

STATE OF INDIANA)
) SS:
COUNTY OF MARION) COMMISSIONER OF INSURANCE

IN THE MATTER OF:)
)
American Income Life Insurance Company)
8604 Allisonville Road, Suite 151)
Indianapolis, Indiana 46250)

Examination of **American Income Life Insurance Company**

NOTICE OF ENTRY OF ORDER

Enclosed is the Final Order entered by Stephen W. Robertson, Commissioner of the Indiana Department of Insurance, after fully considering and reviewing the Verified Report of Examination of **American Income Life Insurance Company**, any relevant examination work papers, and any written submissions or rebuttals. The Verified Report of Examination, as sent to you on December 6, 2011, has been adopted by the Commissioner.

Pursuant to Ind. Code § 27-1-3.1-12(b), within thirty (30) days of receipt of the Final Order, each director of **American Income Life Insurance Company** shall file an affidavit with the Indiana Department of Insurance stating that he/she has received a copy of the Verified Report of Examination and the Final Order.

The Final Order is a final administrative decision that may be appealed pursuant to Ind. Code § 4-21.5-5.

2/16/2012

Date



Cynthia D. Donovan
Chief Financial Examiner

CERTIFIED MAIL NUMBER: 7005 3110 0002 4443 9148

STATE OF INDIANA) BEFORE THE INDIANA
) SS:
COUNTY OF MARION) COMMISSIONER OF INSURANCE

IN THE MATTER OF:)
)
American Income Life Insurance Company)
8604 Allisonville Road, Suite 151)
Indianapolis, Indiana 46250)

**Examination of American Income Life Insurance
Company**

FINDINGS AND FINAL ORDER

The Indiana Department of Insurance conducted an examination into the affairs of the **American Income Life Insurance Company** (hereinafter "Company") for the time period January 1, 2006 through December 31, 2010.

The Verified Report of Examination was filed with the Commissioner of the Department of Insurance (hereinafter "Commissioner") by the Examiner on November 7, 2011.

A copy of the Verified Report of Examination, along with a Notice of Opportunity to Make Written Submission or Rebuttal, was mailed to the Company via Certified Mail on December 6, 2011 and was received by the Company on December 12, 2011.

The Company did not file any objections.

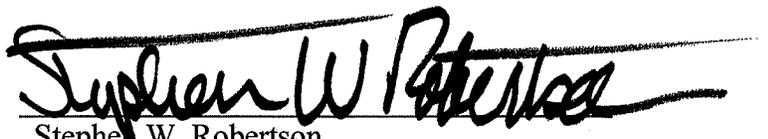
NOW THEREFORE, based on the Verified Report of Examination, I hereby make the following **FINDINGS**:

1. That the Verified Report of Examination is a true and accurate report of the financial condition and affairs of the **American Income Life Insurance Company** as of December 31, 2010.
2. That the Examiner's Recommendations are reasonable and necessary in order for the **American Income Life Insurance Company** to comply with the laws of the State of Indiana.

Based on the FINDINGS, the Commissioner does hereby ORDER:

1. Pursuant to Ind. Code § 27-1-3.1-11(a)(1), the Verified Report of Examination is adopted and shall be filed. Hereafter the Verified Report of Examination, may constitute prima facie evidence of the facts contained therein in any action or proceeding taken by the Indiana Department of Insurance against the Company, its officers, directors, or agents.
2. The Company shall comply with the Examiner's Recommendations enumerated in summary form and throughout the text of the Verified Report of Examination. A written response to these recommendations should be provided to the Department within 30 days of receipt of this order.
3. Compliance with the Examiner's recommendations shall be completed on or before the filing of the subsequent annual statement. In the event it is not feasible to comply with a recommendation before the filing of the subsequent annual statement, the Company shall submit a written explanation as to why it was not feasible with the filing of the annual statement.

Signed and Sealed this 16th day of
February, 2012.


Stephen W. Robertson
Insurance Commissioner
Indiana Department of Insurance

STATE OF INDIANA

Department of Insurance

REPORT OF EXAMINATION

OF

AMERICAN INCOME LIFE INSURANCE COMPANY

NAIC Co. CODE 60577

As of

December 31, 2010

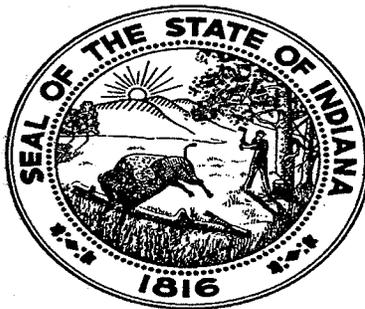


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STATE OF INDIANA

MITCHELL E. DANIELS, JR., Governor

IDOI

INDIANA DEPARTMENT OF INSURANCE

311 W. WASHINGTON STREET, SUITE 300
INDIANAPOLIS, INDIANA 46204-2787
TELEPHONE: (317) 232-2385
FAX: (317) 232-5251

Stephen W. Robertson, Commissioner

November 8, 2011

Honorable Joseph Torti, III
Chair, NAIC Financial Condition (E) Committee
Superintendent, State of Rhode Island
Department of Business Regulation
Division of Insurance
1511 Pontiac Avenue, Building 69-2
Cranston, Rhode Island 02920-4407

Honorable Stephen W. Robertson, Commissioner
Indiana Department of Insurance
Secretary, Midwestern Zone
311 West Washington Street, Suite 300
Indianapolis, Indiana 46204-2787

Dear Superintendent and Commissioner:

Pursuant to the authority vested in Appointment Number 3667, an examination has been made of the affairs and financial condition of:

American Income Life Insurance Company
1200 Wooded Acres
Waco, Texas 76710

hereinafter referred to as the "Company," or "AIL", an Indiana domestic, stock, life insurance company. The examination was conducted at the corporate offices of American Income Life Insurance Company, in Waco, Texas, and at the corporate offices of Torchmark Corporation, in McKinney, Texas.

The Report of Examination, reflecting the status of the Company as of December 31, 2010, is hereby respectfully submitted.

ACCREDITED BY THE
NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

AGENCY SERVICES
(317) 232-2413

COMPANY COMPLIANCE
(317) 233-0697

CONSUMER SERVICES
(317) 232-2395
In-State 1-800-622-4461

EXAMINATIONS / FINANCIAL SERVICES
(317) 232-2390

MEDICAL MALPRACTICE
(317) 232-2402

SECURITIES / COMPANY RECORDS
(317) 232-1991

SCOPE OF EXAMINATION

The Company was last examined by representatives of the Indiana Department of Insurance (INDOI) as of the period ending December 31, 2005. The present risk-focused examination was conducted by Noble Consulting Services, Inc. (Noble) and covered the period from January 1, 2006, through December 31, 2010.

Jeff Beckley, FSA, MAAA, of Actuarial Options, LLC was appointed by the INDOI and conducted a review of the Company's statutory reserves as of December 31, 2010. There were no actuarial adjustments resulting from the review performed by Actuarial Options, LLC.

We conducted our examination pursuant to and in accordance with the NAIC *Financial Condition Examiners Handbook* (Handbook). The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and Annual Statement instructions, when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

HISTORY

The Company was incorporated on July 16, 1954, as a stock, life insurance company under the laws of the State of Indiana and commenced business on August 1, 1954.

The Company began operations issuing predominantly accident and health insurance and in the early 1970's made the transition to issuing predominantly life insurance products. In 1989, all of the outstanding shares of the Company's common stock were acquired by Trust Life Insurance Company (Trust Life), which in turn was simultaneously acquired by American Income Holding, Inc. (AI Holding). In November 1994, Torchmark Corporation (TMK), a publicly traded insurance and diversified financial services holding company, acquired 100% interest in AI Holding.

On November 16, 1995, the Board of Directors approved a Plan of Reorganization and Liquidation (Plan) involving TMK, AI Holding, Trust Life, and the Company. The Plan resulted in eliminating Trust Life and AI Holding as intermediate holding companies of the Company and making the Company a direct subsidiary of TMK. On November 5, 1998, TMK contributed 100% of the common stock of the Company to Globe Life and Accident Insurance Company (Globe), an insurance company domiciled in the State of Delaware. TMK remains the indirect UCP.

CAPITAL AND SURPLUS

The Articles of Incorporation, as amended, provide that the authorized capital of the Company shall consist of 23,360,214 shares of common stock with \$1 par value and 100,000 shares of non-cumulative preferred stock with a par value of \$1 each. As of December 31, 2010, all of the 11,680,107 shares of issued and outstanding common stock were owned by Globe. No shares of preferred stock have been issued.

DIVIDENDS TO STOCKHOLDERS

The Company paid the following dividends to Globe during the examination period.

<u>Year</u>	<u>Total</u>	<u>Ordinary Dividends</u>	<u>Extraordinary Dividends</u>
2010	\$ 85,140,000	\$ 85,140,000	\$ -
2009	160,670,000	95,670,000	65,000,000
2008	83,623,000	83,623,000	-
2007	77,500,000	77,500,000	-
2006	92,000,000	92,000,000	-
Totals	<u>\$ 498,933,000</u>	<u>\$ 433,933,000</u>	<u>\$ 65,000,000</u>

In accordance with Indiana Code (IC) 27-1-23-4(h), the payment of dividends to holding companies or affiliated insurers may not exceed the greater of ten percent (10%) of the prior year's surplus or the gains from operations of such insurer of the prior year. The Company paid one extraordinary dividend during the examination period with the prior approval of the INDOI. Other dividends paid during the examination period were ordinary in nature and did not require prior regulatory approval. However, in accordance with IC 27-1-23-1.5, the Company notified INDOI of all declared dividends to the parent during the examination period.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2010, the Company was licensed to transact business in all states except New York, the District of Columbia, all Canadian Provinces, and New Zealand. The Company sells term and traditional whole life insurance products and supplemental accident and health policies. AIL contracts with exclusive, independent contractors to solicit their life and accident and health products. The Company's target markets are working families who are contacted through their labor union, credit union, association, or referrals. AIL's top three (3) lines of business by direct writings include traditional life, individual accident only, and individual specified disease.

AIL currently has ten (10) employees and approximately 338 independent agents located in Canada. Premiums written from these employees and independent agents in Canada account for approximately thirteen percent (13%) of AIL's total premiums. AIL currently writes nearly two percent (2%) of their total premiums from approximately 485 independent agents that work in New Zealand.

GROWTH OF THE COMPANY

The following exhibit summarizes the financial results of the Company during the examination period:

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Surplus and Other Funds</u>	<u>Premiums</u>	<u>Net Income</u>
2010	\$ 2,136,407,531	\$ 1,936,335,115	\$ 200,072,416	\$ 625,527,297	\$ 116,688,908
2009	1,932,815,664	1,744,743,052	188,072,612	577,805,414	85,462,486
2008	1,828,070,321	1,600,004,607	228,065,714	531,925,182	98,777,937
2007	1,705,886,648	1,484,700,233	221,186,415	507,065,034	96,321,934
2006	1,542,400,340	1,349,072,876	193,327,464	468,716,270	75,795,963

Premiums grew steadily throughout the exam period. Net income grew in all years during the exam period except 2009. The decrease in 2009 was mainly attributable to increases in policy reserves.

The increase in the Company's assets and liabilities during the examination period is mainly attributable to the growth discussed above. Surplus and Other Funds also grew for all years except 2009, mainly from favorable operating results, which were partially offset by stockholder dividends. The decline in Surplus and Other Funds in 2009, which included a capital contribution of \$20 million, was primarily due to an extraordinary \$65 million stockholder dividend paid and the lower net income in 2009.

MANAGEMENT AND CONTROL

Directors

The Bylaws provide that the Board of Directors shall be composed of six (6) directors. At least one (1) of the directors must be a resident of Indiana. The shareholders, at each annual meeting, elect the members of the Board of Directors.

The following is a listing of persons serving as directors at December 31, 2010, and their principal occupations as of that date:

<u>Name and Address</u>	<u>Principal Occupation</u>
Gary Coleman Plano, Texas	Director Executive Vice President and CFO, TMK
Ben Lutek McKinney, Texas	Director Senior Vice President and Chief Actuary, AIL
Bernard Rapoport Waco, Texas	Director Retired
Larry Hutchison Duncanville, Texas	Director Executive Vice President and Counsel, TMK
Roger Smith Lucas, Texas	Director President and CEO, AIL
William Wood Indianapolis, Indiana	Director Retired

Officers

The Bylaws state that the officers of the Company shall consist of a chairman of the board, a chief executive officer, president(s), one (1) or more vice presidents, a secretary, a treasurer, and any such additional officers as may be authorized from time to time by the Board of Directors. All officers are appointed by resolution of the Board of Directors, and hold office until termination of employment or removal by resolution of the Board of Directors. Any two (2) or more offices can be held by the same person, except the duties of chief executive officer and secretary, or president and secretary, shall not be performed by the same person.

The following is a list of key officers and their respective titles as of December 31, 2010:

<u>Name</u>	<u>Office</u>
Roger Smith	President, CEO, President, and Chairman of the Board
Danny Almond	Executive Vice President, CFO, Treasurer, and Assistant Secretary
Scott Smith	Executive Vice President and Chief Marketing Officer
Vern Herbel	Executive Vice President, Marketing
Carol McCoy	Secretary
Ben Lutek	Senior Vice President and Chief Actuary
Diana Crosby	Senior Vice President
Robert Falvo	Senior Vice President
Debra Gamble	Senior Vice President
Bobby Gattis, Jr.	Vice President and Controller
Alan Hintz	Senior Vice President
Randy Massingill	Vice President and Chief Information Officer
Pamela Miller	Vice President
Dawn Mitchell	Senior Vice President
Robert Mitchell	Senior Vice President and General Counsel
Randall Mull	Senior Vice President
William Pressley	Vice President
John Rogers, Jr.	Vice President

CONFLICT OF INTEREST

Officers and directors are required to review and sign Conflict of Interest statements annually. It was determined that officers and directors listed in the management and control section of this Report of Examination have reviewed and signed their statements as of year-end 2010.

OATH OF OFFICE

IC 27-1-7-10(i) stipulates that every director, when elected, shall take and subscribe to an oath stating that he or she will faithfully, honestly, and diligently administer the affairs of the Company and will not knowingly violate any of the laws applicable to such Company. Each director subscribed to an Oath of Office statement in 2010.

CORPORATE RECORDS

Articles of Incorporation

There were no amendments made to the Articles of Incorporation during the examination period.

Bylaws

There were no amendments made to the Bylaws during the examination period.

Minutes

The AIL Board of Directors, TMK Audit Committee, TMK Governance and Nominating Committee, TMK Compensation Committee, TMK Enterprise Risk Management Committee, and Globe Board of Directors meeting minutes were reviewed for the period under examination through the fieldwork date. Significant actions taken during each meeting were noted.

IC 27-1-7-7(b) states an annual meeting of shareholders, members, or policyholders shall be held within five (5) months after the close of each fiscal year of the Company and at such time within that period as the Bylaws may provide. The Company's Bylaws state that the Annual Meeting of Shareholders will be held on the last Monday in April each year. For each year under review, the Annual Meeting of Shareholders was held within the first five (5) months after the close of each fiscal year. Contrary to the Bylaws, the Annual Meeting of Shareholders was not held on the last Monday of April for all years except 2009.

AFFILIATED COMPANIES

Organizational Structure

The following organizational chart shows the affiliated insurance companies and the Company's subsidiaries as of December 31, 2010:

	<u>NAIC Co.</u> <u>Code</u>	<u>Domiciliary</u> <u>State</u>
Torchmark Corporation		
- Liberty National Life Insurance Company	65331	NE
- United Investors Life Insurance Company *	94099	NE
- Globe Life and Accident Insurance Company	91472	NE
- American Income Life Insurance Company	60577	IN
- National Income Life Insurance Company	10093	NY
- AILIC Receivables Corp.		
- American Income Marketing Services, Inc.		
- United American Insurance Company	92916	NE
- First United American Life Insurance Company	74101	NY

* Sold to Protective Life Insurance Company effective December 31, 2010.

Affiliated Agreements

The following affiliated agreements and transactions were disclosed as part of the Form B – Holding Company Registration Statement and were filed with the INDOI, as required, in accordance with IC 27-1-23-4.

Consolidated Tax Allocation Agreement

In 1999, the Company became party to a consolidated federal income tax allocation agreement with certain affiliates on a consolidated basis with TMK and according to Generally Accepted Accounting Principles. The master agreement between TMK and its affiliates is dated August 29, 1990. Under the agreement, each company pays a share of the total tax liability determined as if computed on a separate return basis.

Temporary Advances

From time to time, temporary advances occur between the Company and its affiliates. The Company advanced \$5,650,000 to American Income Marketing Services, Inc. during 2010. As of December 31, 2010, American Income Marketing Services, Inc. owed the Company \$1,800,000.

Service Agreement

Effective December 31, 1995, and as amended January 1, 1999, and January 1, 2001, the Company entered into a service agreement with TMK where each company provides the other, upon request, strategic planning, management advisor, financial, legal, accounting, employee benefit, banking, cash management, investment, aviation, and other services. For all services provided by TMK, the service fee is a portion of TMK's operating expenses for the immediate preceding calendar year, determined as a percentage of salary and benefits of the Company to the consolidated salaries and benefits of TMK, under the contract. Pursuant to this agreement, the Company paid TMK \$6,084,000 during 2010 and owed TMK \$220,222 at year-end.

Receivables Sale Agreement

Effective December 21, 1999, and as amended and restated March 31, 2000, the Company entered into an agreement with its wholly-owned subsidiary AILIC Receivables Corporation (ARC). The agreement is for servicing the Company's qualified agent receivables which have been sold to ARC, who in turn sells them to TMK Re Ltd. Pursuant to this agreement, ARC paid the Company \$696,363 during 2010 and owed the Company \$1,874,000 at year-end.

Service Agreement

Effective July 1, 1999, the Company entered into an agreement with its wholly-owned subsidiary National Income Life Insurance Company (NILCO) where the Company provides marketing, actuarial, claims, underwriting, information technology, and administrative services to NILCO. Pursuant to this agreement, NILCO paid the Company \$3,307,117 during 2010 and owed the Company \$932,094 at year-end.

Medical Records Agreements

Effective February 1, 2007, the Company entered into separate Medical Records Agreements with Globe, United American Insurance Company (UA), Liberty National Life Insurance Company, and United Investors Life Insurance Company. Upon request, the Company will obtain medical records to be used by Globe, UA, Liberty National Life Insurance Company, and United Investors Life Insurance Company for underwriting and claims investigations. The Company receives an \$11 service fee for each set of medical records requested and is reimbursed for the actual cost of medical records received from the provider. Pursuant to these agreements, the Company received \$163,036 during 2010.

Information Technology Services Agreement

Effective January 1, 2008, the Company entered into an Information Technology Services Agreement with UA. UA will furnish information technology and data processing services to the Company for a fee. The fee is paid in quarterly payments in advance, and is the Company's portion of UA's total information technology and data processing costs. This portion is calculated by multiplying the percentage derived from the ratio of the Company's insurance policy count on the last day of the preceding fiscal quarter (Billing Date) to the total insurance policy counts of all TMK insurance subsidiaries for which UA performs information technology services on the Billing Date by the actual total information technology and data processing costs of UA for the preceding fiscal quarter ending on the billing date. Pursuant to this agreement, the Company paid UA \$685,118 during 2010 and owed UA \$327,223 at year-end.

FIDELITY BOND AND OTHER INSURANCE

The Company protects itself against loss from any fraudulent or dishonest acts by any employees through a fidelity bond issued by National Union Fire Insurance Company. The bond has a single loss coverage limit of \$10,000,000, with a \$100,000 deductible. The fidelity bond is adequate to meet the prescribed minimum coverage specified by the NAIC.

The Company had additional types of coverage in-force at December 31, 2010, including, but not limited to, general liability, commercial umbrella, commercial automobile, commercial property, financial products, and workers' compensation.

PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS

The Company has a funded noncontributory defined benefit plan for all hourly employees who have completed one year of service with the Company. The benefits are set as a monthly amount for each year of service with the Company, and contributions are made periodically to fund plan obligations.

In addition to the defined benefit plan, the Company has a qualified 401(k) and profit sharing plan for its exempt employees. The Company makes annual contributions to the plan of six percent (6%) of each employee's compensation, subject to limitation. All Company contributions are subject to a vesting schedule based on the employee's years of service.

The Company does not provide postretirement employment benefits to its employees other than those described above, except certain officers are covered by a post-retirement insurance plan sponsored by TMK.

Certain employees of the Company have been granted fixed equity options to buy shares of TMK stock at the market value of the stock on the date of the grant, under the provisions of the TMK stock option plans. The options are exercisable during the period commencing from the date they vest until expiring according to the terms of the grant. Options generally expire the earlier of employee termination or option contract term, which ranges from seven to eleven years. Stock options awarded in connection with compensation deferrals by certain executives generally vest over a range of seven to ten years. All options vest immediately upon the attainment of the age 65, subject to a minimum vesting period of six months.

STATUTORY DEPOSITS

The Company reported the following statutory deposits at December 31, 2010:

<u>State</u>	<u>Book Value</u>	<u>Fair Value</u>
For all Policyholders:		
Indiana	2,375,504	2,399,761
All Other Special Deposits:		
Georgia	\$ 35,000	\$ 35,000
New Mexico	104,987	105,308
North Carolina	419,949	421,231
South Carolina	149,982	150,440
Puerto Rico	408,965	423,162
US Virgin Islands	500,000	500,000
Canada	142,348,624	152,349,737
Aggregate Other Alien	4,361,282	4,481,154
Total Deposits	<u>\$ 150,704,293</u>	<u>\$ 160,865,793</u>

REINSURANCE

Reinsurance activity is limited to life insurance ceded and is not significant to the Company's operations or financial condition. The following two (2) reinsurance agreements were in force as of December 31, 2010:

Effective November 30, 2005, an excess-of-loss reinsurance agreement with Lincoln National Life Insurance Company was terminated for new business, and Swiss Re reinsured new business eligible for reinsurance issued after November 30, 2005, on identical terms and conditions as specified in the Lincoln Treaty. The Swiss Re Treaty also states "Lincoln shall have no liability to the Company with respect to business covered under the new reinsurance agreement between the Company and Swiss Re, but will continue to be responsible for its obligations under the Lincoln Treaty." The Company's current retention level is \$250,000.

Beginning October 1, 1994, the Company reinsures its annual renewable term to age 70 policies with Optimum Re Insurance Company under an automatic reinsurance agreement up to \$2 million per life on a coinsurance basis. The Company's retention limit is \$50,000.

ACCOUNTS AND RECORDS

The Company's accounting procedures, practices, account records, and supporting data were reviewed and tested to the extent deemed necessary. The trial balances prepared from the Company's general ledger for the years ended December 31, 2009, and 2010, were agreed to the respective Annual Statements. The Annual Statement for the years ended December 31, 2006, through December 31, 2010, were agreed to each year's independent audit report without material exception. The Company's accounting procedures, practices, and account records were deemed satisfactory.

AMERICAN INCOME LIFE INSURANCE COMPANY

FINANCIAL STATEMENTS

Assets

	As of December 31, 2010			
	<u>Per Annual Statement</u>	<u>Examination Adjustments</u>	<u>Per Examination</u>	<u>December 31, Prior Year</u>
Assets:				
Bonds	\$ 1,631,820,897	\$ -	\$ 1,631,820,897	\$1,417,799,416
Stocks:				
Preferred stocks	38,656,313	-	38,656,313	36,561,406
Common stocks	16,008,255	-	16,008,255	11,982,628
Real estate:				
Properties occupied by the company	633,813	-	633,813	753,238
Cash, cash equivalents, and short-term investments	66,612,002	-	66,612,002	146,454,127
Contract loans	90,355,554	-	90,355,554	76,863,614
Other invested assets	26,436,646	-	26,436,646	10,399,231
Subtotals, cash and invested assets	\$ 1,870,523,480	\$ -	\$ 1,870,523,480	\$1,700,813,660
Investment income due and accrued	29,674,150	-	29,674,150	25,950,498
Premiums and considerations:				
Uncollected premiums and agents' balances in the course of collection	8,333,033	-	8,333,033	7,880,157
Deferred premiums, agents' balances and installments booked but deferred and not yet due	142,311,701	-	142,311,701	132,164,430
Current federal and foreign income tax recoverable and interest thereon	8,416,412	-	8,416,412	12,322,329
Net deferred tax asset	32,785,000	-	32,785,000	36,349,000
Guaranty funds receivable or on deposit	282,698	-	282,698	296,107
Electronic data processing equipment and software	171,903	-	171,903	55,394
Receivables from parent, subsidiaries and affiliates	4,707,909	-	4,707,909	3,946,121
Aggregate write-ins for other than invested assets	39,201,245	-	39,201,245	13,037,968
Total assets	\$ 2,136,407,531	\$ -	\$ 2,136,407,531	\$1,932,815,664

AMERICAN INCOME LIFE INSURANCE COMPANY

FINANCIAL STATEMENTS

Liabilities, Surplus and Other Funds

	As of December 31, 2010			
	<u>Per Annual Statement</u>	<u>Examination Adjustments</u>	<u>Per Examination</u>	<u>December 31, Prior Year</u>
Liabilities:				
Aggregate reserve for life contracts	\$ 1,666,460,608	-	\$ 1,666,460,608	\$ 1,523,297,167
Aggregate reserve for accident and health contracts	76,867,752	-	76,867,752	72,559,334
Liability for deposit-type contracts	81,324,714	-	81,324,714	80,713,275
Contract claims:				
Life	21,500,266	-	21,500,266	18,822,716
Accident and health	13,058,956	-	13,058,956	11,732,119
Policyholders' dividends	121	-	121	138
Provision for policyholders' dividends payable in the following calendar year:				
Dividends apportioned for payment	14,891	-	14,891	23,202
Premiums and annuity considerations for life and accident and health contracts received in advance				
Interest Maintenance Reserve	1,452,268	-	1,452,268	1,284,820
Commissions to agents due or accrued	10,341,628	-	10,341,628	5,632,579
General expenses due or accrued	303,695	-	303,695	340,428
Taxes, licenses and fees due or accrued	2,495,821	-	2,495,821	2,195,621
Amounts withheld or retained by company as agent or trustee	1,649,211	-	1,649,211	1,532,675
Amounts held for agents' account	103,911	-	103,911	134,384
Remittances and items not allocated	3,141,412	-	3,141,412	2,713,737
Liability for benefits for employees and agents	1,666,077	-	1,666,077	2,015,426
Asset valuation reserve	10,012,564	-	10,012,564	8,111,699
Payable to parent, subsidiaries and affiliates	6,555,259	-	6,555,259	572,303
Aggregate write-ins for liabilities	547,445	-	547,445	286,786
Total liabilities	\$ 1,936,335,115	\$ -	\$ 1,936,335,115	\$ 1,744,743,052
Common capital stock	11,680,107	-	11,680,107	11,680,107
Gross paid in and contributed surplus	20,000,000	-	20,000,000	20,000,000
Unassigned funds (surplus)	168,392,309	-	168,392,309	156,392,505
Capital and surplus	\$ 200,072,416	\$ -	\$ 200,072,416	\$ 188,072,612
Total liabilities, surplus and other funds	\$ 2,136,407,531	\$ -	\$ 2,136,407,531	\$ 1,932,815,664

AMERICAN INCOME LIFE INSURANCE COMPANY

FINANCIAL STATEMENTS

Summary of Income

	As of December 31, 2010			December 31, Prior Year
	Per Annual Statement	Examination Adjustments	Per Examination	
Premiums and annuity considerations for life and accident and health contracts	\$ 625,527,297	\$ -	\$ 625,527,297	\$ 577,805,414
Considerations for supplementary contracts with life contingencies	-	-	-	69
Net investment income	103,293,955	-	103,293,955	92,649,062
Amortization of Interest Maintenance Reserve	318,078	-	318,078	186,766
Miscellaneous Income:				
Aggregate write-ins for miscellaneous income	888,802	-	888,802	715,294
Totals	\$ 730,028,132	\$ -	\$ 730,028,132	\$ 671,356,605
Death benefits	95,927,047	-	95,927,047	87,100,527
Matured endowments	164,411	-	164,411	217,872
Annuity benefits	90	-	90	5,487
Disability benefits and benefits under A&H contracts	27,599,880	-	27,599,880	26,625,983
Coupons, guaranteed annual pure endowments and similar benefits	150	-	150	-
Surrender benefits and withdrawals for life contracts	43,586,544	-	43,586,544	37,975,400
Interest and adjustments on contract or deposit-type contract funds	4,839,919	-	4,839,919	4,962,580
Payments on supplementary contracts with life contingencies	17,902	-	17,902	19,962
Increase in aggregate reserves for life and A&H contracts	147,471,859	-	147,471,859	149,191,027
Totals	\$ 319,607,802	\$ -	\$ 319,607,802	\$ 306,098,838
Commissions on premiums, annuity considerations and deposit-type contract funds	181,079,932	-	181,079,932	162,976,139
General insurance expenses	63,154,299	-	63,154,299	57,331,456
Insurance taxes, licenses and fees, excluding federal income tax	13,909,286	-	13,909,286	15,266,953
Increase in loading on deferred and uncollected premiums	10,690,650	-	10,690,650	15,663,595
Totals	\$ 588,441,969	\$ -	\$ 588,441,969	\$ 557,336,981
Net gain from operations before dividends to policyholders and federal income taxes	\$ 141,586,163	\$ -	\$ 141,586,163	\$ 114,019,624
Dividends to policyholders	14,175	-	14,175	21,333
Net gain from operations after dividends to policyholders and before federal income taxes	\$ 141,571,988	\$ -	\$ 141,571,988	\$ 113,998,291
Federal and foreign income taxes incurred	38,213,689	-	38,213,689	28,857,606
Net gain from operations after dividends to policyholders and federal income taxes and before realized capital gains or (losses)	\$ 103,358,299	\$ -	\$ 103,358,299	\$ 85,140,685
Net realized capital gains (losses)	13,330,609	-	13,330,609	321,801
Net income	\$ 116,688,908	\$ -	\$ 116,688,908	\$ 85,462,486

AMERICAN INCOME LIFE INSURANCE COMPANY

FINANCIAL STATEMENTS

Capital and Surplus Reconciliation

	<u>12/31/2010</u>	<u>12/31/2009</u>	<u>12/31/2008</u>	<u>12/31/2007</u>	<u>12/31/2006</u>
Capital and surplus, Dec 31, prior year	\$ 188,072,612	\$ 228,065,714	\$ 221,186,415	\$ 193,327,464	\$ 208,150,509
Net income	116,688,908	85,462,486	98,777,937	96,321,934	75,795,963
Change in net unrealized capital gains (losses)	(4,116,441)	952,815	(5,112,299)	(6,777,108)	(446,757)
Change in net unrealized foreign exchange					
capital gain (loss)	1,541,953	7,210,721	(7,161,336)	10,262,819	(238,233)
Change in net deferred income tax	(11,350,000)	(9,544,000)	4,294,000	(12,809,000)	261,000
Change in nonadmitted assets	753,552	12,549,244	(4,711,904)	18,380,287	2,845,338
Change in asset valuation reserve	(5,982,956)	4,045,632	4,415,901	(19,981)	(1,040,355)
Surplus adjustment:					
Paid in	-	20,000,000	-	-	-
Dividends to stockholders	(85,140,000)	(160,670,000)	(83,623,000)	(77,500,000)	(92,000,000)
Aggregate write-ins for gains and losses in surplus	(395,212)	-	-	-	-
Net change in capital and surplus for the year	<u>11,999,804</u>	<u>(39,993,102)</u>	<u>6,879,299</u>	<u>27,858,951</u>	<u>(14,823,045)</u>
Capital and surplus, Dec 31, current year	<u>\$ 200,072,416</u>	<u>\$ 188,072,612</u>	<u>\$ 228,065,714</u>	<u>\$ 221,186,415</u>	<u>\$ 193,327,464</u>

COMMENTS ON THE FINANCIAL STATEMENTS

There were no recommended adjustments to the Financial Statements as of December 31, 2010, based on the results of this examination.

SUBSEQUENT EVENTS

Effective January 1, 2011, the Company entered into a service agreement with certain affiliates to provide or receive services for said certain affiliates. Costs incurred in the provision of the services shall be allocated using generally accepted statutory accounting practices as set forth in SSAP No. 70, based upon utilization. Such allocations shall be made quarterly and billed to the Service Beneficiary within fifteen (15) days of the end of each calendar quarter. The Service Beneficiary shall remit payment to the Service Provider within five (5) days of the receipt of such invoice. The agreement was not disapproved by the INDOI on March 23, 2011.

On September 23, 2009, *Hoover v. American Income Life* was filed as a class action lawsuit in California. No date has been set for a hearing on class certification. On January 12, 2011, the court denied the Company's motion to exercise the arbitration clauses of those agent contracts that contain them; the Company has appealed that denial. AIL representatives attended a mandatory settlement conference on May 26, 2011, related to that appeal. However, the parties were unable to arrive at a settlement. Discovery in the case is on-going. The next case management conference is scheduled for January 10, 2012.

On July 19, 2011, the Company's prospective subsidiary in Ireland, Union Heritage Life Assurance Company Limited (UHL), received an authorization in principle from the Central Bank of Ireland (Central Bank) in connection with UHL's application for licensure. The notification of the authorization in principle provided that Central Bank would fully authorize UHL to conduct business in Ireland, if UHL would supply to Central Bank certain documentation (e.g., final copies of service and investment agreements, an executed memorandum and articles of incorporation, proof of capital contribution, etc.) and assurances to comply with Irish laws pertaining to corporate governance and on-going supervision of insurance producers. UHL supplied all requested documentation and assurances to Central Bank on September 19, 2011, and expects that Central Bank will grant full authorization following its review of these documents.

AFFIDAVIT

This is to certify that the undersigned is a duly qualified Examiner-in-Charge appointed by the Indiana Department of Insurance and that she, in coordination with staff assistance from Noble Consulting Services, Inc. and actuarial assistance from Actuarial Options, LLC, hereinafter collectively referred to as the "Examiners", performed an examination of **American Income Life Insurance Company**, as of **December 31, 2010**.

The Indiana Department of Insurance is accredited under the National Association of Insurance Commissioners Financial Regulation Accreditation Standards.

This examination was performed in accordance with those procedures required by the NAIC Financial Condition Examiners Handbook and other procedures tailored for this examination. Such procedures performed on this examination do not constitute an audit made in accordance with generally accepted auditing standards and no audit opinion is expressed on the financial statements contained in this report.

The attached report of examination is a true and complete report of condition of **American Income Life Insurance Company**, as of **December 31, 2010**, as determined by the undersigned.

Nadine Treon

Nadine Treon, CFE
Noble Consulting Services, Inc.

State of:
County of:

On this 14th day of Nov, 2011, before me personally appeared, Nadine Treon, to sign this document.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my notorial seal in said County and State, the day and year last above written.

My commission expires: 9-15-19 Teresa M. Williamson

Notary Public

