total assets	\$ 2,557,178	\$ 2,857,453	\$ 52,976	\$ 2,473,271	\$ 190,440	\$ 140,766
Liabilities — Borrowed funds — affiliated	(10,351)	(10,351)	—	(10,351)	—	—
Total liabilities	\$ (10,351)	\$ (10,351)	\$ —	\$ (10,351)	\$ —	\$ —

2013

Type of Financial Instrument	Admitted Assets/ Statement Value	Aggregate				Not Practicable (Carrying Value)
		Fair Value	Level 1	Level 2	Level 3	
Assets:						
Bonds	\$ 2,125,552	\$ 2,183,497	\$ 13,756	\$ 2,118,426	\$ 51,315	\$ —
Preferred stock — affiliated	39,189	39,169	—	—	39,189	—
Common stock — unaffiliated	776	776	—	—	776	—
Contract loans	127,796	127,796	—	—	—	127,796
Cash, cash equivalents and short-term investments	22,025	22,025	22,025	—	—	—
Other invested assets:						
General partnership interest	3,734	3,734	—	—	3,734	—
LIHTC partnership interests	43,828	52,234	—	—	52,234	—
Surplus notes	—	—	—	—	—	—
Total assets	\$ 2,362,880	\$ 2,429,231	\$ 35,781	\$ 2,118,426	\$ 147,228	\$ 127,796
Liabilities — Borrowed funds — affiliated						
	(277)	(277)	—	(277)	—	—
Total liabilities	\$ (277)	\$ (277)	\$ —	\$ (277)	\$ —	\$ —

There is no readily available market for the buying and selling of contract loans, making the determination of fair value not practicable.

Transfers between fair value levels are recognized as of the end of the reporting period in which they occur. During 2014 and 2013, the Company did not have any transfers between Levels 1 and 2 for assets measured and reported at fair value.

4. FUTURE POLICY BENEFITS AND REINSURANCE

Reserves for Life Contracts and Deposit-Type Contracts:

- The Company waives deduction of deferred fractional premiums upon death of the insured and returns any modal premium paid beyond the date of death. Surrender values are not promised in excess of the legally computed reserves.
- Extra premiums are charges for substandard lives plus the gross premium for a rate age or plus the gross premium for the true age. Mean reserves are determined by computing the regular mean reserve for the plan and in addition, one-half for the extra premium charge for the year for traditional products.
- At December 31, 2014 and 2013, the Company had insurance in force of \$323,857 and \$344,677, respectively, for which a premium deficiency reserve of \$2,049 and \$2,065, respectively, was recorded.
- The tabular interest, tabular less actual reserves released and tabular costs have been determined by formula as prescribed in the NAIC Annual Statement Instructions.
- For the determination of tabular interest on funds not involving life contingencies for each valuation rate of interest, the tabular interest is calculated as one hundredth of the product of such valuation rate of interest multiplied by the mean of the amount of funds subject to such valuation rate of interest held at the beginning and end of the year of valuation.

Analysis of Annuity Actuarial Reserves and Deposit Liabilities by Withdrawal

Characteristics — The amount of annuity actuarial reserves and deposit-type contract funds and other liabilities without life or disability contingencies at December 31, 2014 and 2013, are as follows:

	2014	2013
Subject to discretionary withdrawal—at book value less current surrender charge of 5% or more	\$ —	\$ —
Total with adjustment at market value	—	—
At book value without adjustment	86,691	83,392
Not subject to discretionary withdrawal	93	97
Total gross	86,784	83,489
Reinsurance ceded	—	—
Total net	\$ 86,784	\$ 83,489

The following information is obtained from the annual statement which is filed with the Department, and is provided to reconcile annuity reserves and deposit-type contract funds and other liabilities without life or disability contingencies to amounts reported in the statutory-basis statements of admitted assets, liabilities, capital and surplus as of December 31, 2014 and 2013, are as follows:

	2014	2013
Life and annuity and health annual statement:		
Exhibit 5—annuities section—total (net)	\$ 330	\$ 359
Exhibit 5—supplementary contracts with life contingencies section—total (net)	93	97
Exhibit of deposit-type contracts—column 1, line 14	86,361	83,033
Total	\$ 86,784	\$ 83,489

Change in Incurred Losses and Loss Adjustment Expenses — The activity in the liability for policy and contract claims for accident and health policies for the year ended December 31, 2014 and 2013, is summarized as follows:

	2014	2013
Balance at January 1—net of reinsurance recoverables	\$ 11,742	\$ 13,333
Incurred related to:		
Current year	23,276	24,316
Prior years	599	(1,182)
Total incurred	23,875	23,134
Paid related to:		
Current year	13,508	14,998
Prior years	9,369	9,727
Total paid	22,897	24,725
Balance at December 31—net of reinsurance recoverables	\$ 12,720	\$ 11,742

The development of prior year claims in 2014 and 2013 reflects normal changes in actuarial estimates.

The balance in the liability for unpaid accident and health claim adjustment expenses as of December 31, 2014 and December 31, 2013 was \$208 and \$228, respectively.

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, 2014 and 2013, 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 in the United States on or after the effective date. The Company will retain, control, and own all assets for the modified coinsurance reserve. For the years ended December 31, 2014 and 2013, the Company's statement of operations reflected the following reinsurance adjustments for the reinsurance ceded:

	2014	2013
Premiums ceded	\$ 42,471	\$ 13,806
Death benefits ceded	2,037	197
Commission and expense allowances ceded	43,912	34,641
Reserve adjustments on reinsurance ceded	4,928	(1,295)

Amounts reflected on the accompanying statements of admitted assets, liabilities and capital and surplus at December 31, 2014 and 2013 include:

	2014	2013
Uncollected premiums	\$ (9,407)	\$ (10,281)
Payable on reinsurance ceded	(1,565)	(903)
Policy and contract claims recoverable	947	197
Commission and expense allowance receivable	4,231	23,604

Effective January 1, 2014, the Company entered into a reinsurance agreement with an affiliate, Family Heritage Life Insurance Company of America (Family Heritage). The agreement is on a coinsurance basis and the Company cedes to Family Heritage, on a 50% quota share basis, the risks on life insurance policies issued in the United States on or after the effective date. For the year ended December 31, 2014, the Company's statement of operations reflected the following reinsurance adjustments for the reinsurance ceded:

	2014
Premiums ceded	\$ 61,417
Death benefits ceded	1,227
Commission and expense allowances ceded	64,938

Amounts reflected on the accompanying statements of admitted assets, liabilities and capital and surplus at December 31, 2014 include:

	<u>2014</u>
Premiums ceded payable	\$ (17,288)
Death benefits recoverable	(700)
Commission and expense allowance receivable	28,201

Ceded Reinsurance Report:

Section 1—General Interrogatories

- Are any of the reinsurers, listed in Schedule S as nonaffiliated, owned in excess of 10% or controlled, either directly or indirectly, by the Company or by any representative, officer, trustee, or director of the Company?

Yes () No (X)

- Have any of the policies issued by the Company been reinsured with a company chartered in a country other than the United States (excluding U.S. Branches of such companies) which is owned in excess of 10% or controlled directly or indirectly by an insured, a beneficiary, a creditor or an insured or any other person not primarily engaged in insurance business?

Yes () No (X)

Section 2—Ceded Reinsurance Report—Part A

- Does the Company have any reinsurance agreements in effect under which the reinsurer may unilaterally cancel any reinsurance for reasons other than for nonpayment of premium or other similar credits?

Yes () No (X)

- Does the Company have any reinsurance agreements in effect such that the amount of losses paid or accrued through the statement date may result in payment to the reinsurer of amounts which, in aggregate and allowing for offset of mutual credits from other reinsurance agreements with the same reinsurer, exceed the total direct premium collected under the reinsured policies?

Yes () No (X)

Section 3—Ceded Reinsurance Report—Part B

- What is the estimated amount of the aggregate reduction in surplus, for agreements, not reflected in Section 2 above, of termination of all reinsurance agreements, by either party, as of the date of this statement? Where necessary, the Company may consider the current or anticipated experience of the business reinsured in making the estimate.

None.

- Have any new agreements been executed or existing agreements amended, since January 1 of the year of this statement, to include policies and contracts which were in-force or which had existing reserves established by the Company as of the effective date of the agreement?

Yes () No (X)

5. PREMIUM AND ANNUITY CONSIDERATIONS DEFERRED AND UNCOLLECTED

Deferred and uncollected life insurance premiums and annuity considerations as of December 31, 2014 and 2013, were as follows:

	2014			2013		
	Gross	Loading	Net of Loading	Gross	Loading	Net of Loading
Ordinary new business	\$ 68,301	\$ (58,032)	\$ 10,269	\$ 57,898	\$ (47,726)	\$ 10,172
Ordinary renewal	295,096	(111,502)	183,594	277,248	(104,424)	172,824
Group life	373	(188)	185	227	(78)	149
Ceded life - new business	(29,457)	25,207	(4,250)	(10,281)	—	(10,281)
Total	\$ 334,313	\$ (144,515)	\$ 189,798	\$ 325,092	\$ (152,228)	\$ 172,864

The Company had no direct written premiums from managing general agents in 2014 or 2013.

6. INCOME TAXES

A. The components of the net deferred tax asset/(liability) at December 31 are as follows:

	December 31, 2014			December 31, 2013			Change	
	(1)	(2)	(3) (Col 1+2)	(4)	(5)	(6) (Col 4+5)	(7) (Col 1-4) Ordinary	(8) (Col 2-6) Capital
	Ordinary	Capital	Total	Ordinary	Capital	Total	Ordinary	Capital
(a) Gross deferred tax assets	178,121	1,210	179,331	\$ 164,698	\$ 300	\$ 164,998	\$ 13,423	\$ 910
(b) Statutory valuation allowance adjustments	—	—	—	—	—	—	—	—
(c) Adjusted gross deferred tax assets (1a-1b)	178,121	1,210	179,331	164,698	300	164,998	13,423	910
(d) Deferred tax assets nonadmitted	—	—	—	—	—	—	—	—
(e) Subtotal net admitted deferred tax asset (1c-1d)	178,121	1,210	179,331	164,698	300	164,998	13,423	910
(f) Deferred tax liabilities	156,328	495	156,823	134,403	321	134,724	21,925	174
(f) Net admitted deferred tax asset (net deferred tax liability) (1e-1f)	21,793	715	22,508	\$ 30,295	\$ (21)	\$ 30,274	\$ (8,502)	\$ 736
								\$ (7,766)

The Company has not established a statutory valuation allowance in determining its adjusted gross deferred tax assets as management believes that it is more likely than not that all of its gross deferred tax assets will be realized.

The amount of admitted adjusted gross deferred tax assets under each component of SSAP No. 101 are presented below.

2.

	December 31, 2014				December 31, 2013				Change	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
	Ordinary	Capital	Total	Ordinary	Capital	Total	Ordinary	Capital	Total	
Admission Calculation Components SSAP No. 101										
(a) Federal income taxes paid in prior years recoverable through loss carrybacks.	\$43,169	\$613	\$43,782	\$39,987	\$300	\$40,287	\$3,182	\$313	\$3,495	
(b) Adjusted gross deferred tax assets expected to be realized (excluding the amount of deferred tax assets from 2(a) above) after application of the threshold limitation (The lesser of 2(b)(1) and 2(b)(2) below).	\$—	\$597	\$597	\$—	\$—	\$—	\$—	\$597	\$597	
1. Adjusted gross deferred tax assets expected to be realized following the balance sheet date.	\$—	\$597	\$597	\$—	\$—	\$—	\$—	\$597	\$597	
2. Adjusted gross deferred tax assets allowed per limitation threshold.	XXX	XXX	\$597	XXX	XXX	\$—	XXX	XXX	XXX	\$597
(c) Adjusted gross deferred tax assets (excluding the amount of deferred tax assets from 2(a) and 2(b) above) offset by gross deferred tax liabilities.	\$134,952	\$—	\$134,952	\$124,711	\$—	\$124,711	\$10,241	\$—	\$10,241	
(d) Deferred tax assets admitted as the result of application of SSAP No. 101. Total (2(a) + 2(b) + 2(c))	\$178,121	\$1,210	\$179,331	\$164,698	\$300	\$164,998	\$13,423	\$910	\$14,333	

3.

	2014	2013
(a) Ratio percentage used to determine recovery period and threshold limitation amount.	565%	565%
(b) Amount of adjusted capital and surplus used to determine recovery period and threshold limitation in 2(b)(2) above.	\$218,920	\$208,834

4. Impact of Tax Planning Strategies

	December 31, 2014				December 31, 2013				Change	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(Col 1-3)	(Col 2-4)
	Ordinary Percent	Capital Percent	Ordinary Percent	Capital Percent	Ordinary Percent	Capital Percent	Ordinary Percent	Capital Percent	Ordinary Percent	Capital Percent
(a) Determination of adjusted gross deferred tax assets and net admitted deferred tax assets, by tax character as a percentage.										
1. Adjusted gross DTAs amount from Note 6A1(c)										
2. Percentage of adjusted gross DTAs by tax character attributable to the impact of tax planning strategies	—%	100%	—%	—%	100%	—%	—%	—%	—%	—%
3. Net admitted adjusted gross DTAs amount from Note 6A1(e)	\$ 178,121	\$ 1,210	\$ 184,898	\$ 300	\$ 13,423	\$ 910				
4. Percentage of net admitted adjusted gross DTAs by tax character admitted because of the impact of tax planning strategies	—%	100%	—%	—%	100%	—%	—%	—%	—%	—%
(b) Does the Company's tax planning strategies include the use of reinsurance?	No									

B. There are no temporary differences for which deferred tax liabilities are not recognized.

C. The change in deferred income taxes reported in surplus before consideration of nonadmitted asset is comprised of the following components:

	December 31, 2014				December 31, 2013				Change	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
	Ordinary	Capital	(Col 1+2)	Ordinary	Capital	(Col 4+5)	Ordinary	Capital	(Col 7+8)	Total
Net deferred tax asset (liability)	\$ 21,793	\$ 715	\$ 22,508	\$ 30,295	\$ (21)	\$ 30,274	\$ (8,502)	\$ 736	\$ (7,766)	
- Tax-effect of unrealized gains and losses	13,335	(257)	13,078	18,595	(237)	18,358	(5,260)	(20)	(5,280)	
- Tax-effect of other surplus gains and losses	—	—	—	—	—	—	—	—	—	
Net tax-effect without unrealized gains and losses and prior period adjustments	\$ 8,458	\$ 972	\$ 9,430	\$ 11,700	\$ 216	\$ 11,916	\$ (3,242)	\$ 756	\$ (2,486)	

D. Current income taxes incurred consist of the following major components:

	(1) December 31, 2014	(2) December 31, 2013	(3) (Col 1-2) Change
1. Current income tax:			
(a) Federal	\$ 58,270	\$ 58,391	\$ (121)
(b) Foreign	—	—	—
(c) Subtotal	58,270	58,391	(121)
(d) Federal income tax on net capital gains	538	1,110	(572)
(e) Utilization of capital loss carry-forwards	—	—	—
(f) Other	—	—	—
(g) Federal and foreign income taxes incurred	58,808	59,501	(693)
2. Deferred tax assets:			
(a) Ordinary			
(1) Discounting of unpaid losses	—	—	—
(2) Unearned premium reserve	—	—	—
(3) Policyholder reserves	73,178	83,024	10,154
(4) Investments	—	—	—
(5) Deferred acquisition costs	89,057	82,278	6,779
(6) Policyholder dividends accrual	6	3	3
(7) Fixed assets	246	67	179
(8) Compensation and benefits accrual	406	381	25
(9) Pension accrual	—	—	—
(10) Receivables — nonadmitted	—	—	—
(11) Net operating loss carry-forward	—	—	—
(12) Tax credit carry-forward	—	—	—
(13) Unrealized gains (losses)	4,745	2,581	2,164
(14) Unrealized gains (loss) on foreign exchange	8,580	16,014	(7,424)
(15) Other (including items <5% of total ordinary tax assets)	1,893	350	1,543
(99) Subtotal	178,121	164,698	13,423
(b) Statutory valuation allowance adjustment	—	—	—
(c) Nonadmitted	—	—	—
(d) Admitted ordinary deferred tax assets (2a99 - 2b - 2c)	178,121	164,698	13,423
(e) Capital:			
(1) Investments	1,210	300	910
(2) Net capital loss carry-forward	—	—	—
(3) Real estate	—	—	—
(4) Other (including items <5% of total capital tax assets)	—	—	—
(99) Subtotal	1,210	300	910
(f) Statutory valuation allowance adjustment	—	—	—
(g) Nonadmitted	—	—	—
(h) Admitted capital deferred tax assets (2e99 - 2f - 2g)	1,210	300	910
(i) Admitted deferred tax assets (2d + 2b)	179,331	164,998	14,333

3. Deferred tax liabilities:

	(1) December 31, 2014	(2) December 31, 2013	(3) (Col 1-2) Change
(a) Ordinary			
(1) Investments	868	733	135
(2) Fixed assets	—	—	—
(3) Deferred and uncollected premium	66,429	64,101	2,328
(4) Policyholder reserves	2,199	1,084	1,115
(5) Deferred compensation	—	566	(566)
(6) Agent advances	85,770	66,966	18,804
(7) Other (including items <5% of total ordinary tax liabilities)	1,062	953	109
(99) Subtotal	156,328	134,403	21,925
(b) Capital:			
(1) Investments	238	84	154
(2) Real estate	—	—	—
(3) Unrealized gains (losses)	257	237	20
(4) Other (including items <5% of total capital tax liabilities)	—	—	—
(99) Subtotal	495	321	174
(c) Deferred tax liabilities (3a99 + 3b99)	156,823	134,724	22,099
4. Net deferred tax assets/liabilities (2i - 3c)	\$ 22,508	\$ 30,274	\$ (7,766)

E. Among the more significant book to tax adjustments were the following:

	(1) December 31, 2014	(2) December 31, 2013	(3) (Col 1-2) Change
(1) Current income taxes incurred	\$ 58,808	\$ 59,501	\$ (693)
(2) Change in deferred income tax (without tax on unrealized gains and losses and surplus adjustments)	2,486	(1,920)	4,406
(3) Total income tax reported	<u>\$ 61,294</u>	<u>\$ 57,581</u>	<u>\$ 3,713</u>
(4) Net gain from operations before federal income tax and realized gains	\$ 208,839	\$ 191,329	\$ 18,510
(5) Realized capital gains (losses) before federal income tax, after transfer to IMR	618	800	(182)
(6) Income before taxes	210,457	192,129	18,328
	35%	35%	35%
Expected income tax expense (benefit) at 35% statutory rate	73,660	67,245	6,415
(7) Increase (decrease) in actual tax reported resulting from:			
a. Dividends received deduction	(935)	(935)	—
b. Adjustment for equity in subsidiaries	(2,085)	(1,920)	(165)
c. Nondeductible expenses for meals, penalties, and lobbying	167	139	28
d. Tax-exempt income	—	—	—
e. Tax adjustment for IMR	(63)	515	(578)
f. Employee stock options	(848)	(1,010)	171
g. Deferred tax benefit on nonadmitted assets	(134)	(134)	—
h. Tax credits	(7,993)	(7,191)	(802)
i. Prior year adjustments	(52)	871	(923)
j. Canada interest refund	(353)	—	(353)
k. Other	(70)	9	(79)
(8) Total income tax reported	<u>\$ 61,294</u>	<u>\$ 57,581</u>	<u>\$ 3,713</u>

F. 1. As of December 31, 2014, the Company has no net operating loss or tax credit carryforwards.

2. The amount of Federal income taxes incurred that are available for recoupment in the event of future net losses are:

2014	\$ 58,409
2013	55,733
2012	38,205

3. The aggregate amount of deposits admitted under Section 6603 of the Internal Revenue Code is \$0 at December 31, 2014.

G. The Company's federal income tax return is consolidated with its ultimate parent, Torchmark, as well as its affiliated subsidiaries including: Liberty National Life Insurance Company, First United American Insurance Company, Globe Life And Accident Insurance Company, United American Insurance Company, National Income Life Insurance Company, TMK Buildings Corporation, Brown Service Funeral Homes Company, Inc., Torchmark Insurance Agency, Inc., Specialized Advertising

Group, Inc., Globe Marketing Services, Inc., ALLIC Receivables Corporation, American Income Marketing Services, Inc., Liberty National Auto Club, Inc., and TMK Re, Ltd.

Each company pays a share of the total tax liability determined as if computed separately. Companies that would report a loss are reimbursed to the extent that their losses are utilized by affiliates with taxable income. The calculation is made pursuant to Federal Income Tax Regulation 1.1552-1(a)(2) and 1.1502-33(d)(3)(ii).

The Company's income tax returns are routinely audited by the Internal Revenue Service (IRS). The statute of limitation for the assessment of additional tax is closed for all tax years prior to 2011. Management believes that adequate provision has been made in the statutory-basis financial statements for any potential assessments that may result from the completed examinations, future tax examinations, and other tax-related matters for all open tax years.

The Company currently does not have any tax contingencies that are required to be recognized in accordance with SSAP No. 5R, Liabilities, Contingencies and Impairments of Assets.

The Company's continuing practice is to recognize interest and/or penalties related to income tax matters in income tax expense. The Company did not recognize any interest income and/or expense related to income taxes in its statement of operations for 2014 and 2013. The Company does not have any accrued interest receivables and/or payables relating to prior year IRS examination settlements as of December 31, 2014 and 2013. The Company had no accrued penalties as of December 31, 2014.

7. EMPLOYEE BENEFIT PLANS

Defined Benefit Pension Plans — The Company has a funded noncontributory defined benefit plan for all hourly employees who have completed one year of service with the Company. Certain assets of the Company in the form of a guaranteed investment contract in the amount of \$15,027 were allocated in 2014 to pay future benefits. The benefits are set as a monthly amount for each year of service with the Company. Cost for the plan has been calculated on the projected unit credit actuarial cost method. Contributions are made periodically to fund plan obligations. All plan measurements are as of December 31 of the respective year.

The information about the Company's defined benefit pension plan as of December 31, 2014 and 2013, is as follows:

	2014	2013
Accumulated benefit obligation	\$ 23,668	\$ 16,244
Projected benefit obligation	23,668	16,244

Fair Value Measurements at December 31, 2014

Description for each class of plan assets	Level 1	Level 2	Level 3	Total
Unallocated insurance contract	\$ —	\$ 15,027	\$ —	\$ 15,027

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. Differences between assumptions and actual experience are included in actuarial gain or loss.

Weighted Average Pension Plan Assumptions

	2014	2013
<i>For benefit obligations — December 31 — discount rate</i>	4.23%	5.12%
<i>For periodic benefit cost for the year:</i>		
Discount rate	5.12	4.18
Expect long-term rate of return	6.25	6.25
Rate of compensation increase*	N/A	N/A

*The Company does not project a benefit obligation since the benefit formula for the plan does not contain a salary component.

The following table presents the components of net periodic pension cost at December 31, 2014 and 2013, for the defined benefit pension plan:

	2014	2013
Service cost	\$ 908	\$ 1,079
Interest cost	825	733
Expected return on assets	(870)	(822)
Amortization of transition asset	—	—
Amortization of prior service cost	326	329
Amortization of net loss	38	251
Net periodic benefit cost	\$ 1,227	\$ 1,570

The following table presents a reconciliation at December 31, 2014 and 2013, from the beginning to the end of the year of the accumulated benefit obligation of the defined benefit pension plan:

	2014	2013
Changes in benefit obligation:		
Obligation — beginning of year	\$ 16,244	\$ 17,763
Service cost	908	1,079
Interest cost	825	732
Actuarial (gain) loss	5,887	(3,168)
Benefits paid	(196)	(162)
Plan amendments	—	—
Obligation — end of year	23,668	16,244
Changes in plan assets:		
Fair value — beginning of year	13,769	13,277
Return on assets	654	654
Contributions	800	—
Benefits paid	(196)	(162)
Fair value — end of year	15,027	13,769
Funded status — end of year	\$ (8,641)	\$ (2,475)

The portion of unassigned surplus that is expected to be reflected in pension expense in 2015 is as follows:

	Defined Benefit Plan
Amortization of prior service cost	\$ 325
Amortization of net loss	435
Total	\$ 760

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
2015	\$ 343
2016	435
2017	470
2018	503
2019	597
2020-2024	4,821

Cost for the defined benefit pension plan has been calculated on the projected unit credit actuarial cost method. All plan measurements for the defined benefit plans are as of December 31 of the respective year. The defined benefit pension plan covering the hourly employees is funded. Contributions are made to fund the plan subject to minimums required by regulations and maximums allowed for tax purposes. Defined benefit plan contributions were \$800 in 2014 and \$0 in 2013. The Company estimates as of December 31, 2014, that it will contribute an amount not to exceed \$12,906 to the plan in 2015. The actual amount of the contribution may be different from this estimate.

Defined Contribution Plans — In addition to the defined benefit plans, the Company has a qualified 401(k) and profit sharing plan for its exempt employees. The Company makes annual contributions to the plan of six percent 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, 2014 and 2013, Company contributions totaled \$945 and \$841, 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 \$44 and \$202 for 2014 and 2013, respectively, as its annual share of this plan. The Company's liability under this plan was \$776 and \$617 as of December 31, 2014 and 2013, respectively.

8. INFORMATION CONCERNING PARENT, SUBSIDIARIES, AND AFFILIATES

The Company has an investment management agreement with its parent company, Torchmark. In 2014 and 2013, the Company was charged a fee of \$3,804 and \$3,564, respectively, based on the total value of the securities managed. In addition, the Company paid \$9,144 and \$8,043 in 2014 and 2013, respectively, to Torchmark for reimbursement of general and administrative expenses incurred

on its behalf. The Company also incurred \$2,054 and \$1,891 in 2014 and 2013, respectively, of interest on borrowed funds from Torchmark and its subsidiaries.

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, 2014 and 2013, respectively. The carrying value of the stock was \$39,169 at December 31, 2014 and 2013. The Company received cash dividends of \$1,300 for the 6.5% Cumulative Preferred Stock and \$1,371 for the 7.15% Cumulative Preferred Stock during 2014 and 2013. The Indiana Department of Insurance limits the Company's carrying value of investment in affiliated preferred stock to 2% of prior year total admitted assets. No amounts were required to be nonadmitted at December 31, 2014 or 2013.

The Company has agreed to provide National Income Life Insurance Company, a subsidiary of the Company, certain legal, actuarial, marketing and other services with respect to National Income's life and accident and health business. In 2014 and 2013, the Company charged a fee of \$3,578 and \$3,641, respectively, for these services. The Company also services the agent balance receivables on behalf of another of its subsidiaries, American Income Life Insurance Company Receivables Corp (AILRC). In 2014 and 2013, the Company charged AILRC \$1,120 and \$1,016, respectively, for these services.

During 2014 and 2013, the Company sold agents' balances totaling \$260,592 and \$223,226, respectively, to its subsidiary American Income Life Insurance Company Receivables Corp (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 \$10,969 and \$10,401 was recorded in 2014 and 2013, 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 2014 and 2013 with agent balances receivable and outstanding of \$125,000 at December 31, 2014 and 2013.

During 2012, the Company applied for and obtained approval from the Indiana Insurance Commissioner to issue surplus notes in the aggregate of \$50,000. The Company issued a \$25,000 par value surplus note to Torchmark on December 31, 2012. The surplus note was issued with an interest rate of 5.25% and a maturity date of December 31, 2042. The carrying value of the surplus note was \$25,000, at December 31, 2014 and 2013. The surplus note has the following repayment conditions and restrictions: 1) Payments of principal and interest can only be made from the issuer's available surplus when the amount of surplus over all liabilities is equal to or greater than the surplus existing immediately after the issuance of the surplus note; and 2) payments can only be made with the prior approval of the Indiana Insurance Commissioner. Semi-annual interest payments are due in April and October.

The surplus note is a direct, unsecured obligation of the Company. In the event of liquidation, the note is subordinate to holders of policy claims, other indebtedness and other creditor claims.

The surplus note was issued in a transaction exempt from registration under the United States Securities Act of 1933. The entire amount of the note is held by the Company's parent, Torchmark. All proceeds were received in cash. Interest expense of \$1,312 and \$1,039 in 2014 and 2013, respectively related to this surplus note is included in the accompanying statutory-basis financial statements. Total interest paid since inception of the note is \$2,351.

The Company borrowed \$30,000, \$20,000, and \$25,000 at an interest rate of 3.25%, 3.25%, and 3.25% on March 19, September 17, and October 9 from Globe Life and Accident Insurance Company, an affiliate of the Company. The first and second borrowings were repaid in full on September 17 and October 3, 2014, respectively. \$15,000 of the third borrowing was repaid on November 12, 2014 and the remaining \$10,000 was repaid in full on January 7, 2015.

The Company borrowed \$10,000, and \$26,000 at an interest rate of 3.25% on April 15 and June 18, 2014 from Liberty National Insurance Company, an affiliate of the Company. The borrowings were paid in full on May 1 and August 15, 2014 respectively.

The Company borrowed \$25,857 and \$25,834 at an interest rate of 0.00% on June 18 and July 18, respectively from Torchmark Corporation. The borrowings were repaid in full on June 18 and July 31, 2014 respectively.

The Company borrowed \$10,000 at an interest rate of 3.25% on June 13, 2014 from United American Insurance Company, an affiliate of the Company. The borrowing was repaid in full on June 24, 2014.

American Income Marketing Services Inc., a subsidiary of the Company, borrowed \$1,300, \$1,200, \$1,200, and \$1,500 at an interest rate of 3.25% from the Company on August 23, 2013, February 21, 2014, August 15, 2014, and December 16, 2014. The first borrowing was repaid on February 21, 2014. The second and third borrowings were repaid in full on August 15 and December 16, 2014, respectively. The last borrowing has a scheduled maturity date of June 16, 2015.

Torchmark Corporation borrowed \$20,000 at an interest rate of 3.25% from the Company on March 5, 2014. The borrowing was repaid in full on March 28, 2014.

United American Insurance Company borrowed \$5,000 at an interest rate of 3.25% from the Company on November 28, 2014. The borrowing was repaid in full on December 1, 2014.

All transactions with affiliates as of and for the years ended December 31, 2014 and 2013, are summarized as follows:

2014	Receivable	Payable	Revenue	Expense
National Income	\$ 856	\$ —	\$ 3,578	\$ —
United American	1	641	—	10
Globe Life	8	10,087	—	616
Liberty National Life	14	—	—	116
Torchmark	1,187	277	44	14,260
Union Heritage Life	3	—	—	—
Family Heritage Life	7	—	—	—
AILRC	5,102	—	1,120	10,969
AIMS	1,500	—	—	—
	\$ 8,678	\$ 11,005	\$ 4,742	\$ 25,971

2013	Receivable	Payable	Revenue	Expense
National Income	\$ 1,288	\$ —	\$ 3,641	\$ —
United American	—	554	—	22
Globe Life	43	14	—	48
Liberty National Life	17	—	—	235
Torchmark	220	277	73	13,193
Union Heritage Life	—	—	—	—
AILRC	1,564	—	1,016	10,401
AIMS	1,200	—	—	—
	\$ 4,332	\$ 845	\$ 4,730	\$ 23,899

9. CAPITAL AND SURPLUS AND SHAREHOLDER'S DIVIDEND RESTRICTIONS

The Company has 23,360 common shares authorized and 11,680 common shares issued outstanding. All shares are Class A shares.

During 2013, the ownership of the Company was transferred from Globe to Torchmark (Note 1). The Company declared and paid \$0 and \$96,333 in dividends to Globe during the years ended December 31, 2014 and 2013, respectively. The Company declared and paid \$132,938 and \$25,817 in dividends to Torchmark during the year ended December 31, 2014 and 2013, respectively.

Statutory regulations limit the payment of dividends by stock life insurance companies in any one year to an amount equal to the greater of statutory net gain from operations from the previous year or 10% of surplus reported for the previous year. Dividends in excess of these limitations are not available without special approval of the regulatory authorities. The maximum dividend the Company can make without prior approval in 2015 is approximately \$151,568.

The portion of unassigned surplus reduced by each item below is as follows:

	2014	2013
Nonadmitted asset values	\$ (11,934)	\$ (11,552)
Asset valuation reserve	(21,030)	(18,806)
Net unrealized gains — net of tax	(40,345)	(24,831)

10. COMMITMENTS AND CONTINGENCIES

Lease Commitments—As of December 31, 2014, the Company is obligated under operating leases for the following amounts:

Years Ending December 31	
2015	\$ 219
2016	218
2017	169
2018	97
2019	97
Total	<u>\$ 800</u>

Lease expense included in general expenses was \$200 and \$235, for the years ended December 31, 2014 and 2013, respectively.

Litigation — 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 statutory-basis financial position, results of operations or cash flows.

During 2014, the Company paid \$39 to settle three claims related to extra contractual obligations or bad faith claims stemming from lawsuits.

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

Martha Hoover and Frances Williams, individually and on behalf of all other similarly situated individuals in the State of California vs. American Income Life Insurance Company, et al, Superior Court of San Bernardino County, California. The Company continues to defend the Hoover putative class action lawsuit in which independently contracted agents allege that they were treated as employees. Last year the Company received an opinion from the Court of Appeals as to the lower Court's denial of the Company's motion to exercise the arbitration clauses of the agent contracts. The appellate court's opinion denied arbitration as to Hoover, but clarified that the denial of arbitration applied specifically to Hoover, and did not necessarily apply to other, unnamed class members because the denial was based on Ms. Hoover's own record, which reflects the experience of an agent who was not contracted long and had limited sales activity. The Company filed a petition with the California Supreme Court asking for review of this matter on a "grant and hold" basis, meaning that the Court would grant the review now but hold its review until the Court reviews other cases involving the scope of arbitration issues. The California Supreme Court denied the petition on September 12, 2012, but to secure the denial, Hoover's attorneys admitted the Court of Appeal's opinion was fact-

specific to Ms. Hoover's situation and made no broader rulings as to the scope of arbitration generally. On May 27, 2014, the parties entered settlement discussions, and ultimately arrived at a settlement of the case during a November 25, 2014 mediation. In December 2014, the Court approved the settlement agreement, and proceeds were issued to the settlement class.

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 May 2014, the Company received a favorable judgment wherein its motion to compel arbitration was granted and the lawsuit was dismissed. The Company is currently preparing to arbitrate the Plaintiffs' claims in the near future.

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

Unclaimed Property Audits — The Torchmark insurance subsidiaries are undergoing unclaimed property audits by three separate audit teams covering all but four states. These audits require the subsidiaries to provide the auditors with certain policy data dating back to 1992, which data will be checked against the Social Security Death Master File to determine whether any unclaimed insurance benefits are due. The subsidiaries are currently meeting the deadlines to provide information to the outside audit firms. In a related matter, along with approximately 65 other insurers (including the Company's affiliates Globe Life and Accident Insurance Company and United American Insurance Company), the Company is defending a lawsuit brought by the Treasurer of West Virginia, which lawsuit alleges that the Company failed to identify unclaimed life insurance proceeds and make payments to the Treasurer's Office. As did many of the other defendants, the Company filed a motion to dismiss and stay the action. Counsel for the Treasurer of West Virginia has agreed with the Company's motion to stay the action during the pendency of the Torchmark subsidiaries' on-going unclaimed property audits. No estimate of range can be made at this time for loss contingencies related to possible administrative amounts or penalties that could be payable to the states for the escheatment of abandoned property.

11. ELECTRONIC DATA PROCESSING EQUIPMENT

Electronic data processing equipment (EDP) and operating and non-operating software at December 31, 2014 and 2013, consisted of the following:

	2014	2013
Electronic data processing equipment — net	\$ 462	\$ 42
System software — net	229	439
Balance — net	691	481
Total nonadmitted	229	439
Total admitted	\$ 462	\$ 42

Depreciation expense related to EDP and software totaled \$317 and \$252, for the years ended December 31, 2014 and 2013, respectively. The Company recorded total depreciation of \$412 and \$360, in 2014 and 2013, respectively.

12. FOREIGN EXCHANGE ADJUSTMENT

The Company is licensed to sell insurance in Canada and New Zealand. Invested assets held in Canada and New Zealand were \$246,078 and \$207,311 (U.S. dollars) at December 31, 2014 and 2013, respectively. The change in this foreign exchange adjustment, net of tax, of \$(1,514) and \$2,589 for the years ended December 31, 2014 and 2013, respectively, is included in the accompanying statutory-basis statements of changes in capital and surplus.

13. PARTICIPATING POLICIES

The Company does not currently write any participating business. The Company accounts for its policyholder dividends on an accrual basis consistent with SSAP 51, Life Contracts and SSAP 54, Individual and Group Accident and Health Contracts. The Company incurred dividends in the amount of \$35 and \$10 to life and annuity policyholders in 2014 and 2013, respectively, and did not allocate any additional income to such policyholders.

14. RECONCILIATION TO THE ANNUAL STATEMENT

The accompanying 2014 and 2013 statutory-basis financial statements differ from the amounts shown in the Company's statutory annual statement for 2014 and 2013, respectively. Following is a reconciliation of account balances as reported to state regulatory authorities to amounts reported herein:

Statements of Operations	2014
Increase in aggregate reserves for life and accident and health contracts as reported in the Company's annual statement	\$ 173,527
Adjustment to reclassify foreign exchange	22,416
Increase in aggregate reserves for future policy benefits as reported in the accompanying statutory-basis statements of operations	\$ 195,943
Foreign Currency Translation Adjustment as reported in the Company's annual statement	\$ 22,416
Adjustment to reclassify foreign exchange	(22,416)
Foreign Currency Translation Adjustment as reported in the accompanying statutory-basis statements of operations	\$ —

Statements of Operations

	<u>2013</u>
Increase in aggregate reserves for life and accident and health contracts as reported in the Company's annual statement	\$ 170,423
Adjustment to reclassify foreign exchange	<u>15,431</u>
Increase in aggregate reserves for future policy benefits as reported in the accompanying statutory-basis statements of operations	<u>185,854</u>
Foreign Currency Translation Adjustment as reported in the Company's annual statement	\$ 15,431
Adjustment to reclassify foreign exchange	<u>(15,431)</u>
Foreign Currency Translation Adjustment as reported in the accompanying statutory-basis statements of operations	<u>\$ —</u>

STATUTORY-BASIS SUPPLEMENTAL SCHEDULES
(See independent auditors' report)

AMERICAN INCOME LIFE INSURANCE COMPANY

SUPPLEMENTAL SCHEDULE OF INVESTMENT RISK INTERROGATORIES

AS OF DECEMBER 31, 2014

(Amounts in thousands)

1. The Company's total admitted assets are \$2,898,631.
2. Ten largest exposures to a single issue/borrower/investment:

	Issuer	Description of Exposure	Amount	Percentage of Total Admitted Assets
2.01	Torchmark Corp (Affiliated)	Stock	\$ 39,169	1.4%
2.02	Caterpillar, Inc	Bond	\$ 30,854	1.1%
2.03	National Income (Affiliated)	Stock	\$ 30,142	1.0%
2.04	Johnson Controls	Bond	\$ 26,616	0.9%
2.05	CSX Corp	Bond	\$ 25,766	0.9%
2.06	Chubb Corp	Bond	\$ 25,144	0.9%
2.07	SLM Corp	Bond	\$ 24,989	0.9%
2.08	Public Service Electric & Gas	Bond	\$ 24,846	0.9%
2.09	Vale Overseas Ltd	Bond	\$ 24,720	0.9%
2.10	Metlife Inc	Bond	\$ 24,665	0.9%

3. Amounts and percentages of the reporting entity's total admitted assets held in bonds and preferred stocks by NAIC rating.

	Bonds	1	2	Preferred Stocks	3	4
3.01	NAIC-1	\$ 1,014,213	35.0%	P/RP-1		
3.02	NAIC-2	\$ 1,175,760	40.6%	P/RP-2	\$ 39,169	1.4%
3.03	NAIC-3	\$ 70,029	2.4%	P/RP-3		
3.04	NAIC-4	\$ 21,625	0.7%	P/RP-4		
3.05	NAIC-5	\$ 5,725	0.2%	P/RP-5		
3.06	NAIC-6			P/RP-6		

(Continued)

4. Assets held in foreign investments:

4.01	Are assets held in foreign investments less than 2.5% of the reporting entity's total admitted assets?	Yes []	No [x]
4.02	Total admitted assets held in foreign investments.	\$ 219,731	7.6%
4.03	Foreign-currency-denominated investments.	\$ 16,634	0.6%
4.04	Insurance liabilities denominated in that same foreign currency.	\$ 25,467	0.9%

5. Aggregate foreign investment exposure categorized by NAIC sovereign rating:

5.01	Countries rated NAIC-1	\$ 203,838	7.0%
5.02	Countries rated NAIC-2	\$ 15,893	0.5%
5.03	Countries rated NAIC-3 or below		

6. Two largest foreign investment exposures in a single country, categorized by the country's NAIC sovereign rating:

Countries rated NAIC-1:			
6.01	Great Britain	\$ 41,768	1.4%
6.02	Cayman Islands	\$ 35,388	1.2%
Countries rated NAIC-2:			
6.03	Mexico	\$ 9,698	0.3%
6.04	Panama	\$ 5,995	0.2%
Countries rated NAIC-3 or below:			
6.05			
6.06			

7. Aggregate unhedged foreign currency exposure.

7.01	Aggregate unhedged foreign currency exposure	\$ 16,634	0.6%
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8. Aggregate unhedged foreign currency exposure categorized by NAIC sovereign rating.

8.01	Countries rated NAIC-1	\$ 16,634	0.6%
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9. Two largest unhedged foreign currency exposures to a single country, categorized by the country's NAIC sovereign rating.

Countries rated NAIC-1			
9.01	Country 1: New Zealand	\$ 16,634	0.6%

(Continued)

10. Largest non-sovereign (i.e. non-governmental) foreign issues:

	Issuer	NAIC Rating			
10.01	Vale Overseas	2FE	\$	24,720	0.9%
10.02	Rabobank Nederland	1FE	\$	20,386	0.7%
10.03	AXA	2FE	\$	16,343	0.6%
10.04	Tyco Electronics	1FE	\$	16,141	0.6%
10.05	United Utilities	2FE	\$	15,405	0.5%
10.06	Electricite De France	1FE	\$	15,113	0.5%
10.07	HSBC Bank USA	1FE	\$	10,168	0.4%
10.08	Heineken NV	2FE	\$	10,047	0.3%
10.09	BHP Billiton Fin USA	1FE	\$	9,939	0.3%
10.10	America Movil SAB DE CV	1FE	\$	9,898	0.3%

11. Amounts and percentages of the reporting entity's total admitted assets held in Canadian investments and unhedged Canadian currency exposure:

11.01	Are assets held in Canadian investments less than 2.5% of the reporting entity's total admitted assets?		Yes []	No [x]
11.02	Total admitted assets held in Canadian investments	\$	342,395	11.6%
11.03	Canadian-currency-denominated investments	\$	193,667	6.7%
11.04	Canadian-denominated insurance liabilities	\$	262,401	9.1%
11.05	Unhedged Canadian currency exposure	\$	193,667	6.7%

12. Report aggregate amounts and percentages of the reporting entity's total admitted assets held in investments with contractual sales restrictions:

12.01	Are assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets?		Yes [x]	No []
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(Continued)

13. Amounts and percentages of admitted assets held in the ten largest equity interests:

13.01	Are assets held in equity interest less than 2.5% of the reporting entities total admitted assets?		Yes []	No [x]
	Issuer			
13.02	Torchmark Corp (Affiliated)	\$ 39,169		1.4%
13.03	National Income (Affiliated)	\$ 30,142		1.0%
13.04	Union Heritage (Affiliated)	\$ 9,101		0.3%
13.05	The First Natl Bk McGregor	\$ 552		—%
13.06	The State Natl Bk	\$ 281		—%
13.07				
13.08				
13.09				
13.10				
13.11				

14. Amounts and percentages of the reporting entity's total admitted assets held in nonaffiliated, privately placed equities:

14.01	Are assets held in nonaffiliated, privately placed equities less than 2.5% of the reporting entity's total admitted assets?	Yes [x]	No []
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15. Amounts and percentages of the reporting entity's total admitted assets held in general partnership interests:

15.01	Are assets held in general partnership interests less than 2.5% of the reporting entity's total admitted assets?	Yes [x]	No []
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16. Amounts and percentages of the reporting entity's total admitted assets held in mortgage loans:

16.01	Are mortgage loans reported in Schedule B less than 2.5% of the reporting entity's total admitted assets?	Yes [x]	No []
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If response to 16.01 above is yes, responses are not required for the remainder of interrogatory 16 and interrogatory 17.

18. Amounts and percentages of the reporting entity's total admitted assets held in each of the five largest investments in real estate.

18.01	Are assets held in real estate reported in less than 2.5% of the reporting entity's total admitted assets?	Yes [x]	No []
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(Continued)

19. Report aggregate amounts and percentages of the reporting entity's total admitted assets held in investments held in mezzanine real estate loans.

19.01 Are assets held in investments held in mezzanine real estate less than 2.5% of the reporting entity's total admitted assets?

Yes ☒ [x]

No ☐ []

20. Amounts and percentages of the reporting entity's total admitted assets subject to the following types of agreements.

		At end of Each Quarter				
		At Year End		1st Quarter	2nd Quarter	3rd Quarter
		1	2	3	4	5
20.01	Securities lending agreements					
20.02	Repurchase agreements					
20.03	Reverse repurchase agreements	\$	—	\$ 37,800	\$ 6,000	\$ 4,200
20.04	Dollar repurchase agreements					
20.05	Dollar reverse repurchase agreements					

Interrogatories 21-23 are not applicable to the Company.

(Concluded)

AMERICAN INCOME LIFE INSURANCE COMPANY

SUPPLEMENTAL SUMMARY INVESTMENT SCHEDULE

AS OF DECEMBER 31, 2014

(Amounts in thousands)

Investment Categories	Gross Investment Holdings*	Admitted Assets as Reported in the Annual Statement
Bonds:		
U.S. treasury securities	\$ 2,930	\$ 2,930
Non-U.S. government (including Canada, excluding mortgage-backed securities)	17,174	17,174
Securities issued by states, territories, and possessions, and political subdivisions in the U.S.:		
Political subdivisions of states, territories and possessions and political subdivisions general obligations	22,208	22,208
Revenue and assessment obligations	51,989	51,989
Mortgage-backed securities (includes residential and commercial MBS):		
Pass-through securities:		
Issued or guaranteed by GNMA	175	175
Issued or guaranteed by FNMA and FHLMC	459	459
Other debt and other fixed income securities (excluding short-term):		
Unaffiliated domestic securities (includes credit tenant loans and hybrid securities)	1,647,484	1,647,484
Unaffiliated non-U.S. securities (including Canada)	544,952	544,952
Equity Interests:		
Preferred stock - affiliated	39,169	39,169
Common stock - affiliated	39,242	39,242
Common stock - unaffiliated	833	833
Real estate investments - property occupied by company	470	470
Contract loans	140,766	140,766
Cash, cash equivalents and short-term investments	37,208	37,208
Other invested assets	51,851	51,851
TOTAL INVESTED ASSETS	\$ 2,596,890	\$ 2,596,890

* Gross investment holdings as valued in compliance with NAIC Accounting Practices and Procedures Manual.

AMERICAN INCOME LIFE INSURANCE COMPANY**SUPPLEMENTAL SCHEDULE OF SELECTED STATUTORY-BASIS FINANCIAL DATA****AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2014****(Amounts in thousands)****INVESTMENT INCOME EARNED:**

Government bonds	\$ 24
Other bonds - unaffiliated	125,871
Preferred stocks - affiliated	2,871
Common stock - affiliated	5,957
Contract loans	10,475
Cash, cash equivalents and short-term investments	361
Other invested assets	390

GROSS INVESTMENT INCOME **\$ 145,549****REAL ESTATE OWNED - book value less encumbrances** **\$ 470****COMMON STOCKS OF SUBSIDIARIES - book value** **\$ 39,242****BONDS AND SHORT-TERM INVESTMENTS BY CLASS AND MATURITY:****Bonds and short-term investments by maturity - statement value:**

Due within one year or less	\$ 14,412
Over 1 year through 5 years	99,079
Over 5 years through 10 years	159,227
Over 10 years through 20 years	513,035
Over 20 years	1,501,598

Total by maturity **\$ 2,287,351****Bonds and short-term investments by class - statement value:**

Class 1 and exempt	\$ 1,014,213
Class 2	1,175,760
Class 3	70,029
Class 4	21,625
Class 5	5,724
Class 6	—

Total by class **\$ 2,287,351****TOTAL BONDS AND SHORT-TERM INVESTMENTS PUBLICLY TRADED** **\$ 1,931,998****TOTAL BONDS AND SHORT-TERM INVESTMENTS PRIVATELY PLACED** **\$ 355,353****PREFERRED STOCK - statement value** **\$ 39,169****COMMON STOCK - market value** **\$ 40,075****CASH ON DEPOSIT** **\$ 37,208**

AMERICAN INCOME LIFE INSURANCE COMPANY**SUPPLEMENTAL SCHEDULE OF SELECTED STATUTORY-BASIS FINANCIAL DATA****AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2014****(Amounts in thousands)****LIFE INSURANCE IN FORCE:**

Ordinary	<u>\$ 36,567,705</u>
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Group life	<u>\$ 191,135</u>
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AMOUNT OF ACCIDENTAL DEATH INSURANCE IN FORCE

UNDER ORDINARY POLICIES	<u>\$ 36,481,138</u>
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LIFE INSURANCE POLICIES WITH DISABILITY PROVISIONS IN FORCE:

Ordinary	<u>\$ 14,162,986</u>
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Group	<u>\$ 3,489</u>
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SUPPLEMENTARY CONTRACTS IN FORCE:

Ordinary - involving life contingencies income payable	<u>\$ 14</u>
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ANNUITIES - ordinary:

Deferred - fully paid account balance	<u>\$ 329</u>
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Deferred - not fully paid account balance	<u>\$ 1</u>
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ACCIDENT AND HEALTH INSURANCE - premiums in force:

Ordinary	<u>\$ 65,875</u>
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Group	<u>\$ 7,881</u>
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DEPOSIT FUNDS AND DIVIDEND ACCUMULATIONS:

Deposit funds - account balance	<u>\$ 84,394</u>
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Dividend accumulations - account balance	<u>\$ 1,533</u>
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(Continued)

AMERICAN INCOME LIFE INSURANCE COMPANY**SUPPLEMENTAL SCHEDULE OF SELECTED STATUTORY-BASIS FINANCIAL DATA****AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2014****(Amounts in thousands)****CLAIM PAYMENTS 2014:****Group accident and health:**

2014	\$ 4,696
2013	\$ 4,683
2012	\$ 6,053
2011 and prior	\$ 13,697

Other accident and health:

2014	\$ 8,812
2013	\$ 16,599
2012	\$ 18,502
2011 and prior	\$ 52,013

(Concluded)

American Income Life Insurance Company — New Zealand Branch

**Financial Statements as of and for the
Year Ended December 31, 2014, and
Independent Auditors' Report**

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

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the financial statements of American Income Life Insurance Company – New Zealand Branch on pages 3 to 24, which comprise the balance sheet as at 31 December 2014, 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. These services have not impaired our independence as auditor of the Branch. The firm has no other relationship with, or interest's in, American Income Life Insurance Company – New Zealand Branch.

Opinion

In our opinion, the financial statements on pages 3 to 24:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards; and
- give a true and fair view of the financial position of American Income Life Insurance Company – New Zealand Branch as at 31 December 2014, and its financial performance and its cash flows for the year ended on that date.

Emphasis of Matter

The New Zealand branch is part of the American Income Life Insurance Company. As described in Note 16, the assets held in the Home Office Account of the branch are legally available for the satisfaction of debts of the entire company, not solely those appearing on the accompanying balance sheet and its debts may result in claims against assets not appearing thereon. Our opinion is not qualified in respect of this matter.

Report on Other Legal and Regulatory Requirements

We also report in accordance with section 16 of the Financial Reporting Act 1993. In relation to our audit of the financial statements for the year ended 31 December 2014:

- we have obtained all the information and explanations we have required; and
- in our opinion proper accounting records have been kept by American Income Life Insurance Company – New Zealand Branch as far as appears from our examination of those records.

Chartered Accountants
12 June 2015
Christchurch, New Zealand

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

Financial Statements

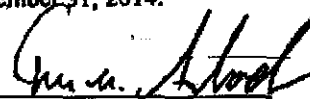
As of and for the year ended December 31, 2014

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, 2014.



Director



Director

For and on behalf of the Directors

Date: June 12, 2015

AMERICAN INCOME LIFE INSURANCE COMPANY NEW ZEALAND BRANCH

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES FOR THE YEAR ENDED DECEMBER 31, 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”). Note 16 to the financial statements provides further information in relation to 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 23.

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

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

These financial statements have been prepared in New Zealand dollars.

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

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

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

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

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

Standards and Interpretations Not Yet Effective — We are not aware of any other standards in issue but not yet effective which would materially impact the amounts recognised or disclosed in the financial statements.

Adoption of New and Revised Standards and Interpretations — The Branch has adopted all Standards, Interpretations and Amendments which have become effective in the current year which have not led to any changes in the Branch's accounting policies with measurement or recognition impact on the periods presented in these financial statements.

2. PARTICULAR ACCOUNTING POLICIES

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

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

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

- b) **Investments** — The government and other debt securities are stated at fair values, which were obtained from 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, 2014**

	2014	2013
INCOME:		
Premiums (Note 1)	\$ 24,762,701	\$ 24,542,987
Interest income on investments (Note 2)	1,078,666	353,970
Unrealized surplus (deficit) on revaluation of debt security investments to fair value	1,035,508	(142,947)
Other interest	<u>547,134</u>	<u>509,126</u>
	<u>27,424,009</u>	<u>25,263,136</u>
EXPENDITURE:		
Claims (Note 3)	5,108,748	4,571,969
Change in liability for future policy benefits (Note 15)	6,529,158	(4,587,077)
Commissions (Note 4)	10,142,324	10,511,621
Management expenses (Note 5)	<u>4,054,085</u>	<u>4,383,608</u>
	<u>25,834,315</u>	<u>14,880,121</u>
PROFIT BEFORE TAXATION	1,589,694	10,383,015
TAXATION (Note 13)	<u>293,497</u>	<u>220,431</u>
PROFIT AFTER TAXATION ATTRIBUTABLE TO HEAD OFFICE (Note 6)	<u>\$ 1,296,197</u>	<u>\$ 10,162,584</u>
TOTAL COMPREHENSIVE PROFIT	<u>\$ 1,296,197</u>	<u>\$ 10,162,584</u>

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, 2014**

	2014	2013
BALANCE — Beginning of the year	<u>\$52,220,784</u>	<u>\$38,681,879</u>
Contributions from the home office:		
General advances (Note 9)	534,401	604,247
Expenses paid on behalf of the Branch (Note 9)	<u>2,657,670</u>	<u>2,772,074</u>
	<u>3,192,071</u>	<u>3,376,321</u>
Income after tax	<u>1,296,197</u>	<u>10,162,584</u>
Total comprehensive income	<u>1,296,197</u>	<u>10,162,584</u>
BALANCE — End of the year	<u>\$56,709,052</u>	<u>\$52,220,784</u>

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, 2014**

	2014	2013
ASSETS		
CASH AND CASH EQUIVALENTS	\$ 13,420,846	\$ 4,443,809
SHORT TERM DEPOSITS	1,207,444	127,094
INVESTMENTS (Note 8)	22,566,966	21,637,706
POLICY LOANS	1,644,730	1,050,721
OUTSTANDING PREMIUMS	128,059	135,858
ACCRUED INVESTMENT INCOME	341,607	322,188
PREMIUM TAXES DUE	-	9,000
AGENT BALANCE RECEIVABLES	14,241,677	14,302,019
NET RESERVE FOR FUTURE POLICY BENEFITS (Note 15)	5,179,686	11,708,844
PREPAYMENTS	<u>623,343</u>	<u>660,159</u>
TOTAL	<u>\$59,354,358</u>	<u>\$54,397,398</u>
LIABILITIES AND HOME OFFICE ACCOUNT		
POLICY AND CONTRACT CLAIMS	\$ 1,344,812	\$ 1,329,928
UNEARNED PREMIUMS	36,623	41,866
TRADE AND OTHER LIABILITIES	901,955	492,471
CURRENT TAX LIABILITIES (Note 13)	<u>361,916</u>	<u>312,349</u>
Total liabilities	<u>2,645,306</u>	<u>2,176,614</u>
ADVANCES FROM HOME OFFICE (Note 9)	34,214,143	31,022,071
ACCUMULATED SURPLUS	<u>22,494,909</u>	<u>21,198,713</u>
Total home office account	<u>56,709,052</u>	<u>52,220,784</u>
TOTAL	<u>\$59,354,358</u>	<u>\$54,397,398</u>

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, 2014**

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Premiums and other considerations received from policyholders	\$ 24,176,491	\$ 24,170,597
Interest income	1,165,495	187,638
Other interest	547,134	509,126
Payment of claims	(5,099,107)	(5,027,488)
Payments of taxes	(243,930)	24,850
Payments of commissions	(10,081,982)	(10,207,057)
Payments to suppliers, agents etc.	(3,598,785)	(4,381,990)
Net cash provided by operating activities (Note 12)	<u>6,865,316</u>	<u>5,275,676</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net change in short term investments	(1,080,350)	4,592,771
Cash paid for long term investments	-	(15,830,208)
Net cash used in investing activities	<u>(1,080,350)</u>	<u>(11,237,437)</u>
CASH FLOWS FROM FINANCING ACTIVITIES — Advances provided by related party		
	<u>3,192,071</u>	<u>3,376,321</u>
Net cash provided by financing activities	<u>3,192,071</u>	<u>3,376,321</u>
NET (DECREASE)/INCREASE IN CASH ON HAND	8,977,037	(2,585,440)
CASH ON HAND — Beginning of year	<u>4,443,809</u>	<u>7,029,249</u>
CASH ON HAND — End of year	<u>\$ 13,420,846</u>	<u>\$ 4,443,809</u>

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**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014**

1. PREMIUMS

	2014	2013
Individual life	\$ 20,968,222	\$ 20,801,024
Accident and health	<u>3,794,479</u>	<u>3,741,963</u>
	<u>\$ 24,762,701</u>	<u>\$ 24,542,987</u>

2. INTEREST INCOME ON INVESTMENTS

	2014	2013
Government securities	\$ 973,857	\$ 238,511
Other debt securities	<u>104,809</u>	<u>115,459</u>
	<u>\$ 1,078,666</u>	<u>\$ 353,970</u>

3. CLAIMS

	2014	2013
Individual life	\$ 3,386,651	\$ 2,757,939
Accident and health	<u>1,722,097</u>	<u>1,814,030</u>
	<u>\$ 5,108,748</u>	<u>\$ 4,571,969</u>

4. COMMISSIONS (POLICY ACQUISITION EXPENSES)

	2014	2013
In respect of new policies:		
Individual life	\$ 9,241,719	\$ 9,644,831
Accident and health	<u>900,605</u>	<u>866,790</u>
	<u>\$ 10,142,324</u>	<u>\$ 10,511,621</u>

5. MANAGEMENT EXPENSES

	2014	2013
Home office charges:		
General expenses	\$ 895,753	\$ 967,384
Salaries	1,761,918	1,804,690
General office expenses	629,467	851,047
Auditor remuneration:		
Audit services	106,277	113,672
Tax compliance services	56,836	47,176
Other expenses	578,724	570,124
Investment expenses	25,110	29,515
	<u>\$ 4,054,085</u>	<u>\$ 4,383,608</u>

6. PROFIT AFTER TAX

The surplus for the year has arisen as follows:

	2014	2013
Planned margins	\$ 1,792,072	\$ 3,695,971
Actual and assumed experience	2,657,440	112,594
Basis change	(5,685,211)	5,068,952
Loss recognition on new Life - Accident & Hospital plans	(636,068)	-
Investment earnings on assets in excess of policy liabilities	3,167,964	1,285,067
	<u>\$ 1,296,197</u>	<u>\$ 10,162,584</u>

7. CAPITAL COMMITMENTS

There are no commitments for capital expenditure entered into at December 31, 2014 and 2013.

8. INVESTMENTS

	2014	2013
Bonds		
Governments	\$21,001,691	\$20,048,491
Corporates	1,565,275	1,589,215
Total Bonds	<u>\$22,566,966</u>	<u>\$21,637,706</u>

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, 2014 was \$34,214,143 (2013: \$31,022,071). The total value of these expenses for the year were \$2,657,670 (2013: \$2,772,074)

and a general advance was paid during the year of \$534,401 (2013: \$604,247). 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 (2013: 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.

The total individual Life and Accident and Hospital claims paid in 2014 for claims incurred before 2014 is \$1,129,406 which is lower by \$268,603 compared to claim liabilities estimate of \$1,398,009 provided in 2013.

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.

2014				
Assumption variation	Life		Life (Accident & Hospital Indemnity)	
	Policy Liabilities	Margins	Policy Liabilities	Margins
Discount rate 1% higher	\$ (5,592,324)	\$ (1,037,504)	\$ (185,889)	\$
Discount rate 1% lower	8,696,910	1,246,843	288,172	
Deaths and disablements 10% higher		(3,816,464)	1,425,308	
Deaths and disablements 10% lower		4,015,877	(636,068)	790,095
Annual surrenders 10% higher		(365,537)	(7,734)	
Annual surrenders 10% lower		189,087	53,111	
Administration costs 10% higher		(1,671,943)	297,879	
Administration costs 10% lower		1,671,943	(297,879)	
2013				
Assumption variation	Life		Life (Accident & Hospital Indemnity)	
	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

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 high credit quality of investments held, which are all NZ Government and NZ Public Utilities securities (refer to Note 8), 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, 2014 and 2013. 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	
	2014	2013
Change in interest rate (bps):		
-200	\$ 2,592,547	\$ 2,732,724
-100	1,241,200	1,305,274
0		
+100	(1,141,342)	(1,195,248)
+200	(2,192,055)	(2,291,290)

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

Investments in government securities, public utilities, and registered banks total \$37.2 million as of December 31, 2014.

The Branch recorded outstanding premiums of \$0.1 million at December 31, 2014. There is a possibility that a proportion of these premiums will not be received. Agent balances of \$14.2 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.

Outstanding Premiums 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 \$2.3 million, is less than 12 months.

The average term of the Branch's policy liabilities is in excess of five years. Annual claim payments are expected to exceed \$1 million per year, however these claims are expected to be met out of projected future net cash-flows, and policy liabilities are projected to increase rather than reduce over the next five years.

Fair Values — The 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, 2014 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, 2014 and 2013, all securities were classified as Level 2.

Fair Value Measurements at December 31, 2014

	Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs	Total Fair Value
<u>Description</u>	(Level 1)	(Level 2)	(Level 3)	
Bonds: Fair Value through Profit and Loss				
Governments	\$ -	\$21,001,691	\$ -	\$21,001,691
Corporates		<u>1,565,275</u>		<u>1,565,275</u>
Total Bonds	<u>\$ -</u>	<u>\$22,566,966</u>	<u>\$ -</u>	<u>\$22,566,966</u>

Fair Value Measurements at December 31, 2013

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

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

	2014	2013
Operating surplus after taxation	<u>\$ 1,296,197</u>	<u>\$ 10,162,584</u>
Add (less) non cash items:		
Change in reserve for future policy benefits	6,529,158	(4,587,077)
Unrealized fair value change	(1,035,508)	142,947
Change in current and deferred taxes	-	220,431
Other	<u>106,248</u>	<u>35,410</u>
Total non cash items	<u>5,599,898</u>	<u>(4,188,289)</u>
	<u>6,896,095</u>	<u>5,974,295</u>
Movements in working capital:		
Decrease in agents' receivables	60,342	304,564
Increase in accrued investment income	(19,419)	(201,741)
Increase in policy loans	(594,009)	(390,983)
Decrease in outstanding premiums	7,799	18,593
Decrease in prepayments	36,816	26,132
Increase (decrease) in policy claims and unearned premiums	9,641	(455,519)
Change in premium taxes due	9,000	-
Increase in other current liabilities	409,484	335
Change in current tax liability	<u>49,567</u>	<u>-</u>
	<u>(30,779)</u>	<u>(698,619)</u>
Net cash provided by operating activities	<u>\$ 6,865,316</u>	<u>\$ 5,275,676</u>

13. INCOME TAXES

	2014	2013
Income taxes:		
Current tax expense	\$ 311,551	\$ 170,742
Prior period adjustment	<u>(18,054)</u>	<u>49,689</u>
Total expense	<u>\$ 293,497</u>	<u>\$ 220,431</u>

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

	2014	2013
Profit before taxation	<u>\$ 1,589,694</u>	<u>\$10,383,015</u>
Income tax expense calculated at 28% in 2014 and 2013	\$ 445,114	\$ 2,907,244
Effect of life insurance business	(65,226)	(23,355)
Effect of non-life insurance business	(191,160)	(340,528)
Transition adjustment for new life tax regime	(13,628)	(18,206)
Current year losses utilized against policyholder base	232,950	83,411
Unused losses recognised as deferred tax assets	(96,499)	(1,435,456)
Prior period adjustment	(18,054)	(952,679)
	<u>\$ 293,497</u>	<u>\$ 220,431</u>

	2014	2013
Deferred tax balances:		
Deferred tax asset comprise — tax losses	\$ 9,581,034	\$ 8,458,268
Deferred tax liability comprise — net reserve for future policy benefits	<u>(9,581,034)</u>	<u>(8,458,268)</u>
Net deferred tax balance	<u>\$ -</u>	<u>\$ -</u>

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

	2014	2013
Shareholder base:		
Losses	\$ 6,838,640	\$ 8,362,170
Tax effect at 28%	1,914,819	2,341,407

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

Income Tax Payable	2014	2013
Opening balance	\$(312,349)	\$(104,826)
Prior period adjustment	18,054	(49,689)
Provisional tax paid	243,930	12,908
Current year charge	<u>(311,551)</u>	<u>(170,742)</u>
Total income tax payable for the year	<u>\$(361,916)</u>	<u>\$(312,349)</u>

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 2014. 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.

	2014	2013
Policy liabilities:		
Balance at beginning of year	\$ (11,708,844)	\$ (7,121,767)
Movement in current year	<u>6,529,158</u>	<u>(4,587,077)</u>
Net reserve for future policy benefits	<u>\$ (5,179,686)</u>	<u>\$ (11,708,844)</u>

Policy liabilities comprises the following:

	2014	2013
Value of future claims	\$ 98,868,763	\$ 76,722,873
Value of future expenses	38,318,112	26,968,326
Value of future profit margins	12,533,463	21,296,679
Less value of future premiums	<u>(154,900,024)</u>	<u>(136,696,722)</u>
Net reserve for future policy benefits	<u>\$ (5,179,686)</u>	<u>\$ (11,708,844)</u>

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

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 2014 discount rate decreased to 3.67% per annum from 2013 discount rate of 4.71%. This change increased total net reserves by \$5.2 million.

Profit Carrier — The premium payable under each contract is the profit carrier. Future profits equal approximately 9% of the value of future premiums for Life plans and 0% of the value of future premiums for Accident & Hospital Indemnity plans.

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

Management Expenses — For Life plans, \$35 per policy per annum plus 3% of premium. For Accident & Hospital Indemnity plans, \$10 per policy per annum plus 3% of premium. These expenses are

inclusive of maintenance and investment management expenses. The rate of inflation is assumed to be 2%.

All calculations have been computed gross of tax, with a deferred tax liability held in respect of the difference between published policy liabilities and policy tax reserves. This deferred tax liability is offset against the Company's accumulated tax losses in the Statement of Financial Position.

Mortality Rates — The mortality assumption is based on a recent review of the AIL New Zealand Branch claims experience. Based on this review, the mortality assumption is updated using the 2001 VBT table with applicable factors.

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 and the multiple factor is reduced to 85% from 100%.

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

Demographic and expense assumptions	\$ (9,564)
Discount rate assumption	<u>826</u>
Total impact	<u>\$ (8,738)</u>

Rates of Discontinuance — Variable scales per expected portfolio experience. The Life plans and Accident & Hospital plans discontinuance rates remain the same as 2013 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. The surrender values are tabular and were calculated upon issue based on certain non-forfeiture interest rates, non-forfeiture factors and mortality tables.

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

16. SOLVENCY

The solvency position has been calculated in accordance with the Reserve Bank of New Zealand (RBNZ) Solvency Standard for Life Insurance Business, issued under the Insurance (Prudential Supervision) Act 2010, effective up to and including 31st December 2014.

	2014			2013		
	Statutory Fund	Home Office Account	Total Branch	Statutory Fund	Home Office Account	Total Branch
Actual Solvency Capital	\$26,576,208	\$30,132,844	\$56,709,052	\$31,446,317	\$20,774,467	\$52,220,784
Minimum Solvency Capital	<u>20,953,664</u>	<u>14,563,611</u>	<u>35,517,275</u>	<u>25,245,768</u>	<u>14,598,201</u>	<u>39,843,969</u>
Solvency Margin	\$5,622,544	\$15,569,233	\$21,191,777	\$6,200,549	\$6,176,266	\$12,376,815
Solvency Ratio	127%	207%	160%	125%	142%	131%

Assets held in the Statutory Fund are only available to meet the debts of American Income Life Insurance Company — New Zealand Branch. Assets held in the Home Office Account are legally available for the satisfaction of debts of the American Income Life Insurance Company, not solely those appearing on the balance sheet of the branch and its debts may result in claims against assets not appearing thereon.

17. CONTINGENT LIABILITIES

There are no contingent liabilities at December 31, 2014 and 2013.

18. NEW ZEALAND CUSTODY ACCOUNT

Assets (Cash and Securities) in the amount of \$24.0 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.

Financial Reporting Act (American Income Life Insurance Company) Exemption Notice 2015

Pursuant to section 35A of the Financial Reporting Act 1993, the Financial Markets Authority gives the following notice (to which is appended a statement of reasons of the Financial Markets Authority).

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Notice

1 Title

This notice is the Financial Reporting Act (American Income Life Insurance Company) Exemption Notice 2015.

2 Commencement

This notice comes into force on 25 June 2015.

3 Revocation

This notice is revoked on the close of 30 June 2015.

4 Application

An exemption granted by this notice applies to the following accounting periods of American Income Life Insurance Company:

- (a) an accounting period of American Income Life Insurance Company that commenced before the exemption is granted (including an accounting period that ended before the exemption is granted) if the exemption is granted before the financial statements or group financial statements for that period would, but for the exemptions contained in this notice, be required to be delivered to the Registrar for lodgement under section 18 of the Act.

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5 Interpretation

- (1) In this notice, unless the context otherwise requires,—

Act means the Financial Reporting Act 1993

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approved auditor in relation to AILIC, means an accountant who is qualified under the law of the US regulated jurisdiction to give an opinion as to whether specified financial statements comply with US SAP required or permitted in that jurisdiction

AILIC means American Income Life Insurance Company

branch financial statements in relation to AILIC, means the financial statements that are required to be prepared in respect of AILIC's New Zealand business in accordance with conditions 7(g), (h) and (i)

Licensed insurer has the same meaning as section 6(1) of the Insurance (Prudential Supervision) Act 2010

NZ GAAP in relation to AILIC, means New Zealand generally acceptable accounting practice or principles required or permitted in New Zealand

specified financial statements in relation to AILIC, means the financial statements that are required to be prepared in respect of AILIC, as applicable, in accordance with the laws of the US regulated jurisdiction

US means United States of America

US legislation in relation to AILIC, means the financial reporting and audit legislation of the US regulated jurisdiction of AILIC

US regulated jurisdiction in relation to AILIC, means the US jurisdiction—

- (a) in which AILIC is regulated as an insurer; and
- (b) in which AILIC is required to comply with the financial reporting and audit requirements imposed by that jurisdiction.

US SAP in relation to AILIC means US Statutory Accounting Principles.

- (2) Any term or expression that is defined in the Act and used, but not defined, in this notice has the same meaning as in the Act.

6 Exemptions

AILIC is exempted from sections 10(1), 11, 13-16, and 18(1) of the Act.

7 Conditions

The exemptions in clause 6 are subject to the conditions that—

- (a) a securities regulator of the US regulated jurisdiction is a signatory to the International Organisation of Securities Commissions Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information; and
- (b) the specified financial statements of AILIC comply with US SAP; and
- (c) If, in complying with US SAP, the specified financial statements do not give a true and fair view of the matters to which they relate, they are accompanied, when delivered to the Registrar for registration, by a statement in English containing information and explanations that will give the true and fair view of those matters; and
- (d) the specified financial statements of AILIC are delivered to the Registrar for registration annually, and no later than the date on which the financial statements of AILIC would, but for the exemption in clause 6, be required to be delivered for registration; and
- (e) the specified financial statements of AILIC are, when delivered to the Registrar for registration, accompanied by a report by an approved auditor; and

- (f) the specified financial statements and audit report, when delivered to the Registrar for registration, are in English or accompanied by an accurate English translation; and

Branch financial statements

- (g) AILIC will prepare branch financial statements as if that business were conducted by a separate company incorporated in New Zealand and AILIC will comply with the provisions of the Act that relate to the preparation, content, and registration of such statements; and
- (h) the branch financial statements of the New Zealand business must be audited by a qualified auditor or an approved auditor; and
- (i) the branch financial statements and audit reports that are delivered to the Registrar by AILIC are in English or accompanied by an accurate English translation; and

All financial statements

- (j) the copy of all financial statements that are delivered to the Registrar by AILIC includes, or is accompanied by, a statement to the effect that AILIC has relied on this exemption notice in respect of its financial statements for the relevant accounting period.

Dated at Wellington this 24th day of June 2015.



Liam Mason
General Counsel
Financial Markets Authority

Statement of reasons

This notice comes into force on 25 June 2015 and is revoked on the close of 30 June 2015. This notice applies to American Income Life Insurance Company (AILIC).

This notice exempts AILIC from the following provisions of the Act:

- section 10(1) (obligation to prepare financial statements);
- section 11 (content of financial statements);
- sections 13-16 (obligations in respect of Issuer and group financial statements and audit);
- section 18(1) (registration of financial statements);

The exemption is subject to the condition that requires AILIC to prepare financial statements that they are required to prepare under the financial reporting requirements of their overseas regulated jurisdiction (US SAP). The main effects of the exemption are as follows:

- the specified financial statements will comply with US SAP rather than generally accepted accounting practice in New Zealand (NZ GAAP);
- the specified financial statements will be audited by an approved auditor who is qualified under US law to give an opinion as to whether the specified financial statements comply with US SAP;

- for the New Zealand business, the specified financial statements will be accompanied by New Zealand branch financial statements that comply with NZ GAAP and that are audited by a New Zealand qualified auditor or an overseas approved auditor.

The Financial Markets Authority (the FMA), after satisfying itself as to the matters set out in section 35A of the Act, considers there will not be significant detriment to subscribers for the securities of AILIC who are members of the public in New Zealand because:

- the Reserve Bank assesses the financial reporting and audit requirements of the US regulated jurisdiction of AILIC when seeking licensing in New Zealand. In these circumstances, the FMA is satisfied that the financial reporting and audit requirements of the US regulated jurisdiction will provide sufficient and appropriate information to the Reserve Bank for it to undertake its prudential regulation of AILIC and to investors to allow them to make investment and policy purchase decisions. As such, investors in AILIC will have access to information of a similar quality to the information that they would otherwise receive:
- the costs associated with the circumstances in which AILIC has already prepared and had audited similar financial statements in accordance with the financial reporting requirements of the US regulated jurisdiction, and the costs associated with a requirement for AILIC to prepare NZ GAAP compliant financial statements and have those statements audited by a New Zealand-licensed auditor, would outweigh the benefits to investors in receiving NZ GAAP financial statements rather than financial statements prepared in accordance with the laws of a US regulated jurisdiction:
- the granting of the exemption is desirable in order to promote the purposes of the Act, specifically by avoiding unnecessary compliance costs and by promoting flexibility in financial markets:
- the exemption only addresses AILIC for one accounting period. Given the limited application of the exemption and that financial statements are still required to be lodged in New Zealand, the exemptions are not broader than is reasonably necessary to address the matters to which they relate.