

30 April 2021

Registrar of Companies
New Zealand Companies Office
Level 18, 135 Albert Street
Auckland 1010

FROM: Janet Liu
DIRECT: +64 9 357 9178
EMAIL: janet.liu@chapmantripp.com
PARTNER: Penny Sheerin
REF: 041422045/6262430.4

AMERICAN INCOME LIFE INSURANCE COMPANY – FINANCIAL STATEMENTS FOR FILING UNDER THE FINANCIAL MARKETS CONDUCT ACT 2013

- 1 Please find **enclosed** for registration under the Financial Markets Conduct Act 2013 for American Income Life Insurance Company (*AILIC*) for the year ended 31 December 2020:
 - 1.1 AILIC New Zealand Branch Financial Statements and Audit Report, prepared in accordance with New Zealand Generally Accepted Accounting Practice;
 - 1.2 AILIC Group Financial Statements and Audit report, prepared in accordance with Statutory Accounting Principles issued by the National Association of Insurance Commissioners (*US SAP*); and
 - 1.3 the Appointed Actuary's reports prepared in accordance with section 78 of the Insurance (Prudential Supervision) Act 2010 in relation to the Group and Branch Financial Statements above.
- 2 AILIC gives **notice** to the Registrar of Companies of its reliance on the **enclosed** Financial Markets Conduct (Overseas Registered Banks and Licensed Insurers) Exemption Notice 2020, which exempts AILIC from:
 - 2.1 sections 455(1)(c), 461B, 461D, and 461G of the FMCA; and
 - 2.2 sections 460 and 460 of the FMCA to the extent that those sections require the exempt issuer to ensure that its financial statements, or group financial statements, comply with generally accepted accounting practice,provided that *inter alia*, it files Group Financial statements that have been prepared and audited in accordance with US SAP.
- 3 Please charge the registration fee for the financial statements to our account (number 1001971). The reference number you should use is 041422045.



- 4 We would be grateful if you would confirm registration of these documents as soon as possible.

Yours faithfully

Penny Sheerin / Janet Liu

PARTNER / SOLICITOR

DIRECT: +64 9 357 9178

EMAIL: janet.liu@chapmantripp.com

AMERICAN INCOME LIFE INSURANCE COMPANY
NEW ZEALAND BRANCH

American Income Life Insurance Company - New Zealand Branch

Financial Statements as of and for the
Year Ended 31 December 2020, and
Independent Auditor's Report

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

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Independent Auditor's Report

To the Shareholder of American Income Life Insurance Company – New Zealand Branch

Opinion

We have audited the financial statements of American Income Life Insurance Company – New Zealand Branch (the 'Branch'), which comprise the balance sheet as at 31 December 2020, 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 notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements, on pages 6 to 26, present fairly, in all material respects, the financial position of the Branch as at 31 December 2020, and its financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards ('NZ IFRS') and International Financial Reporting Standards ('IFRS').

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ('ISAs') and International Standards on Auditing (New Zealand) ('ISAs (NZ)'). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

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

We are independent of the Branch in accordance with Professional and Ethical Standard 1 International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our firm carries out other assignments for the Branch in the area of other assurance over solvency returns. These services have not impaired our independence as auditor of the Branch. In addition to this, partners and employees of our firm deal with the Branch on normal terms within the ordinary course of trading activities of the business of the Branch. The firm has no other relationship with, or interest in, the Branch.

Emphasis of matter - branch

The Branch is part of American Income Life Insurance Company Limited ('the Company'). As described in Note 16, the assets of the Branch, other than those held in custodial fund, 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 modified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter**How our audit addressed the key audit matter****Liability for future policy benefits —Underlying assumptions**

The net reserve for future policy benefits relating to Life insurance contract liabilities is a key audit matter because of the judgment required in making the estimate. Specific actuarial experience is required to evaluate complex and judgmental actuarial methodologies and assumptions.

As described in Note 15 to the financial statements, management sets assumptions for mortality, morbidity, rates of discontinuance, in (1) estimating a liability for insurance contracts that will be incurred in the future ("policy liabilities") and (2) determining the discount rate used to calculate the present value of future policy benefits payable.

Assumptions are determined based upon published information, studies and analysis of Branch specific experience, adjusted for changes in exposure and other relevant factors.

Given the inherent uncertainty of future assumptions, the development of such assumptions involve especially subjective judgment.

The estimate of the liability for future policy benefits is a key input into the branch's solvency calculation for measuring compliance with its license conditions and is sensitive to changes in interest rates.

Our audit procedures related to management's judgments regarding the assumptions used in the development of the liability for future policy benefits included the following, among others:

- We tested the relevant controls over the valuation of the liability for future policy benefits.
- We performed testing on the completeness and accuracy of the underlying data used in the development of the assumptions as well as in the determination of the liability for future policy benefits.
- We evaluated management's selected actuarial assumptions.
- With the assistance of our actuarial specialists, we evaluated management's judgments regarding the assumptions used in the development of future policy benefits payable including the appropriateness of the valuation methodology.
- We evaluated whether the assumptions used were consistent with evidence obtained in other areas of the audit.
- We considered the adequacy of the disclosures in the financial statements in relation to the above.

Other information

The directors are responsible on behalf of the Branch for the other information. The other information comprises the information in the Annual Report that accompanies the financial statements and the audit report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and consider whether it is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If so, we are required to report that fact. We have nothing to report in this regard.

Directors' responsibilities for the financial statements

The directors are responsible on behalf of the Branch for the preparation and fair presentation of the financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible on behalf of the Branch for assessing the Branch's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Branch or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and ISAs (NZ) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the External Reporting Board's website at:

<https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-2>

This description forms part of our auditor's report.

Restriction on use

This report is made solely to the Branch's shareholders, as a body. Our audit has been undertaken so that we might state to the Branch'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 Branch's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

Deloitte Limited

Mike Hoshek, Partner
for Deloitte Limited
Christchurch, New Zealand
30 April 2021

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

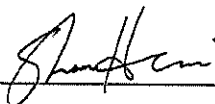
Financial Statements

As of and for the year ended 31 December 2020

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 31 December 2020.

The shareholders of the Company have exercised their rights under Section 211(3) of the Companies Act 1993 and unanimously agreed that the annual report need not comply with any of the Sections (a) and (e) to (j) of Section 211(1) and of Section 211(2) of the Act.



Director

Michael Shane Henrie

For and on behalf of the Directors

Date: 30 April 2021



Director

James Matthew Darden

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

**STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES
For the Year Ended 31 December 2020**

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 license by the Reserve Bank of New Zealand (RBNZ) 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, statement of cash flows 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.

The effects of the COVID-19 pandemic, and international responses, are wide-ranging, costly, disruptive and rapidly changing. Despite these challenges, the Branch continues to effectively conduct business operations as it monitors the impact of the pandemic on underwriting results, solvency requirements, agency force and policyholders. While sales for the Branch were initially hindered after the onset of the COVID-19 lockdown, our agents were able to transition to a virtual work environment in order to supplement traditional in person sales during the second half of the year. The Branch had no death claims in 2020 where COVID-19 was listed as the cause of death.

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 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 7 to 27. As stated in Note 16, the assets held in the Custodial Fund are only available to meet the liabilities of American Income Life Insurance Company - New Zealand Branch. Assets held in Other 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.

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

The Branch is an FMC reporting entity under the Financial Markets Conduct Act 2013. These financial statements have been prepared in accordance with the requirements of the Financial Markets Conduct Act 2013.

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

AMERICAN INCOME LIFE INSURANCE COMPANY NEW ZEALAND BRANCH

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.

Presentation and Functional Currency of the Branch - These financial statements have been prepared in New Zealand dollars, which is the functional currency of the branch.

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 four types of risk:

Credit Risk - is the risk that a counter-party will default on its contractual agreement exposing the Branch to potential financial loss. The Branch manages this risk in accordance with its investment management policies.

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 - NZ IFRS 17 "Insurance Contracts" is effective for balance dates beginning 1 January 2023. The standard replaces NZ IFRS 4 "Insurance Contracts". NZ IFRS 17 requires entities to identify portfolios of insurance contracts which are subject to similar risk and managed together. Each portfolio, at minimum shall be divided into three groups, a group of contracts that are onerous at initial recognition, a group of contracts that at initial recognition have no significant possibility of becoming onerous, and a group of the remaining contracts in the portfolio. The standard measures insurance contracts either under the general model or a simplified version of this called the Premium Allocation Approach. An entity shall apply the standard retrospectively unless impracticable, in which case entities have the option of using either the modified retrospective approach or the fair value approach. Management has conducted a preliminary analysis regarding the application of this new standard to the products in its branch operations, considering items such as application of the general model and the expected likelihood of any onerous contracts at initial recognition. This effort is ongoing. Due to the nature of the standard, the impact to the financial statements is expected to be significant.

Adoption of New and Revised Standards and Interpretations - No new material standards were adopted during the year ended 31 December 2020.

2. PARTICULAR ACCOUNTING POLICIES

a) Recognition of Premium Income and Policy Expenses - Premiums on life and accident and health policies are recognised as revenues when received and due.

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.

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- 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 calculated on the basis that the Branch is a non-resident with no fixed establishment in New Zealand. As such, the Branch is subject to income tax as a non-resident life insurer; general insurance premiums are subject to the non-resident insurer regime; and interest income is subject to non-resident withholding tax or Approved Issuer Levy. Taxable profit differs from profit 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. Further, different tax rates apply under the non-resident insurer regime and to interest income for non-residents. 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 Sheet.

The Branch has determined that cash and bonds in the custodial account are the assets held in relation to insurance contracts for backing insurance contract liabilities. The branch has provided additional protection for its New Zealand policy holders by ring-fencing a significant proportion of its financial assets in a trust structure, sufficient to cover its solvency liabilities in New Zealand.

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 carried at 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 carried at amortised cost and are recorded using the effective interest method, with revenue recognised on an effective yield basis. The effective interest method is a method of calculating the amortised 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 receivables from affiliates that do not back insurance contract liabilities are measured at amortised cost, less any allowance for expected credit losses (ECL). Interest income is recognised by applying the effective interest rate. Receivables from affiliates primarily represent claw back commission, advances to agents and interest accrued on these amounts.

- 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.

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- f) **Statement of Cash Flows** - The statement of cash flows has been prepared using the direct approach 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** - Assets measured at fair value through profit or loss are not subject to impairment testing.

The amount of ECLs for financial assets, other than those at fair value through profit or loss, is updated at each reporting date to reflect changes in credit risk since initial recognition.

The Branch applies a simplified approach in calculating ECLs for receivables from affiliates. Therefore, the branch does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting dates. Where considered necessary, an ECL has been established and the asset is written down to its estimated recoverable amount.

The Branch applies a general approach in calculating ECLs for accrued investment income. Using the general approach, if the credit risk on a financial instrument has not increased significantly since initial recognition, the Branch is required to measure the loss allowance for that financial instrument at an amount equal to twelve months of ECL.

- h) **Policy Liabilities** - Policy liabilities consist of life insurance contract liabilities.

- i) **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 20, *Determination of Life Insurance Policy Liabilities* (PS20). 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, and acquisition costs are deferred over the life of the contract. 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 experience profit will emerge when the expenses of maintaining all inforce 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 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.

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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 of 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 claims is reasonable.

**AMERICAN INCOME LIFE INSURANCE COMPANY
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**STATEMENT OF COMPREHENSIVE INCOME
For the Year Ended 31 December 2020**

	2020	2019
INCOME:		
Premiums (Note 1)	\$ 24,812,276	\$ 23,448,482
Interest income on investments (Note 2)	3,281,784	2,591,212
Revaluation of debt securities	1,826,797	184,587
Other interest	500,586	777,029
	<u>30,421,443</u>	<u>27,001,310</u>
EXPENDITURE:		
Claims (Note 3)	4,981,052	4,985,902
Change in liability for future policy benefits (Note 15)	2,537,931	7,784,996
Commissions (Note 4)	7,179,490	7,358,184
Management expenses (Note 5)	5,934,581	5,628,397
	<u>20,633,054</u>	<u>25,757,479</u>
PROFIT BEFORE TAXATION	9,788,389	1,243,831
TAXATION (Note 13)	<u>217,427</u>	<u>231,426</u>
PROFIT AFTER TAXATION ATTRIBUTABLE TO HEAD OFFICE (Note 6)	<u>\$ 9,570,962</u>	<u>\$ 1,012,405</u>
TOTAL COMPREHENSIVE INCOME	<u>\$ 9,570,962</u>	<u>\$ 1,012,405</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
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**STATEMENT OF MOVEMENTS IN THE HOME OFFICE ACCOUNT
For the Year Ended 31 December 2020**

	2020	2019
BALANCE — Beginning of the year	<u>\$ 89,612,697</u>	<u>\$ 58,172,897</u>
Contributions from the home office:		
General advances (Note 9) received / (made)	26,386,544	26,745,833
Expenses paid on behalf of the Branch (Note 9)	<u>3,397,681</u>	<u>3,681,563</u>
	<u>29,784,225</u>	<u>30,427,396</u>
Profit after tax	<u>9,570,962</u>	<u>1,012,405</u>
Total comprehensive income	<u>9,570,962</u>	<u>1,012,405</u>
BALANCE — End of the year	<u><u>\$128,967,884</u></u>	<u><u>\$ 89,612,697</u></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
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BALANCE SHEET
As of 31 December 2020

	2020	2019
ASSETS		
CASH AND CASH EQUIVALENTS	\$ 15,372,270	\$ 12,740,707
INVESTMENTS (Note 8)	135,112,177	94,545,680
POLICY LOANS	4,122,147	3,796,727
OUTSTANDING PREMIUMS	231,013	247,826
ACCRUED INVESTMENT INCOME	1,252,736	997,826
RECEIVABLE FROM AFFILIATES	6,155,555	7,820,090
PREPAYMENTS	262	301
TOTAL	\$162,246,160	\$120,149,157
LIABILITIES AND HOME OFFICE ACCOUNT		
POLICY AND CONTRACT CLAIMS	\$ 1,477,730	\$ 1,578,436
UNEARNED PREMIUMS	54,012	42,329
TRADE AND OTHER LIABILITIES	1,588,277	1,302,510
NET RESERVE FOR FUTURE POLICY BENEFITS (Note 15)	29,753,143	27,215,212
CURRENT TAX LIABILITIES (Note 13)	405,114	397,973
Total liabilities	33,278,276	30,536,460
ADVANCES FROM HOME OFFICE (Note 9)	82,119,022	52,334,796
ACCUMULATED SURPLUS	46,848,862	37,277,901
Total home office account	128,967,884	89,612,697
TOTAL	\$162,246,160	\$120,149,157

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
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STATEMENT OF CASH FLOWS
For the Year Ended 31 December 2020

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Premiums and other considerations received from policyholders	\$ 24,503,670	\$ 23,071,548
Interest income	4,049,033	2,772,687
Other interest	500,586	777,029
Payment of claims	(5,070,078)	(4,926,440)
Payments of taxes	(210,286)	(206,349)
Payments of commissions	(5,514,954)	(6,475,239)
(Payments)/Receipts to suppliers, agents etc.	(1,552,316)	(974,723)
Net cash provided by operating activities (Note 12)	<u>16,705,655</u>	<u>14,038,513</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash paid for long term investments	<u>(39,761,861)</u>	<u>(36,799,889)</u>
Net cash (used) in investing activities	<u>(39,761,861)</u>	<u>(36,799,889)</u>
CASH FLOWS FROM FINANCING ACTIVITIES — Advances provided by / (repaid to) related parties		
	<u>25,687,769</u>	<u>26,119,295</u>
Net cash provided from / (used in) financing activities	<u>25,687,769</u>	<u>26,119,295</u>
NET (DECREASE)/INCREASE IN CASH ON HAND	2,631,563	3,357,919
CASH ON HAND — Beginning of year	<u>12,740,707</u>	<u>9,382,788</u>
CASH ON HAND — End of year	<u><u>\$ 15,372,270</u></u>	<u><u>\$ 12,740,707</u></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 31 December 2020**

1. PREMIUMS

	2020	2019
Individual life	\$ 20,212,573	\$ 19,165,776
Accident and health	4,599,703	4,282,706
	<u>\$ 24,812,276</u>	<u>\$ 23,448,482</u>

2. INTEREST INCOME ON INVESTMENTS

	2020	2019
Government securities	\$ 1,700,143	\$ 1,278,261
Other debt securities	1,581,641	1,312,951
	<u>\$ 3,281,784</u>	<u>\$ 2,591,212</u>

3. CLAIMS

	2020	2019
Individual life	\$ 4,021,477	\$ 3,798,817
Accident and health	959,575	1,187,085
	<u>\$ 4,981,052</u>	<u>\$ 4,985,902</u>

4. COMMISSIONS (POLICY ACQUISITION EXPENSES)

	2020	2019
In respect of new policies:		
Individual life - First Year	\$ 3,878,590	\$ 4,124,544
Individual life - Renewal	2,314,647	2,276,794
Accident and health - First Year	533,746	545,294
Accident and health - Renewal	452,507	411,552
	<u>\$ 7,179,490</u>	<u>\$ 7,358,184</u>

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5. MANAGEMENT EXPENSES

	2020	2019
Home office charges:		
General expenses	\$ 1,475,680	\$ 1,629,065
Salaries	1,922,001	2,052,498
General office expenses	1,514,396	1,144,493
Remuneration for services provided:		
Audit and assurance fees paid to Deloitte	262,054	146,954
Taxation Services - Other firms	65,191	45,792
Other expenses	671,751	590,214
Investment expenses	23,508	19,381
	<u>\$ 5,934,581</u>	<u>\$ 5,628,397</u>

6. PROFIT AFTER TAX

The profit for the year has arisen as follows:

	2020	2019
Planned margins	\$ 3,277,240	\$ 2,694,140
Actual and assumed experience	4,405,770	3,319,918
Basis change*	(2,012,164)	(7,155,118)
Investment earnings on assets in excess of policy liabilities	3,900,116	2,153,465
	<u>\$ 9,570,962</u>	<u>\$ 1,012,405</u>

* The basis change is the impact of changes to the discount rates used in valuation of policy liabilities.

7. CAPITAL COMMITMENTS

There are no commitments for capital expenditure entered into at 31 December 2020 and 2019.

8. INVESTMENTS

	2020	2019
Bonds		
Governments	\$ 73,520,913	\$ 38,366,927
Corporates	61,591,264	56,178,753
Total Bonds	<u>\$ 135,112,177</u>	<u>\$ 94,545,680</u>

These securities mature from 2021 to 2050 and carry an effective yield of approximately 2.87% (2019 - 3.38%).

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9. RELATED PARTY TRANSACTIONS TO DISCLOSE CONTRIBUTIONS RECEIVED

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 and contributions from Home Office to comply with regulatory solvency capital requirements are shown as advances from the Home Office to the Branch. Additionally, there are no members of management located at the branch in New Zealand, therefore the Home Office bears the cost of management. During 2020, decreases in interest rates resulted in additional capital contributions related to the license condition of the Branch. While the original license condition was modified in September 2020, the rate decreases themselves resulted in the increased capital contribution as opposed to the changes made to the original license parameters. The advance payable to the Home Office as at 31 December 2020 was \$82,119,022 (2019: \$52,334,796). The total value of these expenses for the year were \$3,397,681 (2019: \$3,681,563) and a general advance was received (paid) during the year of \$26,386,544 (2019: \$26,745,833).

10. LOANS TO DIRECTORS OR EMPLOYEES

None (2019: None)

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, investment grade bonds. 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 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 are as follows:

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 2020 for claims incurred before 2020 is \$884,061 which is lower by \$677,346 compared to claim liabilities estimate of \$1,561,407 provided in 2019.

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

**AMERICAN INCOME LIFE INSURANCE COMPANY
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variations to assumptions concerning discount rates, the major types of claims, policy discontinuances and administration costs.

2020				
Assumption variation	Life		Life (Accident & Hospital Indemnity)	
	Policy Liabilities	Margins Increase (Decrease)	Policy Liabilities	Margins
Discount rate 1% higher	\$ (12,271,778)	\$ (2,010,176)	\$ (401,660)	\$ (457,694)
Discount rate 1% lower	17,541,909	2,421,542	653,127	557,259
Deaths and disablements 10% higher		(6,577,968)		(2,333,367)
Deaths and disablements 10% lower		7,032,534		2,334,321
Annual surrenders 10% higher		1,976,856		95,246
Annual surrenders 10% lower		(2,383,813)		(162,603)
Administration costs 10% higher		(2,352,970)		(440,096)
Administration costs 10% lower		2,352,970		440,096
2019				
Assumption variation	Life		Life (Accident & Hospital Indemnity)	
	Policy Liabilities	Margins Increase (Decrease)	Policy Liabilities	Margins
Discount rate 1% higher	\$ (11,389,934)	\$ (2,068,216)	\$ (338,510)	\$ (413,287)
Discount rate 1% lower	16,355,184	2,492,753	544,744	502,491
Deaths and disablements 10% higher		(5,929,193)		(2,021,610)
Deaths and disablements 10% lower		6,327,474		2,022,444
Annual surrenders 10% higher		1,860,399		67,092
Annual surrenders 10% lower		(2,268,594)		(121,102)
Administration costs 10% higher		(2,100,284)		(363,413)
Administration costs 10% lower		2,100,284		363,413

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 direct obligations and bonds of NZ agencies, municipalities and corporates (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 31 December 2020 and 2019. 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.

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		Increase (Decrease) in Profit and Equity For the Year	
		2020	2019
Change in interest rate (bps):			
	-200	\$ 19,052,639	\$ 9,199,054
	-100	8,931,236	4,448,950
	0		
	+100	(7,938,313)	(4,171,717)
	+200	(15,040,589)	(8,087,845)

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

Investments in government securities, corporate bonds, and cash and cash equivalents total \$150.5 million as of 31 December 2020 (2019 - \$107.3 million).

Receivables from affiliates of \$6.2 million (2019 - \$7.8 million) represent unexpensed agent commissions, which have been purchased by an affiliated party and have not been settled. 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 receivables from affiliates are relatively illiquid assets and are subject to a degree of credit risk. The risk is monitored by management for collectability and an expected credit loss is established as necessary.

Accrued investment income of \$1.3 million (2019 - \$1.0 million) represents interest income earned on the investment portfolio but not yet received as of the balance sheet date. This asset category is subject to a degree of credit risk. In assessing whether the credit risk has increased significantly since initial recognition, the Branch continually monitors the economic and credit status of each of its bond holdings and analyzes each issuer's ability to continue meeting its contractual debt obligations. Factors taken into consideration include:

- An actual or expected significant deterioration in the issuer's credit rating
- Existing or projected changes to the business, economic, financial, or regulatory environment under which the issuer operates that could adversely impact its ability to meet its debt obligations
- Actual or projected deterioration in operating results that could significantly impact the issuer's cash flows and thus, its ability to meet debt obligations
- Changes to, or removal of, financial guarantees from a third-party guarantor
- Actual or projected deterioration in any underlying collateral
- News and information, either released by the issuer or otherwise reported by the media or securities analysts who monitor the issuer, that indicate the issuer is unlikely to pay its creditors on time or in full

When, based upon the assessments above, it is determined that a contractual interest payment will not be received or is not expected to be received, the accrued interest receivable will be reversed. Since all of the bonds held by the Branch are obligated to pay interest either semi-annually or quarterly, the collectability of such interest is determinable at regular intervals throughout the year.

The Branch does not have any significant credit risk exposure to any single counter-party or any group of counter-parties 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 NZ government and corporate securities which are readily marketable in the event of unforeseen extraordinary liquidity needs.

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The Branch's government long-term securities mature from 2021 through 2050.

The average term of the Branch's liabilities for notified and unnotified claims, unearned premiums, premium taxes, and trade liabilities, totalling \$3.1 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 31 December 2020 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 31 December 2020 and 2019, all securities were classified as Level 2.

Fair value measurements at 31 December 2020

Description	Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Bonds: Fair Value through Profit and Loss				
Governments	\$ —	\$ 73,520,913	\$ —	\$ 73,520,913
Corporates	—	61,591,264	—	61,591,264
Total Bonds	\$ —	\$ 135,112,177	\$ —	\$ 135,112,177

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Fair value measurements at 31 December 2019

<u>Description</u>	Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Bonds: Fair Value through Profit and Loss				
Governments	\$ —	\$ 38,366,927	\$ —	\$ 38,366,927
Corporates	—	56,178,753	—	56,178,753
Total Bonds	<u>\$ —</u>	<u>\$ 94,545,680</u>	<u>\$ —</u>	<u>\$ 94,545,680</u>

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

	2020	2019
Operating surplus after taxation	\$ 9,570,962	\$ 1,012,405
Add (less) non cash items:		
Change in reserve for future policy benefits	2,537,931	7,784,996
Expenses and general advances paid on behalf of the Branch	4,096,456	4,308,101
Unrealized fair value change	(1,826,797)	(184,586)
Change in current and deferred taxes	217,427	231,426
Change in bond amortization	1,022,161	476,185
Total non cash items	6,047,178	12,616,122
	15,618,140	13,628,527
Movements in working capital:		
Change in receivables from affiliates	1,664,535	882,945
Change in accrued investment income	(254,910)	(294,707)
Change in policy loans	(325,420)	(288,825)
Change in outstanding premiums	16,813	(88,109)
Change in prepayments	39	516
Change in policy claims and unearned premiums	(89,023)	59,462
Change in premium taxes due	—	—
Change in other liabilities	285,767	345,053
Change in current tax liability	(210,286)	(206,349)
	1,087,515	409,986
Net cash provided by operating activities	\$ 16,705,655	\$ 14,038,513

13. INCOME TAXES

	2020	2019
Income taxes:		
Current tax expense/(benefit)	\$ 217,427	\$ 231,426
Deferred tax expense/(benefit)	—	—
Prior period adjustment	—	—
Total expense	\$ 217,427	\$ 231,426

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

	2020	2019
Profit before taxation	\$ 9,788,389	\$ 1,243,831
Income tax expense calculated at 28% in 2020 and 2019	\$ 2,740,748	\$ 348,273
Effect of life insurance business - shareholder gain on savings business	(141,585)	242,329
Effect of non-life insurance business - non-deductible claims and commissions and other non-taxable items	(550,505)	(447,867)
Current year losses utilized against policyholder base	(206,640)	(99,055)
Schedular income permanent differences	(721,131)	(633,997)
Tax rate difference on schedular income	(268,517)	(272,520)
Unused losses not recognised as deferred tax assets	1,220,605	1,853,069
Utilisation of previously unrecognized tax losses	(1,855,548)	(758,806)
Policyholder base loss/(profit) not recognized	—	—
Income tax expense	\$ 217,427	\$ 231,426
	2020	2019
Deferred tax balances:		
Deferred tax asset comprise — tax losses	\$ 13,983,113	\$ 12,452,867
Deferred tax liability comprise — net reserve for future policy benefits	(14,115,724)	(12,497,261)
Other	132,611	44,394
Net deferred tax balance	\$ —	\$ —

Unrecognised Deferred Tax Balances - Deferred tax assets for tax losses available to be carried forward have only been recognised to the extent of the deferred tax liability balance, as it is reasonable to expect that those tax losses will be utilised in the future against the deferred tax liabilities. However, due to the uncertainty of future income from life insurance, the remaining deferred tax balance from tax losses has not been recognised.

	2020	2019
Shareholder base:		
Losses	\$ 4,359,303	\$ 6,618,103
Tax effect at 28%	1,220,605	1,853,069

The availability of the income tax losses is subject to minimum shareholder continuity or business continuity requirements being met.

Income Tax Payable	2020	2019
Opening balance	\$ (397,973)	\$ (372,896)
Provisional tax paid	210,286	206,349
Current year charge	(217,427)	(231,426)
Total income tax payable for the year	\$ (405,114)	\$ (397,973)

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14. CONTROLLING ENTITIES

The controlling entity of American Income Life Insurance Company is Globe Life Inc. (formerly Torchmark Corporation), a Company incorporated in the U.S.A

15. ACTUARY'S STATEMENT

The effective date of the actuarial report on policy liabilities and reserves is 31 December 2020. The actuarial policy liabilities and reserves were calculated by Mr. John O. Norton, FSA, 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. 20 of the New Zealand Society of Actuaries. The actuarial report was prepared by Mr. Peter Davies.

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

	2020	2019
Policy liabilities:		
Balance at beginning of year	\$ 27,215,212	\$ 19,430,216
Movement in current year	2,537,931	7,784,996
Net reserve for future policy benefits	<u>\$ 29,753,143</u>	<u>\$ 27,215,212</u>

Policy liabilities comprises the following:

	2020	2019
Value of future claims	\$ 164,558,374	\$ 149,590,075
Value of future expenses	51,924,765	47,681,920
Value of future profit margins	26,401,910	27,111,937
Less value of future premiums	<u>(213,131,906)</u>	<u>(197,168,720)</u>
Net reserve for future policy benefits	<u>\$ 29,753,143</u>	<u>\$ 27,215,212</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 2020 discount rates are based on the Table of Risk-free Discount Rates at 31 December 2020 for Accounting Valuation Purposes published 7 January 2021 by the New Zealand Treasury. The 2019 discount rates are based on the Table of Risk-free Discount Rates at 31 December 2019 for Accounting Valuation Purposes published 7 January 2020 by the New Zealand Treasury. The 2020 rates range from 0.24% to 4.30% (2019: range from 1.06% to 4.30%).

Profit Carrier - The premium payable under each contract is the profit carrier. Future profits equal approximately 12.8% of the value of future premiums for Life plans and 10.6% of the value of future premiums for Accident & Hospital Indemnity plans.

Initial Expenses - For Life plans, 66% of issued premium plus 20% of first year commission. For Accident & Hospital Indemnity plans, 66% of premium.

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Management Expenses - For Life plans, \$44 per policy per annum plus 3% of premium. For Accident & Hospital Indemnity plans, \$10 per policy per annum plus 13% of premium. These expenses are inclusive of maintenance, other and investment management expenses presented in Note 5. The rate of inflation is assumed to be 2%, applied to per policy expense.

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.

Mortality Rates - The mortality rates are based on the 2001 Valuation Basic Table with applicable factors.

Morbidity - The morbidity rates for 2009 issues and below have multiple factors ranging from 105% to 140%. The morbidity rates for issues 2010 and after are updated based on recent experience studies.

Rates of Discontinuance - Variable scales per expected portfolio experience. The Life plans and Accident & Hospital plans discontinuance rates were updated based on recent experience study.

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.

The impact of change in discount rate on future profit margin is an increase of \$1.3 million. The impact of change in demographic and expense assumptions on future profit margin is a decrease of \$1.6 million.

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

16. SOLVENCY

The solvency position has been calculated in accordance with the RBNZ Solvency Standard for Life Insurance Business 2014, issued under the Insurance (Prudential Supervision) Act 2010, effective up to and including 31 December 2020.

	2020			2019		
	Custodial Fund	Other	<u>Total Statutory Fund</u>	Custodial Fund	Other	<u>Total Statutory Fund</u>
Actual Solvency Capital	\$ 106,138,000	\$ 22,830,000	\$ 128,968,000	\$ 72,351,000	\$ 17,262,000	\$ 89,613,000
<u>Minimum Solvency Capital</u>	<u>28,794,000</u>	<u>6,227,000</u>	<u>35,021,000</u>	<u>33,907,000</u>	<u>7,857,000</u>	<u>41,764,000</u>
Solvency Margin	\$ 77,344,000	\$ 16,603,000	\$ 93,947,000	\$ 38,444,000	\$ 9,405,000	\$ 47,849,000
Solvency Ratio	369 %	367 %	368 %	213 %	220 %	215 %

Assets held in the Custodial Fund are only available to meet the liabilities of American Income Life Insurance Company - New Zealand Branch. Assets held in the Other 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.

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17. CONTINGENT LIABILITIES

There are no contingent liabilities at 31 December 2020 and 2019.

18. NEW ZEALAND CUSTODY ACCOUNT

Assets (Cash and Securities) in the amount of \$139.4 million (2019 - \$102.9 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.

20. SUBSEQUENT EVENTS

The Company is not aware of any events occurring subsequent to the close of the books for this statement that may have a material effect on its financial condition.

American Income Life Insurance Company

Statutory-Basis Financial Statements as of and
for the Years Ended December 31, 2020 and 2019,
Supplemental Schedules as of and for the
Year Ended December 31, 2020, and
Independent Auditors' Report

AMERICAN INCOME LIFE INSURANCE COMPANY

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Deloitte & Touche LLP
JPMorgan Chase Tower
2200 Ross Avenue
Suite 1600
Dallas, TX 75201-6778
USA

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

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, 2020 and 2019, 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 opinions.

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, 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, 2020 and 2019, 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, 2020 and 2019, 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 as described in Note 1 to the statutory-basis financial statements.

Report on Supplemental Schedules

Our 2020 audit was conducted for the purpose of forming an opinion on the 2020 statutory-basis financial statements as a whole. The supplemental schedule of investment risk interrogatories, the supplemental summary investment schedule, and the supplemental schedule of Reinsurance Contracts with Risk-Limiting Features as of and for the year ended December 31, 2020 are presented for purposes of additional analysis and are not a required part of the 2020 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 2020 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 2020 statutory-basis financial statements as a whole.

Deloitte & Touche LLP

April 26, 2021

AMERICAN INCOME LIFE INSURANCE COMPANY

STATUTORY-BASIS STATEMENTS OF ADMITTED ASSETS, LIABILITIES, AND CAPITAL AND SURPLUS AS OF DECEMBER 31, 2020 AND 2019

(Dollar amounts in thousands)

ADMITTED ASSETS

CASH AND INVESTMENTS (Note 2):	2020	2019
Bonds—at amortized cost (fair value: 2020—\$4,543,040; 2019—\$3,988,795).....	\$ 3,718,350	\$ 3,502,377
Preferred stock—affiliated (fair value: 2020—\$39,169; 2019—\$39,169).....	39,169	39,169
Common stock—affiliated (amortized cost: 2020—\$14,175; 2019—\$14,175).....	39,129	40,517
Common stock—unaffiliated (amortized cost: 2020—\$82; 2019—\$82).....	1,138	897
Mortgage Loans.....	29,770	37,002
Cash, cash equivalents, and short-term investments.....	33,090	35,991
Contract loans—secured by cash values.....	227,233	215,996
Other invested assets—net (encumbrances: 2020—\$39,376; 2019—\$9,951).....	216,370	165,041
Total cash and investments.....	4,304,249	4,036,990
INVESTMENT INCOME DUE AND ACCRUED.....	57,388	56,244
ACCIDENT AND HEALTH PREMIUMS DUE AND UNPAID.....	2,233	2,046
INSURANCE PREMIUMS DEFERRED AND UNCOLLECTED (Note 5).....	185,537	192,806
CURRENT FEDERAL INCOME TAX RECOVERABLE.....	7,287	3,083
NET DEFERRED INCOME TAX ASSET (Note 6).....	28,470	25,434
RECEIVABLES FROM PARENT, SUBSIDIARIES, AND AFFILIATES.....	6,772	5,065
AMOUNTS RECEIVABLE FROM REINSURANCE—AFFILIATED.....	73,872	61,691
OTHER ADMITTED ASSETS.....	9,108	7,744
TOTAL ADMITTED ASSETS.....	\$ 4,674,916	\$ 4,391,103

(Continued)

AMERICAN INCOME LIFE INSURANCE COMPANY

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

AS OF DECEMBER 31, 2020 AND 2019

(Dollar amounts in thousands, except share and per share data)

LIABILITIES AND CAPITAL AND SURPLUS

LIABILITIES:	2020	2019
Aggregate reserves for future policy benefits (Note 4):		
Life and annuity.....	\$ 3,729,699	\$ 3,522,452
Accident and health—including unearned premium: 2020—\$5,511; 2019—\$5,239.....	147,026	133,176
Policy and contract claims (Note 4):		
Life and annuity.....	55,746	46,487
Accident and health.....	17,829	16,767
Deposit-type contracts (Note 4).....	88,287	87,385
Amounts payable under reinsurance contracts—affiliated (Note 4).....	96,749	81,752
Interest maintenance reserve.....	32,941	34,646
Asset valuation reserve.....	38,668	40,447
General insurance expenses due and other liabilities.....	129,117	80,706
Total liabilities.....	<u>4,336,062</u>	<u>4,043,818</u>
COMMITMENTS AND CONTINGENCIES (Note 10)		
CAPITAL AND SURPLUS (Note 9):		
Common stock, \$1 par value per share—authorized: 23,360,214 shares (issued and outstanding: 2020 and 2019—11,680,107 shares).....	11,680	11,680
Paid-in and contributed surplus.....	66,889	66,889
Surplus notes.....	25,000	25,000
Unassigned surplus.....	235,285	243,716
Total capital and surplus.....	<u>338,854</u>	<u>347,285</u>
TOTAL LIABILITIES AND CAPITAL AND SURPLUS.....	<u>\$ 4,674,916</u>	<u>\$ 4,391,103</u>

See notes to statutory-basis financial statements.

(Concluded)

AMERICAN INCOME LIFE INSURANCE COMPANY

STATUTORY-BASIS STATEMENTS OF OPERATIONS

FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

(Dollar amounts in thousands)

REVENUE	2020	2019
Premiums.....	\$ 896,658	\$ 847,519
Net investment income—net of expenses: 2020—\$40,526; 2019—\$39,817 (Note 2).....	186,315	176,107
Amortization of interest maintenance reserve.....	3,306	3,328
Commissions and expense allowances on reinsurance ceded (Note 4).....	219,484	192,099
Reserve adjustments on reinsurance ceded (Note 4).....	5,017	5,830
Miscellaneous income.....	2,342	2,196
Total revenue.....	1,313,122	1,227,079
BENEFITS AND EXPENSES		
Death benefits.....	181,745	155,142
Disability and accident and health benefits (Note 4).....	25,784	25,157
Surrender benefits.....	62,242	63,893
Annuity benefits.....	22,294	30,476
Interest and other benefits on policy and contract funds.....	7,001	6,707
Increase (decrease) in aggregate reserves for future policy benefits.....	210,492	183,944
Commissions on premiums.....	422,843	371,348
Commissions and expense allowances on reinsurance assumed (Note 4).....	148	136
General expenses and insurance taxes, licenses, and fees.....	158,882	161,314
Change in loading on deferred and uncollected premiums (Note 5).....	(6,373)	(7,342)
Total benefits and expenses.....	1,084,858	990,775
GAIN FROM OPERATIONS BEFORE FEDERAL INCOME TAXES AND NET REALIZED CAPITAL GAINS (LOSSES).....	228,264	236,304
FEDERAL INCOME TAX EXPENSE (BENEFIT) (Note 6).....	34,332	37,240
NET GAIN FROM OPERATIONS BEFORE NET REALIZED CAPITAL GAINS (LOSSES).....	193,932	199,064
NET REALIZED CAPITAL GAINS (LOSSES)—Net of federal income tax expense (benefit): 2020—\$(571); 2019—\$1,040, and gains (losses) transferred to the interest maintenance reserve net of taxes: 2020—\$1,601; 2019—\$645.....	(9,960)	(595)
NET INCOME	\$ 183,972	\$ 198,469

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, 2020 AND 2019

(Dollar amounts in thousands)

	2020	2019
CAPITAL AND SURPLUS—Beginning of year	\$ 347,285	\$ 342,970
Net income	183,972	198,469
Change in net unrealized capital gains (losses)—net of tax	(5,023)	(4,390)
Change in net unrealized foreign exchange capital gains (losses)—net of tax (Note 12)	6,415	938
Change in net deferred income tax (Note 6)	8,894	10,453
Change in nonadmitted assets	(5,251)	(3,935)
Change in asset valuation reserve	1,779	(5,705)
Common stock dividends paid to stockholder (Note 9)	(199,064)	(191,362)
Initial commission and expense allowance on reinsurance assumed	(153)	(153)
Net change in capital and surplus	(8,431)	4,315
CAPITAL AND SURPLUS—End of year	<u>\$ 338,854</u>	<u>\$ 347,285</u>

See notes to statutory-basis financial statements.

AMERICAN INCOME LIFE INSURANCE COMPANY

STATUTORY-BASIS STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019 (Dollar amounts in thousands)

	2020	2019
OPERATING ACTIVITIES		
Premiums collected—net of reinsurance	\$ 925,071	\$ 875,799
Net investment income	205,509	196,116
Miscellaneous income	213,347	188,576
Total cash provided by operating activities	1,343,927	1,260,491
Benefit and loss related payments	(287,421)	(277,129)
Commissions, expenses paid, and aggregate write-ins for deductions	(581,720)	(526,037)
Dividends paid to policyholders	(12)	(16)
Federal income taxes (paid) recovered	(37,913)	(43,073)
Total cash used in operating activities	(907,066)	(846,255)
Net cash (used in) provided by operating activities	436,861	414,236
INVESTING ACTIVITIES		
Proceeds from investments sold, matured, or repaid:		
Bonds	88,763	99,779
Stocks	—	436
Mortgage loans	7,735	—
Other invested assets	7,054	59
Miscellaneous proceeds	—	4,000
Total investment proceeds	103,552	104,274
Cost of investments acquired:		
Bonds	(303,445)	(259,645)
Mortgage loans	(1,440)	(23,091)
Real estate	(1,789)	(19)
Other invested assets	(70,673)	(29,415)
Miscellaneous applications	(99)	—
Total cost of investments acquired	(377,446)	(312,170)
Net (increase) decrease in contract loans	(11,237)	(17,070)
Net cash (used in) provided by investing activities	(285,131)	(224,966)
FINANCING AND MISCELLANEOUS SOURCES (USES)		
Borrowed funds	40,000	—
Net deposits on deposit-type contracts and other insurance liabilities	902	(607)
Dividends to stockholders	(199,064)	(191,362)
Other cash provided (applied)	3,531	3,514
Net cash (used in) provided by financing and miscellaneous sources	(154,631)	(188,455)
NET CHANGE IN CASH, CASH EQUIVALENTS, AND SHORT-TERM INVESTMENTS	(2,901)	815
CASH, CASH EQUIVALENTS, AND SHORT-TERM INVESTMENTS		
Beginning of year	35,991	35,176
End of year	\$ 33,090	\$ 35,991

(Continued)

AMERICAN INCOME LIFE INSURANCE COMPANY

STATUTORY-BASIS STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

(Dollar amounts in thousands)

Supplemental disclosure of non-cash transactions:	2020	2019
Exchanges of bonds	\$ 54,818	\$ 21,807
Unsettled trades	—	99
Non-cash capitalized interest on bonds	64	—
See notes to statutory-basis financial statements.		(Concluded)

AMERICAN INCOME LIFE INSURANCE COMPANY

NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

(Dollar amounts in thousands, except share and per share data)

1. SUMMARY OF SIGNIFICANT STATUTORY ACCOUNTING POLICIES

American Income Life Insurance Company (the "Company" or "American Income"), an insurance company domiciled in the State of Indiana, is a wholly-owned subsidiary of Globe Life Inc. (the "Parent Company"). The Company owns 100% of National Income Life Insurance Company, domiciled in the State of New York.

The Company is a life and accident and health insurer licensed in 49 states and the District of Columbia. The Company is also licensed to sell insurance in Canada and New Zealand. The Company is subject to state insurance regulations and periodic examinations by state insurance departments.

The following states represent the largest concentrations of premiums:

	2020
California.....	11 %
Ohio.....	7 %
Texas.....	6 %
Pennsylvania.....	5 %
Florida.....	5 %
Illinois.....	4 %

No other states represent greater than 3% of total premiums. Canada represents 9% of premiums.

Basis of Presentation—The accompanying statutory-basis financial statements have been prepared in accordance with accounting practices prescribed or permitted by Indiana Department of Insurance (the "Department"). The State of Indiana has adopted the National Association of Insurance Commissioners' ("NAIC") Accounting Practices and Procedures Manual, which includes all Statements of Statutory Accounting Principles ("SSAP") as the basis of its statutory accounting principles. There are no significant differences between the NAIC SSAP and the accounting practices prescribed for life and health insurance companies by the Department that are applicable to the Company.

AMERICAN INCOME LIFE INSURANCE COMPANY

NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS (continued) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019 (Dollar amounts in thousands except for shares)

NAIC statutory accounting principles vary in some respects from accounting principles generally accepted in the United States of America (GAAP). The primary differences between GAAP-basis and statutory-basis of accounting include:

Item	Description	GAAP Treatment	Statutory Treatment
Policy acquisition costs	Costs associated with the successful acquisition of an insurance policy.	Deferred and amortized over the life of the policy, if recoverable from policy revenues.	Charged to operations as incurred.
Future policy benefit reserves	Excess of future policy claims over future premiums.	Based on the Company's estimates of mortality, morbidity, interest, persistency, and withdrawals.	Based on statutory mortality, morbidity, and interest and withdrawal requirements and reported net of the effects of indemnity reinsurance transactions.
Interest maintenance reserve	Statutory-basis only investment reserve used to account for interest-rate related realized gains and losses.	Capital gains and losses recognized as incurred.	Deferred recognition of realized capital gains and losses resulting from changes in the general level of interest rates; amortized into income over the expected remaining life of the investments sold.
Asset valuation reserve	Statutory-basis only investment reserve used to account for default and equity risks.	Not applicable.	Required to offset potential credit-related investment losses; changes in the reserve charged to surplus.
Deferred premiums	Portion of premium not currently due.	Offset to reserves.	Recognized as an asset on the balance sheet.
Nonadmitted assets	Assets unable to be easily converted to cash.	All assets are recorded on the balance sheet.	Recognition on the balance sheet disallowed; charged to surplus.
Investment in subsidiaries	Entity that is directly or indirectly owned and controlled by a reporting entity.	Consolidated.	Recorded under the equity method of accounting.
Investment in Partnerships, Joint Ventures, and LLCs	Investments that provide partnership interests to the Company.	Recorded under the equity method of accounting, or fair value through net income.	Recorded under the equity method of accounting.
Low-income housing tax credits	Investments in federal and certain state sponsored flow-through entities for tax purposes.	Accounted for under the proportional amortized cost method, excluding guaranteed partnerships entered into prior to 2015, which are accounted for under the effective yield method.	Accounted for under the proportional amortization method.
Bonds and short-term investments	Fixed-income investments with purpose of collecting interest.	Generally carried at fair value.	Generally carried at amortized cost.
Preferred stock	Class of shares; holders have preference as to the payment of dividends or distribution of assets on liquidation.	Generally carried at fair value.	Valued as prescribed by NAIC Securities Valuation Office
Deferred taxes	An asset or liability on the company's balance sheet due to temporary differences.	A provision is made for deferred income taxes on temporary differences between the financial reporting and the tax bases of assets and liabilities.	NAIC SAP requires an amount to be recorded for deferred taxes. The amount of deferred income tax assets may not be fully recognized as admitted assets.
OCI statement	Statement of revenues, expenses, gains and losses that have not yet been realized.	Required presentation.	Not applicable.
Cash and cash equivalents	Cash or assets that can be readily converted into cash.	Negative balances are reported as a liability.	Negative balances are reported within cash.
Investment in Surplus Notes	Fixed-income instrument with debt and equity characteristics.	Generally carried at fair value.	Generally carried at amortized cost.
Surplus notes (issued)	Fixed-income instrument with debt and equity characteristics.	Reported as long-term debt.	Reported as capital and surplus.
Loss Contingencies	An existing condition or situation involving uncertainty as to possible loss that will ultimately be resolved when one or more future event(s) occur or fail to occur.	If a loss is probable, estimable and only a range of loss can be estimated, the minimum of the range is required to be recorded.	If a loss is probable, estimable and only a range of loss can be estimated, the mid-point of the range is required to be recorded.

AMERICAN INCOME LIFE INSURANCE COMPANY

NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS (continued) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019 (Dollar amounts in thousands except for shares)

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 successfully 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 either the net level premium method, the commissioner's reserve valuation method, or the two-year preliminary term method. Accordingly, the reserves are calculated based on estimates of mortality, morbidity, and interest and withdrawal requirements, as prescribed by state insurance regulatory agencies. Interest rate assumptions range from 2.25% to 6.0%. For life insurance policies, mortality rates are primarily obtained from the following statutory mortality tables: 1941 C.S.O., 1958 C.S.O., 1980 C.S.O., 2001 C.S.O., and 2017 C.S.O. Tables. For business issued in 2019 and later, the PBR reserve method has been used. 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 2.5% to 6.0%. 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 SSAP No. 101, *Income Taxes*. Admitted deferred tax assets and liabilities are reflected as a component of capital and surplus.

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

Interest Maintenance Reserve (IMR) and Asset Valuation Reserve (AVR)—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. 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.

AMERICAN INCOME LIFE INSURANCE COMPANY

NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS (continued) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019 (Dollar amounts in thousands except for shares)

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

Loan-backed securities are reported 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.

Commercial Mortgage loans participations ("Commercial Mortgage Loans" or "Mortgage Loans") are reported at unpaid principal balances, net of any unamortized discount or premium and allowance for loan losses. The loans are secured by the underlying real estate.

The accounting for investments in limited partnerships that provide low-income housing tax credits is outlined in the *Low-Income Housing Tax Credit Interests* section below. Investments in other limited partnerships are accounted for under rules set forth by the NAIC, and are recorded based on the underlying audited U.S. GAAP equity of the investee.

Investments in surplus notes are accounted for under rules set forth by the NAIC. Surplus notes rated NAIC 1-2 are reported at amortized cost, and surplus notes rated NAIC 3-6 are reported at the lower of amortized cost and fair value.

Fair Value Measurements, Investments in Securities—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 bonds 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, independent broker/dealers, and other resources.

AMERICAN INCOME LIFE INSURANCE COMPANY

NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS (continued) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019 (Dollar amounts in thousands except for shares)

Approximately 98% of the fair value reported at December 31, 2020 is determined using data provided by third-party pricing services. Prices provided by these services are not binding offers, but are estimated exit values. Third-party pricing services use proprietary pricing models to determine security values by discounting cash flows using a market-adjusted spread to a benchmark yield. For all asset classes within the Company's significant security types, third-party services use a common valuation technique to model the price of the investments using observable market data. The foundation for these models consists of developing yield spreads based on multiple observable market data inputs, including but not limited to: benchmark yield curves, actual trading activity, new issue yields, broker-dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, sector-specific data, economic data, and other inputs that are corroborated in the market. Pricing vendors monitor and review their pricing data continuously with current market and economic data feeds, augmented by ongoing communication within the dealer community.

Using the observable market inputs described above, spreads to an appropriate benchmark yield are further developed by the vendors for each security based on security-specific and/or sector-specific risk factors, such as a security's terms and conditions (coupon, maturity, and call features), credit rating, sector, liquidity, collateral or other cash flow options, and other factors that could impact the risk of the security. Embedded repayment options, such as call and redemption features, are also taken into account in the pricing models. When the spread is determined, it is added to the security's benchmark yield. The security's expected cash flows are discounted using this spread-adjusted yield, and the resulting present value of the discounted cash flows is the evaluated price.

When third-party vendor prices are not available, the Company attempts to obtain valuations from other sources, including but not limited to broker/dealers, broker quotes, and prices on comparable securities.

When valuations have been obtained for all securities in the portfolio, management reviews and analyzes the prices to ensure their reasonableness, taking into account available observable information. When two or more valuations are available for a security and the variance between the prices is 10% or less, the close correlation suggests similar observable inputs were used in deriving the price, and the mean of the prices is used. Securities valued in this manner are classified as Level 2. When the variance between two or more valuations for a security exceeds 10%, additional analysis is performed to determine the most appropriate value for that security, using resources such as broker quotes, prices on comparable securities, recent trades, and any other observable market data. Further review is performed on the available valuations to determine if they can be corroborated within reasonable tolerance to any other observable evidence. If one of the valuations or the mean of the available valuations for a security can be corroborated with other observable evidence, then the corroborated value is used and reported as Level 2. The Company uses information and analytical 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. Valuations that cannot be corroborated within a reasonable tolerance are classified as Level 3.

The Company invests in a portfolio of private placement bonds which are not actively traded. This portfolio is managed by third-parties. The portfolio managers provide valuations for the bonds based on a pricing matrix utilizing observable inputs, such as the benchmark treasury rate and published sector indices, and unobservable inputs such as an internally-developed credit rating. If observable inputs cannot be corroborated, the fair values are classified as Level 3.

NAIC SAP requires certain investments to be measured and reported at fair value. These include common stock, bonds rated NAIC 6 and preferred stock rated NAIC 4-6 whose fair values are less than amortized cost, and surplus notes rated NAIC 3-6 whose fair values are less than amortized cost. Transfers between fair value levels are recognized as of the end of the reporting period in which they occur.

AMERICAN INCOME LIFE INSURANCE COMPANY

NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS (continued) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019 (Dollar amounts in thousands except for shares)

Fair Value Measurements, Other Financial Instruments—Fair value of cash, cash equivalents, and short-term investments approximates carrying value. Fair value of the Parent Company's preferred stock was obtained from the Securities Valuation Office (SVO). 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. Fair values of mortgage loans are determined based upon expected cash flows discounted at an appropriate risk-adjusted rate. The fair value of investments in limited partnerships that provide low-income housing tax credits is based on discounted projected cash flows. The fair value of limited partnerships in low income housing is considered Level 3. Investments in other limited partnerships recorded under the equity method of accounting are excluded from the fair value hierarchy.

Other policy holder funds include interest-bearing, deposit-type accounts representing amounts payable on demand. The fair value of such deposit-type accounts is equal to the amount payable on demand and considered Level 2.

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, 2020, and therefore, current estimates of fair value may differ significantly from the amounts presented herein.

Impairment of Investments—The Company's portfolio of bonds fluctuates in value due to changes in interest rates in the financial markets as well as other 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.

Among the factors considered are:

- The length of time and extent to which the security has been impaired
- The reason(s) for the impairment
- The financial condition of the issuer and near-term prospects for recovery in fair value of the security
- The Company's ability and intent to hold the security until anticipated recovery
- Expected future cash flows

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

Among the facts and information considered in the process are:

- Financial statements of the issuer
- Changes in credit ratings of the issuer
- The value of the underlying collateral
- News and information included in press releases issued by the issuer
- News and information reported in the media concerning the issuer
- News and information published or otherwise provided by credit analysts
- The nature and amount of recent and expected future sources and uses of cash
- Default on a required payment
- Issuer bankruptcy filings

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NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS (continued) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019 (Dollar amounts in thousands except for shares)

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 on 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.

Mortgage loans are considered impaired when it is probable, based upon current information and events, that the Company will be unable to collect all contractual amounts due. Impairment is measured based on the excess of the loan balance over the fair value of the collateral, as determined by a current appraisal, and is recorded as an unrealized loss through a valuation allowance. If an impairment is deemed to be other than temporary, then a direct write-down is recorded as a realized loss, thus establishing a new cost basis equal to the fair value of the collateral less the cost estimated to obtain and sell the property.

The Company's commercial mortgage loan portfolio is managed by an unaffiliated third-party manager. As part of its credit-monitoring process, the third-party manager evaluates several risk criteria for each loan. These include quantitative measures, such as the underlying collateral value, loan-to-value ratio, and debt-service coverage ratio; as well as qualitative risk parameters, such as borrower experience, specific property fundamentals, local real estate market conditions, financial and business condition of the borrower, and ease of liquidation. After consideration of the third-party manager's credit analysis, the Company decides if a loan loss allowance should be established.

Investment Income—Investment income consists primarily of interest and dividends. Interest is recognized on an accrual basis and dividends are recorded as earned. Interest income on mortgage-backed securities and asset-backed securities is determined on the effective yield method based on estimated principal repayments. Prepayment penalty and acceleration fees on callable bonds are recognized in investment income, as received. Interest earned on contract loans is charged in arrears and recognized ratably. The Company accrues interest income on impaired loans to the extent it is deemed collectible (delinquent less than 90 days) and the loan continues to perform under its original or restructured contractual terms. Interest income on non-performing loans is generally recognized on a cash basis. Interest income on mortgage loans is accrued and recorded net of servicing fees. Interest that is 180 days past due and that is still deemed collectible is accrued, but nonadmitted. Any interest deemed uncollectible is written off as a charge against investment income. Dividends and distributions from limited partnerships are recognized as investment income to the extent that they are not in excess of undistributed accumulated earnings. Dividends and distributions in excess of undistributed earnings are recorded as a reduction to the carrying value of the investment. The Company's share of undistributed earnings and losses included in net unrealized capital gains (losses) are credited or charged directly to surplus.

Realized gains and losses on the sale of investments are determined on a specific identification method. Realized gains and losses on debt securities and preferred stock resulting from an overall change in market interest rates are deferred through the IMR and amortized into income over the remaining expected life of the disposed investment. Credit-related gains and losses on debt securities and preferred stock as well as realized gains and losses on unaffiliated common stock are recorded in the AVR and included in the accompanying statutory-basis statement of operations. Unrealized gains and losses on unaffiliated common stock are also reflected in the AVR. The change in the AVR is reflected as an increase or decrease in surplus. Unrealized gains and losses on affiliated common stock are reflected directly in surplus through the change in unrealized capital gains and losses. The Company's share of undistributed earnings and losses included in net unrealized capital gains (losses) are credited or charged directly to surplus.

Cash, Cash Equivalents, and Short-Term Investments—Cash includes cash on hand and amounts due from banks. The Company considers all highly liquid investments with an original maturity of three

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NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS (continued) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019 (Dollar amounts in thousands except for shares)

months or less when purchased to be cash equivalents. Cash equivalents include reverse repurchase agreements, which are secured by bonds and generally mature overnight. The Company's policy requires a minimum of 102% of the agreements' purchase price to be maintained as collateral. The Company does not take possession of this collateral. For further discussion about investments in reverse repurchase agreements including a description of the underlying collateral as of year-end, please refer to Note 2. The Company considers all investments with remaining maturities (or repurchase dates under repurchase agreements) of one year or less at the time of acquisition (excluding those investments classified as cash equivalents) to be short-term investments, which are stated at amortized cost.

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. Please refer to Note 4 for further discussion.

Stock Options—Certain employees of the Company have been granted options to buy shares of Globe Life Inc. stock at market value on the grant date under the provisions set forth as part of the Globe Life Inc. stock option plans. The Company has no legal obligation under the plans; however, an expense is allocated to the Company based upon the options granted to its employees under the plans, and it is recorded within 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 2020 and 2019 totaled \$9,920 and \$8,397, respectively.

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 proportional 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. The amount of LIHTC and other tax benefits recognized were \$18,717 and \$19,140 during 2020 and 2019, respectively.

As of December 31, 2020 and 2019, the LIHTC investment balances were \$60,310 and \$68,639, respectively. The amounts recorded within other invested assets are presented net of encumbrances for unpaid contributions. As of December 31, 2020 and 2019, unpaid contributions were \$39,376 and \$9,951, respectively. All of the remaining unpaid contributions are expected to be paid by 2026.

Currently, the LIHTC properties are not subject to any regulatory reviews. The Company's involvement is restricted 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.

As of December 31, 2020, there are 13 years of remaining unexpired tax credits for low-income housing tax credit investments with a required holding period of 18 years, compared to 12 years of remaining unexpired tax credits for low-income housing tax credit investments with a required holding period of 17 years as of December 31, 2019.

Foreign Currency Translation—The Company records assets, liabilities, and operations of foreign branches based upon 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

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NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS (continued) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019 (Dollar amounts in thousands except for shares)

each year-end; and income and expense accounts are translated at the weighted-average exchange rates during the year.

Risk-Based Capital—The Department has adopted risk-based capital (RBC) requirements for life insurance companies, as promulgated by the NAIC, and 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 weighted 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 resulting figure is the authorized control level capital (ACL).

The RBC guidelines define specific capital levels based on a company's ACL that are determined by the ratio of a company's total adjusted capital (TAC) to its ACL. 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 ACL are subject to certain corrective actions as set forth in RBC requirements.

As of December 31, 2020 and 2019, 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.

Allocation of Expenses—The Company operates within a group under Globe Life Inc. where personnel and facilities are shared. Under terms of the management contract, the subsidiaries of Globe Life Inc. are allocated general and administrative expenses based on total premium. The allocated amount is in proportion to the Company incurring the expense as if the expense had been paid solely by the Company.

COVID-19—The effects of the COVID-19 pandemic, and U.S. and international responses, are wide-ranging, costly, disruptive and rapidly changing. Despite these challenges, the Company continues to effectively conduct business operations as it monitors the impact of the pandemic on the Company's underwriting results, employees, and policyholders.

Going Concern—Each reporting period, the Company evaluates whether there is substantial doubt about an entity's ability to continue as a going concern. Management was not aware of any conditions or events that could raise substantial doubts concerning the entity's ability to continue as a going concern as of December 31, 2020.

Subsequent Events—The Company evaluates events occurring subsequent to the balance sheet date to determine whether recognition or disclosure in the financial statements is required. If conditions of a subsequent event were to exist as of the balance sheet date, depending on materiality, the effects may be required to be recognized and disclosed in the financial statements. If conditions of a subsequent event arose after the balance sheet date, the effects are not required to be recognized in the financial statements; however, they may need to be disclosed in the financial statements depending on materiality.

Accordingly, we have evaluated the effects of events subsequent to the balance sheet date of December 31, 2020, and through April 26, 2021, which is the date the statutory basis financial statements were available to be issued. We noted no events or transactions that would require recognition or disclosure in the statutory basis financial statements.

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NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS (continued) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019 (Dollar amounts in thousands except for shares)

Accounting Pronouncements Adopted in the Current Year

Amended Standard	Description	Effective date	Effect on the statutory-basis financial statements
SSAP No. 61R - Life, Deposit-Type and Accident and Health Reinsurance	In December 2019, the NAIC revised this standard to clarify risk-transfer requirements for reinsurance contracts, requiring additional disclosures related to the agreements and the identification of differences between U.S. GAAP and statutory requirements.	This standard became effective for the Company on December 31, 2020.	The adoption of this standard did not have a material impact on the statutory-basis financial statements. Please see updated disclosures in the <i>Supplemental Schedule of Reinsurance Risks</i> .

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NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS (continued)
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2. INVESTMENTS

Analysis of investment operations—Net investment income for the years ended December 31, 2020 and 2019, is summarized as follows:

	2020	2019
Bonds	\$ 183,535	\$ 177,496
Preferred stock—affiliated	2,671	2,671
Common stock—unaffiliated	10	10
Common stock—affiliated	13,737	11,465
Mortgage loans	2,056	1,979
Contract loans	17,475	16,315
Cash, cash equivalents, and short-term investments	1,011	1,740
Other invested assets	6,461	4,368
Miscellaneous investment income	(115)	(120)
Gross investment income	226,841	215,924
Less investment expenses	40,526	39,817
Net investment income	<u>\$ 186,315</u>	<u>\$ 176,107</u>

Selected information about disposals of bonds is as follows:

	At December 31,	
	2020	2019
Bonds:		
Proceeds from sales	\$ 12,189	\$ 10,793
Gross realized gains	2	150
Gross realized losses	(269)	(195)
Net gains (losses) on calls and redemptions	\$ 2,307	\$ 974

The above table includes securities called, redeemed, or otherwise disposed of as a result of a callable feature, which resulted in the receipt of prepayment penalty and acceleration fees. These fees are recorded as investment income at the time of the transaction and are summarized in the following table.

	At December 31,	
	2020	2019
Prepayment Penalty and Acceleration Fees:		
Number of issues (CUSIPs) called/redeemed	26	6
Investment income from fees	\$ 1,059	\$ 481

AMERICAN INCOME LIFE INSURANCE COMPANY

NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS (continued) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019 (Dollar amounts in thousands except for shares)

Portfolio Composition—The cost or amortized cost, gross unrealized gains and losses and fair value of bonds and preferred stock as of December 31, 2020 and 2019, are as follows:

2020					
	Book/Adj Carrying Value	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government	\$ 3,041	\$ 3,041	\$ 171	\$ —	\$ 3,212
Other government	52,913	52,913	2,635	(898)	54,650
Mortgage-backed securities	23	23	1	—	24
U.S. states, territories, and possessions	2,833	2,833	439	—	3,272
U.S. political subdivisions	89,001	89,001	6,284	(24)	95,261
U.S. special revenues	208,362	208,362	28,402	(57)	236,707
Industrial and miscellaneous	3,210,734	3,210,734	763,383	(5,084)	3,969,033
Asset-backed securities	24,844	24,844	808	(727)	24,925
Hybrid securities	126,599	126,599	31,524	(2,167)	155,956
Total bonds	<u>\$3,718,350</u>	<u>\$3,718,350</u>	<u>\$ 833,647</u>	<u>\$ (8,957)</u>	<u>\$4,543,040</u>
Common stock—unaffiliated	<u>\$ 1,138</u>	<u>\$ 82</u>	<u>\$ 1,056</u>	<u>\$ —</u>	<u>\$ 1,138</u>

2019					
	Book/Adj Carrying Value	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government	\$ 3,030	\$ 3,030	\$ 7	\$ —	\$ 3,037
Other government	25,874	25,874	2,073	(396)	27,551
Mortgage-backed securities	40	40	2	—	42
U.S. states, territories, and possessions	2,321	2,321	294	—	2,615
U.S. political subdivisions	62,903	62,903	3,696	(9)	66,590
U.S. special revenues	187,308	187,308	17,481	(12)	204,777
Industrial and miscellaneous	3,066,587	3,066,587	455,257	(15,865)	3,505,979
Asset-backed securities	29,226	29,226	1,013	(74)	30,165
Hybrid securities	125,088	125,088	24,269	(1,318)	148,039
Total bonds	<u>\$3,502,377</u>	<u>\$3,502,377</u>	<u>\$ 504,092</u>	<u>\$ (17,674)</u>	<u>\$3,988,795</u>
Common stock—unaffiliated	<u>\$ 897</u>	<u>\$ 82</u>	<u>\$ 815</u>	<u>\$ —</u>	<u>\$ 897</u>

The amortized cost of bonds at December 31, 2020 and 2019 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. At December 31, 2020 and 2019, the Company did not have any bonds with nonadmitted amounts.

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NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS (continued) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019 (Dollar amounts in thousands except for shares)

Bonds by Contractual Maturity—The book/adjusted carrying value and fair value of bonds at December 31, 2020, by contractual maturity, are shown below. Expected and actual maturities will differ from contractual maturities because the issuers of such bonds may have the right to call or prepay obligations without call or prepayment penalties.

	Book/Adj Carrying Value	Fair Value
Due in one year or less	\$ 7,905	\$ 8,031
Due after one year through five years	179,958	197,311
Due after five years through ten years	431,263	513,755
Due after ten years	3,099,224	3,823,943
Total	<u>\$ 3,718,350</u>	<u>\$ 4,543,040</u>

Other-than-temporary impairments—During 2020, the Company wrote down two corporate bonds, with a combined book value of \$10,450 to fair value due to an other-than-temporary impairment, which resulted in a realized loss of \$9,318. As of December 31, 2019, the combined fair value of these bonds was \$5,747. During 2019, the Company did not write down any individual security holdings to fair value as a result of other-than-temporary impairment.

Unrealized loss analysis—The following tables disclose unrealized investment losses by class of investment at December 31, 2020 and 2019. The Company considers these investments to be only temporarily impaired.

Analysis of Gross Unrealized Investment Losses At December 31, 2020

Description of Securities	Less than Twelve Months		Twelve Months or Longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Bonds:						
Other government	\$ 19,532	\$ (898)	\$ —	\$ —	\$ 19,532	\$ (898)
U.S. political subdivisions	4,039	(24)	—	—	4,039	(24)
U.S. special revenues	4,297	(57)	—	—	4,297	(57)
Industrial and miscellaneous	42,372	(979)	35,566	(4,105)	77,938	(5,084)
Asset-backed securities	4,643	(182)	2,245	(545)	6,888	(727)
Hybrid securities	—	—	6,333	(2,167)	6,333	(2,167)
Total unrealized losses	<u>\$ 74,883</u>	<u>\$ (2,140)</u>	<u>\$ 44,144</u>	<u>(6,817)</u>	<u>\$ 119,027</u>	<u>(8,957)</u>

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NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS (continued)
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(Dollar amounts in thousands except for shares)

Analysis of Gross Unrealized Investment Losses At December 31, 2019

Description of Securities	Less than Twelve Months		Twelve Months or Longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Bonds:						
Other government.....	\$ 6,496	\$ (396)	\$ —	\$ —	\$ 6,496	\$ (396)
U.S. political subdivisions.....	1,372	(9)	—	—	1,372	(9)
U.S. special revenues.....	1,316	(12)	—	—	1,316	(12)
Industrial and miscellaneous ..	98,464	(1,451)	83,810	(14,414)	182,274	(15,865)
Asset-backed securities.....	—	—	2,776	(74)	2,776	(74)
Hybrid securities.....	—	—	7,183	(1,318)	7,183	(1,318)
Total unrealized losses.....	<u>\$ 107,648</u>	<u>\$ (1,868)</u>	<u>\$ 93,769</u>	<u>\$ (15,806)</u>	<u>\$ 201,417</u>	<u>\$ (17,674)</u>

At December 31, 2020, the Company held 36 issues (CUSIPs) that had been in an unrealized loss position less than 12 months, and 7 issues that had been in an unrealized loss position 12 months or longer. At December 31, 2020 and 2019, the Company's entire bond and equity portfolio consisted of 935 and 722 issues, respectively.

The following table discloses loan-backed and other structured securities that have an unrealized loss as of December 31, 2020 and 2019.

	Less than Twelve Months		Twelve Months or Longer	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
2020.....	\$ 4,643	\$ (182)	\$ 2,245	\$ (545)
2019.....	—	—	2,776	(74)

Pledged Assets—The Company had cash and bonds with book/adjusted carrying values of \$472,560 and \$389,375 on deposit with various state insurance and governmental regulatory agencies as required by law at December 31, 2020 and 2019, respectively.

Cash Equivalents—The Company participates in overnight reverse repurchase agreements in which an unaffiliated authorized broker purchases securities and then resells the next day. As of December 31, 2020 and 2019 respectively, the Company had \$0 and \$5,100 in overnight reverse repurchase agreements which were collateralized by the following:

	CUSIP	Maturity	Coupon	Par Value	Fair Value with Accrued Interest
2020					
N/A.....	—	—	—%	\$ —	\$ —
2019					
Federal Farm Credit Bank.....	31331XT85	08/03/2037	6%	\$ 3,644	\$ 5,202

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NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS (continued) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019 (Dollar amounts in thousands except for shares)

Commercial mortgage loans—The Company invests in commercial mortgage loan participations. The portfolio consists of participations in transitional real estate loans with three to five year maturities that are originated and serviced by a third-party manager who also performs credit monitoring and impairment analysis of the loans. The Company does not have any significant credit risk exposure to any individual borrower. During 2020, the Company did not invest in any new commercial mortgage loans.

The commercial mortgage loan portfolio is invested in a variety of commercial property types located in the United States. As of December 31, 2020 and 2019, the distribution of the portfolio by property type and geographic location was as follows:

	2020		2019	
	Carrying Value	% of Total	Carrying Value	% of Total
Property type:				
Office	\$ 5,070	17 %	\$ 11,762	32 %
Hospitality	6,524	22 %	6,316	17 %
Multi-family	5,419	18 %	6,376	17 %
Mixed use	8,479	29 %	8,424	23 %
Retail	4,278	14 %	4,124	11 %
Total recorded investment	<u>\$ 29,770</u>	<u>100 %</u>	<u>\$ 37,002</u>	<u>100 %</u>
Less valuation allowance	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Carrying value, net of valuation allowance	<u>\$ 29,770</u>	<u>100 %</u>	<u>\$ 37,002</u>	<u>100 %</u>
	2020		2019	
	Carrying Value	% of Total	Carrying Value	% of Total
Geographic location:				
Pacific	\$ 4,278	14 %	\$ 4,124	11 %
West South Central	3,127	11 %	2,933	8 %
East South Central	4,707	16 %	4,676	13 %
South Atlantic	12,089	41 %	18,098	49 %
Middle Atlantic	5,569	19 %	5,535	15 %
New England	—	— %	1,636	4 %
Total recorded investment	<u>\$ 29,770</u>	<u>100 %</u>	<u>\$ 37,002</u>	<u>100 %</u>
Less valuation allowance	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Carrying value, net of valuation allowance	<u>\$ 29,770</u>	<u>100 %</u>	<u>\$ 37,002</u>	<u>100 %</u>

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NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS (continued) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019 (Dollar amounts in thousands except for shares)

The following table contains the risk categories of the loan portfolio. Loans are rated from CM1 (highest quality) to CM7 (in process of foreclosure). The factors that contribute to the CM category include the sector type, the loan to value ratio (LTV), the debt service coverage ratio (DSC), whether the loan is a construction loan, and if the loan has cash reserves. These loans, originated in 2018 to 2019, are transitional or under construction, and may not yet be income producing.

	2020		2019	
	Carrying Value	Number of Loans	Carrying Value	Number of Loans
Risk categories:				
CM2	\$ 9,777	2	\$ 24,309	6
CM3	10,297	3	12,693	4
CM4	6,075	2	—	—
CM7	3,621	1	—	—
Carrying value, net of valuation allowance	<u>\$ 29,770</u>	<u>8</u>	<u>\$ 37,002</u>	<u>10</u>

During 2020, the Company had two commercial mortgage loans with an other-than-temporary impairment resulting in a realized loss of \$1,278. The carrying value of these loans at December 31, 2020 was \$7,899. The Company did not write down any loan in 2019 as a result of an other-than-temporary impairment. An analysis of the impaired securities as of December 31, 2020 and 2019 is as follows:

	2020			2019		
	Carrying Value	Realized Loss	Number of Loans	Carrying Value	Realized Loss	Number of Loans
Other-than-temporary impairment.....						
In process of foreclosure	\$ 3,621	\$ (1,002)	1	\$ —	\$ —	—
Restructured loan	4,278	(276)	1	—	—	—
Carrying value	<u>\$ 7,899</u>	<u>\$ (1,278)</u>	<u>2</u>	<u>\$ —</u>	<u>\$ —</u>	<u>—</u>

	Commercial — All Other	
	2020	2019
Investment in impaired loans.....		
Average recorded investment	\$ 3,950	—
Interest income recognized	241	—
Recorded investment on nonaccrual status	7,899	—
Amount of interest income recognized on a cash-basis	241	—

As of December 31, 2020, the Company had one mortgage loan with a carrying value of \$3,621 that was over 180 days past due and in process of foreclosure. The Company did not have any additional mortgage loans past due as of December 31, 2020 or any mortgage loans past due as of December 31, 2019. The Company did not have any taxes, assessments, or advances that were not included in the mortgage loan total.

During 2020, the Company reduced the interest rate on one mortgage loan from 4.41% to 0%. In 2019, the Company did not reduce interest rates on any mortgage loans.

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NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS (continued) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019 (Dollar amounts in thousands except for shares)

Other Invested Assets—Other invested assets include surplus notes with an amortized cost of \$75,261 and a fair value of \$86,875 as of December 31, 2020. All of the Company's surplus notes were rated NAIC 1-2. For this reason, the notes were reported at amortized cost, resulting in no related unrealized losses as of December 31, 2020. Additionally, the Company has other limited partnerships, which are presented in the following table:

Investment Category	As of December 31,			Redemption Term/Notice
	Carrying Value		Unfunded Commitments	
	2020	2019	2020	
Commercial mortgage loans	\$ 54,492	\$ 6,275	\$ 68,469	Portion non-redeemable and fully redeemable after 6 month period, subject to fund liquidity/discretion of General Partner. Expected life is 7 years for non-redeemable fund.
Opportunistic credit	23,988	24,288	—	Initial 2-year lock on each new investment; semi-annual withdrawals thereafter; full redemption within 36-month period.
Other	120	62	34,928	Not redeemable. Expected life is approximately 12 years.
Total	<u>\$ 78,600</u>	<u>\$ 30,625</u>	<u>\$ 103,397</u>	

Affiliated Investments—As of December 31, 2020 and 2019, the Company had the following subsidiaries:

	Ownership	Carrying Value ⁽¹⁾		Subsidiary Assets		Subsidiary Net Income	
	%	2020	2019	2020	2019	2020	2019
National Income Life Insurance Company (National Income)	100%	\$ 39,129	\$ 40,517	\$ 343,962	\$ 305,911	\$ 14,871	\$ 13,737
American Income Marketing Services (AIMS)	100%	\$ 1,203	\$ 1,203	\$ —	\$ —	\$ —	\$ —

(1) The Company's carrying value is presented as the following: National Income at statutory-basis equity and AIMS at its GAAP-basis equity.

National Income declared and paid dividends on its common stock to the Company in the amount of \$13,737 and \$11,465 during 2020 and 2019, respectively. The Company recorded these amounts in net investment income.

Concentrations of Credit Risk—The financial instruments that subject the Company to concentrations of potential credit risk are primarily bonds, equity securities, short-term investments, and cash on deposit. Such instruments 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.

AMERICAN INCOME LIFE INSURANCE COMPANY

NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS (continued) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019 (Dollar amounts in thousands except for shares)

The Company maintains a diversified investment portfolio with limited concentration in any one issuer. The following table presents the distribution of the portfolio as of December 31, 2020, based on admitted value:

	Admitted Value
Investment-grade corporate securities	72 %
Municipal bonds	7 %
Contract loans	5 %
Below-investment grade securities	5 %
Other invested assets	5 %
Affiliated stock	2 %
Other governments	1 %
Cash, cash equivalents, and short-term investments	1 %
Mortgage loans	1 %
Loan-backed and other structured securities, other bonds, real estate and non-affiliated equities	1 %
Total	<u>100 %</u>

Excluding investments in affiliates, the Company's largest exposure to a single issuer of debt and equity securities was Telus Corp, which represented 1.6% of cash and invested assets.

Municipal bond investments are made in various states with 19% of the municipal bonds invested in the state of Texas. Corporate debt and equity investments are made in a wide range of industries. At December 31, 2020, the top ten industry concentrations, based on admitted value, were as follows:

	Admitted Value
Insurance	13 %
Electric utilities	10 %
Banks	6 %
Pipelines	6 %
Telecommunications	5 %
Chemicals	4 %
Transportation	4 %
Real estate investment trusts	4 %
Energy exploration and production	4 %
Food	4 %

At December 31, 2020, 5% of cash and invested assets were represented by bonds rated below investment grade by the NAIC (NAIC designations 3–6). Par value of these investments was \$216,124, book/adjusted carrying value (or admitted value) was \$218,978, and fair value was \$235,795. Included in these said investments are below investment grade loan-backed and other structured securities with a book/adjusted carrying value of \$2,790. While these investments could be subject to additional credit risk, such risk should generally be reflected in fair value.

AMERICAN INCOME LIFE INSURANCE COMPANY

NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS (continued)
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3. FAIR VALUE OF FINANCIAL INSTRUMENTS

Investments Measured at Fair Value—The following tables summarize the investments measured and reported at fair value as of December 31, 2020 and 2019:

Fair Value Measurements at December 31, 2020 Using:					
Description	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Net Asset Value (NAV)	Total Fair Value
Common stock—industrial and miscellaneous.....	\$ —	\$ —	\$ 1,138	\$ —	\$ 1,138
Cash equivalents—money market mutual funds.....	—	—	—	16,124	16,124
Total.....	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1,138</u>	<u>\$ 16,124</u>	<u>\$ 17,262</u>

Fair Value Measurements at December 31, 2019 Using:					
Description	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Net Asset Value (NAV)	Total Fair Value
Common stock—industrial and miscellaneous.....	\$ —	\$ —	\$ 897	\$ —	\$ 897
Cash equivalents—money market mutual funds.....	—	—	—	1,973	1,973
Total.....	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 897</u>	<u>\$ 1,973</u>	<u>\$ 2,870</u>

AMERICAN INCOME LIFE INSURANCE COMPANY

NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS (continued) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019 (Dollar amounts in thousands except for shares)

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)
	Common Stock
Balance at December 31, 2018	\$ 1,204
Total gains or losses:	
Included in net income.....	—
Included in surplus.....	—
Purchases.....	—
Issuances.....	—
Sales.....	(307)
Settlements/amortization.....	—
Transfers into Level 3.....	—
Transfers out of Level 3.....	—
Balance at December 31, 2019	\$ 897
Total gains or losses:	
Included in net income.....	—
Included in surplus.....	241
Purchases.....	—
Issuances.....	—
Sales.....	—
Settlements/amortization.....	—
Transfers into Level 3.....	—
Transfers out of Level 3.....	—
Balance at December 31, 2020	<u>\$ 1,138</u>

Included in Level 3 are common stock for which observable market data is not available.

AMERICAN INCOME LIFE INSURANCE COMPANY

NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS (continued) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019 (Dollar amounts in thousands except for shares)

Fair Value Hierarchy—The following tables summarize the fair values of all financial instruments by level within the fair value hierarchy as of December 31, 2020 and 2019:

2020							
Type of Financial Instrument	Admitted Value	Aggregate Fair Value	Level 1	Level 2	Level 3	Not Practicable (Carrying Value)	Net Asset Value (NAV)
Assets:							
Bonds.....	\$ 3,718,350	\$ 4,543,040	\$ —	\$ 4,410,063	\$132,977	\$ —	\$ —
Preferred stock—affiliated.....	39,169	39,169	—	—	39,169	—	—
Common stock—unaffiliated.....	1,138	1,138	—	—	1,138	—	—
Cash, cash equivalents, and short-term investments.....	33,090	33,090	16,966	—	—	—	16,124
Contract loans ⁽¹⁾	227,233	227,233	—	—	—	227,233	—
Mortgage loans ⁽²⁾	29,770	29,770	—	—	29,770	—	—
Other invested assets:							
LIHTC partnership interests.....	60,310	69,862	—	—	69,862	—	—
Surplus notes—unaffiliated.....	60,096	71,605	—	71,605	—	—	—
Surplus notes—affiliated.....	15,165	15,270	—	—	15,270	—	—
Total Assets:	\$ 4,184,321	\$ 5,030,177	\$ 16,966	\$ 4,481,668	\$288,186	\$ 227,233	\$ 16,124
Liabilities:							
Interest bearing deposit-type funds.....	\$ (88,287)	\$ (88,287)	\$ —	\$ (88,287)	\$ —	\$ —	\$ —
Borrowed funds—affiliated.....	(40,253)	(40,253)	—	(40,253)	—	—	—
Total Liabilities:	\$ (128,540)	\$ (128,540)	\$ —	\$ (128,540)	\$ —	\$ —	\$ —

(1)Contract loans cannot be valued separately from their associated insurance liabilities, thus making the determination of fair value not practicable.

(2)The Company invests in mortgage loans with 1 month floating rates. For this reason, the fair value approximates book value.

AMERICAN INCOME LIFE INSURANCE COMPANY

NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS (continued) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019 (Dollar amounts in thousands except for shares)

2019

Type of Financial Instrument	Admitted Value	Aggregate Fair Value	Level 1	Level 2	Level 3	Not Practicable (Carrying Value)	Net Asset Value (NAV)
Assets:							
Bonds.....	\$ 3,502,377	\$ 3,988,795	\$ —	\$ 3,858,058	\$130,737	\$ —	\$ —
Preferred stock—affiliated.....	39,169	39,169	—	—	39,169	—	—
Common stock—unaffiliated.....	897	897	—	—	897	—	—
Cash, cash equivalents, and.....							
short-term investments.....	35,991	35,991	13,918	20,100	—	—	1,973
Contract loans ⁽¹⁾	215,996	215,996	—	—	—	215,996	—
Mortgage loans ⁽²⁾	37,002	37,002	—	—	37,002	—	—
Other invested assets:							
LIHTC partnership interests.....	68,639	72,500	—	—	72,500	—	—
Surplus notes—unaffiliated.....	50,075	56,651	—	56,651	—	—	—
Surplus notes—affiliated.....	15,168	15,150	—	—	15,150	—	—
Total assets	\$ 3,965,314	4,462,151	\$ 13,918	\$ 3,934,809	\$295,455	\$ 215,996	\$ 1,973
Liabilities:							
Interest bearing deposit-type funds.....	\$ (87,385)	\$ (87,385)	\$ —	\$ (87,385)	\$ —	\$ —	\$ —
Borrowed funds—affiliated.....	(277)	(277)	—	(277)	—	—	—
Total liabilities	\$ (87,662)	\$ (87,662)	\$ —	\$ (87,662)	\$ —	\$ —	\$ —

(1)Contract loans cannot be valued separately from their associated insurance liabilities, thus making the determination of fair value not practicable.

(2)The Company invests in mortgage loans with 1 month floating rates. For this reason, the fair value approximates book value.

The Company invests in a portfolio of private placement bonds that is managed by a third party. Amortized cost of these bonds was \$108,801 and \$112,150 as of December 31, 2020 and 2019, respectively. The fair value of those classified as Level 2 was \$10,266 and \$10,105 and those classified as Level 3 was \$110,823 and \$107,462 at December 31, 2020 and 2019, respectively.

AMERICAN INCOME LIFE INSURANCE COMPANY

NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS (continued)
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
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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, 2020 and 2019, the Company had insurance in force of \$417,698 and \$438,806, for which a premium deficiency reserve of \$3,576 and \$3,572, 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 as of December 31, 2020 and 2019, were as follows:

Individual Annuities:	2020	2019
Subject to discretionary withdrawal:		
At book value less current surrender charge of 5% or more	\$ 209	\$ 3,940
At book value without adjustment	226,377	231,499
Total subject to discretionary withdrawal	226,586	235,439
Not subject to discretionary withdrawal	568	632
Total gross	227,154	236,071
Reinsurance ceded	—	—
Total net	<u>\$ 227,154</u>	<u>\$ 236,071</u>
Amount with current surrender charge of 5% or more in 2020 that will have less than a 5% surrender charge for the first time within 2021	\$ 145	1,175

AMERICAN INCOME LIFE INSURANCE COMPANY

NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS (continued) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019 (Dollar amounts in thousands except for shares)

Deposit-Type Contracts:	2020	2019
Subject to discretionary withdrawal:		
At book value less current surrender charge of 5% or more	\$ —	\$ —
At book value without adjustment	88,287	87,385
Total subject to discretionary withdrawal	88,287	87,385
Not subject to discretionary withdrawal	—	—
Total gross	88,287	87,385
Reinsurance ceded	—	—
Total net	\$ 88,287	\$ 87,385

Amount with current surrender charge of 5% or more in 2020 that will have less than a 5% surrender charge for the first time within 2021 \$ — \$ —

The following information is obtained from the annual statement, which is filed with the Department. It is provided to reconcile annuity reserves, deposit-type contract funds, and other liabilities with life or disability contingencies to amounts reported in the statutory-basis statements of admitted assets, liabilities, and capital and surplus. As of December 31, 2020 and 2019, these amounts were as follows:

	2020	2019
Life and accident and health annual statement:		
Exhibit 5—annuities section—total (net)	\$ 227,085	\$ 235,997
Exhibit 5—supplementary contracts with life contingencies section—total (net)	69	75
Exhibit of deposit-type contracts—column 1, line 14	88,287	87,385
Total	\$ 315,441	\$ 323,457

Analysis of Life Actuarial Reserves by Withdrawal Characteristics—The amount of life actuarial reserves as of December 31, 2020 and 2019, were as follows:

	Cash Value		Reserve	
	2020	2019	2020	2019
Subject to discretionary withdrawal:				
Term policies with cash value	\$ 3,212	\$ 3,870	\$ 71,438	\$ 71,179
Other permanent cash value life	2,505,923	2,288,962	3,615,583	3,320,917
Not subject to discretionary withdrawal or no cash values:				
Term policies with cash value	—	—	38,369	38,254
Accidental death benefits	—	—	52,427	46,650
Disability—active lives	—	—	25,842	23,568
Disability—disabled lives	—	—	18,764	17,370
Miscellaneous reserves	—	—	33,936	33,338
Total gross	2,509,135	2,292,832	3,856,359	3,551,276
Reinsurance ceded	(166,939)	(112,057)	(353,814)	(264,896)
Total net	\$ 2,342,196	\$ 2,180,775	\$ 3,502,545	\$ 3,286,380

AMERICAN INCOME LIFE INSURANCE COMPANY

NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS (continued) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019 (Dollar amounts in thousands except for shares)

The following information as of December 31, 2020 and 2019 is provided to reconcile life reserves to amounts reported in the statutory-basis statements of admitted assets, liabilities, and capital and surplus:

	2020	2019
Life and accident and health annual statement:		
Exhibit 5—life insurance section—total (net).....	\$ 3,396,960	\$ 3,186,118
Exhibit 5—accidental death benefits section—total (net)	39,797	36,606
Exhibit 5—disability - active lives section—total (net).....	19,772	18,735
Exhibit 5—disability - disabled lives section—total (net)	18,764	17,370
Exhibit 5—miscellaneous reserves section—total (net).....	27,252	27,551
Total	<u>\$ 3,502,545</u>	<u>\$ 3,286,380</u>

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, 2020 and 2019, is summarized as follows:

	2020	2019
Balance at January 1—net of reinsurance recoverables.....	\$ 16,767	\$ 16,017
Incurred related to:		
Current year.....	26,305	25,542
Prior years.....	(3,309)	(3,037)
Total incurred	<u>22,996</u>	<u>22,505</u>
Paid related to:		
Current year.....	12,702	12,690
Prior years	9,232	9,065
Total paid.....	<u>21,934</u>	<u>21,755</u>
Balance at December 31—net of reinsurance recoverables.....	<u>\$ 17,829</u>	<u>\$ 16,767</u>

At the end of each year, the liability for unpaid health claims includes an estimate of claims incurred but not yet reported to the Company. Such estimates are updated regularly based upon the Company's most recent claims data with recognition of emerging experience trends. Due to the nature of the Company's health business, the payment lags are relatively short and most claims are fully paid within a year from the time incurred. Fluctuations in claims experience can lead to either over or under estimation of the liability for any given year.

The balance in the liability for unpaid accident and health claim adjustment expenses as of December 31, 2020 and December 31, 2019 was \$445 and \$419, respectively.

Reinsurance Assumed and Ceded—The Company reinsures the portion of insurance risk in excess of its retention limits to both affiliated and unaffiliated companies. The Company also assumes certain insurance risks of both affiliated and unaffiliated companies. The aggregate reserves for future policy benefits, unearned premiums, policy and contract claims, premiums, and benefits are reported after adding or deducting amounts related to reinsurance assumed or ceded.

AMERICAN INCOME LIFE INSURANCE COMPANY

NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS (continued) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019 (Dollar amounts in thousands except for shares)

The Company has reinsured 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, and this retention limit may have changed in the past as these limits are not static over long periods of time. 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.

The amounts related to reinsurance assumed and ceded as of and for the years ended December 31, 2020 and 2019, are shown below:

	2020		2019	
	Affiliated	Unaffiliated	Affiliated	Unaffiliated
Assumed:				
Aggregate reserves for future policy benefits.....	\$ 226,948	\$ —	\$ 235,856	\$ —
Policy and contract claims unpaid.....	\$ 5,219	\$ —	\$ 6,464	\$ —
Premiums.....	\$ 6,263	\$ —	\$ 4,807	\$ —
Incurred benefits.....	\$ 22,294	\$ —	\$ 30,440	\$ —
Commissions and reinsurance expense allowances.....	\$ 148	\$ —	\$ 136	\$ —
Reserve adjustment.....	\$ —	\$ —	\$ —	\$ —
Ceded:				
Aggregate reserves for future policy benefits.....	\$ 353,708	\$ 107	\$ 264,787	\$ 109
Premiums.....	\$ 359,308	\$ 126	\$ 305,034	\$ 115
Reserve adjustments.....	\$ 5,017	\$ —	\$ 5,830	\$ —
Incurred benefits.....	\$ 45,236	\$ —	\$ 31,369	\$ —
Premium taxes.....	\$ 8,142	\$ —	\$ 6,994	\$ —
Commissions and reinsurance expense allowances.....	\$ 219,484	\$ —	\$ 192,099	\$ —

A contingent liability exists with respect to deductions from the aggregate reserves for future policy benefits, policy and contract claims, and unearned premiums, which would become a liability in the event that such reinsurance companies are unable to meet their obligations under the existing reinsurance agreements.

AMERICAN INCOME LIFE INSURANCE COMPANY

NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS (continued)
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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.

\$35,376

- 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)

AMERICAN INCOME LIFE INSURANCE COMPANY

NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS (continued)
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5. PREMIUM AND ANNUITY CONSIDERATIONS DEFERRED AND UNCOLLECTED

Deferred and uncollected life and health insurance premiums and annuity considerations as of December 31, 2020 and 2019, were as follows:

	2020			2019		
	Gross	Loading	Net of Loading	Gross	Loading	Net of Loading
Ordinary life new business	\$ 15,757	\$ (8,639)	\$ 7,118	\$ 15,274	\$ (8,598)	\$ 6,676
Ordinary life renewal	379,045	(153,090)	225,955	396,279	(161,101)	235,178
Group life	766	(287)	479	796	(296)	500
Assumed annuity-renewal	1,806	—	1,806	1,227	—	1,227
Ceded life—new business	(7,183)	3,905	(3,278)	(6,835)	3,807	(3,028)
Ceded life—renewal	(82,716)	36,173	(46,543)	(85,623)	37,876	(47,747)
Total	\$ 307,475	\$ (121,938)	\$ 185,537	\$ 321,118	\$ (128,312)	\$ 192,806
Nonadmitted (greater than 90 days)			—			—
Total admitted			\$ 185,537			\$ 192,806

The Company had no direct written premiums from managing general agents in 2020 or 2019.

AMERICAN INCOME LIFE INSURANCE COMPANY

NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS (continued) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019 (Dollar amounts in thousands except for shares)

6. INCOME TAXES

A. Net Deferred Tax Asset/Liability

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

1	December 31, 2020			December 31, 2019			Change		
	Ordinary	Capital	Total	Ordinary	Capital	Total	Ordinary	Capital	Total
(a) Gross deferred tax assets	\$ 195,561	\$ 6,108	\$ 201,669	\$ 186,908	\$ 3,287	\$ 190,195	\$ 8,653	\$ 2,821	\$ 11,474
(b) Statutory valuation allowance adjustments	—	—	—	—	—	—	—	—	—
(c) Adjusted gross deferred tax assets	195,561	6,108	201,669	186,908	3,287	190,195	8,653	2,821	11,474
(d) Deferred tax assets nonadmitted	—	4,869	4,869	—	—	—	—	4,869	4,869
(e) Subtotal net admitted deferred tax asset	195,561	1,239	196,800	186,908	3,287	190,195	8,653	(2,048)	6,605
(f) Deferred tax liabilities	167,130	1,200	168,330	163,842	919	164,761	3,288	281	3,569
(g) Net admitted deferred tax asset (net deferred tax liability)	\$ 28,431	\$ 39	\$ 28,470	\$ 23,066	\$ 2,368	\$ 25,434	\$ 5,365	\$ (2,329)	\$ 3,036

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.

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

		December 31, 2020		
		Ordinary	Capital	Total
Admission Calculation Components SSAP No. 101				
(a) Federal income taxes paid in prior years recoverable through loss carrybacks		\$ —	\$ 39	\$ 39
(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)		\$ 39,859	\$ —	\$ 39,859
1. Adjusted gross deferred tax assets expected to be realized following the balance sheet date		\$ 39,859	\$ —	\$ 39,859
2. Adjusted gross deferred tax assets allowed per limitation threshold		XXX	XXX	\$ 46,197
(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		\$ 155,702	\$ 1,200	\$ 156,902
(d) Deferred tax assets admitted as the result of application of SSAP No. 101. Total (2(a) + 2(b) + 2(c))		\$ 195,561	\$ 1,239	\$ 196,800

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NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS (continued) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019 (Dollar amounts in thousands except for shares)

	December 31, 2019		
	Ordinary	Capital	Total
Admission Calculation Components SSAP No. 101			
(a) Federal income taxes paid in prior years recoverable through loss carrybacks.....	\$ —	\$ —	\$ —
(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).....	\$ 38,271	\$ 3,243	\$ 41,514
1. Adjusted gross deferred tax assets expected to be realized following the balance sheet date.....	\$ 38,271	\$ 3,243	\$ 41,514
2. Adjusted gross deferred tax assets allowed per limitation threshold.....	XXX	XXX	\$ 41,514
(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.....	\$ 148,637	\$ 44	\$ 148,681
(d) Deferred tax assets admitted as the result of application of SSAP No. 101. Total (2(a) + 2(b) + 2(c)).....	\$ 186,908	\$ 3,287	\$ 190,195
	Change		
	Ordinary	Capital	Total
Admission Calculation Components SSAP No. 101			
(a) Federal income taxes paid in prior years recoverable through loss carrybacks.....	\$ —	\$ 39	\$ 39
(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).....	\$ 1,588	\$ (3,243)	\$ (1,655)
1. Adjusted gross deferred tax assets expected to be realized following the balance sheet date.....	\$ 1,588	\$ (3,243)	\$ (1,655)
2. Adjusted gross deferred tax assets allowed per limitation threshold.....	XXX	XXX	\$ 4,683
(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.....	\$ 7,065	\$ 1,156	\$ 8,221
(d) Deferred tax assets admitted as the result of application of SSAP No. 101. Total (2(a) + 2(b) + 2(c)).....	\$ 8,653	\$ (2,048)	\$ 6,605

AMERICAN INCOME LIFE INSURANCE COMPANY

NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS (continued) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019 (Dollar amounts in thousands except for shares)

3. The following table discloses the calculations for recovery period and threshold limitations.

	2020	2019
(a) Ratio percentage used to determine recovery period and threshold limitation amount	579 %	642 %
(b) Amount of adjusted capital and surplus used to determine recovery period and threshold limitation	\$ 351,010	\$ 363,922

4. The following table discloses the impact of tax planning strategies:

	December 31, 2020		December 31, 2019		Change	
	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)	\$195,561	\$ 6,108	\$186,908	\$ 3,287	\$ 8,653	\$ 2,821
2. Percentage of adjusted gross DTAs by tax character attributable to the impact of tax planning strategies	— %	— %	— %	— %	— %	— %
3. Net admitted adjusted gross DTAs amount from Note 6A1(e)	\$195,561	\$ 1,239	\$186,908	\$ 3,287	\$ 8,653	\$ (2,048)
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. Temporary Differences

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

C. Deferred Income Taxes

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

	December 31, 2020			December 31, 2019			Change		
	Ordinary	Capital	Total	Ordinary	Capital	Total	Ordinary	Capital	Total
Net deferred tax asset (liability)	\$ 28,431	\$ 4,908	\$ 33,339	\$ 23,066	\$ 2,368	\$ 25,434	\$ 5,365	\$ 2,540	\$ 7,905
Tax-effect of unrealized gains and losses	(7,676)	(764)	(8,440)	(6,838)	(613)	(7,451)	(838)	(151)	(989)
Tax-effect of other surplus gains and losses	—	—	—	—	—	—	—	—	—
Net tax-effect without unrealized gains and losses and prior period adjustments	\$ 36,107	\$ 5,672	\$ 41,779	\$ 29,904	\$ 2,981	\$ 32,885	\$ 6,203	\$ 2,691	\$ 8,894

AMERICAN INCOME LIFE INSURANCE COMPANY

NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS (continued) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019 (Dollar amounts in thousands except for shares)

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

1. Current income tax:

	December 31, 2020	December 31, 2019	Change
a. Federal	\$ 34,332	\$ 37,240	\$ (2,908)
b. Foreign	—	—	—
c. Subtotal	34,332	37,240	(2,908)
d. Federal income tax on net capital gains (losses)	(572)	1,040	(1,612)
e. Utilization of capital loss carryforwards	—	—	—
f. Other	—	—	—
g. Federal and foreign income taxes incurred	<u>\$ 33,760</u>	<u>\$ 38,280</u>	<u>\$ (4,520)</u>

2. The tax effects of temporary differences that give rise to significant portions of the deferred tax assets are presented below:

	December 31, 2020	December 31, 2019	Change
(a) Ordinary			
(1) Policyholder reserves	93,035	93,435	(400)
(2) Investments	—	172	(172)
(3) Deferred acquisition costs	91,552	82,293	9,259
(4) Policyholder dividends accrual	2	3	(1)
(5) Fixed assets	304	1,491	(1,187)
(6) Compensation and benefits accrual	305	263	42
(7) Pension accrual	—	—	—
(8) Receivables — nonadmitted	—	—	—
(9) Net operating loss carry-forward	—	—	—
(10) Tax credit carry-forward	—	—	—
(11) Unrealized gains (losses)	4,355	3,425	930
(12) Unrealized gains (loss) on foreign exchange	—	—	—
(13) Other (including items <5% of total ordinary tax assets)	6,008	5,826	182
(99) Subtotal	<u>195,561</u>	<u>186,908</u>	<u>8,653</u>
(b) Statutory valuation allowance adjustment	—	—	—
(c) Nonadmitted	—	—	—
(d) Admitted ordinary deferred tax assets (2a99 - 2b - 2c)	<u>195,561</u>	<u>186,908</u>	<u>8,653</u>
(e) Capital:			
(1) Investments	6,007	3,243	2,764
(2) Net capital loss carry-forward	—	—	—
(3) Real estate	—	—	—
(4) Other (including items <5% of total capital tax assets)	101	44	57
(99) Subtotal	<u>6,108</u>	<u>3,287</u>	<u>2,821</u>
(f) Statutory valuation allowance adjustment	—	—	—
(g) Nonadmitted	<u>4,869</u>	<u>—</u>	<u>4,869</u>
(h) Admitted capital deferred tax assets (2e99 - 2f - 2g)	<u>1,239</u>	<u>3,287</u>	<u>(2,048)</u>
(i) Admitted deferred tax assets (2d + 2b)	<u>\$ 196,800</u>	<u>\$ 190,195</u>	<u>\$ 6,605</u>

AMERICAN INCOME LIFE INSURANCE COMPANY

NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS (continued) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019 (Dollar amounts in thousands except for shares)

3. The tax effects of temporary differences that give rise to significant portions of the deferred tax liabilities are presented below:

	December 31, 2020	December 31, 2019	Change
(a) Ordinary			
(1) Investments	\$ 741	\$ 836	\$ (95)
(2) Fixed assets	—	—	—
(3) Deferred and uncollected premium	38,584	40,232	(1,648)
(4) Policyholder reserves	22,758	27,372	(4,614)
(5) Deferred compensation	—	—	—
(6) Agent advances	92,461	84,626	7,835
(7) Unrealized gains (loss) on foreign exchange	12,031	10,263	1,768
(8) Other (including items <5% of total ordinary tax liabilities)	555	513	42
(99) Subtotal	167,130	163,842	3,288
(b) Capital:			
(1) Investments	335	262	73
(2) Real estate	—	—	—
(3) Unrealized gains (losses)	865	657	208
(4) Other (including items <5% of total capital tax liabilities)	—	—	—
(99) Subtotal	1,200	919	281
(c) Deferred tax liabilities (3a99 + 3b99)	168,330	164,761	3,569
Net deferred tax assets/liabilities (2i - 3c)	\$ 28,470	\$ 25,434	\$ 3,036

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NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS (continued) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019 (Dollar amounts in thousands except for shares)

E. Book to Tax adjustments

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

	December 31,		
	2020	2019	Change
(1) Current income taxes incurred.....	\$ 33,760	\$ 38,280	\$ (4,520)
(2) Change in deferred income tax (without tax on unrealized gains and losses and surplus adjustments).....	(8,894)	(10,453)	1,559
(3) Total income tax reported.....	<u>\$ 24,866</u>	<u>\$ 27,827</u>	<u>\$ (2,961)</u>
(4) Net gain from operations before federal income tax and realized gains.....	\$228,264	\$236,304	\$ (8,040)
Realized capital gains (losses) before federal income tax, after transfer to IMR.....	(10,532)	446	(10,978)
(5) Income before taxes.....	217,732	236,750	(19,018)
	21 %	21 %	— %
Expected income tax expense (benefit) at statutory rate.....	45,724	49,717	(3,993)
(7) Increase (decrease) in actual tax reported resulting from:			
a. Dividends received deduction.....	(3,446)	(2,969)	(477)
b. Tax-exempt income.....	(957)	(582)	(375)
c. Tax adjustment for IMR.....	(358)	(563)	205
d. Employee stock options.....	(290)	(713)	423
e. Tax credits.....	(15,847)	(16,289)	442
f. Other.....	40	(774)	814
(8) Total income tax reported.....	<u>\$ 24,866</u>	<u>\$ 27,827</u>	<u>\$ (2,961)</u>

F. Federal Taxes

1. As of December 31, 2020 and 2019, 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 as follows:

2020	\$ 0
2019	\$ 303
2018	\$ 837

3. The aggregate amount of deposits admitted under Section 6603 of the Internal Revenue Code is \$0 and \$0 at December 31, 2020 and 2019, respectively.

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NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS (continued)
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G. Consolidated Federal Income Tax Return

The Company's federal income tax return is consolidated with its ultimate parent, Globe Life Inc., as well as its affiliated subsidiaries including: Liberty National Life Insurance Company, Globe Life Insurance Company of New York, Family Heritage Life Insurance Company of America, 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., ALIC Receivables Corporation, American Income Marketing Services, Inc., Liberty National Auto Club, Inc., Globe Life Insurance Agency, Inc., American Life and Health Group, 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 2017. 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*.

H. Repatriation Transition Tax (RTT)

The Company does not owe RTT for the year.

I. Alternative Minimum Tax (AMT) Credit

The Company had no AMT credit carryforwards as of the beginning of the year. As a result, no AMT credits were recovered during the year or exist as of the end of the year.

J. Tax Penalties

The Company's continuing practice is to recognize interest and/or penalties related to income tax matters in income tax expense. The Company recognized interest income of \$0 and \$1, net of federal income tax benefits, in its statutory-basis Statement of Operations for the years ended December 31, 2020 and 2019. The Company also recognized Federal estimated tax penalties of \$0 and \$34 in its statutory-basis Statement of Operations for 2020 and 2019, respectively. The Company does not have any accrued interest receivables and/or payables relating to prior year IRS examination settlements as of December 31, 2020 and 2019. The Company had no accrued penalties as of December 31, 2020 and 2019.

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NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS (continued) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019 (Dollar amounts in thousands except for shares)

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 \$30,119 and \$28,278 were allocated in 2020 and 2019, respectively, 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, 2020 and 2019, is as follows:

	2020	2019
Accumulated benefit obligation.....	\$ 49,628	\$ 42,231
Projected benefit obligation.....	49,628	42,231

Fair Value Measurements at December 31, 2020

Description for each class of plan assets	Level 1	Level 2	Level 3	Total
Unallocated insurance contract.....	\$ —	\$ 30,119	\$ —	\$ 30,119

Fair Value Measurements at December 31, 2019

Description for each class of plan assets	Level 1	Level 2	Level 3	Total
Unallocated insurance contract.....	\$ —	\$ 28,278	\$ —	\$ 28,278

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 projected benefit obligations and 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	2020	2019
For benefit obligations — December 31 — discount rate.....	3.10 %	3.61 %
For periodic benefit cost for the year:		
Discount rate.....	3.61	4.33
Expect long-term rate of return.....	6.25	6.25
Rate of compensation increase ⁽¹⁾	N/A	N/A
Interest crediting rates for cash balance plans and other plans with promised interest crediting rates.....	4.32	4.32

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

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The following table presents the components of net periodic pension cost as of December 31, 2020 and 2019, for the defined benefit pension plan:

	2020	2019
Service cost	\$ 1,972	\$ 1,582
Interest cost	1,510	1,481
Expected return on assets	(1,768)	(1,666)
Amortization of prior service cost	631	631
Amortization of net loss	554	161
Net periodic benefit cost	\$ 2,899	\$ 2,189

The following table presents a reconciliation at December 31, 2020 and 2019, from the beginning to the end of the year of the accumulated benefit obligation of the defined benefit pension plan:

	2020	2019
Changes in benefit obligation:		
Obligation—balance at January 1	\$ 42,231	\$ 34,542
Service cost	1,972	1,582
Interest cost	1,510	1,481
Actuarial (gain) loss	4,611	5,262
Benefits paid	(696)	(636)
Obligation—balance at December 31	49,628	42,231
Changes in plan assets:		
Plan assets—fair value at January 1	28,278	26,504
Return on assets	967	930
Contributions	1,570	1,480
Benefits paid	(696)	(636)
Plan assets—fair value at December 31	30,119	28,278
Funded status at December 31	\$ (19,509)	\$ (13,953)

The portion of unassigned surplus that is expected to be reflected in pension expense in 2021 is as follows:

	Defined Benefit Plan
Amortization of prior service cost	\$ 631
Amortization of net loss	876
Total	\$ 1,507

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NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS (continued) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019 (Dollar amounts in thousands except for shares)

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

	Defined Benefit Plan
2021.....	\$ 913
2022.....	1,049
2023.....	1,204
2024.....	1,371
2025.....	1,527
2026-2030.....	9,933

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 plan 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 \$1,570 in 2020 and \$1,480 in 2019. The Company does not have any regulatory contribution requirements for 2020, however, the Company currently intends to make voluntary contributions of approximately \$1,700 in 2021. The actual amount of the contribution may be different from this estimate.

In addition, the Company has a SERP, which provides an additional supplemental defined pension benefit to a limited number of executives. The supplemental benefit is based on the participant's qualified plan benefit without consideration to the regulatory limits on compensation and benefit payments applicable to qualified plans, except that eligible compensation is capped at \$1 million.

The Company's liability to this plan was \$2,448 and \$1,968 at December 31, 2020 and 2019, respectively. Pension cost is determined in the same manner as the defined benefit plan. Expense recognized for the plan was \$138 and \$103 for the years ended December 31, 2020 and 2019, respectively.

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, 2020 and 2019, Company contributions totaled \$747 and \$689, respectively.

Postretirement Benefit Plans Other Than Pensions—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 the Parent Company. The Company was allocated \$183 and \$183 for 2020 and 2019, respectively, for its annual share of the plan.

AMERICAN INCOME LIFE INSURANCE COMPANY

NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS (continued)
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8. INFORMATION CONCERNING PARENT, SUBSIDIARIES, AND AFFILIATES

Summary of Transactions—A summary of transactions between the Company, its parent, subsidiaries and affiliates as of and for the years ended December 31, 2020 and 2019, are as follows:

The Company has an investment management agreement with the Parent Company wherein the Company is charged a fee based on the total value of the securities managed. Total investment management fees incurred were \$5,880 and \$5,736 for the years ended December 31, 2020 and 2019, respectively.

The Company has a separate service agreement with the Parent Company to provide a wide variety of services, resulting in allocated expense to the Company of \$17,088 and \$16,056 in 2020 and 2019, respectively. The Parent Company agreement is a master service agreement with the Company and the other insurance affiliates and was approved by the Department. The fee is based on the ratio of certain expenses at the affiliate level to comparable Parent Company consolidated expenses, which is then applied to the Parent Company's total operating expenses for the prior year.

The Company is a party to a service agreement by and between Liberty National, Family Heritage, Globe Life, and United American. The agreement establishes that all parties may, from time to time, act to furnish a particular service or services becoming a "Service Provider" or receive a particular service or services as a "Service Beneficiary" and provides for allocation of salary expense and other costs of providing such services to the appropriate Service Beneficiary. Allocated expense related to this agreement for 2020 and 2019 was \$34,002 and \$29,044, respectively.

The Company has agreed to provide National Income, a subsidiary of the Company, certain legal, actuarial, marketing and other services with respect to National Income's life and accident and health businesses. In 2020 and 2019, the Company charged a fee of \$7,938 and \$7,818, respectively, for these services. The Company also services the agent balance receivables on behalf of another of its affiliates, American Income Life Insurance Company Receivables Corp (AILRC). In 2020 and 2019, the Company charged AILRC \$1,779 and \$1,688, respectively, for these services.

During 2020 and 2019, the Company sold agent balances totaling \$410,680 and \$366,617, respectively, to its affiliate, AILRC. The agent balances were sold to AILRC at a discount and amortized through investment expense, a component of investment income, evenly over the life of the agent balances. Amortization expense of \$17,958 and \$16,164 was recorded in 2020 and 2019, respectively.

Capital—The Company owned 19,169 shares of the Parent Company's 7.15% Cumulative Preferred Stock, Series A, and 20,000 shares of the Parent Company's 6.5% Cumulative Preferred Stock, Series A, as of December 31, 2020 and 2019, respectively. The carrying value of the stock was \$39,169 as of December 31, 2020 and 2019. 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 2020 and 2019. The Department 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 as of December 31, 2020 or 2019.

During 2012, the Company applied for and obtained approval from the Department to issue surplus notes in the aggregate of \$50,000. The Company issued a \$25,000 par value surplus note to the Parent Company 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, 2020 and 2019. Semi-annual interest payments are due in April and October. 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.

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NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS (continued) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019 (Dollar amounts in thousands except for shares)

The surplus notes are direct, unsecured obligations of the Company. In the event of liquidation, the notes are subordinate to holders of policy claims, other indebtedness, and other creditor claims. The surplus notes were issued pursuant to rule 144A under the securities act of 1933. All proceeds were received in cash. Interest expense accrued as of both December 31, 2020 and 2019 was \$1,312 and \$1,312, respectively. Total interest paid since inception of the note is \$10,226.

In 2017, the Parent Company sold the \$25,000 surplus notes to Globe Life And Accident Insurance Company, an affiliate.

Affiliate Transactions for Current and Prior Years—In addition to the balances and transactions with affiliates summarized in the section above, the Company also entered into a variety of reinsurance transactions that have been disclosed in Note 4 and borrowing transactions with affiliates that are described below:

The Company borrowed \$20,000 at an interest rate of 3.25% on December 18, 2020 from Liberty National. The borrowing has a scheduled maturity of on or before June 18, 2021. The Company incurred interest expense of \$23 on the borrowings.

The Company borrowed \$55,413, \$20,447, \$15,000, \$30,000, \$10,000, \$70,696, \$25,857, \$20,000, \$1,651, \$15,696 and \$25,000 at an interest rate of 0.00%, 0.00%, 3.25%, 3.25%, 3.25%, 0.00%, 0.00%, 3.25%, 0.00%, 3.25% and 0.00% on March 23, March 26, April 3, April 28, May 6, June 1, June 22, August 24, September 11, November 30, and December 16, 2020 from the Parent Company, respectively. The borrowings were repaid in full on March 23, 2020, March 26, 2020, July 21, 2020, September 11, 2020, September 11, 2020, November 30, 2020, December 17, 2020, February 4, 2021, September 11, 2020, December 21, 2020, and December 23, 2020, respectively. The Company incurred interest expense of \$797 on the borrowings.

American Income Marketing Services Inc., a subsidiary of the Company, borrowed \$2,500, \$2,500, and \$2,000 at an interest rate of 5.50%, 4.75%, and 3.25% from the Company on July 24, 2019, January 22, 2020, and July 22, 2020, respectively. The borrowings were repaid in full on January 22, 2020, July 22, 2020, and December 22, 2020, respectively.

Globe Life And Accident Insurance Company borrowed \$10,000 at an interest rate of 4.75% from the Company on February 12, 2020. The borrowings were repaid in full on March 2, 2020.

Liberty National borrowed \$10,000 at an interest rate of 4.75% from the Company on February 12, 2020. The borrowing was repaid in full on March 9, 2020.

National Income borrowed \$11,555 and \$2,182 at an interest rate of 0.00% and 0.00% from the Company on June 25 and July 16, 2020, respectively. The borrowings were repaid in full on June 25 and July 16, 2020, respectively.

The Parent Company borrowed \$25,000 and \$15,000 at an interest rate of 4.25% and 4.25% from the Company on March 9 and March 13, 2020, respectively. The borrowings were repaid in full on March 23 and March 23, 2020, respectively.

United American borrowed \$10,000, \$5,000, \$7,000, \$5,000 and \$10,000 at an interest rate of 5.25%, 4.75%, 4.75%, 4.75% and 3.25% from the Company on September 24, 2019, December 24, 2019, February 5, 2020, March 2, 2020, and March 31, 2020, respectively. The borrowings were repaid in full on January 30, January 30, July 21, July 21, and August 17, 2020, respectively.

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Non Insurance Investments in Subsidiary, Controlled, and Affiliated Entities (SCA)—The following tables list SCA for the year ended December 31, 2020:

SCA Entity	Percentage of SCA Ownership	Gross Amount	Admitted Amount	Nonadmitted Amount
(1) Balance Sheet Value (Admitted and Nonadmitted) All SCAs (Except 8b(i) Entities)				
a. SSAP No. 97 8a Entities				
8a entity description				
Total SSAP No. 97 8a Entities	XXX	\$ —	\$ —	\$ —
b. SSAP No. 97 8b(ii) Entities				
8b(ii) entity description				
American Income Marketing Services	1.0	1,203	—	1,203
Total SSAP No. 97 8b(ii) Entities	XXX	1,203	—	1,203
c. SSAP No. 97 8b(iii) Entities				
8b(iii) entity description				
Total SSAP No. 97 8b(iii) Entities	XXX	—	—	—
d. SSAP No. 97 8b(iv) Entities				
8b(iv) entity description				
Total SSAP No. 97 8b(iv) Entities	XXX	—	—	—
e. SSAP No. 97 8b Entities (except 8b(i) entities) (b+c+d)	XXX	1,203	—	1,203
f. Aggregate Total (a + e)	XXX	<u>\$ 1,203</u>	<u>\$ —</u>	<u>\$ 1,203</u>

SCA Entity	Type of NAIC Filing *	Date of Filing to the NAIC	NAIC Valuation Amount	NAIC Response Received Y/N	NAIC Disallowed Entities Valuation Method, Resubmission Required Y/N	Code**
(2) NAIC Filing Response Information						
a. SSAP No. 97 8a Entities						
8a entity description						
Total SSAP No. 97 8a Entities	XXX	XXX	\$ —	XXX	XXX	XXX
b. SSAP No. 97 8b(ii) Entities						
8b(ii) entity description						
American Income Marketing Services	N/A		—	N/A	N/A	I
Total SSAP No. 97 8b(ii) Entities	XXX	XXX	—	XXX	XXX	XXX
c. SSAP No. 97 8b(iii) Entities						
8b(iii) entity description						
Total SSAP No. 97 8b(iii) Entities	XXX	XXX	—	XXX	XXX	XXX
d. SSAP No. 97 8b(iv) Entities						
8b(iv) entity description						
Total SSAP No. 97 8b(iv) Entities	XXX	XXX	—	XXX	XXX	XXX
e. SSAP No. 97 8b Entities (except 8b(i) entities) (b+c+d)	XXX	XXX	—	XXX	XXX	XXX
f. Aggregate Total (a + e)	XXX	XXX	<u>\$ —</u>	XXX	XXX	XXX

* S1 - Sub-1, S2 - Sub-2 or RDF - Resubmission of Disallowed Filing

** I - Immaterial or M - Material

AMERICAN INCOME LIFE INSURANCE COMPANY

NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS (continued) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019 (Dollar amounts in thousands except for shares)

Entity	Reporting Entity's Share of Net Income (Loss)	Accumulated Share of Net Income (Losses)	Reporting Entity's Share of Equity, Including Negative Equity	Guaranteed Obligation / Commitment for Financial Support (Yes/No)	Reported Value
AILO 1, LLC	\$ (707)	\$ (1,138)	\$ (38)	No	\$ 0

9. CAPITAL AND SURPLUS AND SHAREHOLDER'S DIVIDEND RESTRICTIONS

The Company has 23,360,214 common shares authorized and 11,680,107 common shares issued outstanding. All shares are Class A shares. The common stock of the Company is wholly-owned by the Parent Company.

Dividends—The Company declared and paid \$199,064 and \$191,362 in dividends to the Parent Company during the year ended December 31, 2020 and 2019, respectively. No extraordinary dividends were paid in 2020 or 2019.

Statutory regulations in the State of Indiana 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 2021 is \$193,932.

Surplus Notes—The Company had \$25,000 in surplus notes outstanding at December 31, 2020 and 2019. Interest expense of \$1,312 in both 2020 and 2019 related to these notes is included in the accompanying statutory-basis financial statements. Payments of principal and interest can only be made from the Company's available surplus when the amount of surplus over all liabilities is double that of the amount of principal and interest then being paid. Payments can only be made with the prior approval of the Department. The 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 entire amount of the note is held by the Company's affiliate, Globe Life and Accident and Insurance Company.

Unassigned Surplus—The portion of unassigned surplus increased or (reduced) by each item below is as follows as of December 31:

	2020	2019
Nonadmitted asset values	\$ (45,319)	\$ (40,068)
Asset valuation reserve	(38,668)	(40,447)
Net unrealized gains (losses)—net of tax	(17,569)	(12,546)

The 2020 and 2019 net unrealized loss as presented above differs from the amount disclosed in the Company's annual statement within note 13.10. The difference is due to net unrealized foreign exchange capital gain, net of tax of \$37,019 and \$30,604, respectively and less prior year's adjustment of tax on repatriation of \$416. The change in net unrealized foreign exchange capital gains is presented on the Statutory-Basis Statement of Changes in Capital and Surplus.

AMERICAN INCOME LIFE INSURANCE COMPANY

NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS (continued) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019 (Dollar amounts in thousands except for shares)

10. COMMITMENTS AND CONTINGENCIES

Leases—Future minimum rental commitments required under operating leases having remaining noncancelable lease terms in excess of one year at December 31, 2020 were as follows:

	Year Ending December 31,					Total
	2021	2022	2023	2024	2025	
Operating lease commitments	\$ 644	\$ 596	\$ 451	\$ 369	\$ 12	\$ 2,072

Lease expense included in general expenses was \$477 and \$530 for the years ended December 31, 2020 and 2019, respectively. The Company has the option to renew most of its leases at the end of the lease term at the fair value for a period of five to ten years.

Unfunded Investment Commitments—The Company has unfunded commitments to limited partnerships and commercial mortgage loans. As of December 31, 2020, the Company committed \$103 million to fund investments related to limited partnerships. Additionally, as of December 31, 2020, the Company committed up to \$85 million to purchase commercial mortgage loans.

Litigation—American Income and its subsidiary, in common with the insurance industry in general, are subject to litigation, including putative class action litigation, alleged breaches of contract, torts, including bad faith and fraud claims based on alleged wrongful or fraudulent acts of agents of American Income and its subsidiary, employment discrimination, and miscellaneous other causes of action. Based upon information presently available, and in light of legal and other factual defenses available to American Income and its subsidiary, management does not believe that it is reasonably possible that such litigation will have a material adverse effect on American Income's financial condition, future operating results or liquidity; however, assessing the eventual outcome of litigation necessarily involves forward-looking speculation as to judgments to be made by judges, juries and appellate courts in the future. This bespeaks caution, particularly in states with reputations for high punitive damage verdicts. American Income's management recognizes that large punitive damage awards bearing little or no relation to actual damages continue to be awarded by juries in jurisdictions in which American Income and its subsidiary have substantial business, creating the potential for unpredictable material adverse judgments in any given punitive damage suit.

During 2020, the Company paid \$2,904 to settle five claims related to extra contractual obligations or bad faith claims stemming from lawsuits. During 2019, the Company paid \$222 to settle one claim related to extra contractual obligations or bad faith claims stemming from lawsuits.

On September 12, 2018, putative class action litigation was filed against American Income in California's Contra Costa County Superior Court (Joh v. American Income Life Insurance Company, Case No. C18-01863) (Joh Action). An amended complaint was filed on October 18, 2018. American Income removed the case to the United States District Court for the Northern District of California (Case No. 3:18-cv-06364-TSH). A second amended complaint was filed on May 20, 2019. The plaintiffs, former insurance sales agents of American Income, sued on behalf of all current and former trainees and sales agents who sold insurance for American Income in the State of California for the four years prior to the filing of the complaint. The second amended complaint alleged that such individuals were employees and asserted claims under the California Labor Code, California Business and Professions Code, and California Private Attorney General Act. The complaint sought compensatory damages, penalties and attorney fees on claims for failure to pay wages/commissions, failure to appropriately pay agents at termination, failure to provide itemized wage statements, failure to reimburse expenses, misclassification and unfair business practices.

On October 18, 2018, putative class action litigation was filed against Torchmark Corporation and American Income in California's Los Angeles County Superior Court (Golz v. American Income Life

AMERICAN INCOME LIFE INSURANCE COMPANY

NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS (continued) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019 (Dollar amounts in thousands except for shares)

Insurance Company, et al., Case No. 18STCV01354) (Golz Action). American Income removed the case to the United States District Court for the Central District of California (Case No. 2:18-cv-09879 R (SSx)). An amended complaint was filed on February 5, 2019. On February 6, 2019, Torchmark Corporation was dismissed without prejudice and the case proceeded with respect to American Income. On April 2, 2019, the District Court granted American Income's motion to dismiss four of the five causes of action asserted. The amended complaint's remaining claim alleged that plaintiff, as an American Income insurance agent trainee in California, was an employee who should have been compensated accordingly. The plaintiff sought to represent a class of individuals in California who trained to contract as American Income agents and who subsequently worked as contracted agents. The class period was alleged to begin four years prior to the complaint's filing. The complaint sought restitution under the California Business and Professions Code for alleged unfair business practices such as failure to pay minimum wage and overtime, failure to provide meal and rest breaks, and failure to reimburse business expenses.

On December 14, 2018, putative class action litigation was filed against American Income in United States District Court for the Northern District of California (Hamilton v. American Income Life Insurance Company, Case No. 4:18-cv-7535-KAW) (Hamilton Action). An amended complaint was filed on January 23, 2019. The plaintiffs, former insurance sales agents of American Income, sued on behalf of all current and former trainees and sales agents who sold insurance for American Income in the State of California for the last four years prior to the filing of the complaint. The lawsuit alleged that putative class members were employees and asserted claims under the California Labor Code, California Business and Professions Code, and California Private Attorney General Act. The complaint sought compensatory damages, penalties and attorney fees on claims for failure to pay minimum wage and overtime, failure to provide meal and rest breaks, failure to appropriately pay agents at termination, failure to provide itemized wage statements, failure to reimburse expenses, misclassification and unfair business practices.

With respect to the related cases above, on August 6, 2020, the plaintiffs in the Joh and Hamilton Actions jointly moved for preliminary approval of a settlement of all class and representative claims, which broadly covers "all individuals who trained to become and/or worked as sales agents in California for Defendant during the last four years prior to the filing of the original Complaint in Joh and whose training and/or work began before August 16, 2019." Plaintiffs' preliminary motion anticipated that the proposed settlement would resolve all claims in the Joh and Hamilton Actions, and in doing so, encompass pending claims asserted in the Golz Action for the settlement period. On August 21, 2020, the Northern District of California granted the Motion for Preliminary Approval of Class Action Settlement and scheduled a hearing for final approval of the settlement. On January 7, 2021, plaintiff's motion for final settlement approval was granted and a final judgment was entered on the same day, thereby resolving the Joh Action. The Hamilton Action was subsequently dismissed with prejudice on March 17, 2021. On April 1, 2021, the Golz Action was dismissed with prejudice as to plaintiff's individual claims and without prejudice as to the claims of putative class members.

On August 5, 2020, putative class and collective action litigation was filed against American Income and National Income Life Insurance Company ("National Income") in United States District Court for the Central District of California (Natalie Bell, Gisele Mobley, Ashly Rai, and John Turner v. American Income Life Insurance Company and National Income Life Insurance Company, Case No. 2:20-cv-07046). On December 18, 2020, the plaintiffs voluntarily dismissed Mr. Turner's claims and all claims against defendant National Income. Following the dismissal, the complaint alleges that insurance agent trainees should have been classified as employees, and after contracting should have been classified as employees instead of independent contractors. Plaintiff Bell is a former California trainee and plaintiff Rai is a former California agent. They assert claims under California law on behalf of a putative California class for the four years prior to February 13, 2020 through case conclusion. They make claims under (a) the California Labor Code for alleged meal and rest break violations, overtime, minimum wage, alleged failure to pay wages at the time of termination, expense reimbursement, and alleged failure to provide accurate wage statements; and (b) the California Business and Professions Code for alleged unfair business practices. They also seek liquidated damages, penalties and attorney's fees under California law. Plaintiff Mobley is a former Florida agent who asserts a claim under Florida law on behalf of a

AMERICAN INCOME LIFE INSURANCE COMPANY

NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS (continued) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019 (Dollar amounts in thousands except for shares)

putative Florida class for the five years prior to February 13, 2020 through case conclusion. She makes a claim under the Florida General Labor Regulations, including the Florida Minimum Wage Act, for alleged failure to pay all wages owed. The plaintiffs also assert a national collective action on behalf of all "similarly situated" individuals for minimum wage, overtime, liquidated damages, penalties, an accounting and attorney's fees and costs under the Fair Labor Standards Act for the three years prior to February 13, 2020 through case conclusion. American Income responded to the complaint with a motion to compel the named plaintiffs to arbitrate their individual claims and other procedural challenges. On April 6, 2021, the court granted American Income's motion to compel arbitration as to plaintiffs Mobley and Rai, and denied the motion without prejudice as to plaintiff Bell. American Income anticipates renewing its motion to compel arbitration as to Bell.

With respect to the aforementioned litigation, at this time, management believes that the possibility of a material judgment adverse to the Company is remote.

Unclaimed Property Audits—The Globe Life Inc. insurance subsidiaries are undergoing unclaimed property audits by three separate audit firms 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), 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. The Treasurer agreed to stay the action during the pendency of the Parent Company subsidiaries' on-going unclaimed property audits in West Virginia. 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.

AMERICAN INCOME LIFE INSURANCE COMPANY

NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS (continued) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019 (Dollar amounts in thousands except for shares)

11. ELECTRONIC DATA PROCESSING EQUIPMENT

Electronic data processing equipment (EDP) and operating and non-operating software at December 31, 2020 and 2019, consisted of the following:

	2020	2019
Electronic data processing equipment—net	\$ 2,403	\$ 1,196
System software—net	12,259	12,419
Balance—net	14,662	13,615
Total nonadmitted	12,259	12,419
Total admitted	\$ 2,403	\$ 1,196

Depreciation expense related to EDP and software totaled \$4,528 and \$3,738, for the years ended December 31, 2020 and 2019, respectively. The Company recorded total depreciation of \$4,724 and \$3,953, in 2020 and 2019, respectively. Total accumulated depreciation for 2020 and 2019 was \$2,438 and \$1,918, 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 \$507,235 and \$410,464 (U.S. dollars) at December 31, 2020 and 2019, respectively. The net foreign exchange adjustment resulting from the translation of assets denominated in foreign currencies was approximately \$37,019 and \$30,604, at December 31, 2020 and 2019, respectively. The change in this foreign exchange adjustment, net of tax, of \$6,415 and \$938 for the years ended December 31, 2020 and 2019, 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 No. 51, *Life Contracts* and SSAP No. 54, *Individual and Group Accident and Health Contracts*. The Company incurred dividends in the amount of \$10 and \$18 to life and annuity policyholders in 2020 and 2019, respectively, and did not allocate any additional income to such policyholders.

AMERICAN INCOME LIFE INSURANCE COMPANY

NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS (continued) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019 (Dollar amounts in thousands except for shares)

14. RECONCILIATION TO THE ANNUAL STATEMENT

The accompanying 2020 and 2019 statutory-basis financial statements differ from the amounts shown in the Company's statutory annual statement for 2020 and 2019, respectively.

Following is a reconciliation of account balances as reported to state regulatory authorities to amounts reported herein:

Statements of Operations	2020
Increase in aggregate reserves for life and accident and health contracts as reported in the Company's annual statement	\$ 221,097
Adjustment to reclassify foreign exchange	<u>(10,605)</u>
Increase in aggregate reserves for future policy benefits as reported in the accompanying statutory-basis statements of operations	<u>\$ 210,492</u>
Foreign Currency Translation Adjustment as reported in the Company's annual statement	\$ (10,605)
Adjustment to reclassify foreign exchange	<u>10,605</u>
Foreign Currency Translation Adjustment as reported in the accompanying statutory-basis statements of operations	<u>\$ —</u>
 Statements of Operations	 2019
Increase in aggregate reserves for life and accident and health contracts as reported in the Company's annual statement	\$ 199,273
Adjustment to reclassify foreign exchange	<u>(15,329)</u>
Increase in aggregate reserves for future policy benefits as reported in the accompanying statutory-basis statements of operations	<u>\$ 183,944</u>
Foreign Currency Translation Adjustment as reported in the Company's annual statement	\$ (15,329)
Adjustment to reclassify foreign exchange	<u>15,329</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 RISKS INTERROGATORIES

AS OF DECEMBER 31, 2020

(Dollar amounts in thousands)

1. The Company's total admitted assets are \$4,674,916.
2. Ten largest exposures to a single issue/borrower/investment.

	Issuer	Description of Exposure	Amount	Percentage of Total Admitted Assets
2.01	Telus Corp.....	Bond	\$ 69,439	1.5 %
2.02	Globe Life Inc. (Affiliate).....	Preferred Stock	\$ 39,169	0.8 %
2.03	National Income Life Insurance Company (Affiliate).....	Common Stock	\$ 39,129	0.8 %
2.04	Nutrien LTD.....	Bond	\$ 36,913	0.8 %
2.05	Bell Canada.....	Bond	\$ 35,897	0.8 %
2.06	Vale Overseas Limited.....	Bond	\$ 33,281	0.7 %
2.07	Canadian Pacific RR Co.....	Bond	\$ 33,150	0.7 %
2.08	PIMCO Commercial Real Estate Debt Fund, LP.....	Other Invested Asset	\$ 30,469	0.7 %
2.09	Johnson Controls Intl Pl.....	Bond	\$ 29,930	0.6 %
2.10	Burlington North Santa Fe.....	Bond	\$ 27,094	0.6 %

3. Amounts and percentages of the Company's total admitted assets held in bonds and preferred stock by NAIC designation.

		Bonds	Amount	Percentage	Preferred Stock	Amount	Percentage
3.01	NAIC-1.....		\$ 1,335,153	28.6 %	P/RP-1.....	\$ —	— %
3.02	NAIC-2.....		\$ 2,164,219	46.3 %	P/RP-2.....	\$ 39,169	0.8 %
3.03	NAIC-3.....		\$ 201,250	4.3 %	P/RP-3.....	\$ —	— %
3.04	NAIC-4.....		\$ 16,849	0.4 %	P/RP-4.....	\$ —	— %
3.05	NAIC-5.....		\$ —	— %	P/RP-5.....	\$ —	— %
3.06	NAIC-6.....		\$ 879	— %	P/RP-6.....	\$ —	— %

(Continued)

AMERICAN INCOME LIFE INSURANCE COMPANY

Supplemental Schedules YEAR ENDED DECEMBER 31, 2020 Dollar amounts in thousands

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.....	\$ 440,448	9.4 %
4.03	Foreign-currency-denominated investments.....	\$ 93,253	2.0 %
4.04	Insurance liabilities denominated in that same foreign currency.....	\$ 42,288	0.9 %

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

5.01	Countries designated NAIC-1.....	\$ 389,811	8.3 %
5.02	Countries designated NAIC-2.....	\$ 50,637	1.1 %
5.03	Countries designated NAIC-3 or below.....	\$ —	— %

6. Largest foreign investment exposures by country, categorized by the country's NAIC sovereign designation:

Countries designated NAIC-1:

6.01	Country 1: New Zealand.....	\$ 93,253	2.0 %
6.02	Country 2: Great Britain.....	\$ 56,022	1.2 %

Countries designated NAIC-2:

6.03	Country 1: Mexico.....	\$ 44,823	1.0 %
6.04	Country 2: Panama.....	\$ 5,814	0.1 %

Countries designated NAIC-3 or below:

6.05	Country 1:.....	\$ —	— %
6.06	Country 2:.....	\$ —	— %

7.	Aggregate unhedged foreign currency exposure.....	\$ 93,253	2.0 %
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8. Aggregate unhedged foreign currency exposure categorized by NAIC sovereign designation:

8.01	Countries designated NAIC-1.....	\$ 93,253	2.0 %
8.02	Countries designated NAIC-2.....	\$ —	— %
8.03	Countries designated NAIC-3 or below.....	\$ —	— %

(Continued)

AMERICAN INCOME LIFE INSURANCE COMPANY

Supplemental Schedules
YEAR ENDED DECEMBER 31, 2020
Dollar amounts in thousands

9. Largest unhedged foreign currency exposures by country, categorized by the country's NAIC sovereign designation:

Countries designated NAIC-1:

9.01	Country 1: New Zealand	\$	93,253	2.0 %
9.02	Country 2:	\$	—	— %

Countries designated NAIC-2:

9.03	Country 1:	\$	—	— %
9.04	Country 2:	\$	—	— %

Countries designated NAIC-3 or below:

9.05	Country 1:	\$	—	— %
9.06	Country 2:	\$	—	— %

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

	Issuer	NAIC Designation	Amount	Percentage
10.01	Vale Overseas Limited	2.C FE	\$ 33,281	0.7 %
10.02	Johnson Controls Intl Pl	2.B FE	\$ 29,930	0.6 %
10.03	Grupo Bimbo SAB DE CV	2.B FE	\$ 21,369	0.5 %
10.04	Cooperatieve Rabobank UA	1.D FE	\$ 20,371	0.4 %
10.05	Koninklijke Philips NV	2.A FE	\$ 16,021	0.3 %
10.06	AXA SA	2.A FE	\$ 16,012	0.3 %
10.07	Tyco Electronics Group	2.A FE	\$ 15,978	0.3 %
10.08	United Utilities PLC	2.A FE	\$ 15,328	0.3 %
10.09	Electricite De France SA	2.A FE	\$ 15,099	0.3 %
10.10	LaFarge SA	2.B FE	\$ 10,903	0.2 %

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	\$	582,124	12.5 %
11.03	Canadian-currency-denominated investments	\$	373,955	8.0 %
11.04	Canadian-denominated insurance liabilities	\$	397,487	8.5 %
11.05	Unhedged Canadian currency exposure	\$	373,955	8.0 %

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 []

(Continued)

AMERICAN INCOME LIFE INSURANCE COMPANY

Supplemental Schedules
YEAR ENDED DECEMBER 31, 2020
Dollar amounts in thousands

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 ☐

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 ☒ No ☐

Ten largest fund managers:

	Fund Manager	Total Invested	Diversified	Nondiversified
14.06	Wells Fargo (money market)	\$ 12,900	\$ 12,900	\$ —
14.07	Northern Trust (money market)	\$ 3,224	\$ 3,224	\$ —
14.08		\$ —	\$ —	\$ —
14.09		\$ —	\$ —	\$ —
14.10		\$ —	\$ —	\$ —
14.11		\$ —	\$ —	\$ —
14.12		\$ —	\$ —	\$ —
14.13		\$ —	\$ —	\$ —
14.14		\$ —	\$ —	\$ —
14.15		\$ —	\$ —	\$ —

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 ☒ No ☐

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 ☒ No ☐

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 ☒ No ☐

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 ☒ No ☐

Interrogatories 20–23 are not applicable to the Company.

(Concluded)

AMERICAN INCOME LIFE INSURANCE COMPANY

SUPPLEMENTAL SUMMARY INVESTMENT SCHEDULE

AS OF DECEMBER 31, 2020

(Dollar amounts in thousands)

INVESTMENT CATEGORIES	Gross Investment Holdings*	Admitted Assets as Reported in the Annual Statement
BONDS:		
U.S. governments.....	\$ 3,064	\$ 3,064
All other governments.....	52,913	52,913
U.S. states, territories and possessions, etc. guaranteed.....	2,833	2,833
U.S. political subdivisions of states, territories and possessions guaranteed.....	89,001	89,001
U.S. special revenue and special assessment obligations, etc. non-guaranteed.....	208,362	208,362
Industrial and miscellaneous.....	3,235,578	3,235,578
Hybrid securities.....	126,599	126,599
PREFERRED STOCKS:		
Parent, subsidiaries and affiliates.....	39,169	39,169
COMMON STOCKS:		
Industrial and miscellaneous Other (Unaffiliated).....	1,138	1,138
Parent, subsidiaries and affiliates Other.....	40,332	39,129
MORTGAGE LOANS:		
Commercial mortgages.....	29,770	29,770
REAL ESTATE:		
Properties occupied by company.....	2,199	2,199
CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS:		
Cash.....	16,966	16,966
Cash equivalents.....	16,124	16,124
Short-term investments.....	—	—
Contract loans.....	227,233	227,233
Other invested assets.....	214,171	214,171
TOTAL INVESTED ASSETS.....	<u>\$ 4,305,452</u>	<u>\$ 4,304,249</u>

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

AMERICAN INCOME LIFE INSURANCE COMPANY

Supplemental Schedules
YEAR ENDED DECEMBER 31, 2020
Dollar amounts in thousands

AMERICAN INCOME LIFE INSURANCE COMPANY
SUPPLEMENTAL SCHEDULE OF REINSURANCE RISKS
AS OF DECEMBER 31, 2020
(Dollar amounts in thousands)

Reinsurance Credit

1. Reinsurance contracts subject to Appendix A-791, *Life and Health Reinsurance Agreements of the NAIC Accounting Practices and Procedures Manual*:

We have entered into, renewed or amended no reinsurance contracts on or after January 1, 1996, which include risk limiting features, as described in SSAP No. 61R, *Life, Deposit-Type and Accident and Health Reinsurance* (SSAP No. 61R). Deposit accounting, as described in SSAP No. 61R was not applied for any reinsurance contracts, which include risk limiting features.

2. Reinsurance contracts NOT subject to Appendix A-791, *Life and Health Reinsurance Agreements of the NAIC Accounting Practices and Procedures Manual*:

We have applied reinsurance accounting, as described in SSAP No. 61R, to no reinsurance contract entered into, renewed or amended on or after January 1, 1996, which include risk limiting features, as described in SSAP No. 61R because we have no such reinsurance contracts. Thus, there are no related or applicable reinsurance reserve credits, as described in SSAP No. 61R.

3. Payments to reinsurers (excluding reinsurance contracts with a federal or state facility)

We have not entered into, renewed or amended reinsurance contracts on or after January 1, 1996, which contain provisions which allow (1) the reporting of losses or settlements with the reinsurer to occur less frequently than quarterly or (2) payments due from the reinsurer to not be made in cash within ninety days of the settlement date unless there is no activity during the period.

We have not entered into, renewed or amended reinsurance contracts on or after January 1, 1996, which contain a payment schedule, accumulating retentions from multiple years or any features inherently designed to delay timing of the reimbursement to the ceding entity.

4. Reinsurance contracts NOT subject to Appendix A-791, *Life and Health Reinsurance Agreements of the NAIC Accounting Practices and Procedures Manual* and NOT yearly-renewable term that meet the risk transfer requirements under SSAP No. 61R:

We have not reflected reinsurance reserve for any reinsurance contracts entered into, renewed or amended on or after January 1, 1996 for the following:

- a. Assumption Reinsurance - for which there are no such reinsurance contracts;
- b. Non-proportional reinsurance, which does not result in significant surplus relief - for which there are no such reinsurance contracts.

AMERICAN INCOME LIFE INSURANCE COMPANY

Supplemental Schedules
YEAR ENDED DECEMBER 31, 2020
Dollar amounts in thousands

5. Reinsurance contracts NOT subject to Appendix A-791, *Life and Health Reinsurance Agreements of the NAIC Accounting Practices and Procedures Manual* and NOT yearly-renewable term, under any reinsurance contract (or multiple contracts with the same reinsurer or its affiliates) during the period covered by the financial statement:

We have no reinsurance contracts entered into, renewed or amended on or after January 1, 1996 which are accounted as reinsurance under SSAP and as a deposit under GAAP, nor any which are accounted as reinsurance under GAAP and as a deposit under SSAP.

6. If affirmative disclosure is required for (5) above, explain why the contract(s) is treated differently for GAAP and SSAP:

We have no instances of such contracts as stated above.

AMERICAN INCOME LIFE INSURANCE COMPANY

SUPPLEMENTAL SCHEDULE OF SELECTED STATUTORY-BASIS FINANCIAL DATA

AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2020

(Dollar amounts in thousands)

INVESTMENT INCOME EARNED:

U.S. government bonds.....	\$	57
Other bonds - unaffiliated.....		183,478
Preferred stock - affiliated.....		2,671
Common stock - unaffiliated.....		10
Common stock - affiliated.....		13,737
Mortgage loans.....		2,056
Contract loans.....		17,475
Cash and cash equivalents.....		1,011
Other invested assets.....		6,461
Aggregate write-ins for investment income.....		(115)

GROSS INVESTMENT INCOME.....	\$	226,841
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MORTGAGE LOANS - BOOK VALUE

Commercial mortgages.....	\$	29,770
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MORTGAGE LOANS BY STANDING - BOOK VALUE

Good standing.....	\$	21,870
Good standing with restructured terms.....	\$	4,278
Foreclosure in process.....	\$	3,622

REAL ESTATE OWNED - book value less encumbrances.....	\$	2,199
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OTHER LONG TERM ASSETS - statement value.....	\$	214,171
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BONDS AND STOCK OF PARENT, SUBSIDIARY, AND

AFFILIATES — book value:

Preferred stock.....	\$	39,169
Common stock.....		40,332

TOTAL.....	\$	79,501
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(Continued)

AMERICAN INCOME LIFE INSURANCE COMPANY

Supplemental Schedules
YEAR ENDED DECEMBER 31, 2020
 Dollar amounts in thousands

BONDS AND SHORT-TERM INVESTMENTS BY NAIC DESIGNATION AND MATURITY

Bonds and short-term investments by maturity - statement value:	
Due within one year or less	\$ 10,363
Over 1 year through 5 years	227,959
Over 5 years through 10 years	475,625
Over 10 years through 20 years	1,262,073
Over 20 years	1,742,330
Total by maturity	<u>\$ 3,718,350</u>
Bonds and short-term investments by NAIC designation - statement value:	
NAIC 1	\$ 1,335,153
NAIC 2	2,164,219
NAIC 3	201,250
NAIC 4	16,849
NAIC 5	—
NAIC 6	879
Total by NAIC designation	<u>\$ 3,718,350</u>
TOTAL BONDS AND SHORT-TERM INVESTMENTS PUBLICLY TRADED	<u>\$ 3,168,512</u>
TOTAL BONDS AND SHORT-TERM INVESTMENTS PRIVATELY PLACED	<u>\$ 549,838</u>
PREFERRED STOCK - statement value	<u>\$ 39,169</u>
COMMON STOCK - market value	<u>\$ 41,470</u>
SHORT-TERM INVESTMENTS	<u>\$ —</u>
CASH AND CASH EQUIVALENTS	<u>\$ 33,090</u>

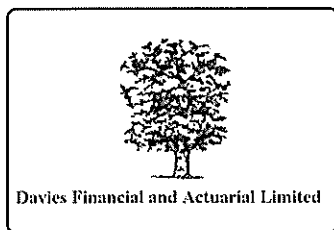
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AMERICAN INCOME LIFE INSURANCE COMPANY

Supplemental Schedules
YEAR ENDED DECEMBER 31, 2020
Dollar amounts in thousands

LIFE INSURANCE IN FORCE:	
Ordinary.....	\$ 45,196,197
Group life.....	\$ 249,838
AMOUNT OF ACCIDENTAL DEATH INSURANCE IN FORCE	
UNDER ORDINARY POLICIES.....	\$ 72,952,996
LIFE INSURANCE POLICIES WITH DISABILITY PROVISIONS IN FORCE:	
Ordinary.....	\$ 23,445,564
Group.....	\$ 11,783
SUPPLEMENTARY CONTRACTS IN FORCE:	
Ordinary - involving life contingencies income payable.....	\$ 12
ANNUITIES - ordinary:	
Deferred - fully paid account balance.....	\$ 3,412
Deferred - not fully paid account balance.....	\$ 223,179
ACCIDENT AND HEALTH INSURANCE - premiums in force:	
Ordinary.....	\$ 97,787
Group.....	\$ 5,707
DEPOSIT FUNDS AND DIVIDEND ACCUMULATIONS:	
Deposit funds - account balance.....	\$ 86,584
Dividend accumulations - account balance.....	\$ 1,142
CLAIM PAYMENTS 2020:	
Group accident and health:	
2020.....	\$ 2,789
2019.....	\$ 1,201
2018.....	\$ 159
2017 and prior.....	\$ 127
Other accident and health:	
2020.....	\$ 9,913
2019.....	\$ 5,669
2018.....	\$ 981
2017 and prior.....	\$ 1,094

(Concluded)



27th April 2021

To: The Directors
American Income Life Insurance Company

From: Peter Davies
Consulting Actuary

Re: American Income Life Insurance Company - New Zealand Branch: Report as at 31st December 2020 under Sections 77 and 78 of the Insurance (Prudential Supervision) Act 2010

You have asked me to prepare this report in terms of the above sections of the Act, and I would like to comment further as follows:

1. I have reviewed the actuarial information included in the audited accounts for American Income Life Insurance Company – New Zealand Branch as at 31st December 2020. “Actuarial information” includes the following:
 - policy liabilities;
 - solvency calculations in terms of the RBNZ Solvency Standard;
 - balance sheet and other information allowed for in the calculation of the company’s solvency position; and
 - disclosures regarding the methodology and assumptions used for calculating policy liabilities, and other disclosures.
2. No limitations have been placed on my work.

3. I am independent with respect to American Income Life Insurance Company as defined under professional standard ISA (NZ) 620 of the External Reporting Board.
4. I have been provided with all information that I have requested in order to carry out this review.
5. In my view the actuarial information contained in the financial statements has been appropriately included, and the actuarial information used in the preparation of the financial statements has been appropriately used.
6. During 2013, the Company set up a Statutory Fund in terms of the Insurance (Prudential Supervision) Act. It also established a Custodial account within the Statutory Fund, under a local trustee structure, holding investment assets for the preferential benefit of New Zealand policyholders. The assets of the Custodial account have to be sufficient to meet the RBNZ's solvency requirements in respect of New Zealand policyholders.

The Branch's solvency positions under the RBNZ Standard for Life Insurers as at 31st December were as follows:

	December 2019			December 2020		
	Custodial Fund	Other	Total Statutory Fund	Custodial Fund	Other	Total Statutory Fund
Actual Solvency Capital	72,350,441	17,262,256	89,612,697	106,138,191	22,829,693	128,967,884
Minimum Solvency Capital	33,906,847	7,857,110	41,763,957	28,794,358	6,226,504	35,020,862
Solvency Margin	38,443,594	9,405,146	47,848,740	77,343,833	16,603,189	93,947,022
Solvency Ratio	213.4%	219.7%	214.6%	368.6%	366.7%	368.3%

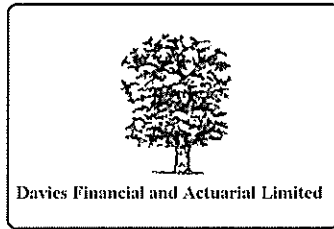
Assuming the Branch is able to achieve its business plans, the Branch is expected to meet the RBNZ solvency requirement at all times over the next four years.

I would be very happy to answer any queries concerning this report.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Peter', followed by a long, sweeping horizontal line.

Peter Davies B.Bus.Sc., FIA, FNZSA
Appointed Actuary



27th April 2021

To: The Directors
American Income Life Insurance Company

From: Peter Davies
Consulting Actuary

**Re: American Income Life Insurance Company: Report as at
31st December 2020 under Sections 77 and 78 of the
Insurance (Prudential Supervision) Act 2010**

You have asked me to prepare this report in terms of the above sections of the Act, and I would like to comment further as follows:

1. The American Income Life Insurance Company is a USA-based company registered in the State of Indiana.

The Company operates a branch in New Zealand, for which I am the Appointed Actuary.

I have provided a separate Section 78 report in respect of the branch.

2. The Company is required to lodge its own accounts with the New Zealand Companies Office, and these accounts are required to be accompanied by a Section 78 report.

3. I note that the company's actuarial valuation has been carried out by Ms. Yongjing Lin, Appointed Actuary, and a Fellow of the Society of Actuaries and a Member of the American Academy of Actuaries.

I have been provided with a set of the Company's accounts, and with Ms. Lin's actuarial memorandum in relation to his valuation as at 31st December 2020.

I note that the Company's accounts include the following information (2019 figures shown in brackets):

Statutory Balance sheet Capital:	US\$338,854,599	(\$347,285,253)
NAIC RBC* Capital calculation:	US\$379,480,364	(\$389,355,991)
Risk Based capital Requirement:	US\$ 60,646,991	(\$ 56,653,234)

Solvency coverage ratio:	626%	(687%)
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* National Association of Insurance Commissioners Risk Based Capital

4. I have reviewed the actuarial information included in the audited accounts for American Income Life Insurance Company as at 31st December 2020. "Actuarial information" includes the following:

- policy liabilities;
- balance sheet and other information allowed for in the calculation of the company's solvency position; and
- disclosures regarding the methodology and assumptions used for calculating policy liabilities, and other disclosures.

5. No limitations have been placed on my work.

6. I am independent with respect to American Income Life Insurance Company as defined under professional standard ISA (NZ) 620 of the External Reporting Board.

7. I have been provided with all information that I have requested in order to carry out this review.

8. In my view the actuarial information contained in the financial statements has been appropriately included, and the actuarial information used in the preparation of the financial statements has been appropriately used.
9. In 2013, the Company established a Statutory Fund in New Zealand in terms of the Insurance (Prudential Supervision) Act, and set up a Custodial account within this Fund, under a local trustee arrangement, holding investment assets for the preferential benefit of New Zealand policyholders.
10. Technically, the Company's license requires the Company itself to demonstrate its solvency in terms of the Insurance (Prudential Supervision) Act 2010. This calculation has not been carried out, although clearly the Company is in a strong financial position as assessed by the regulators in the USA.

I would anticipate however that the New Zealand regulators will still maintain an ongoing active interest in the financial position of the Company, as assessed by the Insurance Commissioner of Indiana.

I would be very happy to answer any queries concerning this report.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Peter', with a long horizontal flourish underneath.

Peter Davies B.Bus.Sc., FIA, FNZSA
Appointed Actuary

