

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM 10-K**

**[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2018

or

**[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 001-08052



**TORCHMARK CORPORATION**

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of  
incorporation or organization)

3700 South Stonebridge Drive, McKinney, TX

(Address of principal executive offices)

63-0780404

(I.R.S. Employer  
Identification No.)

75070

(Zip Code)

972-569-4000

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class                      | CUSIP     | Name of each exchange on which registered |
|------------------------------------------|-----------|-------------------------------------------|
| Common Stock, \$1.00 par value per share | 891027104 | New York Stock Exchange                   |

Securities registered pursuant to Section 12(g) of the Act:   None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes ☒   No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes ☐   No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒   No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes ☒   No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company", and "emerging growth company" in Rule 12b-2 of the Exchange Act.:

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☐

Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

As of June 30, 2018, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was \$9.0 billion based on the closing sale price as reported on the New York Stock Exchange.

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

| Class                                    | Outstanding at February 19, 2019 |
|------------------------------------------|----------------------------------|
| Common Stock, \$1.00 par value per share | 110,236,297 shares               |

#### DOCUMENTS INCORPORATED BY REFERENCE

| Document                                                                                           | Parts Into Which Incorporated |
|----------------------------------------------------------------------------------------------------|-------------------------------|
| Proxy Statement for the Annual Meeting of Stockholders to be held April 25, 2019 (Proxy Statement) | Part III                      |

# TORCHMARK CORPORATION

## Table of Contents

|                                                                                                                            | <u>Page</u> |
|----------------------------------------------------------------------------------------------------------------------------|-------------|
| <b>PART I.</b>                                                                                                             |             |
| Item 1. Business .....                                                                                                     | 1           |
| Item 1A. Risk Factors .....                                                                                                | 6           |
| Item 1B. Unresolved Staff Comments .....                                                                                   | 13          |
| Item 2. Properties .....                                                                                                   | 13          |
| Item 3. Legal Proceedings .....                                                                                            | 13          |
| Item 4. Mine Safety Disclosures .....                                                                                      | 13          |
| <b>PART II.</b>                                                                                                            |             |
| Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities ..... | 14          |
| Item 6. Selected Financial Data .....                                                                                      | 15          |
| Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations .....                        | 16          |
| Item 7A. Quantitative and Qualitative Disclosures about Market Risk .....                                                  | 49          |
| Item 8. Financial Statements and Supplementary Data .....                                                                  | 50          |
| Consolidated Balance Sheets .....                                                                                          | 52          |
| Consolidated Statements of Operations .....                                                                                | 53          |
| Consolidated Statements of Comprehensive Income .....                                                                      | 54          |
| Consolidated Statements of Shareholders' Equity .....                                                                      | 55          |
| Consolidated Statements of Cash Flows .....                                                                                | 56          |
| Notes to Consolidated Financial Statements .....                                                                           | 57          |
| Note 1—Significant Accounting Policies .....                                                                               | 57          |
| Note 2—Statutory Accounting .....                                                                                          | 68          |
| Note 3—Supplemental Information About Changes to Accumulated Other Comprehensive Income .....                              | 69          |
| Note 4—Investments .....                                                                                                   | 71          |
| Note 5—Deferred Acquisition Costs .....                                                                                    | 83          |
| Note 6—Commitments and Contingencies .....                                                                                 | 84          |
| Note 7—Liability for Unpaid Claims .....                                                                                   | 87          |
| Note 8—Income Taxes .....                                                                                                  | 88          |
| Note 9—Postretirement Benefits .....                                                                                       | 90          |
| Note 10—Supplemental Disclosures of Cash Flow Information .....                                                            | 96          |
| Note 11—Debt .....                                                                                                         | 97          |
| Note 12—Shareholders' Equity .....                                                                                         | 100         |
| Note 13—Stock-Based Compensation .....                                                                                     | 102         |
| Note 14—Business Segments .....                                                                                            | 107         |
| Note 15—Selected Quarterly Data .....                                                                                      | 114         |
| Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure .....                         | 115         |
| Item 9A. Controls and Procedures .....                                                                                     | 115         |
| Item 9B. Other Information .....                                                                                           | 118         |
| <b>PART III.</b>                                                                                                           |             |
| Item 10. Directors, Executive Officers, and Corporate Governance .....                                                     | 118         |
| Item 11. Executive Compensation .....                                                                                      | 118         |
| Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters .....              | 118         |
| Item 13. Certain Relationships and Related Transactions and Director Independence .....                                    | 118         |

|                 |                                                           |     |
|-----------------|-----------------------------------------------------------|-----|
| <b>PART IV.</b> | Item 14. Principal Accountant Fees and Services .....     | 119 |
|                 | Item 15. Exhibits and Financial Statement Schedules ..... | 119 |

**PART I**

**ITEM 1. BUSINESS**

Torchmark Corporation ("Torchmark", "we", "our", and "us") is an insurance holding company incorporated in Delaware in 1979. Its primary subsidiaries are Globe Life And Accident Insurance Company (Globe Life), American Income Life Insurance Company (American Income), Liberty National Life Insurance Company (Liberty National), Family Heritage Life Insurance Company of America (Family Heritage), and United American Insurance Company (United American).

Torchmark's website is: [www.torchmarkcorp.com](http://www.torchmarkcorp.com). Torchmark makes available free of charge through its website, its annual report on Form 10-K, its quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports as soon as reasonably practicable after they have been electronically filed with or furnished to the Securities and Exchange Commission. Other information included in Torchmark's website is not incorporated into this filing.

The following table presents Torchmark's business by primary marketing distribution method.

|                                                                                                                                         | <b>Primary<br/>Distribution<br/>Method</b>            | <b>Company</b>                                                                              | <b>Products and Target<br/>Markets</b>                                                                                                                            | <b>Distribution</b>                                                                                                    |
|-----------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------|---------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------|
|                                                        | <b>Globe Life<br/>Direct<br/>Response</b>             | <b>Globe Life And<br/>Accident<br/>Insurance<br/>Company</b><br><br>McKinney, Texas         | Individual life and supplemental health insurance including juvenile and senior life coverage and Medicare Supplement to lower middle to middle-income Americans. | Nationwide distribution through direct-to-consumer channels; including direct mail, electronic media and insert media. |
| <br><b>AMERICAN INCOME LIFE</b><br>insurance company | <b>American<br/>Income<br/>Exclusive<br/>Agency</b>   | <b>American Income<br/>Life Insurance<br/>Company</b><br><br>Waco, Texas                    | Individual life and supplemental health insurance marketed to working families.                                                                                   | 6,894 producing agents in the U.S., Canada, and New Zealand.                                                           |
|                                                      | <b>Liberty<br/>National<br/>Exclusive<br/>Agency</b>  | <b>Liberty National<br/>Life Insurance<br/>Company</b><br><br>McKinney, Texas               | Individual life and supplemental health insurance marketed to lower middle to middle-income families.                                                             | 2,159 producing agents in the U.S.                                                                                     |
|                                                      | <b>Family<br/>Heritage<br/>Exclusive<br/>Agency</b>   | <b>Family Heritage<br/>Life Insurance<br/>Company of<br/>America</b><br><br>Cleveland, Ohio | Supplemental limited-benefit health insurance to lower middle to middle-income families.                                                                          | 1,097 producing agents in the U.S.                                                                                     |
|                                                      | <b>United<br/>American<br/>Independent<br/>Agency</b> | <b>United American<br/>Insurance<br/>Company</b><br><br>McKinney, Texas                     | Medicare Supplement coverage to Medicare beneficiaries and, to a lesser extent, supplemental limited-benefit health coverage to people under age 65.              | 4,415 independent producing agents in the U.S.                                                                         |

Additional information concerning industry segments may be found in *Management's Discussion and Analysis* and in *Note 14—Business Segments* in the *Notes to the Consolidated Financial Statements*.

## Insurance

### Life Insurance

Torchmark's insurance subsidiaries write a variety of nonparticipating ordinary life insurance products. These include traditional and interest sensitive whole-life insurance, term life insurance, and other life insurance. The following tables present selected information about Torchmark's life products.

| <b>Annualized Premium in Force</b><br>(Dollar amounts in thousands) |                     |                   |                     |                   |                     |                   |
|---------------------------------------------------------------------|---------------------|-------------------|---------------------|-------------------|---------------------|-------------------|
|                                                                     | <b>2018</b>         |                   | <b>2017</b>         |                   | <b>2016</b>         |                   |
|                                                                     | <b>Amount</b>       | <b>% of Total</b> | <b>Amount</b>       | <b>% of Total</b> | <b>Amount</b>       | <b>% of Total</b> |
| <b>Whole life:</b>                                                  |                     |                   |                     |                   |                     |                   |
| Traditional .....                                                   | \$ 1,643,122        | 67                | \$ 1,567,077        | 66                | \$ 1,471,054        | 65                |
| Interest-sensitive .....                                            | 41,414              | 2                 | 44,286              | 2                 | 47,358              | 2                 |
| <b>Term</b> .....                                                   | 671,840             | 27                | 664,558             | 28                | 657,797             | 29                |
| <b>Other</b> .....                                                  | 108,352             | 4                 | 97,178              | 4                 | 86,527              | 4                 |
|                                                                     | <u>\$ 2,464,728</u> | <u>100</u>        | <u>\$ 2,373,099</u> | <u>100</u>        | <u>\$ 2,262,736</u> | <u>100</u>        |

| <b>Policy Count and Average Face Amount Per Policy</b><br>(Dollar amounts in thousands) |                     |                                       |                     |                                       |                     |                                       |
|-----------------------------------------------------------------------------------------|---------------------|---------------------------------------|---------------------|---------------------------------------|---------------------|---------------------------------------|
|                                                                                         | <b>2018</b>         |                                       | <b>2017</b>         |                                       | <b>2016</b>         |                                       |
|                                                                                         | <b>Policy Count</b> | <b>Average Face Amount per Policy</b> | <b>Policy Count</b> | <b>Average Face Amount per Policy</b> | <b>Policy Count</b> | <b>Average Face Amount per Policy</b> |
| <b>Whole life:</b>                                                                      |                     |                                       |                     |                                       |                     |                                       |
| Traditional .....                                                                       | 8,112,745           | \$ 13.9                               | 8,045,522           | \$ 13.6                               | 7,953,837           | \$ 13.2                               |
| Interest-sensitive .....                                                                | 209,948             | 20.6                                  | 219,487             | 20.5                                  | 229,459             | 20.5                                  |
| <b>Term</b> .....                                                                       | 4,459,850           | 14.9                                  | 4,351,901           | 15.0                                  | 4,232,417           | 15.2                                  |
| <b>Other</b> .....                                                                      | 376,632             | 12.9                                  | 355,053             | 12.3                                  | 329,797             | 11.9                                  |
|                                                                                         | <u>13,159,175</u>   | <u>\$ 14.3</u>                        | <u>12,971,963</u>   | <u>\$ 14.1</u>                        | <u>12,745,510</u>   | <u>\$ 13.9</u>                        |

The distribution methods for life insurance products include direct response, exclusive agents, and independent agents. These methods are described in more depth in the primary marketing distribution method chart earlier in this report. The following table presents life annualized premium in force by distribution method.

| <b>Annualized Premium in Force</b><br>(Dollar amounts in thousands) |                     |                     |                     |
|---------------------------------------------------------------------|---------------------|---------------------|---------------------|
|                                                                     | <b>2018</b>         | <b>2017</b>         | <b>2016</b>         |
| <b>Globe Life Direct Response</b> .....                             | \$ 812,780          | \$ 796,628          | \$ 782,222          |
| <b>Exclusive agents:</b>                                            |                     |                     |                     |
| American Income .....                                               | 1,129,384           | 1,059,216           | 966,990             |
| Liberty National .....                                              | 300,846             | 295,235             | 288,005             |
| <b>Independent agents:</b>                                          |                     |                     |                     |
| United American .....                                               | 11,094              | 12,121              | 13,292              |
| Other .....                                                         | 210,624             | 209,899             | 212,227             |
|                                                                     | <u>\$ 2,464,728</u> | <u>\$ 2,373,099</u> | <u>\$ 2,262,736</u> |

## Health Insurance

Torchmark offers Medicare Supplement and limited-benefit supplemental health insurance products that include primarily critical illness and accident plans. These policies are designed to supplement health coverage that applicants already own. Medicare Supplements are offered to enrollees in the traditional fee-for-service Medicare program. Medicare Supplement plans are standardized by federal regulation and are designed to pay deductibles and co-payments not paid by Medicare.

The following table presents supplemental health annualized premium in force information for the three years ended December 31, 2018 by product category.

| <b>Annualized Premium in Force</b><br>(Dollar amounts in thousands) |                     |                   |                     |                   |                   |                   |
|---------------------------------------------------------------------|---------------------|-------------------|---------------------|-------------------|-------------------|-------------------|
|                                                                     | <b>2018</b>         |                   | <b>2017</b>         |                   | <b>2016</b>       |                   |
|                                                                     | <b>Amount</b>       | <b>% of Total</b> | <b>Amount</b>       | <b>% of Total</b> | <b>Amount</b>     | <b>% of Total</b> |
| Medicare Supplement .....                                           | \$ 524,415          | 49                | \$ 495,982          | 49                | \$ 502,691        | 51                |
| Limited-benefit plans .....                                         | 549,283             | 51                | 522,038             | 51                | 495,943           | 49                |
|                                                                     | <u>\$ 1,073,698</u> | <u>100</u>        | <u>\$ 1,018,020</u> | <u>100</u>        | <u>\$ 998,634</u> | <u>100</u>        |

The following table presents supplemental health annualized premium in force for the three years ended December 31, 2018 by distribution method.

| <b>Annualized Premium in Force</b><br>(Dollar amounts in thousands) |                     |                     |                   |
|---------------------------------------------------------------------|---------------------|---------------------|-------------------|
|                                                                     | <b>2018</b>         | <b>2017</b>         | <b>2016</b>       |
| <b>Direct Response</b> .....                                        | \$ 79,325           | \$ 76,672           | \$ 74,261         |
| <b>Exclusive agents:</b>                                            |                     |                     |                   |
| Liberty National .....                                              | 201,294             | 205,136             | 210,260           |
| American Income .....                                               | 88,237              | 84,775              | 78,947            |
| Family Heritage .....                                               | 290,186             | 268,584             | 249,857           |
| <b>Independent agents:</b>                                          |                     |                     |                   |
| United American .....                                               | 414,656             | 382,853             | 385,309           |
|                                                                     | <u>\$ 1,073,698</u> | <u>\$ 1,018,020</u> | <u>\$ 998,634</u> |

## Annuities

Annuity products include single-premium and flexible-premium deferred annuities. Annuities in each of the three years ended December 31, 2018 comprised less than 1% of premium.

## Pricing

Premium rates for life and health insurance products are established using assumptions as to future mortality, morbidity, persistency, investment income, expenses, and target profit margins. These assumptions are based on Company experience and projected investment earnings. Revenues for individual life and health insurance products are primarily derived from premium income, and, to a lesser extent, through policy charges to the policyholder account values on annuity products and certain individual life products. Profitability is affected by actual experience deviations from the pricing assumptions and to the extent investment income varies from that required for policy reserves.

Collections for annuity products and certain life products are not recognized as revenues, but are added to policyholder account values. Revenues from these products are derived from charges to the account balances for insurance risk and administrative costs. Profits are earned to the extent these revenues exceed actual costs. Profits are also earned from investment income in excess of the amounts required for policy reserves.

## **Underwriting**

The underwriting standards of each Torchmark insurance subsidiary are established by management. Each subsidiary uses information obtained from the application and, in some cases, telephone interviews with applicants, including, but not limited to inspection reports, pharmacy data, doctors' statements and/or medical examinations to determine whether a policy should be issued in accordance with the application, with a different rating, with a rider, with reduced coverage, or rejected.

## **Reserves**

The life insurance policy reserves reflected in Torchmark's consolidated financial statements as future policy benefits are calculated based on accounting principles generally accepted in the United States of America (GAAP). These reserves, with premiums to be received in the future and the interest thereon compounded annually at assumed rates, must be sufficient to cover policy and contract obligations as they mature. Generally, the mortality and persistency assumptions used in the calculations of reserves are based on Company experience. Similar reserves are held on most of the health policies written by Torchmark's insurance subsidiaries, since these policies generally are issued on a guaranteed-renewable basis. The assumptions used in the calculation of Torchmark's reserves are reported in *Note 1—Significant Accounting Policies*. Reserves for annuity products and certain life products consist of the policyholders' account values and are increased by policyholder deposits and interest credited and are decreased by policy charges and benefit payments.

## **Investments**

The nature, quality, and percentage mix of insurance company investments are regulated by state laws. The investments of Torchmark insurance subsidiaries consist predominantly of high-quality, investment-grade securities. Approximately 95% of our invested assets at fair value are fixed maturities at December 31, 2018. (See *Note 4—Investments* and *Management's Discussion and Analysis*.)

## **Competition**

Torchmark competes with other insurance carriers through policyholder service, price, product design, and sales efforts. While there are insurance companies competing with Torchmark, no individual company dominates any of Torchmark's life or health markets.

Torchmark's health insurance products compete with, in addition to the products of other health insurance carriers, health maintenance organizations, preferred provider organizations, and other health care-related institutions which provide medical benefits based on contractual agreements.

Management believes Torchmark companies operate at lower policy acquisition and administrative expense levels than peer companies. This allows Torchmark to have competitive rates while maintaining higher underwriting margins.

## **Regulation**

**Insurance.** Insurance companies are subject to regulation and supervision in the states in which they do business. The laws of the various states establish agencies with broad administrative and supervisory powers which include, among other things, granting and revoking licenses to transact business, regulating trade practices, licensing agents, approving policy forms, approving certain premium rates, setting minimum reserve and loss ratio requirements, determining the form and content of required financial statements, and prescribing the type and amount of investments permitted. They are also required to file detailed annual reports with supervisory agencies, and records of their business are subject to examination at any time. Under the rules of the National Association of Insurance Commissioners (NAIC), insurance companies are examined periodically by one or more of the supervisory agencies.

**Risk-Based Capital (RBC).** The NAIC requires that a risk-based capital formula be applied to all life and health insurers. The risk-based capital formula is a threshold formula rather than a target capital formula. It is designed only to identify companies that require regulatory attention and is not to be used to rate or rank companies that are adequately capitalized. All Torchmark insurance subsidiaries are more than adequately capitalized under the risk-based capital formula.

**Guaranty Assessments.** State guaranty laws provide for assessments from insurance companies to be placed into a fund which is used, in the event of failure or insolvency of an insurance company, to fulfill the obligations of that company to its policyholders. The amount which a company is assessed is based on its proportional share of the premium in each state. A significant portion of assessments are recoverable as offsets against state premium taxes. (See *Note 6—Commitments and Contingencies* for current assessment.)

**Holding Company.** States have enacted legislation requiring registration and periodic reporting by insurance companies domiciled within their respective jurisdictions that control or are controlled by other corporations so as to constitute a holding company system. Torchmark and its subsidiaries have registered as a holding company system pursuant to such legislation in Indiana, Nebraska, Ohio, and New York.

Insurance holding company system statutes and regulations impose various limitations on investments in subsidiaries, and may require prior regulatory approval for material transactions between insurers and affiliates and for the payment of certain dividends and other distributions.

### **Personnel**

At the end of 2018, Torchmark had 3,102 employees, consistent with the prior year.

## ITEM 1A. RISK FACTORS

### Risks Related to Our Business

The insurance industry is a regulated industry, populated by many public and private companies. We operate in the industry's life and health insurance sectors, each of which has its own set of risks.

#### Operational Risks:

**The development and maintenance of our various distribution systems are critical to growth in product sales and profits.** Development and retention of producing agents are critical to support sales growth in this market because our insurance sales are primarily made to individuals, and the face amounts of the life insurance policies sold are typically lower than those of policies sold in higher-income markets. Compensation that is competitive with other career opportunities and motivates producing agents to increase sales is also critical. Globe Life Direct Response is continuously developing new methods of reaching consumers and realizing cost efficiencies. Less than optimum execution of these strategies may result in reduced sales and profits.

**Economic conditions may materially adversely affect our business and results of operations.** We primarily serve the lower-middle to middle-income market for individual life and health insurance and, as a result, we compete directly with alternative uses of a customer's disposable income. If disposable income within this demographic group declines or the use of disposable income becomes more limited as a result of a significant, sustained economic downturn or otherwise, then new sales of our insurance products could become more challenging, and our policyholders may choose to defer or stop payment of insurance premiums altogether. Economic conditions could also impact our investment portfolio as discussed under *Investment Risks* below.

**Variations in expected-to-actual rates of mortality, morbidity and persistency could materially negatively affect our results of operations and financial condition.** We establish policy reserves to pay future policyholder benefits. These reserves do not represent an exact calculation of liability, but rather are actuarial estimates based on models that include many assumptions and projections which are inherently uncertain. The reserve computations involve the exercise of significant judgment with respect to levels of mortality, morbidity and persistency, as well as the timing of premium and benefit payments. Even though our actuaries continually test expected-to-actual results, actual levels that occur may differ significantly from the levels assumed when premium rates were first set. Accordingly, we cannot determine with precision the ultimate amounts of policyholder benefits that we will pay or the timing of such payments. Significant adverse variations from the levels assumed when policy reserves are first set could result in increased policy obligations and negatively affect our profit margins and income.

**A ratings downgrade or other negative action by a rating agency could materially affect our business, financial condition and results of operations.** Various rating agencies review the financial performance and condition of insurers, including our insurance subsidiaries, and publish their financial strength ratings as indicators of an insurer's ability to fulfill its contractual obligations. These ratings are important to maintaining public confidence in our insurance products. A downgrade or other negative action by a rating agency with respect to the financial strength ratings of our insurance subsidiaries could negatively affect us in many ways, including: limiting or restricting the ability of our insurance subsidiaries to pay dividends to us and adversely affecting our ability to sell insurance products through independent insurance agencies.

Rating agencies also publish credit ratings for us. Credit ratings are indicators of a debt issuer's ability to meet the terms of debt obligations in a timely manner. These ratings are important to our overall ability to access certain types of capital. Actual or anticipated downgrades in our credit ratings, or an announcement that our ratings are under further review for a downgrade, could potentially have a negative effect on our financial condition and results of operations. Such an event could limit our access to capital markets, increase the cost of debt, or impair our ability to raise capital to refinance maturing debt obligations, thereby potentially limiting our capacity to support growth at our insurance subsidiaries or making it more difficult to maintain or improve the current financial strength ratings of our insurance subsidiaries.

Ratings reflect only a rating agency's views and are not recommendations to buy, sell or hold our securities. Rating agencies assign ratings based upon several factors. While most of the factors relate to the rated company, some of the factors relate to the views of the rating agency, general economic conditions and circumstances outside the rated

company's control. In addition, rating agencies use various models and formulas to assess the strength of a rated company, and from time to time rating agencies have, in their discretion, altered the models. Changes to the models could impact a rating agency's judgment of the rating to be assigned to the rated company. There can be no assurance that our current credit ratings will remain in effect for any given period of time or that such ratings will not be lowered, suspended or withdrawn entirely by the rating agencies. We cannot predict what actions the rating agencies may take, or what actions we may take in response to the actions of the rating agencies which could negatively affect our business, financial condition and results of operations.

#### **Life Insurance Marketplace Risk:**

**Our life insurance products are sold in selected niche markets. We are at risk should any of these markets diminish.** We have several life distribution channels that focus on distinct market niches, two of which are labor unions and sales via Globe Life Direct Response solicitation. Deterioration of our relationships with organized labor or adverse changes in the public's receptivity to direct response marketing initiatives could negatively affect our life insurance business.

#### **Health Insurance Marketplace Risks:**

**The health insurance market is subject to substantial regulatory scrutiny.** Regulatory changes could impact our Medicare Supplement and other supplemental health business. The nature and timing of any such changes cannot be predicted and could have a material adverse effect on our health insurance business.

**Competition in the health insurance market can be significant.** Sales of our health insurance products are subject to competition from other health insurance companies and alternative healthcare providers, such as those that provide alternatives to traditional Medicare to seniors. In addition, some insurers may be willing to significantly reduce their profit margins or underprice new sales in order to gain market share. We choose not to compete for market share based on these terms. Accordingly, changes in the competitive landscape, including the pricing strategies employed by our competitors, could negatively impact the future sales of our health insurance products.

**Obtaining timely and appropriate premium rate increases for certain health insurance policies is critical.** A significant percentage of the health insurance premiums that our insurance subsidiaries earn is from Medicare Supplement insurance. Medicare Supplement insurance, including conditions under which the premiums for such policies may be increased, is highly regulated at both the state and federal level. As a result, our Medicare Supplement business is characterized by lower profit margins than life insurance and requires strict administrative discipline and economies of scale for success. Since Medicare Supplement policies are coordinated with the federal Medicare program, which experiences health care inflation every year, annual premium rate increases for the Medicare Supplement policies are typically necessary. Obtaining timely rate increases is of critical importance to our success in this market. Accordingly, the inability of our insurance subsidiaries to obtain approval of premium rate increases in a timely manner from state insurance regulatory authorities could adversely impact their profitability and thus our business, financial condition and results of operations.

#### **Information Security and Technology Risks:**

**The failure to maintain effective and efficient information systems at the Company could compromise data security, thereby adversely affecting our financial condition and results of operations.** Our business is highly dependent upon information systems to operate in an efficient and resilient manner. We gather and maintain data on our information systems, including the identity, health and financial information of our current, former and prospective policyholders, for the purpose of conducting marketing, sales and policy administration functions. This information is highly targeted by malicious threat actors.

Malicious threat actors, employee or agent errors or disasters affecting our information systems could impair our business operations, regulatory compliance and financial condition. An attacker could circumvent security measures in order to access, alter or delete data from our systems or to render our systems unavailable for business use. Additionally, we may not become aware of sophisticated cyber-attacks for some time after they occur, thereby increasing the Company's exposure. We may have to incur significant costs to address existing and future regulatory requirements related thereto. These risks are heightened as the frequency and sophistication of cyber-attacks increase.

Employee or agent errors in the handling of our information systems may inadvertently result in unauthorized access to customer or proprietary information, or an inability to use our information systems to efficiently support business operations.

We may utilize the services of third parties in order to conduct our business. Cyber events affecting these third parties could materially impact our sales and operational efficiency.

We anticipate more frequent and sophisticated cyber-attacks along with more impactful regulatory oversight models. An increasing number of states also require that customers be notified of unauthorized access, use or disclosure of their confidential information. Any such breach of confidential information could damage our reputation in the marketplace, deter potential customers from purchasing our products, result in the loss of existing customers, subject us to significant civil and criminal liability, or require us to incur significant technical, legal or other expenses.

**In the event of a disaster, such as a natural catastrophe, an industrial accident, a blackout, or a terrorist attack or war, our computer systems may be inaccessible to our employees, agents or customers for a period of time.** A disaster or natural catastrophe, an industrial accident, terrorist attack or war may make our information systems unavailable to support business operations for a period of time, which could adversely affect our financial condition and results of operations. Even if our employees are able to report to work, they may be unable to perform their duties for an extended period of time if our data or systems are disabled or destroyed and existing contingency plans cannot function as designed.

#### **Reputational Risk:**

**Damage to the reputation of Torchmark or its subsidiaries could affect our ability to conduct business.** Negative publicity through traditional media, internet, social media and other public forums could damage our reputation and adversely impact our agent recruiting efforts, the ability to market our products and the persistency of our block of inforce policies. As discussed above in *Information Security and Technology Risks*, the Company could be subjected to adverse publicity as a result of a significant security breach.

#### **Investment Risks:**

**Our investments are subject to market and credit risks. Significant downgrades, delinquencies and defaults in our investment portfolio could potentially result in lower net investment income and increased realized and unrealized investment losses.** Our invested assets are subject to the customary risks of defaults, downgrades and changes in market values. Our investment portfolio consists predominately of fixed maturity and short-term investments, where we are exposed to the risk that individual issuers will not have the ability to make required interest or principal payments. The concentration of these investments in any particular issuer, industry, group of related industries or geographic areas increases this risk. Factors that may affect both market and credit risks include interest rate levels (consisting of both treasury rate and credit spread), financial market performance, disruptions in credit markets, general economic conditions, legislative changes, particular circumstances affecting the businesses or industries of each issuer and other factors beyond our control.

Additionally, as the majority of our investments are longer-term fixed maturities that we typically hold until maturity, significant increases in interest rates or inactive markets associated with market downturns could cause a material temporary decline in the fair value of our fixed investment portfolio, even with regard to performing assets. These declines could cause a material increase in unrealized losses in our investment portfolio. Significant unrealized losses could substantially reduce our capital position and shareholders' equity. It is possible that our investment in certain of these securities with unrealized losses could experience a default event and that a portion or all of that unrealized loss could be unrecoverable. In that case, the unrealized loss would be realized, at which point we would take an impairment charge, reducing our net income.

We cannot be assured that any particular issuer, regardless of industry, will be able to make required interest and principal payments on a timely basis or at all. Significant downgrades or defaults of issuers could negatively impact our risk-based capital ratios, leading to potential downgrades of the Company by rating agencies, potential reduction in future dividend capacity from our insurance subsidiaries, and/or higher financing costs at the holding company should additional statutory capital be required.

**Changes in interest rates could negatively affect income.** Declines in interest rates expose insurance companies to the risk that they will fail to earn the level of interest on investments assumed in pricing products and in setting discount rates used to calculate net policy liabilities. We attempt to manage our investments to earn the level of interest on investments assumed in pricing products and in setting the discount rates used to calculate net policy liabilities. There is a risk that a significant and persistent decline in interest rates will prevent us from doing so, thereby having a negative impact on income. Significant decreases in interest rates could result in calls by issuers of investments, where such features are available to issuers. Any such calls could result in a decline in our investment income, as reinvestment of the proceeds would likely be at lower rates.

Increases in interest rates could cause the fair value of securities within our fixed maturity portfolio to decline. A rise in interest rates could also result in certain policyholders surrendering their annuity policies for cash, thereby potentially requiring our insurance subsidiaries to liquidate invested assets if other sources of liquidity are not available to meet their obligations. In such a case, realized losses could result from such sales and could adversely affect our statutory income, consolidated RBC ratio and results of operations.

#### **Liquidity Risks:**

**Our ability to fund operations is substantially dependent on funds available, primarily dividends, from our insurance subsidiaries.** As a holding company with no direct operations, our principal asset is the capital stock of our insurance subsidiaries, which periodically declare and distribute dividends on their capital stock. Moreover, our liquidity, including our ability to pay our operating expenses and to make principal and interest payments on debt securities or other indebtedness owed by us, as well as our ability to pay dividends on our common stock or any preferred stock, depends significantly upon the surplus and earnings of our insurance subsidiaries and the ability of these subsidiaries to pay dividends or to advance or repay funds to us. Other sources of liquidity include a variety of short-term and long-term instruments, including our credit facility, commercial paper, long-term debt, intercompany financing and reinsurance.

The principal sources of our insurance subsidiaries' liquidity are insurance premiums, as well as investment income, maturities, repayments and other cash flow from our investment portfolio. Our insurance subsidiaries are subject to various state statutory and regulatory restrictions applicable to insurance companies that limit the amount of cash dividends, loans and advances that those subsidiaries may pay to us, including laws establishing minimum solvency and liquidity thresholds. For example, in the states where our companies are domiciled, an insurance company generally may pay dividends only out of its unassigned surplus as reflected in its statutory financial statements filed in that state. Additionally, dividends paid by insurance subsidiaries are restricted based on regulations by their states of domicile. Accordingly, impairments in assets or disruptions in our insurance subsidiaries' operations that reduce their capital or cash flow could limit or disallow the payment of dividends to us, a principal source of our cash flow.

Changes in laws or regulations in the states in which our companies are domiciled could constrain the ability of our insurance subsidiaries to pay dividends or to advance or repay funds to us in sufficient amounts and at times necessary to meet our debt obligations and corporate expenses. Additionally, if our insurance subsidiaries were unable to obtain approval of our health insurance premium rate increases in a timely manner from state insurance regulatory authorities, their profitability, and their ability to declare and distribute dividends to us could be negatively impacted. Limitations on the flow of dividends from our subsidiaries could limit our ability to service and repay debt or to pay dividends on our capital stock.

**Adverse capital and credit market conditions may significantly affect our ability to meet liquidity needs or access capital, as well as affect our cost of capital.** Should interest rates rise in the future, the interest rate on any new debt obligation we may issue could increase and our net income could be reduced. In addition, if the credit and capital markets were to experience significant disruption, uncertainty and instability, these conditions could adversely affect our access to capital. Such market conditions may limit our ability to replace maturing liabilities in a timely manner or at all and/or access the capital necessary to grow our business.

In the unlikely event that current sources of liquidity do not satisfy our needs, we may have to seek additional financing or raise capital. The availability and cost of additional financing or capital depend on a variety of factors such as market conditions, the general availability of credit or capital, the volume of trading activities, the overall availability of credit to the insurance industry and our credit ratings and credit capacity. Additionally, customers, lenders or investors could develop a negative perception of our financial prospects if we were to incur large investment losses or if the level of

our business activity were to decrease due to a market downturn. Our access to funds may also be impaired if regulatory authorities or rating agencies take negative actions against us. If our internal sources of liquidity prove to be insufficient, we may not be able to successfully obtain additional financing on favorable terms or at all. As such, we may be forced to delay raising capital, issue shorter term securities than we would prefer or bear an unattractive cost of capital which could decrease our profitability and significantly reduce our financial flexibility. If so, our results of operations, financial condition and cash flows could be materially negatively affected.

### **Regulatory Risks:**

**Our businesses are heavily regulated and changes in regulation may reduce our profitability and growth.** Insurance companies, including our insurance subsidiaries, are subject to extensive supervision and regulation in the states in which they do business. The primary purpose of this supervision and regulation is the protection of policyholders, not investors. State agencies have broad administrative power over numerous aspects of our business, including premium rates and other terms and conditions that we can include in the insurance policies offered by our insurance subsidiaries, marketing practices, advertising, agent licensing, policy forms, capital adequacy, solvency, reserves and permitted investments. Also, regulatory authorities have relatively broad discretion to grant, renew or revoke licenses or approvals. The insurance laws, regulations and policies currently affecting the Company may change at any time, possibly having an adverse effect on our business. Should regulatory changes occur, we may be unable to maintain all required licenses and approvals, or fully comply with the wide variety of applicable laws and regulations or the relevant authority's interpretation of such laws and regulations, which may change from time to time. If we do not have the requisite licenses and approvals or do not comply with applicable regulatory requirements, the insurance regulatory authorities could preclude or temporarily suspend some or all of our business activities and/or impose substantial fines.

We cannot predict the timing or substance of any future regulatory initiatives. In recent years, there has been increased scrutiny of insurance companies, including our insurance subsidiaries, by insurance regulatory authorities, which has included more extensive examinations and more detailed review of disclosure documents. These regulatory authorities may bring regulatory or other legal actions against us if, in their view, our practices, or those of our agents, are improper. Such actions could result in substantial fines, penalties and/or prohibitions or restrictions on our business activities, and could have a material adverse effect on our business, results of operations or financial condition. Additionally, changes in the overall legal or regulatory environment may cause us to change our views regarding the actions that we need to take from a legal or regulatory risk management perspective, thus necessitating changes to our practices that may, in some cases, limit our ability to grow, impact regulatory capital requirements, or otherwise negatively impact our profitability.

Currently, the U.S. federal government does not directly regulate the business of insurance. However, the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 established a Federal Insurance Office (FIO), charged with monitoring systemic risk exposure in all lines of insurance other than health insurance and long-term care insurance, and a Financial Stability Oversight Council (FSOC), which serves to identify and respond to risks and emerging threats to U.S. financial systems. A Center for Consumer Information and Insurance Oversight (CCIO), established under the Department of Health and Human Services, is charged with overseeing implementation of the Affordable Care Act (ACA). The creation of these insurance regulatory offices may indicate that the federal government intends to play a larger role in the direct oversight or regulation of the insurance industry. We cannot predict what impact, if any, the ongoing operations of the FIO, FSOC and CCIO, as well as any other proposals or executive action for federal oversight or regulation of insurance could have on our business, results of operations or financial condition.

**Changes in U.S. federal income tax law could increase our tax costs or negatively impact our insurance subsidiaries' capital.** Changes to the Internal Revenue Code, administrative rulings, or court decisions affecting the insurance industry, including the products insurers offer, could increase our effective tax rate and lower our net income, adversely impact our insurance subsidiaries' capital, or limit the ability of our insurance subsidiaries to sell certain of their products.

**Changes in accounting standards issued by accounting standard-setting bodies may affect our financial statements, reduce our reported profitability and change the timing of profit recognition.** Our financial statements are subject to the application of GAAP and accounting practices as promulgated by the National Association of Insurance Commissioners' statutory accounting practices (NAIC SAP), which principles are periodically revised and/or expanded. Accordingly, from time to time we are required to adopt new or revised accounting standards or guidance issued by

recognized authoritative bodies. Future accounting standards that we are required to adopt could change the current accounting treatment that we apply to our consolidated financial statements and such changes could have a material adverse effect on our financial condition and results of operations. Further, standard setters have a full agenda of unissued topics under review at any given time, many of which have the potential to negatively impact our profitability.

**Non-compliance with laws or regulations related to customer and consumer privacy and information security, including a failure to ensure that our business associates with access to sensitive customer and consumer information maintain its confidentiality, could materially adversely affect our reputation and business operations.** The collection, maintenance, use, disclosure and disposal of personally identifiable information by our insurance subsidiaries are regulated at the international, federal and state levels. These laws and rules are subject to change by legislation or administrative or judicial interpretation. Various state laws address the use and disclosure of personally identifiable information to the extent they are more restrictive than those contained in the privacy and security provisions in the federal Gramm-Leach-Bliley Act of 1999 (GLBA), the Health Information Technology for Economic and Clinical Health Act (HITECH), and in the Health Insurance Portability and Accountability Act of 1996 (HIPAA). HIPAA also requires that we impose privacy and security requirements on our business associates (as that term is defined in the HIPAA regulations). Noncompliance with any privacy laws, whether by us or by one of our business associates, could have a material adverse effect on our business, reputation and results of operations and could include material fines and penalties, various forms of damages, consent orders regarding our privacy and security practices, adverse actions against our licenses to do business and injunctive relief.

#### **Litigation Risk:**

**Litigation could result in substantial judgments against us or our subsidiaries.** We are, and in the future may be, subject to litigation in the ordinary course of business. Some of these proceedings have been brought on behalf of various alleged classes of complainants, and, in certain of these matters, the plaintiffs are seeking large and/or indeterminate amounts, including punitive or exemplary damages. Members of our management and legal teams review litigation on a quarterly and annual basis. However, the outcome of any such litigation cannot be predicted with certainty. A number of civil jury verdicts involving the insurers' sales practices, alleged agent misconduct, failure to properly supervise agents and other matters have been returned against insurers in the jurisdictions in which our insurance subsidiaries do business. These lawsuits have resulted in the award of substantial judgments against insurers that are disproportionate to the actual damages, including material amounts of punitive damages. In some states in which we operate, juries have substantial discretion in awarding punitive damages. This discretion creates the potential for unpredictable material adverse judgments in any given punitive damages suit.

Our pending and future litigation could adversely affect us because of the costs of defending these cases, the costs of settlement or judgments against us, or changes in our operations that could result from litigation. Substantial legal liability in these or future legal actions could also have a material adverse financial effect or cause significant harm to our reputation, which, in turn, could materially harm our business and our business prospects.

**Actual or alleged misclassification of independent contractors at our insurance subsidiaries could result in adverse legal, tax or financial consequences.** A significant portion of our sales agents are independent contractors. Although we believe we have properly classified such individuals, a risk nevertheless exists that a court, the IRS or other authority will take the position that those sales agents are employees. The laws and regulations that govern the status and classification of workers are subject to change and differing interpretations, which we cannot predict.

If there is an adverse determination regarding the classification of some or all of the independent contractors at our insurance subsidiaries by a court or governmental agency, we could incur significant costs with respect to payroll tax liabilities, employee benefits, wage payments, fines, judgments and/or legal settlements, any of which could have a material adverse effect on our business, financial condition and results of operations. In addition, any resulting reclassification could necessitate significant changes in our affected insurance subsidiaries' business models.

#### **Catastrophic Event Risk:**

**Our business is subject to the risk of the occurrence of catastrophic events.** Our insurance policies are issued to and held by a large number of policyholders throughout the United States in relatively low-face amounts. Accordingly, it is unlikely that a large portion of our policyholder base would be affected by a single natural disaster. However, our insurance operations could be exposed to the risk of catastrophic mortality or morbidity caused by events such as a

pandemic, hurricane, earthquake, or man-made catastrophes, including acts of terrorism or war, which may produce significant claims in larger areas, especially those that are heavily populated. Claims resulting from natural or man-made catastrophic events could cause substantial volatility in our financial results for any fiscal quarter or year and could materially reduce our profitability or harm our financial condition.

## **ITEM 1B. UNRESOLVED STAFF COMMENTS**

As of December 31, 2018, Torchmark had no unresolved SEC staff comments.

## **ITEM 2. PROPERTIES**

Torchmark, through its subsidiaries, owns or leases buildings that are used in the normal course of business. Torchmark owns and occupies a 300,000 square foot facility in McKinney, Texas. This facility is Torchmark's corporate headquarters and also houses the operations of subsidiaries, United American and Liberty National, as well as many operations of other subsidiaries. In addition, United American leases 5,000 square feet of space in Omaha, Nebraska and, through a subsidiary, leases 3,230 square feet of office space in Syracuse, New York.

Globe Life leases 34,000 square feet of an office building located in Oklahoma City, Oklahoma. Globe Marketing Services, a subsidiary of Globe Life, owns a 133,000 square foot facility in Oklahoma City that houses the Globe Life Direct Response operation. Globe Life also leases a 10,000 square foot storage facility in Allen, Texas.

American Income owns and occupies two buildings located in Waco, Texas: a 70,000 square foot building for corporate operations and a 43,000 square foot printing facility. American Income also leases 19,597 square feet in additional corporate office space in Waco, and leases office space throughout the United States to support its marketing operations.

Family Heritage owns 50% of a partnership that owns a 66,000 square foot building in Broadview Heights, Ohio (a suburb of Cleveland). Family Heritage leases 24,157 square feet of the building for various corporate operations. The partnership also leases a portion of the building to unrelated tenants.

## **ITEM 3. LEGAL PROCEEDINGS**

Torchmark and its subsidiaries, in common with the insurance industry in general, are subject to litigation, including putative class action litigation, claims involving tax matters, alleged breaches of contract, torts, including bad faith and fraud claims based on alleged wrongful or fraudulent acts of agents of Torchmark's subsidiaries, employment discrimination, and miscellaneous other causes of action. Based upon information presently available, and in light of legal and other factual defenses available to Torchmark and its subsidiaries, management does not believe that such litigation will have a material adverse effect on Torchmark'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. Torchmark'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 Torchmark and its subsidiaries have substantial business, creating the potential for unpredictable material adverse judgments in any given punitive damage suit.

See further discussion of litigation and unclaimed property audits in *Note 6—Commitments and Contingencies*.

## **ITEM 4. MINE SAFETY DISCLOSURES**

Not Applicable.

## PART II

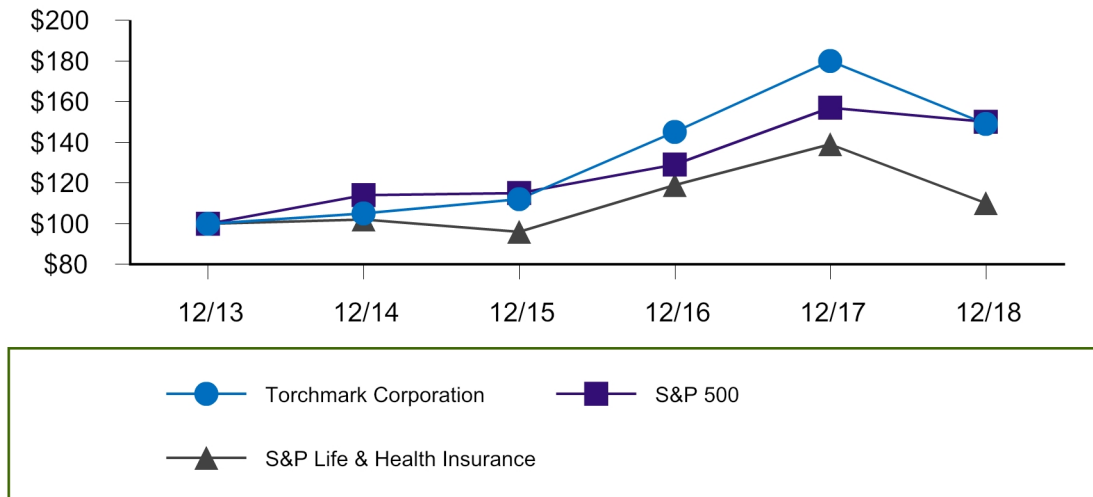
### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

#### Market Price of and Dividends on the Registrant's Common Equity and Related Stockholder Matters

The principal market in which Torchmark's common stock is traded is the New York Stock Exchange (NYSE: TMK). There were 2,521 shareholders of record on December 31, 2018, excluding shareholder accounts held in nominee form.

The line graph shown below compares Torchmark's cumulative total return on its common stock with the cumulative total returns of the Standard and Poor's 500 Stock Index (S&P 500) and the Standard and Poor's Life & Health Insurance Index (S&P Life & Health Insurance). Torchmark is one of the companies whose stock is included within both the S&P 500 and the S&P Life & Health Insurance Index.

**Comparison of 5 Year Cumulative Total Return\***  
**Among Torchmark Corporation, the S&P 500 Index, and the S&P Life & Health Insurance Index**



\*\$100 invested on 12/31/13 in stock or index, including reinvestment of dividends. Fiscal year ended December 31.  
(Copyright © 2019 Standard & Poor's, a division of S&P Global. All rights reserved.)

#### Purchases of Certain Equity Securities by the Issuer and Others for the Fourth Quarter 2018

| <u>Period</u>             | <u>(a) Total Number of Shares Purchased</u> | <u>(b) Average Price Paid Per Share</u> | <u>(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</u> | <u>(d) Maximum Number of Shares (or Approximate Dollar Amount) that May Yet Be Purchased Under the Plans or Programs</u> |
|---------------------------|---------------------------------------------|-----------------------------------------|---------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------|
| October 1-31, 2018 .....  | 658,923                                     | \$ 84.59                                | 658,923                                                                                     | —                                                                                                                        |
| November 1-30, 2018 ..... | 199,443                                     | 86.20                                   | 199,443                                                                                     | —                                                                                                                        |
| December 1-31, 2018 ..... | 644,199                                     | 78.40                                   | 644,199                                                                                     | —                                                                                                                        |

On August 7, 2018, Torchmark's Board reaffirmed its continued authorization of the Company's stock repurchase program in amounts and with timing that management, in consultation with the Board, determined to be in the best interest of the Company. The program has no defined expiration date or maximum number of shares to be purchased.

## ITEM 6. SELECTED FINANCIAL DATA

The following information should be read in conjunction with Torchmark's Consolidated Financial Statements and related notes reported elsewhere in this Form 10-K:

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

| <b>Year ended December 31,</b>                                                               | <b>2018</b>       | <b>2017</b>       | <b>2016</b>       | <b>2015</b>       | <b>2014</b>       |
|----------------------------------------------------------------------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| <b>Premium revenue:</b>                                                                      |                   |                   |                   |                   |                   |
| Life .....                                                                                   | \$ 2,406,555      | \$ 2,306,547      | \$ 2,189,333      | \$ 2,073,065      | \$ 1,966,300      |
| Health .....                                                                                 | 1,015,339         | 976,373           | 947,663           | 925,520           | 869,440           |
| Other .....                                                                                  | 12                | 15                | 38                | 135               | 400               |
| <b>Total premium</b> .....                                                                   | <b>3,421,906</b>  | <b>3,282,935</b>  | <b>3,137,034</b>  | <b>2,998,720</b>  | <b>2,836,140</b>  |
| Net investment income .....                                                                  | 882,512           | 847,885           | 806,903           | 773,951           | 758,286           |
| Realized gains (losses) .....                                                                | (1,804)           | 23,611            | (10,683)          | (8,791)           | 23,548            |
| <b>Total revenue</b> .....                                                                   | <b>4,303,751</b>  | <b>4,155,573</b>  | <b>3,934,629</b>  | <b>3,766,065</b>  | <b>3,620,095</b>  |
| Income from continuing operations, net of tax .....                                          | 701,510           | 1,458,263         | 539,590           | 516,293           | 528,074           |
| Income from discontinued operations, net of tax .....                                        | (44)              | (3,769)           | 10,189            | 10,807            | 14,865            |
| <b>Net income<sup>(1)</sup></b> .....                                                        | <b>701,466</b>    | <b>1,454,494</b>  | <b>549,779</b>    | <b>527,100</b>    | <b>542,939</b>    |
| <b>Per common share:</b>                                                                     |                   |                   |                   |                   |                   |
| <b>Basic earnings:</b>                                                                       |                   |                   |                   |                   |                   |
| Income from continuing operations .....                                                      | 6.22              | 12.53             | 4.50              | 4.13              | 4.04              |
| Income from discontinued operations .....                                                    | —                 | (0.03)            | 0.08              | 0.08              | 0.11              |
| Net income <sup>(1)</sup> .....                                                              | 6.22              | 12.50             | 4.58              | 4.21              | 4.15              |
| <b>Diluted earnings:</b>                                                                     |                   |                   |                   |                   |                   |
| Income from continuing operations .....                                                      | 6.09              | 12.26             | 4.41              | 4.07              | 3.98              |
| Income from discontinued operations .....                                                    | —                 | (0.04)            | 0.08              | 0.09              | 0.11              |
| Net income <sup>(1)</sup> .....                                                              | 6.09              | 12.22             | 4.49              | 4.16              | 4.09              |
| Cash dividends declared .....                                                                | 0.64              | 0.60              | 0.56              | 0.54              | 0.51              |
| Cash dividends paid .....                                                                    | 0.63              | 0.59              | 0.56              | 0.53              | 0.49              |
| Basic weighted average shares outstanding .....                                              | 112,873           | 116,343           | 120,001           | 125,095           | 130,722           |
| Diluted weighted average shares outstanding .....                                            | 115,249           | 118,983           | 122,368           | 126,757           | 132,640           |
| <b>As of December 31,</b>                                                                    | <b>2018</b>       | <b>2017</b>       | <b>2016</b>       | <b>2015</b>       | <b>2014</b>       |
| Cash and invested assets .....                                                               | \$17,239,570      | \$17,853,047      | \$15,955,891      | \$14,405,073      | \$15,058,996      |
| <b>Total assets</b> .....                                                                    | <b>23,095,722</b> | <b>23,474,985</b> | <b>21,436,087</b> | <b>19,853,213</b> | <b>20,272,259</b> |
| Short-term debt .....                                                                        | 307,848           | 328,067           | 264,475           | 490,129           | 238,398           |
| Long-term debt .....                                                                         | 1,357,185         | 1,132,201         | 1,133,165         | 743,733           | 992,130           |
| <b>Shareholders' equity<sup>(1)</sup></b> .....                                              | <b>5,415,177</b>  | <b>6,231,421</b>  | <b>4,566,861</b>  | <b>4,055,552</b>  | <b>4,697,466</b>  |
| Per diluted common share <sup>(1)</sup> .....                                                | 48.11             | 52.95             | 37.76             | 32.71             | 36.19             |
| Effect of fixed maturity revaluation on diluted equity per common share <sup>(2)</sup> ..... | 3.79              | 13.18             | 5.63              | 2.62              | 8.28              |
| <b>Annualized premium in force:</b>                                                          |                   |                   |                   |                   |                   |
| Life .....                                                                                   | 2,464,728         | 2,373,099         | 2,262,736         | 2,150,498         | 2,044,545         |
| Health .....                                                                                 | 1,073,698         | 1,018,020         | 998,634           | 973,042           | 947,323           |
| <b>Total</b> .....                                                                           | <b>3,538,426</b>  | <b>3,391,119</b>  | <b>3,261,370</b>  | <b>3,123,540</b>  | <b>2,991,868</b>  |
| Basic shares outstanding .....                                                               | 110,693           | 114,593           | 118,031           | 122,370           | 127,930           |
| Diluted shares outstanding .....                                                             | 112,561           | 117,696           | 120,958           | 123,996           | 129,812           |

**Note:** Certain figures have been revised to reflect the adoption of new accounting guidance and discontinued operations.

(1) See discussion of tax legislation impact in 2017 in the *Results of Operations*.

(2) See discussion under the caption *Capital Resources* in *Management's Discussion and Analysis* in this report concerning the effect this rule has on Torchmark's equity.

## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the *Selected Financial Data* and Torchmark's *Consolidated Financial Statements* and *Notes* thereto appearing elsewhere in this report.

### RESULTS OF OPERATIONS



**How Torchmark Views Its Operations.** Torchmark is the holding company for a group of insurance companies that market primarily individual life and supplemental health insurance to lower middle to middle income households throughout the United States. We view our operations by segments, which are the insurance product lines of life, health, and annuities, and the investment segment that supports the product lines. Segments are aligned based on their common characteristics, comparability of the profit margins, and management techniques used to operate each segment.



**Insurance Product Line Segments.** The insurance product line segments involve the marketing, underwriting, and administration of policies. Each product line is further segmented by the various distribution units that market the insurance policies. Each distribution unit operates in a niche market offering insurance products designed for that particular market. Whether analyzing profitability of a segment as a whole, or the individual distribution units within the segment, the measure of profitability used by management is the underwriting margin, which is:

Premium revenue  
Less:  
Policy obligations  
Policy acquisition costs and commissions



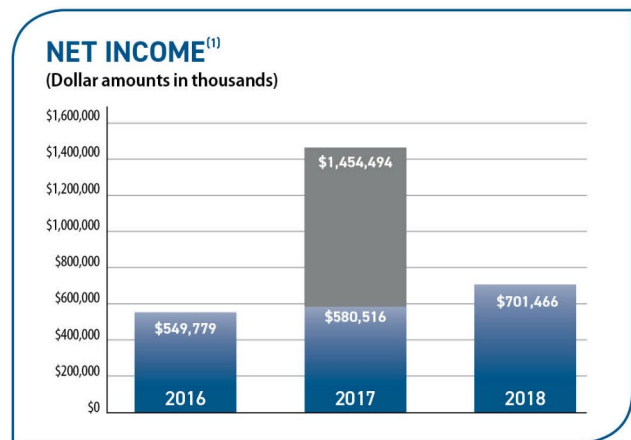
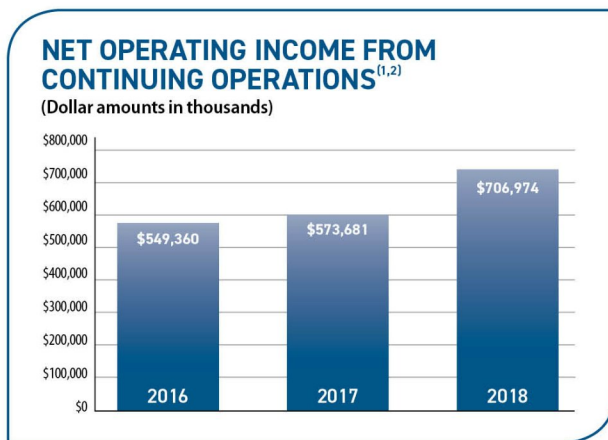
**Investment Segment.** The investment segment involves the management of our capital resources, including investments and the management of corporate debt and liquidity. Our measure of profitability for the investment segment is excess investment income, which is:

Net investment income  
Less:  
Required interest on net policy liabilities  
Financing costs

## CURRENT YEAR HIGHLIGHTS:

- Net income as a return on equity (ROE) was 12.3%<sup>(1)</sup> and net operating income as an ROE, excluding net unrealized gains on the fixed maturity portfolio was 14.6%<sup>(1,2)</sup>.
- Total premium increased by 4% over the prior year. Life premium increased by 4% for the year from \$2.3 billion to \$2.4 billion. Life underwriting margin increased 8% from \$604 million in 2017 to \$652 million in 2018.
- Net investment income increased 4% over the prior year. In addition, excess investment income, a measure used by management as explained below, increased by 2% over the prior year.
- During 2018, the Company repurchased 4.4 million shares at a total cost of \$372 million for an average share price of \$84.38.

The following represents net income and net operating income from continuing operations for the 3 years ended December 31, 2018.



- (1) In 2017, tax legislation revised the corporate income tax rate from 35% to 21% effective January 1, 2018. See Note 5—Income Taxes for further discussion. In 2018, income tax expense was calculated based on the 21% rate as compared with a 35% rate for 2017.

In addition, the Company recorded an adjustment of \$874 million to net income during 2017. In 2018, the Company completed its analysis of the tax legislation and recorded an additional \$798 thousand adjustment related to the remeasurement of the deferred tax assets and liabilities based on the 21% rate. As the impact of the tax legislation was treated as a non-operating event, it was excluded from net operating income.

- (2) Net operating income is considered a non-GAAP measure and it has been used consistently by Torchmark's management for many years to evaluate the operating performance of the Company. It differs from net income primarily because it excludes certain non-operating items such as realized gains and losses and certain significant and unusual items included in net income. Net income is the most directly comparable GAAP measure.

Net operating income as an ROE, excluding net unrealized gains on the fixed maturity portfolio, is also considered a non-GAAP measure. Management utilizes this measure to view the business without the effect of the unrealized gains or losses, which are primarily attributable to fluctuation in interest rates on the available for sale portfolio.

## Summary of Operations

Net income was \$701 million in 2018, compared with \$1.5 billion in 2017. This decrease was primarily due to an \$874 million increase to net income in 2017, relating to new tax legislation as described above. Net income increased in 2017 from \$550 million in 2016. On a diluted per common share basis, 2018 net income fell 50% to \$6.09 after a 172% increase in 2017. Net income per diluted common share in 2017 rose to \$12.22 from \$4.49 in 2016. As previously noted, 2017 net income per diluted common share includes the effect of the adjustment to net income relating to new tax legislation. The percentage growth in net income per share results continues to exceed the growth in dollar amounts due to our share repurchase program. Each year's net income per share was affected by realized gains (losses), which were \$(0.01), \$0.15, and \$(0.06), in 2018, 2017 and 2016, respectively. More information concerning realized gains and losses can be found under the caption *Realized Gains and Losses* in this report.

Net operating income from continuing operations rose each year over the prior year from \$549 million in 2016 to \$574 million in 2017 to \$707 million in 2018. Net operating income is the consolidated total of segment profits after tax and

as such is considered a non-GAAP measure. Net income is the most directly comparable GAAP measure. We do not consider realized gains and losses to be a component of our core insurance operations or operating segments. Additionally, net income was affected by certain significant and unusual non-operating items in each of the years 2016 through 2018. We do not view these items as components of core operating results because they are not indicative of past performance or future prospects of the insurance operations. We remove items such as these that relate to prior periods or are non-operating items when evaluating the results of current operations, and therefore exclude such items from our segment analysis for current periods.

Torchmark's operations on a segment-by-segment basis are discussed in depth under the appropriate captions following in this report.

### Analysis of Profitability by Segment

(Dollar amounts in thousands)

|                                                              | 2018              | 2017                | 2016              | 2018<br>Change      | %           | 2017<br>Change    | %          |
|--------------------------------------------------------------|-------------------|---------------------|-------------------|---------------------|-------------|-------------------|------------|
| Life insurance underwriting margin .....                     | \$ 652,301        | \$ 604,337          | \$ 573,762        | \$ 47,964           | 8           | \$ 30,575         | 5          |
| Health insurance underwriting margin .....                   | 236,053           | 219,508             | 210,056           | 16,545              | 8           | 9,452             | 4          |
| Annuity underwriting margin .....                            | 10,376            | 10,562              | 9,394             | (186)               | (2)         | 1,168             | 12         |
| Excess investment income .....                               | 245,094           | 239,363             | 224,031           | 5,731               | 2           | 15,332            | 7          |
| Other insurance:                                             |                   |                     |                   |                     |             |                   |            |
| Other income .....                                           | 1,236             | 1,270               | 1,534             | (34)                | (3)         | (264)             | (17)       |
| Administrative expense .....                                 | (223,941)         | (210,590)           | (196,598)         | (13,351)            | 6           | (13,992)          | 7          |
| Corporate and other .....                                    | (50,476)          | (43,285)            | (34,913)          | (7,191)             | 17          | (8,372)           | 24         |
| Pre-tax total .....                                          | 870,643           | 821,165             | 787,266           | 49,478              | 6           | 33,899            | 4          |
| Applicable taxes .....                                       | (163,669)         | (247,484)           | (237,906)         | 83,815              | (34)        | (9,578)           | 4          |
| <b>Net operating income from continuing operations</b> ..... | 706,974           | 573,681             | 549,360           | 133,293             | 23          | 24,321            | 4          |
| Discontinued operations—Part D, net of tax....               | —                 | —                   | 9,033             | —                   | —           | (9,033)           | (100)      |
| <b>Net operating income</b> .....                            | 706,974           | 573,681             | 558,393           | 133,293             | 23          | 15,288            | 3          |
| Reconciling items, net of tax:                               |                   |                     |                   |                     |             |                   |            |
| Realized gains (losses)—investments .....                    | 7,327             | 20,217              | (6,944)           | (12,890)            |             | 27,161            |            |
| Realized loss—redemption of debt .....                       | (8,752)           | (2,627)             | —                 | (6,125)             |             | (2,627)           |            |
| Part D adjustments—discontinued operations .....             | (44)              | (3,769)             | 1,156             | 3,725               |             | (4,925)           |            |
| Guaranty fund assessments .....                              | —                 | (1,171)             | —                 | 1,171               |             | (1,171)           |            |
| Administrative settlements .....                             | (3,590)           | (5,628)             | (2,467)           | 2,038               |             | (3,161)           |            |
| Non-operating fees .....                                     | (1,247)           | (187)               | (359)             | (1,060)             |             | 172               |            |
| Tax reform adjustment .....                                  | 798               | 873,978             | —                 | (873,180)           |             | 873,978           |            |
| <b>Net income</b> .....                                      | <u>\$ 701,466</u> | <u>\$ 1,454,494</u> | <u>\$ 549,779</u> | <u>\$ (753,028)</u> | <u>(52)</u> | <u>\$ 904,715</u> | <u>165</u> |

The life insurance segment is our strongest segment and is the largest contributor to earnings in each year presented. This segment contributed \$48 million in 2018 and \$31 million in 2017 to the growth in our underwriting margin. Also contributing to growth in income in both years was our health insurance segment, which provided \$17 million of additional margin in 2018 and \$9 million in 2017.

Total revenues rose 4% or \$148 million in 2018 to \$4.3 billion from the prior year. Life premium rose 4% or \$100 million in 2018 to \$2.4 billion. Life premium increased \$117 million in 2017 to \$2.3 billion. Health premium increased 4% to \$1.0 billion in 2018 and contributed \$39 million to 2018 revenue growth, after having gained 3% to \$976 million in 2017. Health premium contributed \$29 million to 2017 revenue growth. Net investment income rose 4% or \$35 million in 2018, and rose 5% or \$41 million in 2017.

Life insurance premium and underwriting margins have grown in each of the last three years ended December 31, 2018. The increase in life premium was driven by sales growth and improvements in persistency. Life underwriting

margin as a percent of premium increased in 2018 to 27%, after remaining flat at 26% in 2016 and 2017. Net life sales decreased \$4 million in 2018 to \$413 million. The decline is primarily attributable to flat sales in the American Income Exclusive Agency due to lack of growth in agent count and productivity, and a decline in sales in our Globe Life Direct Response unit as a result of operational changes intended to improve profitability on new business. Net life sales increased between 2016 and 2017. The life insurance segment is discussed further in this report under the caption *Life Insurance*.

Health insurance premium income increased 4% to \$1.0 billion in 2018. Health net sales also rose 9% to \$172 million during 2018 attributable to both individual and group sales. Group sales vary significantly from period to period due to the impact of large groups that are sold from time-to-time. First-year collected health premium rose 9% to \$148 million from the prior year total of \$136 million as a result of higher net sales in 2017. Health margins as a percentage of premium increased to 23% as a result of favorable policy obligations as a percentage of premium, while underwriting income increasing to \$236 million for 2018 primarily as a result of favorable policy obligations and growth in premium income. Underwriting income was \$220 million in 2017 compared with \$210 million in 2016. The health insurance segment is discussed further in this report under the caption *Health Insurance*.

We do not currently market stand-alone fixed or deferred annuities. See the caption *Annuities* for discussion of the Annuity segment.

Excess investment income, the measure of profitability of our investment segment, increased 2% to \$245 million from the prior year amount of \$239 million. In 2017, excess investment income increased 7%. Excess investment income, is based on three major components: net investment income, required interest on net policy liabilities (interest applicable to insurance products), and financing costs. In 2018, net investment income rose 4%, compared with 5% in 2017. At the same time, our investment portfolio grew 5% in 2018 and 6% in 2017, on an amortized cost basis. Growth in excess investment income continues to be impeded by investing at yields lower than the yield on dispositions and the average yield on the entire portfolio. Excess investment income per common share, reflecting the impact of our share repurchase program, increased 6% in 2018 to \$2.13 from \$2.01 in 2017. See further discussion under the caption *Investments*.

Insurance administrative expenses were up 6.3% in 2018 when compared with the prior year period, and increased to 6.5% as a percentage of premium from 6.4% in 2017 and 6.3% in 2016. The increase in administrative expenses is primarily due to an increase in other employee costs and investments in information technology. See further discussion under the caption *Administrative expenses*.

## SHARE PURCHASES

Torchmark has an ongoing share repurchase program that began in 1986, and is reviewed quarterly by management and annually reaffirmed by the Board of Directors. The program was reaffirmed on August 7, 2018. With no specified authorization amount, we determine the amount of repurchases based on the amount of the excess cash flow at the Parent Company, general market conditions, and other alternative uses. The majority of these purchases are made from excess cash flow. Excess cash flow at the Parent Company is primarily comprised of dividends received from the insurance subsidiaries less interest expense paid on its debt, dividends paid to Torchmark shareholders, and other limited operating activities. Additionally, when stock options are exercised, proceeds from these exercises and the resulting tax benefit are used to repurchase additional shares on the open market to minimize dilution as a result of the option exercises. The Board of Directors has authorized the Company's share repurchase program in amounts and with timing that management, in consultation with the Board, determines to be in the best interest of the Company and its shareholders. The following chart summarizes share purchase activity for each of the last three years.

### Analysis of Share Purchases

(Amounts in thousands)

|                                | 2018   |            | 2017   |            | 2016   |            |
|--------------------------------|--------|------------|--------|------------|--------|------------|
|                                | Shares | Amount     | Shares | Amount     | Shares | Amount     |
| <b>Purchases with:</b>         |        |            |        |            |        |            |
| Share repurchase program ..... | 4,406  | \$ 371,794 | 4,126  | \$ 324,622 | 5,208  | \$ 311,332 |
| Option proceeds .....          | 571    | 49,955     | 1,103  | 88,367     | 1,487  | 93,452     |
| Total .....                    | 4,977  | \$ 421,749 | 5,229  | \$ 412,989 | 6,695  | \$ 404,784 |

With the significant pullback of the overall stock market in December, the Company accelerated approximately \$25 million of repurchases from 2019 to 2018 at an average price of approximately \$76.00. The repurchases were paid from cash at the Parent Company and issuance of commercial paper.

Throughout the remainder of this discussion, share purchases refer only to those made from excess cash flow at the Parent Company.

A discussion of each of Torchmark's segments follows. The following discussions are presented in the manner we view our operations, as described in *Note 14—Business Segments*.

## LIFE INSURANCE

Life insurance is our largest insurance segment, with 2018 life premium representing 70% of total premium. Life underwriting income before other income and administrative expense represented 73% of the total in 2018. Additionally, investments supporting the reserves for life products produce the majority of excess investment income attributable to the investment segment.

We use three statistical measures as indicators of premium growth and sales over the near term: “annualized premium in force,” “net sales,” and “first-year collected premium.”

- Annualized premium in force is defined as the premium income that would be received over the following twelve months at any given date on all active policies if those policies remain in force throughout the twelve-month period. Annualized premium in force is an indicator of potential growth in premium revenue.
- Net sales is annualized premium issued (gross premium that would be received during the policies' first year in force and assuming that none of the policies lapsed or terminated), net of cancellations in the first thirty days after issue, except in the case of Globe Life Direct Response where net sales is annualized premium issued at the time the first full premium is paid after any introductory offer period has expired. We believe that net sales is a better indicator of the rate of premium growth as compared with annualized premium issued.
- First-year collected premium is defined as the premium collected during the reporting period for all policies in their first policy year. First-year collected premium takes lapses into account in the first year when lapses are more likely to occur, and thus is a useful indicator of how much new premium is expected to be added to premium income in the future.

The following table presents the summary of results of life insurance. Further discussion of the results by distribution channel is included below.

### Life Insurance Summary of Results (Dollar amounts in thousands)

|                                                                                            | 2018              |              | 2017              |              | 2016              |              |
|--------------------------------------------------------------------------------------------|-------------------|--------------|-------------------|--------------|-------------------|--------------|
|                                                                                            | Amount            | % of Premium | Amount            | % of Premium | Amount            | % of Premium |
| Premium and policy charges .....                                                           | \$ 2,406,555      | 100          | \$ 2,306,547      | 100          | \$ 2,189,333      | 100          |
| Policy obligations .....                                                                   | 1,591,790         | 66           | 1,549,602         | 67           | 1,475,477         | 67           |
| Required interest on reserves .....                                                        | (636,040)         | (26)         | (607,007)         | (26)         | (577,827)         | (26)         |
| Net policy obligations .....                                                               | 955,750           | 40           | 942,595           | 41           | 897,650           | 41           |
| Commissions, premium taxes, and non-deferred acquisition expenses .....                    | 190,007           | 8            | 177,111           | 8            | 164,476           | 8            |
| Amortization of acquisition costs .....                                                    | 608,497           | 25           | 582,504           | 25           | 553,445           | 25           |
| Total expense .....                                                                        | 1,754,254         | 73           | 1,702,210         | 74           | 1,615,571         | 74           |
| <b>Insurance underwriting margin before other income and administrative expenses .....</b> | <b>\$ 652,301</b> | <b>27</b>    | <b>\$ 604,337</b> | <b>26</b>    | <b>\$ 573,762</b> | <b>26</b>    |

Life insurance premium rose 4% to \$2.4 billion in 2018 after having increased 5% in 2017 to \$2.3 billion. Life insurance products are marketed through several distribution channels. Premium income by distribution channel for each of the last three years is as follows:

**Life Insurance**  
**Premium by Distribution Channel**  
(Dollar amounts in thousands)

|                                         | 2018                |            | 2017                |            | 2016                |            |
|-----------------------------------------|---------------------|------------|---------------------|------------|---------------------|------------|
|                                         | Amount              | % of Total | Amount              | % of Total | Amount              | % of Total |
| American Income Exclusive Agency .....  | \$ 1,081,333        | 45         | \$ 999,279          | 43         | \$ 913,355          | 42         |
| Globe Life Direct Response .....        | 828,935             | 34         | 812,907             | 35         | 782,765             | 36         |
| Liberty National Exclusive Agency ..... | 278,878             | 12         | 274,635             | 12         | 270,476             | 12         |
| Other Agencies .....                    | 217,409             | 9          | 219,726             | 10         | 222,737             | 10         |
|                                         | <u>\$ 2,406,555</u> | <u>100</u> | <u>\$ 2,306,547</u> | <u>100</u> | <u>\$ 2,189,333</u> | <u>100</u> |

Annualized life premium in force was \$2.5 billion at December 31, 2018, an increase of 4% over \$2.4 billion a year earlier. Annualized life premium in force was \$2.3 billion at December 31, 2016.

The following table shows net sales information for each of the last three years by distribution channel.

**Life Insurance**  
**Net Sales by Distribution Channel**  
(Dollar amounts in thousands)

|                                         | 2018              |            | 2017              |            | 2016              |            |
|-----------------------------------------|-------------------|------------|-------------------|------------|-------------------|------------|
|                                         | Amount            | % of Total | Amount            | % of Total | Amount            | % of Total |
| American Income Exclusive Agency .....  | \$ 223,924        | 54         | \$ 223,259        | 54         | \$ 209,856        | 51         |
| Globe Life Direct Response .....        | 126,133           | 31         | 135,704           | 33         | 150,267           | 36         |
| Liberty National Exclusive Agency ..... | 49,173            | 12         | 46,886            | 11         | 40,159            | 10         |
| Other Agencies .....                    | 13,293            | 3          | 10,233            | 2          | 11,673            | 3          |
|                                         | <u>\$ 412,523</u> | <u>100</u> | <u>\$ 416,082</u> | <u>100</u> | <u>\$ 411,955</u> | <u>100</u> |

The table below discloses first-year collected life premium by distribution channel.

**Life Insurance**  
**First-Year Collected Premium by Distribution Channel**  
(Dollar amounts in thousands)

|                                         | 2018              |            | 2017              |            | 2016              |            |
|-----------------------------------------|-------------------|------------|-------------------|------------|-------------------|------------|
|                                         | Amount            | % of Total | Amount            | % of Total | Amount            | % of Total |
| American Income Exclusive Agency .....  | \$ 190,680        | 60         | \$ 182,538        | 58         | \$ 173,573        | 56         |
| Globe Life Direct Response .....        | 82,432            | 26         | 92,057            | 29         | 98,496            | 31         |
| Liberty National Exclusive Agency ..... | 36,463            | 11         | 33,191            | 10         | 29,103            | 9          |
| Other Agencies .....                    | 10,342            | 3          | 9,633             | 3          | 11,458            | 4          |
|                                         | <u>\$ 319,917</u> | <u>100</u> | <u>\$ 317,419</u> | <u>100</u> | <u>\$ 312,630</u> | <u>100</u> |

While **American Income Exclusive Agency** has historically marketed primarily to members of labor unions, this agency has diversified in recent years by focusing heavily on other affinity groups, third party internet vendor leads, and referrals to help ensure sustainable growth. This agency is Torchmark's largest contributor to life premium of any distribution channel at 45% of Torchmark's 2018 total. This agency produced premium income of \$1.1 billion, an increase of 8% over the prior year total of \$999 million, after having risen 9% in 2017. First-year collected premium was \$191 million compared with \$183 million in 2017, an increase of 4%. First-year collected premium rose 5% in 2017. Net sales increased to \$224 million in 2018 over the 2017 total of \$223 million. Net sales increased 6% in 2017 over the 2016 total of \$210 million. Sales growth in our captive agencies is generally dependent on growth in the size of the agency force. The American Income Exclusive Agency's average producing agent count rose slightly to 6,971 in 2018, compared with 6,962 in 2017. The average producing agent count is based on the actual count at the end of each week during the period.

The American Income Exclusive Agency continues to focus on growing and strengthening the agency force. In addition to offering financial incentives and training opportunities, the agency has made considerable investments in information technology, including launching a lead mapping and customer relationship management tool for the agency force. We anticipate this tool will help enhance agent productivity and agent retention.

The **Globe Life Direct Response** unit offers adult and juvenile life insurance through a variety of direct-to-consumer marketing approaches, which include direct mailings, insert media, and electronic media. These different approaches support and complement one another in the unit's efforts to reach the consumer. The Globe Life Direct Response channel's long-term growth has been fueled by constant innovation. In recent years, electronic media production has grown rapidly as management has aggressively increased marketing activities related to internet and mobile technology, and has focused on driving traffic to the inbound call center. We continually introduce new initiatives in this unit in an attempt to increase response rates.

While the juvenile market is an important source of sales, it also is a vehicle to reach the parents and grandparents of juvenile policyholders, who are more likely to respond favorably to a Globe Life Direct Response solicitation for life coverage on themselves than is the general adult population. Also, both juvenile policyholders and their parents are low acquisition-cost targets for sales of additional coverage over time.

Globe Life Direct Response's life premium income rose 2% to \$829 million, representing 34% of Torchmark's total life premium during 2018. Life premium in this channel increased 4% in 2017 to \$813 million over the 2016 total of \$783 million. Net sales of \$126 million for this group decreased 7% from \$136 million in 2017, after a 10% decrease in 2017 due to operational changes designed to maximize underwriting margin dollars. In 2019, we expect sales to be relatively flat or increase slightly. First-year collected premium decreased 10% to \$82 million in 2018 after having decreased 7% in 2017.

The **Liberty National Exclusive Agency** markets individual and group life insurance to lower middle to middle-income customers. Life premium income for this agency was \$279 million in 2018, an increase of 2% from \$275 million in 2017. Life premium income in 2016 totaled \$270 million. Net sales increased 5% during 2018 to \$49 million over the 2017 total of \$47 million. Net sales in 2017 increased 17%. The continued increases in net sales reflect changes in structure of the agency that were put in place several years ago. Recent growth in middle management within the agency should help continue this growth. First-year collected premium increased 10% to \$36 million during 2018 and increased 14% in 2017 to \$33 million.

The Liberty average producing agent count increased from 2,017 in 2017 to 2,156 in 2018. We continue to execute our long term plan to grow this agency through expansion from small-town markets in the southeast to more densely populated areas with larger pools of potential agent recruits and customers. Expansion of this agency's presence into more heavily populated, less-penetrated areas will help create long term agency growth. Additionally, the agency's prospecting training program has helped to improve the ability of agents to develop new work site marketing business.

The **Other Agencies** distribution channels offering life insurance include the Military Agency, the UA Independent Agency (which predominantly writes health insurance), and various smaller distribution channels. The Other Agencies contributed \$217 million of life premium income, or 9% of Torchmark's total in 2018, but contributed only 3% of net sales for the year.

## HEALTH INSURANCE

Health insurance sold by Torchmark includes primarily Medicare Supplement insurance, critical illness coverage, accident coverage, and other limited-benefit supplemental health products. In this analysis, all health coverage plans other than Medicare Supplement are classified as limited-benefit plans.

Health premium accounted for 30% of our total premium in 2018, while the health underwriting margin accounted for 26% of total underwriting margin, reflective of the lower underwriting margin as a percent of premium for health compared with life insurance. As noted under the caption *Life Insurance*, we have emphasized life insurance sales relative to health, due to life's superior profitability and its greater contribution to excess investment income.

The following table presents the summary of results for health insurance.

| <b>Health Insurance<br/>Summary of Results</b><br>(Dollar amounts in thousands)           |                   |                     |                   |                     |                   |                     |
|-------------------------------------------------------------------------------------------|-------------------|---------------------|-------------------|---------------------|-------------------|---------------------|
|                                                                                           | <b>2018</b>       |                     | <b>2017</b>       |                     | <b>2016</b>       |                     |
|                                                                                           | <b>Amount</b>     | <b>% of Premium</b> | <b>Amount</b>     | <b>% of Premium</b> | <b>Amount</b>     | <b>% of Premium</b> |
| Premium .....                                                                             | \$ 1,015,339      | 100                 | \$ 976,373        | 100                 | \$ 947,663        | 100                 |
| Policy obligations .....                                                                  | 649,188           | 64                  | 628,640           | 65                  | 612,725           | 65                  |
| Required interest on reserves .....                                                       | (83,243)          | (8)                 | (77,792)          | (8)                 | (73,382)          | (8)                 |
| Net policy obligations .....                                                              | 565,945           | 56                  | 550,848           | 57                  | 539,343           | 57                  |
| Commissions, premium taxes, and non-deferred acquisition expenses .....                   | 88,553            | 9                   | 86,044            | 9                   | 84,819            | 9                   |
| Amortization of acquisition costs .....                                                   | 124,788           | 12                  | 119,973           | 12                  | 113,445           | 12                  |
| Total expense .....                                                                       | 779,286           | 77                  | 756,865           | 78                  | 737,607           | 78                  |
| <b>Insurance underwriting margin before other income and administrative expense .....</b> | <b>\$ 236,053</b> | <b>23</b>           | <b>\$ 219,508</b> | <b>22</b>           | <b>\$ 210,056</b> | <b>22</b>           |

Health premium increased 4% from \$976 million in 2017 to \$1.0 billion in 2018. Health underwriting margin increased 8% from \$220 million in 2017 to \$236 million in 2018. Further discussion is included below by distribution channels.

Premium income by distribution channel for each of the last three years is as follows:

**Health Insurance  
Premium by Distribution Channel**  
(Dollar amounts in thousands)

|                                           | 2018               |            | 2017              |            | 2016              |            |
|-------------------------------------------|--------------------|------------|-------------------|------------|-------------------|------------|
|                                           | Amount             | % of Total | Amount            | % of Total | Amount            | % of Total |
| <b>United American Independent Agency</b> |                    |            |                   |            |                   |            |
| Limited-benefit plans .....               | \$ 10,992          |            | \$ 11,438         |            | \$ 12,704         |            |
| Medicare Supplement .....                 | 370,084            |            | 352,690           |            | 342,311           |            |
|                                           | <u>381,076</u>     | 38         | <u>364,128</u>    | 37         | <u>355,015</u>    | 38         |
| <b>Family Heritage Exclusive Agency</b>   |                    |            |                   |            |                   |            |
| Limited-benefit plans .....               | 273,275            |            | 253,534           |            | 236,075           |            |
| Medicare Supplement .....                 | —                  |            | —                 |            | —                 |            |
|                                           | <u>273,275</u>     | 27         | <u>253,534</u>    | 26         | <u>236,075</u>    | 25         |
| <b>Liberty National Exclusive Agency</b>  |                    |            |                   |            |                   |            |
| Limited-benefit plans .....               | 147,250            |            | 144,128           |            | 142,026           |            |
| Medicare Supplement .....                 | 44,128             |            | 52,079            |            | 59,772            |            |
|                                           | <u>191,378</u>     | 19         | <u>196,207</u>    | 20         | <u>201,798</u>    | 21         |
| <b>American Income Exclusive Agency</b>   |                    |            |                   |            |                   |            |
| Limited-benefit plans .....               | 93,093             |            | 88,776            |            | 84,064            |            |
| Medicare Supplement .....                 | 220                |            | 260               |            | 318               |            |
|                                           | <u>93,313</u>      | 9          | <u>89,036</u>     | 9          | <u>84,382</u>     | 9          |
| <b>Direct Response</b>                    |                    |            |                   |            |                   |            |
| Limited-benefit plans .....               | 439                |            | 545               |            | 552               |            |
| Medicare Supplement .....                 | 75,858             |            | 72,923            |            | 69,841            |            |
|                                           | <u>76,297</u>      | 7          | <u>73,468</u>     | 8          | <u>70,393</u>     | 7          |
| <b>Total Premium</b>                      |                    |            |                   |            |                   |            |
| Limited-benefit plans .....               | 525,049            | 52         | 498,421           | 51         | 475,421           | 50         |
| Medicare Supplement .....                 | 490,290            | 48         | 477,952           | 49         | 472,242           | 50         |
|                                           | <u>\$1,015,339</u> | 100        | <u>\$ 976,373</u> | 100        | <u>\$ 947,663</u> | 100        |

We market supplemental health insurance products through a number of distribution channels. The following table presents net sales by distribution channel for the last three years.

**Health Insurance**  
**Net Sales by Distribution Channel**  
(Dollar amounts in thousands)

|                                           | 2018              |            | 2017              |            | 2016              |            |
|-------------------------------------------|-------------------|------------|-------------------|------------|-------------------|------------|
|                                           | Amount            | % of Total | Amount            | % of Total | Amount            | % of Total |
| <b>United American Independent Agency</b> |                   |            |                   |            |                   |            |
| Limited-benefit plans .....               | \$ 480            |            | \$ 500            |            | \$ 558            |            |
| Medicare Supplement .....                 | 69,487            |            | 60,670            |            | 55,451            |            |
|                                           | <u>69,967</u>     | 41         | <u>61,170</u>     | 39         | <u>56,009</u>     | 39         |
| <b>Family Heritage Exclusive Agency</b>   |                   |            |                   |            |                   |            |
| Limited-benefit plans .....               | 60,268            |            | 56,534            |            | 51,349            |            |
| Medicare Supplement .....                 | —                 |            | —                 |            | —                 |            |
|                                           | <u>60,268</u>     | 35         | <u>56,534</u>     | 36         | <u>51,349</u>     | 35         |
| <b>Liberty National Exclusive Agency</b>  |                   |            |                   |            |                   |            |
| Limited-benefit plans .....               | 22,098            |            | 20,407            |            | 19,513            |            |
| Medicare Supplement .....                 | —                 |            | —                 |            | 9                 |            |
|                                           | <u>22,098</u>     | 13         | <u>20,407</u>     | 13         | <u>19,522</u>     | 13         |
| <b>American Income Exclusive Agency</b>   |                   |            |                   |            |                   |            |
| Limited-benefit plans .....               | 14,432            |            | 13,943            |            | 12,666            |            |
| Medicare Supplement .....                 | —                 |            | —                 |            | —                 |            |
|                                           | <u>14,432</u>     | 8          | <u>13,943</u>     | 9          | <u>12,666</u>     | 9          |
| <b>Direct Response</b>                    |                   |            |                   |            |                   |            |
| Limited-benefit plans .....               | —                 |            | —                 |            | —                 |            |
| Medicare Supplement .....                 | 4,769             |            | 5,582             |            | 5,560             |            |
|                                           | <u>4,769</u>      | 3          | <u>5,582</u>      | 3          | <u>5,560</u>      | 4          |
| <b>Total Net Sales</b>                    |                   |            |                   |            |                   |            |
| Limited-benefit plans .....               | 97,278            | 57         | 91,384            | 58         | 84,086            | 58         |
| Medicare Supplement .....                 | 74,256            | 43         | 66,252            | 42         | 61,020            | 42         |
|                                           | <u>\$ 171,534</u> | <u>100</u> | <u>\$ 157,636</u> | <u>100</u> | <u>\$ 145,106</u> | <u>100</u> |

The following table discloses first-year collected health premium by distribution channel.

**Health Insurance**  
**First-Year Collected Premium by Distribution Channel**  
(Dollar amounts in thousands)

|                                           | 2018              |            | 2017              |            | 2016              |            |
|-------------------------------------------|-------------------|------------|-------------------|------------|-------------------|------------|
|                                           | Amount            | % of Total | Amount            | % of Total | Amount            | % of Total |
| <b>United American Independent Agency</b> |                   |            |                   |            |                   |            |
| Limited-benefit plans .....               | \$ 395            |            | \$ 458            |            | \$ 547            |            |
| Medicare Supplement .....                 | 62,325            |            | 54,393            |            | 64,848            |            |
|                                           | 62,720            | 42         | 54,851            | 40         | 65,395            | 47         |
| <b>Family Heritage Exclusive Agency</b>   |                   |            |                   |            |                   |            |
| Limited-benefit plans .....               | 47,422            |            | 44,535            |            | 40,822            |            |
| Medicare Supplement .....                 | —                 |            | —                 |            | —                 |            |
|                                           | 47,422            | 32         | 44,535            | 33         | 40,822            | 29         |
| <b>Liberty National Exclusive Agency</b>  |                   |            |                   |            |                   |            |
| Limited-benefit plans .....               | 17,809            |            | 16,425            |            | 16,103            |            |
| Medicare Supplement .....                 | —                 |            | 2                 |            | 6                 |            |
|                                           | 17,809            | 12         | 16,427            | 12         | 16,109            | 11         |
| <b>American Income Exclusive Agency</b>   |                   |            |                   |            |                   |            |
| Limited-benefit plans .....               | 15,249            |            | 14,673            |            | 13,710            |            |
| Medicare Supplement .....                 | —                 |            | —                 |            | —                 |            |
|                                           | 15,249            | 10         | 14,673            | 11         | 13,710            | 10         |
| <b>Direct Response</b>                    |                   |            |                   |            |                   |            |
| Limited-benefit plans .....               | —                 |            | —                 |            | —                 |            |
| Medicare Supplement .....                 | 5,111             |            | 5,657             |            | 4,457             |            |
|                                           | 5,111             | 4          | 5,657             | 4          | 4,457             | 3          |
| <b>Total First-Year Collected Premium</b> |                   |            |                   |            |                   |            |
| Limited-benefit plans .....               | 80,875            | 55         | 76,091            | 56         | 71,182            | 51         |
| Medicare Supplement .....                 | 67,436            | 45         | 60,052            | 44         | 69,311            | 49         |
|                                           | <u>\$ 148,311</u> | <u>100</u> | <u>\$ 136,143</u> | <u>100</u> | <u>\$ 140,493</u> | <u>100</u> |

The **UA Independent Agency** consists of independent agencies appointed with Torchmark who may also sell for other companies. The UA Independent Agency was Torchmark's largest health agency in terms of health premium income. In 2018, premium income was \$381 million, representing 38% of Torchmark's total health premium. Net sales were \$70 million, or 41% of Torchmark's health sales. This agency is also Torchmark's largest producer of Medicare Supplement insurance, with Medicare Supplement premium income of \$370 million. The UA Independent Agency represents 75% of all Torchmark Medicare Supplement premium and 94% of Medicare Supplement net sales. Medicare Supplement premium in this agency rose 5% in 2018. Total health premium increased 5% in 2018 and 3% in 2017. Medicare Supplement net sales increased 15% in 2018 from the prior year, primarily as a result of an increase in individual sales.

The **Family Heritage Exclusive Agency** primarily markets limited-benefit supplemental health insurance in non-urban areas. Most of their policies include a cash-back feature, such as a return of premium, where any excess of premiums over claims paid is returned to the policyholder at the end of a specified period stated within the insurance policy. Management expects to grow this agency through geographic expansion and continuing incorporation of Torchmark's recruiting systems. The Family Heritage Agency contributed \$60 million in net sales in 2018, compared with \$57 million in 2017 and \$51 million in 2016. Health premium income was \$273 million in 2018, representing 27% of Torchmark's health premium. This compared with \$254 million or 26% of health premium in 2017 and \$236 million or 25% in 2016.

Underwriting margin as a percent of premium was 24%, up from 22% for the year ended December 31, 2017. The increase was primarily attributed to the runoff of older business and the growing portion of new business sold at higher margins. The average producing agent count was 1,064 for the year ended December 31, 2018, compared with 995 for the same period in 2017, an increase of 7%.

The **Liberty National Exclusive Agency** represented 19% of all Torchmark health premium income at \$191 million in 2018. The Liberty Agency markets limited-benefit supplemental health products consisting primarily of critical illness insurance. Much of Liberty's health business is now generated through work site marketing targeting small businesses of 10 to 25 employees. In 2018, health premium income declined 2% after declining 3% during 2017. Liberty's health premium decline is primarily attributable to its declining Medicare Supplement block. Liberty's first-year collected premium increased 8% to \$18 million in 2018 compared with an increase of 2% in 2017, reflecting the steady increase in net sales of limited-benefit plans in the agency.

**Other distribution.** Certain of our other distribution channels market health products, although their main emphasis is on life insurance. On a combined basis, they accounted for 16% of health premium in 2018 and 17% in 2017. The American Income Exclusive Agency primarily markets accident plans. The Direct Response group markets primarily Medicare Supplements to employer or union-sponsored groups. Direct Response added \$5 million of Medicare Supplement net sales in 2018 and \$6 million in 2017 and 2016.

## **ANNUITIES**

Our fixed annuity balances at the end of 2018 and 2017 were \$1.18 billion and \$1.25 billion, respectively. Underwriting income was \$10.4 million, \$10.6 million, and \$9.4 million for the three years ended December 31, 2018, respectively.

We do not currently market stand-alone fixed or deferred annuity products, favoring instead protection-oriented life and health insurance products. Therefore, we do not expect that annuities will be a significant portion of our business or marketing strategy going forward.

## ADMINISTRATIVE EXPENSES

Operating expenses are included in the Corporate and Other segment and are classified into two categories: insurance administrative expenses and expenses of the Parent Company. Insurance administrative expenses generally include those expenses incurred after a policy has been issued. Expenses associated with the issuance of our insurance policies are reflected as acquisition expenses and included in the determination of underwriting margin. The following table is an analysis of operating expenses for the three years ended December 31, 2018.

### Operating Expenses Selected Information

(Dollar amounts in thousands)

|                                                                                  | 2018              |              | 2017              |              | 2016              |              |
|----------------------------------------------------------------------------------|-------------------|--------------|-------------------|--------------|-------------------|--------------|
|                                                                                  | Amount            | % of Premium | Amount            | % of Premium | Amount            | % of Premium |
| Insurance administrative expenses:                                               |                   |              |                   |              |                   |              |
| Salaries .....                                                                   | \$ 100,688        | 2.9          | \$ 96,185         | 2.9          | \$ 91,415         | 2.9          |
| Non-salary employee costs .....                                                  | 35,565            | 1.0          | 33,539            | 1.0          | 29,852            | 1.0          |
| Information technology costs .....                                               | 29,286            | 0.9          | 26,048            | 0.8          | 23,303            | 0.7          |
| Other administrative expense .....                                               | 49,215            | 1.4          | 46,066            | 1.4          | 43,727            | 1.4          |
| Legal expense—insurance .....                                                    | 9,187             | 0.3          | 8,752             | 0.3          | 8,301             | 0.3          |
| Total insurance administrative expenses .....                                    | 223,941           | 6.5          | 210,590           | 6.4          | 196,598           | 6.3          |
| Parent Company expense .....                                                     | 10,684            |              | 9,631             |              | 8,587             |              |
| Stock-based compensation expense .....                                           | 39,792            |              | 37,034            |              | 26,326            |              |
| Administrative settlements .....                                                 | 3,590             |              | —                 |              | —                 |              |
| Non-operating fees .....                                                         | 1,578             |              | —                 |              | 553               |              |
| <b>Total operating expenses, per Consolidated Statements of Operations .....</b> | <b>\$ 279,585</b> |              | <b>\$ 257,255</b> |              | <b>\$ 232,064</b> |              |
| Insurance administrative expenses:                                               |                   |              |                   |              |                   |              |
| Increase (decrease) over prior year .....                                        | 6.3%              |              | 7.1%              |              | 5.6%              |              |
| Total operating expenses:                                                        |                   |              |                   |              |                   |              |
| Increase (decrease) over prior year .....                                        | 8.7%              |              | 10.9%             |              | 3.7%              |              |

The 6.3% increase in insurance administrative expenses was primarily due to an increase in other employee costs and information technology salaries and expenses. Other employee costs increased primarily due to higher pension expense driven by lower interest rates. The increase in information technology costs reflects investments related to data analytics capabilities, administrative systems modernizations, and information security programs. The increase in stock-based compensation expense was primarily due to higher expense associated with equity awards, reflecting Torchmark's higher share price as compared with the same period a year ago.

## INVESTMENTS

We manage our capital resources including investments, debt, and cash flow through the investment segment. Excess investment income represents the profit margin attributable to investment operations and is the measure that we use to evaluate the performance of the investment segment as described in *Note 14—Business Segments*. It is defined as net investment income less both the required interest on net policy liabilities and the interest cost associated with capital funding or “financing costs.”

We also view excess investment income per diluted common share as an important and useful measure to evaluate the performance of the investment segment. It is defined as excess investment income divided by the total diluted weighted average shares outstanding, representing the contribution by the investment segment to the consolidated earnings per share of the Company. Since implementing our share repurchase program in 1986, we have used \$7.5 billion of excess cash flow at the Parent Company to repurchase Torchmark shares after determining that the repurchases provided a greater risk adjusted after-tax return than other investment alternatives. If we had not used this excess cash to repurchase shares, but had instead invested it in interest-bearing assets, we would have earned more investment income and had more shares outstanding. As excess investment income per diluted common share incorporates all capital resources, we believe that excess investment income per diluted share is a useful measure to evaluate the investment segment. In order to put all capital resource uses on a comparable basis, we believe that excess investment income per diluted share is an appropriate measure of the investment segment.

**Excess Investment Income.** The following table summarizes Torchmark’s investment income and excess investment income.

### Analysis of Excess Investment Income (Dollar amounts in thousands except for per share data)

|                                                                 | 2018               | 2017               | 2016               |
|-----------------------------------------------------------------|--------------------|--------------------|--------------------|
| Net investment income .....                                     | \$ 882,512         | \$ 847,885         | \$ 806,903         |
| Interest on net insurance policy liabilities:                   |                    |                    |                    |
| Interest on reserves .....                                      | (766,640)          | (734,370)          | (702,340)          |
| Interest on deferred acquisition costs .....                    | 219,298            | 210,380            | 202,813            |
| Net required interest .....                                     | (547,342)          | (523,990)          | (499,527)          |
| Financing costs .....                                           | (90,076)           | (84,532)           | (83,345)           |
| <b>Excess investment income .....</b>                           | <b>\$ 245,094</b>  | <b>\$ 239,363</b>  | <b>\$ 224,031</b>  |
| <br><b>Excess investment income per diluted share .....</b>     | <br><b>\$ 2.13</b> | <br><b>\$ 2.01</b> | <br><b>\$ 1.83</b> |
| <br>Mean invested assets (at amortized cost) .....              | <br>\$ 16,249,161  | <br>\$ 15,376,781  | <br>\$ 14,461,502  |
| Average net insurance policy liabilities <sup>(1)</sup> .....   | 9,744,200          | 9,359,780          | 8,945,850          |
| Average debt and preferred securities (at amortized cost) ..... | 1,650,138          | 1,458,706          | 1,379,933          |

(1) Net of deferred acquisition costs, excluding the associated unrealized gains and losses thereon.

**Excess investment income** increased \$6 million or 2% during 2018 after increasing 7% during 2017. Excess investment income per diluted common share increased 6% during 2018 after increasing 10% during 2017. Excess investment income per diluted common share generally increases at a faster pace than excess investment income because the number of diluted shares outstanding generally decreases from year to year as a result of our share repurchase program.

**Net investment income** increased at a compound annual growth rate of 4% during the last three years. Growth in net investment income has been negatively impacted in recent years by the declining interest rate environment during which time we have invested new money and reinvested the proceeds from bonds that matured or were called or otherwise disposed of at yield rates less than what we earned on these bonds before their maturity or disposition. We currently expect that the average annual turnover rate of fixed maturity assets during the next five years will not exceed 1% to 3% of the portfolio, and will not have a significant negative impact on the growth of net investment income. The following chart presents the growth in net investment income and the growth in mean invested assets.

|                                                          | 2018 | 2017 | 2016 |
|----------------------------------------------------------|------|------|------|
| Growth in net investment income .....                    | 4.1% | 5.1% | 4.3% |
| Growth in mean invested assets (at amortized cost) ..... | 5.7% | 6.3% | 5.6% |

Should interest rates, especially long-term rates, rise, Torchmark's net investment income would benefit due to higher interest rates on new purchases. While such a rise in interest rates could adversely affect the fair value of the fixed maturities portfolio, we could withstand an increase in interest rates of approximately 30 to 35 basis points before the net unrealized gains on our fixed maturity portfolio as of December 31, 2018 would be eliminated. Should interest rates increase further than that, we would not be concerned with potential interest rate driven unrealized losses in our fixed maturity portfolio because we have the intent and, more importantly, the ability, to hold our fixed maturities to maturity.

**Required interest on net insurance policy liabilities** reduces net investment income as it is the amount of net investment income considered by management necessary to “fund” the required interest included in the insurance segments. As such, it is removed from the investment segment and applied to the insurance segments to offset the effect of the required interest from the insurance segments. As discussed in *Note 14-Business Segments*, management believes this provides a more meaningful analysis of the investment and insurance segments. Required interest is based on the actuarial interest assumptions used in discounting the benefit reserve liability and the amortization of deferred acquisition costs for our insurance policies in force.

The great majority of our life and health insurance policies are fixed interest-rate protection policies, not investment products, and are accounted for under current accounting guidance for long-duration insurance products which mandates that interest rate assumptions for a particular block of business be “locked in” for the life of that block of business. Each calendar year, we set the discount rate to be used to calculate the benefit reserve liability and the amortization of the deferred acquisition cost asset for all insurance policies issued that year. That rate is based on the new money yields that we expect to earn on cash flow received in the future from policies of that issue year, and cannot be changed. The discount rate used for policies issued in the current year has no impact on the in force policies issued in prior years as the rates of all prior issue years are also locked in. As such, the overall discount rate for the entire in force block is a weighted average of the discount rates being used from all issue years. Changes in the overall weighted-average discount rate over time are caused by changes in the mix of the reserves and the deferred acquisition cost asset by issue year on the entire block of in force business. Business issued in the current year has very little impact on the overall weighted-average discount rate due to the size of our in force business.

Since actuarial discount rates are locked in for life on essentially all of our business, benefit reserves and deferred acquisition costs are not affected by interest rate fluctuations unless a loss recognition event occurs. Due to the strength of our underwriting margins, we do not expect an extended low-interest-rate environment to cause a loss recognition event.

Information about interest on net policy liabilities is shown in the following table.

**Required Interest on Net Insurance Policy Liabilities**  
(Dollar amounts in thousands)

|                        | <b>Required<br/>Interest</b> | <b>Average Net<br/>Insurance<br/>Policy<br/>Liabilities</b> | <b>Average<br/>Discount<br/>Rate</b> |
|------------------------|------------------------------|-------------------------------------------------------------|--------------------------------------|
| <b>2018</b>            |                              |                                                             |                                      |
| Life and Health .....  | \$ 493,557                   | \$ 8,535,842                                                | 5.78%                                |
| Annuity .....          | 53,785                       | 1,208,358                                                   | 4.45                                 |
| Total .....            | \$ 547,342                   | \$ 9,744,200                                                | 5.62                                 |
| Increase in 2018 ..... | 4.46%                        | 4.11%                                                       |                                      |
| <b>2017</b>            |                              |                                                             |                                      |
| Life and Health .....  | \$ 468,038                   | \$ 8,099,319                                                | 5.78%                                |
| Annuity .....          | 55,952                       | 1,260,461                                                   | 4.44                                 |
| Total .....            | \$ 523,990                   | \$ 9,359,780                                                | 5.60                                 |
| Increase in 2017 ..... | 4.90%                        | 4.63%                                                       |                                      |
| <b>2016</b>            |                              |                                                             |                                      |
| Life and Health .....  | \$ 442,021                   | \$ 7,658,639                                                | 5.77%                                |
| Annuity .....          | 57,506                       | 1,287,211                                                   | 4.47                                 |
| Total .....            | \$ 499,527                   | \$ 8,945,850                                                | 5.58                                 |
| Increase in 2016 ..... | 4.55%                        | 4.33%                                                       |                                      |

**Financing costs** for the investment segment primarily consist of interest on our various debt instruments and are deducted from excess investment income. The table below presents the components of financing costs and reconciles interest expense per the *Consolidated Statements of Operations*.

**Analysis of Financing Costs**  
(Dollar amounts in thousands)

|                                   | <b>2018</b>      | <b>2017</b>      | <b>2016</b>      |
|-----------------------------------|------------------|------------------|------------------|
| Interest on funded debt .....     | \$ 74,324        | \$ 74,115        | \$ 75,988        |
| Interest on term loan .....       | 3,177            | 2,336            | 993              |
| Interest on short-term debt ..... | 12,570           | 8,076            | 6,360            |
| Other .....                       | 5                | 5                | 4                |
| <b>Financing costs</b> .....      | <u>\$ 90,076</u> | <u>\$ 84,532</u> | <u>\$ 83,345</u> |

In 2018, financing costs increased primarily due to higher interest rates on the short-term debt. More information on our debt transactions are disclosed in the *Financial Condition* section of this report and in *Note 11—Debt*.

**Realized Gains and Losses.** Our life and health insurance companies collect premium income from policyholders for the eventual payment of policyholder benefits, sometimes paid many years or even decades in the future. Since benefits are expected to be paid in future periods, premium receipts in excess of current expenses are invested to provide for these obligations. For this reason, we hold a significant investment portfolio as a part of our core insurance operations. This portfolio consists primarily of high-quality fixed maturities containing an adequate yield to provide for the cost of carrying these long-term insurance product obligations. As a result, fixed maturities are generally held for long periods to support the liabilities. Expected yields on these investments are taken into account when setting insurance premium rates and product profitability expectations.

Despite our intent to hold fixed maturity investments for a long period of time, investments are occasionally sold or called, resulting in a realized gain or loss. These gains and losses generally occur only incidentally, usually as the result of bonds sold because of deterioration in investment quality of issuers or calls by the issuers. Investment losses are also caused by write downs due to impairments. We do not engage in trading investments for profit.

Therefore, gains or losses which occur in protecting the portfolio or its yield, or which result from events that are beyond our control, are only secondary to our core insurance operations of providing insurance coverage to policyholders.

Realized gains and losses can be significant in relation to the earnings from core insurance operations, and as a result, can have a material positive or negative impact on net income. The significant fluctuations caused by gains and losses can cause period-to-period trends of net income that are not indicative of historical core operating results or predictive of the future trends of core operations. Accordingly, they have no bearing on core insurance operations or segment results as we view operations. For these reasons, and in line with industry practice, we remove the effects of realized gains and losses when evaluating overall insurance operating results.

The following table summarizes our tax-effected realized gains (losses) by component for each of the years in the three-year period ended December 31, 2018.

**Analysis of Realized Gains (Losses), Net of Tax**

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

|                                                 | Year Ended December 31, |                  |                  |                |                   |                  |
|-------------------------------------------------|-------------------------|------------------|------------------|----------------|-------------------|------------------|
|                                                 | 2018                    |                  | 2017             |                | 2016              |                  |
|                                                 | Amount                  | Per Share        | Amount           | Per Share      | Amount            | Per Share        |
| Fixed maturities:                               |                         |                  |                  |                |                   |                  |
| Sales .....                                     | \$(11,005)              | \$ (0.10)        | \$ 2,587         | \$ 0.02        | \$(17,209)        | \$ (0.14)        |
| Called or tendered .....                        | 15,520                  | 0.14             | 20,292           | 0.17           | 10,290            | 0.08             |
| Write-downs .....                               | —                       | —                | (159)            | —              | —                 | —                |
| Other .....                                     | 2,812                   | 0.02             | (2,503)          | (0.02)         | (25)              | —                |
| <b>Realized investment gains (losses) .....</b> | <b>7,327</b>            | <b>0.06</b>      | <b>20,217</b>    | <b>0.17</b>    | <b>(6,944)</b>    | <b>(0.06)</b>    |
| Loss on redemption of debt .....                | (8,752)                 | (0.07)           | (2,627)          | (0.02)         | —                 | —                |
| <b>Total realized gains (losses) .....</b>      | <b>\$ (1,425)</b>       | <b>\$ (0.01)</b> | <b>\$ 17,590</b> | <b>\$ 0.15</b> | <b>\$ (6,944)</b> | <b>\$ (0.06)</b> |

As described in *Note 4—Investments* under the caption *Other-than-temporary impairments*, the Company recorded \$245 thousand (\$159 thousand, net of tax) in security write-downs in 2017. We did not incur any write downs in our fixed maturity portfolio as a result of other-than-temporary impairment for the years 2018 and 2016. See *Note 11—Debt* for further discussion on loss on redemption of debt.

**Investment Acquisitions.** Torchmark's investment policy calls for investing primarily in investment grade fixed maturities that meet our quality and yield objectives. We generally prefer to invest in securities with longer maturities because they more closely match the long-term nature of our policy liabilities. We believe this strategy is appropriate since our expected future cash flows are generally stable and predictable and the likelihood that we will need to sell invested assets to raise cash is low. If longer-term securities that meet our quality and yield objectives are not available, we do not relax our quality objectives; instead, we consider investing in shorter-term or lower yielding securities taking into consideration the slope of the yield curve and other factors.

During calendar years 2016 through 2018, Torchmark invested predominately in fixed maturity securities, primarily in corporate bonds with longer-term maturities. The following table summarizes selected information for fixed maturity purchases for the last three years. The effective annual yield shown is the yield calculated to the potential termination date that produces the lowest yield, commonly referred to as the "worst call date." For non-callable bonds, the worst-call date is always the maturity date. For callable bonds, the worst-call date is the call date that produces the lowest yield (or the maturity date, if the yield calculated to the maturity date is lower than the yield calculated to each call date).

### Fixed Maturity Acquisitions Selected Information

(Dollar amounts in thousands)

|                                                                   | Year Ended December 31, |                     |                     |
|-------------------------------------------------------------------|-------------------------|---------------------|---------------------|
|                                                                   | 2018                    | 2017                | 2016                |
| Cost of acquisitions <sup>(1)</sup> :                             |                         |                     |                     |
| Investment-grade corporate securities .....                       | \$ 877,512              | \$ 1,308,567        | \$ 1,505,135        |
| Investment-grade municipal securities .....                       | 269,360                 | —                   | 13,023              |
| Other investment-grade securities .....                           | 8,708                   | 6,042               | 14,727              |
| <b>Total fixed maturity acquisitions .....</b>                    | <b>\$ 1,155,580</b>     | <b>\$ 1,314,609</b> | <b>\$ 1,532,885</b> |
| Effective annual yield (one year compounded) <sup>(2)</sup> ..... | 4.97%                   | 4.67%               | 4.67%               |
| Average life (in years to next call) .....                        | 17.0                    | 23.0                | 24.6                |
| Average life (in years to maturity) .....                         | 22.8                    | 24.0                | 25.4                |
| Average rating .....                                              | A-                      | BBB+                | BBB+                |

(1) Includes unsettled trades of \$41 thousand for 2018 and \$3 million for 2016.

(2) Tax-equivalent basis, where the yield on tax-exempt securities is adjusted to produce a yield equivalent to the pretax yield on taxable securities.

We prefer to invest primarily in bonds that are not callable (on other than a make-whole basis) prior to maturity, but we periodically invest some funds in callable bonds when the incremental yield available on such bonds warrants doing so. For investments in callable bonds, the actual life of the investment will depend on whether the issuer calls the investment prior to the maturity date. Given our investments in callable bonds, the actual average life of our investments cannot be known at the time of the investment. Absent sales and "make-whole calls", however, the average life will not be less than the average life to next call and will not exceed the average life to maturity. Data for both of these average life measures is provided in the above chart.

From 2016 through 2018, acquisitions consisted of securities spanning a diversified range of issuers, industry sectors, and geographical regions. All of the acquired securities were investment grade. In addition to the fixed maturity acquisitions, Torchmark invested \$94 million in other long-term investments in 2018 compared with \$55 million in 2017 and \$20 million in 2016.

New cash flow available for investment has been primarily provided through our insurance operations, cash received on existing investments, and proceeds from dispositions. While calls increase funds available for investment, as noted earlier in this discussion, they can also have a negative impact on investment income if the proceeds from the calls are reinvested in bonds that have lower yields than those of the bonds that were called. Issuer calls were \$146 million in 2018, \$371 million in 2017, and \$182 million in 2016.

Approximately 95% of our investments at book value are in a diversified fixed maturity portfolio. Policy loans, which are secured by policy cash values, make up 3% of our investments. We also have investments in equity securities, commercial mortgages, and limited partnerships.

We are not a party to any credit default swaps or other derivative contracts. We do not participate in securities lending, we have no off-balance sheet investments, and we do not have any exposure to European sovereign debt at December 31, 2018. In the prior year, it was announced by the head of the United Kingdom's Financial Conduct Authority that they plan to phase out the floating rate, London Interbank Offered Rate (LIBOR), by the end of 2021. Uncertainty remains as to what will be the replacement floating rate. As of December 31, 2018, Torchmark had limited assets and liabilities that utilize LIBOR as a benchmark rate. We will continue to monitor the progress towards the establishment of a new floating rate.

Since fixed maturities represent such a significant portion of our investment portfolio, the remainder of the discussion of portfolio composition will focus on fixed maturities. See a breakdown of the Company's other investments in Other Investment Information within *Note 4—Investments*.

Selected information concerning the fixed maturity portfolio is as follows:

**Fixed Maturities**  
**Fixed Maturity Portfolio Selected Information**

|                                                     | <b>At December 31,</b> |             |
|-----------------------------------------------------|------------------------|-------------|
|                                                     | <b>2018</b>            | <b>2017</b> |
| Average annual effective yield <sup>(1)</sup> ..... | 5.55%                  | 5.60%       |
| Average life, in years, to:                         |                        |             |
| Next call <sup>(2)</sup> .....                      | 16.9                   | 17.5        |
| Maturity <sup>(2)</sup> .....                       | 18.7                   | 19.1        |
| Effective duration to:                              |                        |             |
| Next call <sup>(2, 3)</sup> .....                   | 10.0                   | 10.8        |
| Maturity <sup>(2, 3)</sup> .....                    | 10.8                   | 11.5        |

- (1) Tax-equivalent basis, where the yield on tax-exempt securities is adjusted to produce a yield equivalent to the pretax yield on taxable securities.
- (2) Torchmark calculates the average life and duration of the fixed maturity portfolio two ways:
- (a) based on the next call date which is the next call date for callable bonds and the maturity date for noncallable bonds, and
  - (b) based on the maturity date of all bonds, whether callable or not.
- (3) Effective duration is a measure of the price sensitivity of a fixed-income security to a particular change in interest rates.

**Credit Risk Sensitivity.** The following tables summarize certain information about the major corporate sectors and security types held in our fixed maturity portfolio at December 31, 2018 and 2017.

**Fixed Maturities by Sector**  
**At December 31, 2018**  
(Dollar amounts in thousands)

|                                                 | Below Investment Grade |                        |                         |                   | Total Fixed Maturities |                        |                         |                     | % of Total Fixed Maturities |               |
|-------------------------------------------------|------------------------|------------------------|-------------------------|-------------------|------------------------|------------------------|-------------------------|---------------------|-----------------------------|---------------|
|                                                 | Cost or Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value        | Cost or Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value          | At Amortized Cost           | At Fair Value |
| <b>Corporates:</b>                              |                        |                        |                         |                   |                        |                        |                         |                     |                             |               |
| <b>Financial</b>                                |                        |                        |                         |                   |                        |                        |                         |                     |                             |               |
| Insurance - life, health, P&C .....             | \$ 66,310              | \$ 3,836               | \$ (8,674)              | \$ 61,472         | \$ 1,941,967           | \$ 181,552             | \$ (28,158)             | \$ 2,095,361        | 12                          | 13            |
| Banks .....                                     | 27,075                 | —                      | (1,348)                 | 25,727            | 871,485                | 50,205                 | (16,730)                | 904,960             | 6                           | 5             |
| Other financial .....                           | 74,958                 | —                      | (19,584)                | 55,374            | 946,316                | 31,118                 | (42,627)                | 934,807             | 6                           | 6             |
| Total financial .....                           | 168,343                | 3,836                  | (29,606)                | 142,573           | 3,759,768              | 262,875                | (87,515)                | 3,935,128           | 24                          | 24            |
| <b>Utilities</b>                                |                        |                        |                         |                   |                        |                        |                         |                     |                             |               |
| Electric .....                                  | 36,889                 | 176                    | (3,277)                 | 33,788            | 1,458,193              | 188,136                | (14,943)                | 1,631,386           | 10                          | 10            |
| Gas and water .....                             | —                      | —                      | —                       | —                 | 531,313                | 29,710                 | (9,456)                 | 551,567             | 3                           | 3             |
| Total utilities .....                           | 36,889                 | 176                    | (3,277)                 | 33,788            | 1,989,506              | 217,846                | (24,399)                | 2,182,953           | 13                          | 13            |
| <b>Industrial - Energy</b>                      |                        |                        |                         |                   |                        |                        |                         |                     |                             |               |
| Pipelines .....                                 | 40,553                 | —                      | (4,762)                 | 35,791            | 925,689                | 50,835                 | (25,395)                | 951,129             | 6                           | 6             |
| Exploration and production .....                | 17,187                 | —                      | (1,554)                 | 15,633            | 548,099                | 30,969                 | (17,518)                | 561,550             | 3                           | 3             |
| Oil field services .....                        | —                      | —                      | (1)                     | (1)               | 49,837                 | 3,893                  | (715)                   | 53,015              | —                           | —             |
| Refiner .....                                   | —                      | —                      | —                       | —                 | 84,255                 | 8,183                  | (1,496)                 | 90,942              | 1                           | 1             |
| Driller .....                                   | 44,820                 | —                      | (17,247)                | 27,573            | 44,820                 | —                      | (17,247)                | 27,573              | —                           | —             |
| Total energy .....                              | 102,560                | —                      | (23,564)                | 78,996            | 1,652,700              | 93,880                 | (62,371)                | 1,684,209           | 10                          | 10            |
| <b>Industrial - Basic materials</b>             |                        |                        |                         |                   |                        |                        |                         |                     |                             |               |
| Chemicals .....                                 | —                      | —                      | —                       | —                 | 554,481                | 8,818                  | (25,302)                | 537,997             | 4                           | 3             |
| Metals and mining .....                         | 57,409                 | 92                     | (1,492)                 | 56,009            | 386,782                | 33,868                 | (2,500)                 | 418,150             | 2                           | 3             |
| Forestry products and paper .....               | —                      | —                      | —                       | —                 | 111,612                | 7,329                  | (2,711)                 | 116,230             | —                           | 1             |
| Total basic materials ...                       | 57,409                 | 92                     | (1,492)                 | 56,009            | 1,052,875              | 50,015                 | (30,513)                | 1,072,377           | 6                           | 7             |
| Industrial - Consumer, non-cyclical .....       | 33,847                 | 587                    | (6,710)                 | 27,724            | 2,024,230              | 76,669                 | (89,536)                | 2,011,363           | 13                          | 12            |
| Other industrials .....                         | 46,852                 | —                      | (3,311)                 | 43,541            | 1,364,192              | 62,338                 | (42,222)                | 1,384,308           | 9                           | 8             |
| Industrial - Transportation .                   | 26,213                 | —                      | (2,592)                 | 23,621            | 569,786                | 47,496                 | (10,325)                | 606,957             | 4                           | 4             |
| Other corporate sectors ....                    | 135,873                | 982                    | (16,241)                | 120,614           | 1,371,624              | 47,006                 | (69,913)                | 1,348,717           | 9                           | 9             |
| <b>Total corporates</b> .....                   | <b>607,986</b>         | <b>5,673</b>           | <b>(86,793)</b>         | <b>526,866</b>    | <b>13,784,681</b>      | <b>858,125</b>         | <b>(416,794)</b>        | <b>14,226,012</b>   | <b>88</b>                   | <b>87</b>     |
| <b>Other fixed maturities:</b>                  |                        |                        |                         |                   |                        |                        |                         |                     |                             |               |
| Government (U.S., municipal, and foreign) ..... | 306                    | 93                     | —                       | 399               | 1,763,496              | 90,475                 | (4,537)                 | 1,849,434           | 11                          | 11            |
| Collateralized debt obligations .....           | 57,769                 | 22,014                 | (6,414)                 | 73,369            | 57,769                 | 22,014                 | (6,414)                 | 73,369              | —                           | 1             |
| Other asset-backed securities .....             | —                      | —                      | —                       | —                 | 146,546                | 2,159                  | (633)                   | 148,072             | 1                           | 1             |
| Mortgage-backed securities <sup>(1)</sup> ..... | —                      | —                      | —                       | —                 | 979                    | 67                     | (1)                     | 1,045               | —                           | —             |
| <b>Total fixed maturities</b> ...               | <b>\$ 666,061</b>      | <b>\$ 27,780</b>       | <b>\$ (93,207)</b>      | <b>\$ 600,634</b> | <b>\$15,753,471</b>    | <b>\$ 972,840</b>      | <b>\$ (428,379)</b>     | <b>\$16,297,932</b> | <b>100</b>                  | <b>100</b>    |

(1) Includes GNMA's

**Fixed Maturities by Sector**  
**At December 31, 2017**  
(Dollar amounts in thousands)

|                                                 | Below Investment Grade |                        |                         |                  | Total Fixed Maturities |                        |                         |                     | % of Total Fixed Maturities |               |
|-------------------------------------------------|------------------------|------------------------|-------------------------|------------------|------------------------|------------------------|-------------------------|---------------------|-----------------------------|---------------|
|                                                 | Cost or Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value       | Cost or Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value          | At Amortized Cost           | At Fair Value |
| <b>Corporates:</b>                              |                        |                        |                         |                  |                        |                        |                         |                     |                             |               |
| <b>Financial</b>                                |                        |                        |                         |                  |                        |                        |                         |                     |                             |               |
| Insurance - life, health, P&C .....             | \$ 66,489              | \$ 3,896               | \$ (3,650)              | \$ 66,735        | \$ 2,018,315           | \$ 346,364             | \$ (4,588)              | \$ 2,360,091        | 14                          | 14            |
| Banks .....                                     | 27,104                 | —                      | (2,727)                 | 24,377           | 747,249                | 117,724                | (3,007)                 | 861,966             | 5                           | 5             |
| Other financial .....                           | 74,956                 | —                      | (17,661)                | 57,295           | 853,583                | 74,765                 | (18,524)                | 909,824             | 6                           | 6             |
| Total financial .....                           | 168,549                | 3,896                  | (24,038)                | 148,407          | 3,619,147              | 538,853                | (26,119)                | 4,131,881           | 25                          | 25            |
| <b>Utilities</b>                                |                        |                        |                         |                  |                        |                        |                         |                     |                             |               |
| Electric .....                                  | 20,713                 | 1,159                  | —                       | 21,872           | 1,463,872              | 306,812                | (1,275)                 | 1,769,409           | 10                          | 11            |
| Gas and water .....                             | —                      | —                      | —                       | —                | 520,418                | 64,726                 | (120)                   | 585,024             | 3                           | 3             |
| Total utilities .....                           | 20,713                 | 1,159                  | —                       | 21,872           | 1,984,290              | 371,538                | (1,395)                 | 2,354,433           | 13                          | 14            |
| <b>Industrial - Energy</b>                      |                        |                        |                         |                  |                        |                        |                         |                     |                             |               |
| Pipelines .....                                 | 40,590                 | 937                    | (1,092)                 | 40,435           | 880,379                | 117,765                | (2,320)                 | 995,824             | 6                           | 6             |
| Exploration and production .....                | 28,174                 | 1,180                  | (85)                    | 29,269           | 527,581                | 79,784                 | (2,620)                 | 604,745             | 4                           | 4             |
| Oil field services .....                        | 33,867                 | —                      | (6,004)                 | 27,863           | 83,722                 | 11,074                 | (6,004)                 | 88,792              | 1                           | 1             |
| Refiner .....                                   | —                      | —                      | —                       | —                | 73,106                 | 17,430                 | —                       | 90,536              | —                           | —             |
| Driller .....                                   | 54,561                 | 87                     | (14,448)                | 40,200           | 54,561                 | 87                     | (14,448)                | 40,200              | —                           | —             |
| Total energy .....                              | 157,192                | 2,204                  | (21,629)                | 137,767          | 1,619,349              | 226,140                | (25,392)                | 1,820,097           | 11                          | 11            |
| <b>Industrial - Basic materials</b>             |                        |                        |                         |                  |                        |                        |                         |                     |                             |               |
| Chemicals .....                                 | —                      | —                      | —                       | —                | 541,785                | 59,216                 | (20)                    | 600,981             | 3                           | 3             |
| Metals and mining .....                         | 57,438                 | 7,727                  | —                       | 65,165           | 387,134                | 85,105                 | —                       | 472,239             | 3                           | 3             |
| Forestry products and paper .....               | —                      | —                      | —                       | —                | 112,175                | 16,911                 | —                       | 129,086             | 1                           | 1             |
| Total basic materials ...                       | 57,438                 | 7,727                  | —                       | 65,165           | 1,041,094              | 161,232                | (20)                    | 1,202,306           | 7                           | 7             |
| Industrial - Consumer, non-cyclical .....       | 21,334                 | —                      | (4,498)                 | 16,836           | 1,834,778              | 192,887                | (6,494)                 | 2,021,171           | 12                          | 12            |
| Other industrials .....                         | 47,136                 | 2,965                  | —                       | 50,101           | 1,326,051              | 179,694                | (671)                   | 1,505,074           | 9                           | 9             |
| Industrial - Transportation .                   | 26,443                 | 1,581                  | (162)                   | 27,862           | 553,435                | 90,211                 | (195)                   | 643,451             | 3                           | 4             |
| Other corporate sectors ....                    | 143,995                | 5,076                  | (9,387)                 | 139,684          | 1,310,445              | 123,588                | (13,236)                | 1,420,797           | 9                           | 8             |
| <b>Total corporates</b> .....                   | <b>642,800</b>         | <b>24,608</b>          | <b>(59,714)</b>         | <b>607,694</b>   | <b>13,288,589</b>      | <b>1,884,143</b>       | <b>(73,522)</b>         | <b>15,099,210</b>   | <b>89</b>                   | <b>90</b>     |
| <b>Other fixed maturities:</b>                  |                        |                        |                         |                  |                        |                        |                         |                     |                             |               |
| Government (U.S., municipal, and foreign) ..... | 306                    | —                      | (105)                   | 201              | 1,501,865              | 147,772                | (1,507)                 | 1,648,130           | 10                          | 9             |
| Collateralized debt obligations .....           | 59,150                 | 20,084                 | (7,653)                 | 71,581           | 59,150                 | 20,084                 | (7,653)                 | 71,581              | —                           | —             |
| Other asset-backed securities .....             | —                      | —                      | —                       | —                | 144,040                | 4,790                  | —                       | 148,830             | 1                           | 1             |
| Mortgage-backed securities <sup>(1)</sup> ..... | —                      | —                      | —                       | —                | 1,457                  | 118                    | (1)                     | 1,574               | —                           | —             |
| <b>Total fixed maturities</b> ...               | <b>\$ 702,256</b>      | <b>\$ 44,692</b>       | <b>\$ (67,472)</b>      | <b>\$679,476</b> | <b>\$14,995,101</b>    | <b>\$2,056,907</b>     | <b>\$ (82,683)</b>      | <b>\$16,969,325</b> | <b>100</b>                  | <b>100</b>    |

(1) Includes GNMA's

The net unrealized gain position in the fixed maturity portfolio decreased by 72% from \$2.0 billion at December 31, 2017 to \$544 million at December 31, 2018, primarily as a result of an increase in market interest rates.

Corporate securities, which consist of bonds and redeemable preferred stocks, were the largest component of the fixed maturity portfolio, representing 88% of amortized cost and 87% of fair value. The remainder of the portfolio is invested primarily in securities issued by the U.S. government and U.S. municipalities. The Company holds insignificant amounts in foreign government bonds, collateralized debt obligations, asset-backed securities, and agency mortgage-backed securities. Corporate securities are diversified over a variety of industry sectors and issuers. As shown in the chart above, financial, utility, and energy sectors represented approximately 47% of the portfolio.

At December 31, 2018, the total fixed maturity portfolio consists of 611 issuers, with 222 issuers within the financial, utility, and energy sectors.

For more information about our fixed maturity portfolio by component at December 31, 2018 and 2017, including a discussion of other-than-temporary impairments, an analysis of unrealized investment losses and a schedule of maturities, see *Note 4—Investments*.

An analysis of the fixed maturity portfolio by a composite quality rating at December 31, 2018 is shown in the following table. The composite rating for each security, other than private-placement securities managed by third parties, is the average of the security's ratings as assigned by Moody's Investor Service, Standard & Poor's, Fitch Ratings, and Dominion Bond Rating Service, LTD. The ratings assigned by these four nationally recognized statistical rating organizations are evenly weighted when calculating the average. The composite quality rating is created using a methodology developed by Torchmark Corporation using ratings from the various rating agencies noted above. The composite quality rating is not a Standard & Poor's credit rating. Standard & Poor's does not sponsor, endorse or promote the composite quality rating and shall not be liable for any use of the composite quality rating. Included in the chart below are private placement fixed maturity holdings of \$600 million at amortized cost (\$596 million at fair value) for which the ratings were assigned by the third party managers.

**Fixed Maturities by Rating  
At December 31, 2018**  
(Dollar amounts in thousands)

|                                                        | Amortized<br>Cost           | %                 | Fair<br>Value               | %                 | Average<br>Composite<br>Quality<br>Rating on<br>Amortized<br>Cost |
|--------------------------------------------------------|-----------------------------|-------------------|-----------------------------|-------------------|-------------------------------------------------------------------|
| <b>Investment grade:</b>                               |                             |                   |                             |                   |                                                                   |
| AAA .....                                              | \$ 750,101                  | 5                 | \$ 766,341                  | 5                 |                                                                   |
| AA .....                                               | 1,222,158                   | 8                 | 1,282,834                   | 8                 |                                                                   |
| A .....                                                | 3,983,869                   | 25                | 4,378,152                   | 26                |                                                                   |
| BBB+ .....                                             | 3,606,143                   | 23                | 3,707,078                   | 23                |                                                                   |
| BBB .....                                              | 3,695,585                   | 23                | 3,746,661                   | 23                |                                                                   |
| BBB- .....                                             | 1,829,554                   | 12                | 1,816,232                   | 11                |                                                                   |
| <b>Investment grade</b> .....                          | <b>15,087,410</b>           | <b>96</b>         | <b>15,697,298</b>           | <b>96</b>         | <b>A-</b>                                                         |
| <b>Below investment grade:</b>                         |                             |                   |                             |                   |                                                                   |
| BB .....                                               | 403,649                     | 3                 | 362,090                     | 2                 |                                                                   |
| B .....                                                | 164,052                     | 1                 | 123,904                     | 1                 |                                                                   |
| Below B .....                                          | 98,360                      | —                 | 114,640                     | 1                 |                                                                   |
| <b>Below investment grade</b> .....                    | <b>666,061</b>              | <b>4</b>          | <b>600,634</b>              | <b>4</b>          | <b>B+</b>                                                         |
|                                                        | <u><u>\$ 15,753,471</u></u> | <u><u>100</u></u> | <u><u>\$ 16,297,932</u></u> | <u><u>100</u></u> |                                                                   |
| <b>Weighted average composite quality rating .....</b> |                             |                   |                             |                   | <b>BBB+</b>                                                       |

**Fixed Maturities by Rating**  
**At December 31, 2017**  
(Dollar amounts in thousands)

|                                                        | <b>Amortized<br/>Cost</b>   | <b>%</b>          | <b>Fair<br/>Value</b>       | <b>%</b>          | <b>Average<br/>Composite<br/>Quality<br/>Rating on<br/>Amortized<br/>Cost</b> |
|--------------------------------------------------------|-----------------------------|-------------------|-----------------------------|-------------------|-------------------------------------------------------------------------------|
| <b>Investment grade:</b>                               |                             |                   |                             |                   |                                                                               |
| AAA .....                                              | \$ 649,559                  | 4                 | \$ 689,356                  | 4                 |                                                                               |
| AA .....                                               | 1,095,502                   | 7                 | 1,222,148                   | 7                 |                                                                               |
| A .....                                                | 4,139,252                   | 28                | 4,959,570                   | 29                |                                                                               |
| BBB+ .....                                             | 3,493,309                   | 23                | 3,936,939                   | 23                |                                                                               |
| BBB .....                                              | 3,302,118                   | 22                | 3,696,880                   | 22                |                                                                               |
| BBB- .....                                             | 1,613,105                   | 11                | 1,784,956                   | 11                |                                                                               |
| <b>Investment grade</b> .....                          | <b>14,292,845</b>           | <b>95</b>         | <b>16,289,849</b>           | <b>96</b>         | <b>A-</b>                                                                     |
| <b>Below investment grade:</b>                         |                             |                   |                             |                   |                                                                               |
| BB .....                                               | 413,425                     | 3                 | 397,063                     | 2                 |                                                                               |
| B .....                                                | 152,454                     | 1                 | 133,582                     | 1                 |                                                                               |
| Below B .....                                          | 136,377                     | 1                 | 148,831                     | 1                 |                                                                               |
| <b>Below investment grade</b> .....                    | <b>702,256</b>              | <b>5</b>          | <b>679,476</b>              | <b>4</b>          | <b>B+</b>                                                                     |
|                                                        | <u><u>\$ 14,995,101</u></u> | <u><u>100</u></u> | <u><u>\$ 16,969,325</u></u> | <u><u>100</u></u> |                                                                               |
| <b>Weighted average composite quality rating</b> ..... |                             |                   |                             |                   | <b>BBB+</b>                                                                   |

An analysis of changes in our portfolio of below-investment grade fixed maturities at amortized cost is as follows:

**Below-Investment Grade Fixed Maturities**  
(Dollar amounts in thousands)

|                                                                | <b>Year Ended December 31,</b> |                          |
|----------------------------------------------------------------|--------------------------------|--------------------------|
|                                                                | <b>2018</b>                    | <b>2017</b>              |
| Balance at beginning of year .....                             | \$ 702,256                     | \$ 751,144               |
| Downgrades by rating agencies .....                            | 29,724                         | 61,691                   |
| Upgrades by rating agencies .....                              | (10,934)                       | (55,345)                 |
| Dispositions .....                                             | (58,827)                       | (59,420)                 |
| Write down of other-than-temporarily impaired securities ..... | —                              | (245)                    |
| Amortization and other .....                                   | 3,842                          | 4,431                    |
| Balance at end of year .....                                   | <u><u>\$ 666,061</u></u>       | <u><u>\$ 702,256</u></u> |

Our investment policy regarding fixed maturities is to acquire only investment-grade obligations. Thus, any increases in below investment-grade issues are a result of ratings downgrades of existing holdings.

**Market Risk Sensitivity.** Torchmark's investment securities are exposed to interest rate risk, meaning the effect of changes in financial market interest rates on the current fair value of the company's investment portfolio. Since 95% of the book value of our investments is attributable to fixed maturity investments (and virtually all of these investments are fixed-rate investments), the portfolio is highly subject to market risk. Declines in market interest rates generally result in the fair value of the investment portfolio rising, and increases in interest rates cause the fair value to decline. Under normal market conditions, we are not concerned about unrealized losses that are interest rate driven since we would not expect to realize them. We have the intent, and more importantly, the ability to hold our investments to maturity. The long-term nature of our insurance policy liabilities and strong cash-flow operating position substantially

mitigate any future need to liquidate portions of the portfolio. The increase or decrease in the fair value of insurance liabilities and debt due to increases or decreases in market interest rates largely offsets the impact of rates on the investment portfolio. However, as is permitted by GAAP, these liabilities are not recorded at fair value.

The following table illustrates the market risk sensitivity of our interest-rate sensitive fixed maturity portfolio at December 31, 2018 and 2017. This table measures the effect of a parallel shift in interest rates (as represented by the U.S. Treasury curve) on the fair value of the fixed maturity portfolio. The data measures the change in fair value arising from an immediate and sustained change in interest rates in increments of 100 basis points.

**Market Value of Fixed Maturity Portfolio**

(Dollar amounts in thousands)

| Change in Interest Rates <sup>(1)</sup> | At December 31, |               |
|-----------------------------------------|-----------------|---------------|
|                                         | 2018            | 2017          |
| (200)                                   | \$ 20,264,000   | \$ 21,456,000 |
| (100)                                   | 18,128,000      | 19,024,000    |
| 0                                       | 16,298,000      | 16,969,000    |
| 100                                     | 14,720,000      | 15,221,000    |
| 200                                     | 13,352,000      | 13,724,000    |

(1) In basis points.

## FINANCIAL CONDITION

**Liquidity.** Liquidity provides Torchmark with the ability to meet on demand the cash commitments required by its business operations and financial obligations. Our liquidity is primarily derived from three sources: positive cash flow from operations, a portfolio of marketable securities, and a line of credit facility.

**Insurance Subsidiary Liquidity.** The operations of our insurance subsidiaries have historically generated substantial cash inflows in excess of immediate cash needs. Sources of cash flows for the insurance subsidiaries include primarily premium and investment income. Cash outflows from operations include policy benefit payments, commissions, administrative expenses, and taxes. The funds to provide for policy benefits, the majority of which are paid in future periods, are invested primarily in long-term fixed maturities to meet these long-term obligations. In addition to investment income, maturities and scheduled repayments in the investment portfolio are sources of cash. Excess cash available from the insurance subsidiaries' operations is generally distributed as a dividend to the Parent Company, subject to regulatory restriction. The dividends are generally paid in amounts equal to the subsidiaries' prior year statutory net income excluding realized capital gains. While the leading source of the excess cash is investment income, due to our high underwriting margins and effective expense control, a significant portion of the excess cash also comes from underwriting income.

**Parent Company Liquidity.** Cash flows from the insurance subsidiaries are used to pay interest and principal repayments on Parent Company debt, operating expenses of the Parent Company, and Parent Company dividends to Torchmark shareholders.

|                                   | Year Ended December 31, |            |            |            |
|-----------------------------------|-------------------------|------------|------------|------------|
|                                   | Projected<br>2019       | 2018       | 2017       | 2016       |
| <b>Liquidity Sources:</b>         |                         |            |            |            |
| Dividends from Subsidiaries ..... | \$ 465,000              | \$ 448,142 | \$ 453,904 | \$ 437,566 |
| Excess Cash Flows .....           | 360,000                 | 349,243    | 329,556    | 310,791    |

For more information on the restrictions on the payment of dividends by subsidiaries, see the *Restrictions* section of *Note 12—Shareholders' Equity*. Although these restrictions exist, dividend availability from subsidiaries historically has been more than sufficient for the cash flow needs of the Parent Company.

**Short-Term Borrowings.** An additional source of Parent Company liquidity is a line of credit facility with a group of lenders which allows unsecured borrowings and stand-by letters of credit up to \$750 million, which could be extended up to \$1 billion. While Torchmark can request the extension, it is not guaranteed. In May 2016, Torchmark amended the facility to extend the maturity date to May 2021. The amendment also allowed for an additional \$100 million term loan as discussed under the caption *Credit Facility* in *Note 11—Debt*. The facility is further designated as a back-up line of credit for a commercial paper program as well as the stand-by letters of credit as discussed below. As of December 31, 2018, we had available \$293 million of additional borrowing capacity under this facility, compared with \$249 million a year earlier. There have been no difficulties in accessing the commercial paper market during the three years ended December 31, 2018.

Torchmark expects to have readily available funds for 2019 and the foreseeable future to conduct its operations and to maintain target capital ratios in the insurance subsidiaries through internally generated cash flow and the credit facility. In the unlikely event that more liquidity is needed, the Company could generate additional funds through multiple sources including, but not limited to, the issuance of debt, an additional short-term credit facility, and intercompany borrowing.

**Consolidated Liquidity.** Consolidated net cash inflows provided from continuing operations were \$1.3 billion in 2018, compared with \$1.4 billion in 2017 and \$1.2 billion in 2016. In addition to cash inflows from operations, our companies received proceeds from maturities, calls, and repayments of fixed maturities in the amount of \$344 million in 2018, compared with \$489 million in 2017 and \$236 million in 2016.

Our cash and short-term investments were \$184 million at the end of 2018 compared with \$246 million at the end of 2017. Additionally, we have a portfolio of marketable fixed securities that are available for sale in the event of an

unexpected need. These securities had a fair value of \$16.3 billion at December 31, 2018. However, our strong cash flows from operations, investment maturities, and the availability of our commercial paper and credit line make any need to sell securities for liquidity unlikely.

**Off-Balance Sheet Arrangements.** As a part of its aforementioned credit facility, Torchmark had outstanding \$155 million in stand-by letters of credit at December 31, 2018. On March 14, 2018, the letters of credit were amended to reduce the amount outstanding from \$177 million as of December 31, 2017. These letters are issued among our subsidiaries, one of which is an offshore captive reinsurer, and have no impact on company obligations as a whole. Any future regulatory changes that restrict the use of off-shore captive reinsurers might require Torchmark to obtain third-party financing, which could cause an insignificant increase in financing costs.

As of December 31, 2018, we had no unconsolidated affiliates and no guarantees of the obligations of third party entities. All of our guarantees were guarantees of the performance of consolidated subsidiaries, as disclosed in *Note 6—Commitments and Contingencies*.

The following table presents information about future payments under our contractual obligations for the selected periods as of December 31, 2018.

| <b>Contractual Obligations</b><br>(Dollar amounts in thousands) |                             |                           |                               |                               |                                |                                 |
|-----------------------------------------------------------------|-----------------------------|---------------------------|-------------------------------|-------------------------------|--------------------------------|---------------------------------|
|                                                                 | <b>Actual<br/>Liability</b> | <b>Total<br/>Payments</b> | <b>Less than<br/>One Year</b> | <b>One to<br/>Three Years</b> | <b>Three to<br/>Five Years</b> | <b>More than<br/>Five Years</b> |
| Fixed and determinable:                                         |                             |                           |                               |                               |                                |                                 |
| Debt—principal <sup>(1)</sup> .....                             | \$ 1,665,033                | \$ 1,686,462              | \$ 308,975                    | \$ 86,875                     | \$ 315,612                     | \$ 975,000                      |
| Debt—interest <sup>(2)</sup> .....                              | 11,605                      | 1,276,173                 | 73,087                        | 141,404                       | 121,959                        | 939,723                         |
| Capital leases .....                                            | —                           | —                         | —                             | —                             | —                              | —                               |
| Operating leases .....                                          |                             | 23,339                    | 4,304                         | 7,768                         | 4,671                          | 6,596                           |
| Purchase obligations <sup>(3)</sup> .....                       | 50,883                      | 306,151                   | 27,938                        | 27,636                        | 5,723                          | 244,854                         |
| Postretirement obligations <sup>(4)</sup> .....                 | 187,599                     | 306,764                   | 22,769                        | 50,697                        | 58,393                         | 174,905                         |
| Future insurance obligations <sup>(5)</sup> .....               | 13,953,826                  | 54,494,356                | 1,589,229                     | 3,069,440                     | 2,978,454                      | 46,857,233                      |
| Total .....                                                     | <u>\$ 15,868,946</u>        | <u>\$ 58,093,245</u>      | <u>\$ 2,026,302</u>           | <u>\$ 3,383,820</u>           | <u>\$ 3,484,812</u>            | <u>\$ 49,198,311</u>            |

(1) Debt is itemized in *Note 11—Debt*.

(2) Interest on debt is based on our fixed contractual obligations.

(3) Purchase obligations include various long-term non-cancelable purchase commitments as well as commitments to provide capital for low-income housing tax credit interests.

(4) Pension obligations are primarily liabilities in trust funds that are calculated in accordance with the terms of the pension plans. They are offset by invested assets in the trusts, which are funded through periodic contributions by Torchmark in a manner which will provide for the settlement of the obligations as they become due. Therefore, our obligations are offset by those assets when reported on Torchmark's *Consolidated Balance Sheets*. At December 31, 2018, these pension obligations were \$556 million, but there were also assets of \$393 million in the pension entities. The schedule of pension benefit payments covers ten years and is based on the same assumptions used to measure the pension obligations, except there is no interest assumption because the payments are undiscounted. Please refer to *Note 9—Postretirement Benefits* for more information on pension obligations.

(5) Future insurance obligations consist primarily of estimated future contingent benefit payments on policies in force at December 31, 2018. These estimated payments were computed using assumptions for future mortality, morbidity and persistency. The actual amount and timing of such payments may differ significantly from the estimated amounts shown. Management believes that the assets supporting the liability of \$14 billion at December 31, 2018, along with future premiums and investment income, will be sufficient to fund all future insurance obligations.

**Capital Resources.** Torchmark's capital structure consists of short-term debt (the commercial paper facility described in *Note 11—Debt* and the current maturity of funded debt), long-term funded debt, and shareholders' equity. A complete analysis and description of long-term debt issues outstanding is presented in *Note 11*.

**Debt:** The carrying value of the long-term debt was \$1.4 billion at December 31, 2018, which increased from \$1.1 billion a year earlier.

On September 27, 2018, Torchmark completed the issuance and sale of \$550 million in aggregate principal of Torchmark's 4.55% Senior Notes due 2028. The notes were sold pursuant to Torchmark's shelf registration statement on Form S-3. The net proceeds from the sale of the notes were \$543 million, after giving effect to the underwriting discounts and commissions and offering expenses payable by Torchmark. Torchmark used the net proceeds from the sale of the notes to redeem the \$293 million outstanding principal amount on Torchmark's 9.25% Senior Notes on October 29, 2018, the payment of \$11 million for the make-whole premium plus accrued and unpaid interest of \$10 million, and to fund \$150 million of additional capital to its insurance subsidiaries. Torchmark used the remaining net proceeds to repay outstanding commercial paper and for general corporate purposes. Torchmark received the following credit ratings on the new debt from:

|                            | <b>Moody's</b> | <b>S&amp;P</b> | <b>Fitch</b> | <b>AM Best</b> |
|----------------------------|----------------|----------------|--------------|----------------|
| <b>Credit rating</b> ..... | Baa1           | A              | BBB+         | a-             |

Due to increasing variable interest rates, on June 15, 2018, the Company called its \$20 million Junior Subordinated Debentures.

On November 17, 2017, Torchmark completed the issuance and sale of \$125 million in aggregate principal of Torchmark's 5.275% Junior Subordinated Debentures due 2057. The debentures were sold in a private placement pursuant to exemptions from the registration requirements of the Securities Act of 1933. The initial purchaser of the debentures was outside the United States. The net proceeds from the sale of the debentures were \$123.3 million, after giving effect to the discount payable to the initial purchaser and expenses of the offering of the debentures. Torchmark used the net proceeds from the offering of the debentures to repay the \$125 million outstanding principal of the 5.875% Junior Subordinated Debentures that were due December 15, 2052 and that were callable beginning December 15, 2017.

*Subsidiary Capital:* The National Association of Insurance Commissioners (NAIC) has established a risk-based factor approach for determining threshold risk-based capital levels for all insurance companies. This approach was designed to assist the regulatory bodies in identifying companies that may require regulatory attention. A Risk-Based Capital (RBC) ratio is typically determined by dividing adjusted total statutory capital by the amount of risk-based capital determined using the NAIC's factors. If a company's RBC ratio approaches two times the RBC amount, the company must file a plan with the NAIC for improving their capital levels (this level is commonly referred to as "Company Action Level" RBC). Companies typically hold a multiple of the Company Action Level RBC depending on their particular business needs and risk profile.

Our goal is to maintain statutory capital within our insurance subsidiaries at levels necessary to support our current ratings. For 2018, Torchmark targeted a consolidated Company Action Level RBC ratio of 300% to 320%. The Company believes this capital level is more than adequate and is sufficient to support its current ratings given the nature of its business and its risk profile. Due to changes in the insurance company's capital levels as a result of the new tax legislation effective January 1, 2018, the Parent Company used approximately \$150 million of the net proceeds from the issuance of senior notes in 2018 to provide additional capital to its insurance subsidiaries. As of December 31, 2018, our consolidated Company Action Level RBC ratio was 326%, slightly above our targeted range.

Torchmark is targeting a consolidated Company Action Level RBC ratio in the range of 300% to 320% for 2019.

*Shareholder's Equity:* As noted under the caption *Analysis of Share Purchases* within this report, we have an ongoing share repurchase program.

Torchmark has continually increased the quarterly dividend on its common shares over the past three years.

|                                         | <b>Year Ended December 31,</b> |             |             |             |
|-----------------------------------------|--------------------------------|-------------|-------------|-------------|
|                                         | <b>Projected<br/>2019</b>      | <b>2018</b> | <b>2017</b> | <b>2016</b> |
| Quarterly dividend by annual year ..... | \$ 0.1725                      | \$ 0.1600   | \$ 0.1500   | \$ 0.1400   |

Shareholders' equity was \$5.4 billion at December 31, 2018, compared with \$6.2 billion at December 31, 2017, a decrease of \$816 million or 13%. During the twelve months since December 31, 2017, shareholders' equity was reduced

by \$1.1 billion of after-tax unrealized losses as well as \$372 million in share purchases under the repurchase program and an additional \$50 million in share purchases to offset the dilution from stock option exercises. Shareholder's equity was increased by \$701 million of net income during this period.

We plan to use excess cash available at the Parent Company as efficiently as possible in the future. Possible uses of excess cash flow include, but are not limited to, share repurchases, acquisitions, increases in shareholder dividends, investment in securities, or repayment of short-term debt. We will determine the best use of excess cash after ensuring that targeted capital levels are maintained in our companies. If market conditions are favorable, we currently expect that share repurchases will continue to be a primary use of those funds.

We maintain a significant available-for-sale fixed maturity portfolio to support our insurance policy liabilities. Current accounting guidance requires that we revalue our portfolio to fair market value at the end of each accounting period. The period-to-period changes in fair value, net of their associated impact on deferred acquisition costs and income tax, are reflected directly in shareholders' equity. Changes in the fair value of the portfolio can result from changes in interest rates and liquidity in financial markets. While a majority of invested assets are revalued, accounting rules do not permit interest-bearing insurance policy liabilities to be valued at fair value in a consistent manner as that of assets, with changes in value applied directly to shareholders' equity.

Due to the size of our policy liabilities in relation to our shareholders' equity, this inconsistency in measurement usually has a material impact on the reported value of shareholders' equity. Fluctuations in interest rates cause undue volatility in the period-to-period presentation of our shareholders' equity, capital structure, and financial ratios which would be essentially removed if interest-bearing liabilities were valued in the same manner as assets. From time to time, the market value of our fixed maturity portfolio may be depressed as a result of bond market illiquidity which could result in a significant decrease in shareholders' equity. Due to the long-term nature of our fixed maturities and liabilities and the strong cash flows consistently generated by our insurance subsidiaries, we have the intent and ability to hold our securities to maturity. As such, we do not expect to incur losses due to fluctuations in market value of fixed maturities caused by interest rate changes and temporarily illiquid markets. Accordingly, our management, credit rating agencies, lenders, many industry analysts, and certain other financial statement users prefer to remove the effect of this accounting rule when analyzing our balance sheet, capital structure, and financial ratios.

The following table presents selected data related to our capital resources. Additionally, the table presents the effect of this accounting guidance on relevant line items, so that investors and other financial statement users may determine its impact on Torchmark's capital structure. Excluding the effect of unrealized gains and losses on the fixed maturity portfolio from shareholders' equity is considered non-GAAP. Below we include the reconciliation to GAAP.

### Selected Financial Data

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

|                                             | At December 31, 2018 |                                                                | At December 31, 2017 |                                                                | At December 31, 2016 |                                                                |
|---------------------------------------------|----------------------|----------------------------------------------------------------|----------------------|----------------------------------------------------------------|----------------------|----------------------------------------------------------------|
|                                             | GAAP                 | Effect of Accounting Rule Requiring Revaluation <sup>(1)</sup> | GAAP                 | Effect of Accounting Rule Requiring Revaluation <sup>(1)</sup> | GAAP                 | Effect of Accounting Rule Requiring Revaluation <sup>(1)</sup> |
| Fixed maturities .....                      | \$16,297,932         | \$ 544,461                                                     | \$16,969,325         | \$ 1,974,224                                                   | \$15,245,861         | \$ 1,057,811                                                   |
| Deferred acquisition costs .....            | 4,137,925            | (5,270)                                                        | 3,958,063            | (10,819)                                                       | 3,783,158            | (10,281)                                                       |
| Total assets .....                          | 23,095,722           | 539,191                                                        | 23,474,985           | 1,963,405                                                      | 21,436,087           | 1,047,530                                                      |
| Short-term debt .....                       | 307,848              | —                                                              | 328,067              | —                                                              | 264,475              | —                                                              |
| Long-term debt .....                        | 1,357,185            | —                                                              | 1,132,201            | —                                                              | 1,133,165            | —                                                              |
| Shareholders' equity .....                  | 5,415,177            | 425,961                                                        | 6,231,421            | 1,551,090                                                      | 4,566,861            | 680,894                                                        |
| Book value per diluted share .....          | 48.11                | 3.79                                                           | 52.95                | 13.18                                                          | 37.76                | 5.63                                                           |
| Debt to capitalization <sup>(2)</sup> ..... | 23.5%                | (1.5)%                                                         | 19.0%                | (4.8)%                                                         | 23.4%                | (3.1)%                                                         |
| Diluted shares outstanding .....            | 112,561              | —                                                              | 117,696              | —                                                              | 120,958              | —                                                              |
| Actual shares outstanding .....             | 110,693              | —                                                              | 114,593              | —                                                              | 118,031              | —                                                              |

(1) Amount added to (deducted from) comprehensive income to produce the stated GAAP item.

(2) Torchmark's debt covenants require that the effect of the accounting guidance requiring revaluation be removed to determine this ratio. This ratio is computed by dividing total debt by the sum of debt and shareholders' equity.

Torchmark's ratio of earnings before interest and taxes to interest requirements (times interest earned) was 10.6 times in 2018, compared with 10.8 times in 2017 and 10.3 times in 2016 based on continuing operations. This times-interest-earned ratio is computed by dividing interest expense into the sum of pre-tax income from continuing operations and interest expense. A discussion of our interest expense is included in the discussion of financing costs under the caption *Investments* in this report.

**Financial Strength Ratings.** The financial strength of our major insurance subsidiaries is rated by Standard & Poor's and A. M. Best. The following chart presents these ratings for our five largest insurance subsidiaries at December 31, 2018.

|                        | Standard<br>& Poor's | A.M.<br>Best  |
|------------------------|----------------------|---------------|
| Liberty National ..... | AA-                  | A+ (Superior) |
| Globe Life .....       | AA-                  | A+ (Superior) |
| United American .....  | AA-                  | A+ (Superior) |
| American Income .....  | AA-                  | A+ (Superior) |
| Family Heritage .....  | NR                   | A+ (Superior) |

A.M. Best states that it assigns an A+ (Superior) rating to insurance companies that have, in its opinion, a superior ability to meet their ongoing insurance obligations.

The AA financial strength rating category is assigned by Standard & Poor's Corporation (S&P) to those insurers which have very strong capacity to meet its financial commitments which differs from the highest-rated insurers only to a small degree. An insurer rated A has strong capacity to meet its financial commitments but it is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than insurers in higher-rated categories. The plus sign (+) or minus sign (-) shows the relative standing within the major rating category.

## OTHER ITEMS

**Litigation.** Torchmark and its subsidiaries are subject to being named as parties to pending or threatened litigation, much of which involves punitive damage claims based upon allegations of agent misconduct at the insurance subsidiaries. Such punitive damage claims may have the potential for significant adverse results since Torchmark and its subsidiaries operate in jurisdictions where large punitive damage awards bearing little or no relation to actual damages continue to be awarded. This bespeaks caution since it is impossible to predict the likelihood or extent of punitive damages that may be awarded if liability is found in any given case. Based upon information presently available, and in light of legal and other factual defenses available to Torchmark and its subsidiaries, contingent liabilities arising from threatened and pending litigation are not presently considered by us to be material. For more information concerning litigation, please refer to *Note 6—Commitments and Contingencies*.

## CRITICAL ACCOUNTING POLICIES

**Future Policy Benefits.** Due to the long-term nature of insurance contracts, our insurance companies are liable for policy benefit payments that will be made in the future. The liability for future policy benefits is determined by standard actuarial procedures common to the life insurance industry. The accounting policies for determining this liability are disclosed in *Note 1—Significant Accounting Policies*.

Approximately 88% of our liabilities for future policy benefits at December 31, 2018 were traditional insurance liabilities where the liability is determined as the present value of future benefits less the present value of the portion of the gross premium required to pay for such benefits. The assumptions used in estimating the future benefits for this portion of business are set at the time of contract issue. These assumptions are “locked in” and are not revised for the lifetime of the contracts, except where there is a premium deficiency, as defined in *Note 1—Significant Accounting Policies* under the caption *Future Policy Benefits*. Otherwise, variability in the accrual of policy reserve liabilities after policy issuance is caused only by variability of the inventory of in force policies.

The remaining portion of liabilities for future policy benefits pertains to business accounted for as deposit business, where the recorded liability is the fund balance attributable to the benefit of policyholders as determined by the policy contract at the consolidated financial statement date. Accordingly, there are no assumptions used to determine the future policy benefit liability for deposit business.

**Deferred Acquisition Costs.** Certain costs of acquiring new business are deferred and recorded as an asset. Deferred acquisition costs consist primarily of sales commissions and other underwriting costs such as advertising related to the successful issuance of a new insurance contract as indicated in *Note 1—Significant Accounting Policies* under the caption *Deferred Acquisition Costs* in the *Notes to Consolidated Financial Statements*. Additionally, the cost of acquiring blocks of insurance business or insurance business through the purchase of other companies, known as the value of insurance acquired (VOBA), is included in deferred acquisition costs. Our policies for accounting for deferred acquisition costs and the associated amortization are reported under the same caption in *Note 1—Significant Accounting Policies*.

Over 99% of our recorded amounts for deferred acquisition costs at December 31, 2018 were related to traditional products and are being amortized over the premium-paying period in proportion to the present value of actual historic and estimated future gross premiums. The projection assumptions for this business are set at the time of contract issue. These assumptions are “locked-in” at that time and, except where there is a loss recognition issue, are not revised for the lifetime of the contracts. Absent a premium deficiency, variability in amortization after policy issuance is caused only by variability in premium volume. We have not recorded a deferred acquisition cost loss recognition event for assets related to this business for any period in the three years ended December 31, 2018.

Less than 1% of deferred acquisition costs pertain to deposit business for which deferred acquisition costs are amortized over the estimated lives of the contracts in proportion to actual and estimated future gross profits. These contracts are not subject to lock-in. The assumptions must be updated when actual experience or other evidence suggests that earlier estimates should be revised. Revisions related to our deposit business assets have not had a material impact on the amortization of deferred acquisition costs during the three years ended December 31, 2018.

**Policy Claims and Other Benefits Payable.** This liability consists of known benefits currently payable and an estimate of claims that have been incurred but not yet reported to us. The estimate of unreported claims is based on prior experience and is made after careful evaluation of all information available to us. However, the factors upon which these estimates are based can be subject to change from historical patterns. Factors involved include the litigation environment, regulatory mandates, and the introduction of policy types for which claim patterns are not well established, and medical trend rates and medical cost inflation as they affect our health claims. Changes in these estimates, if any, are reflected in the earnings of the period in which the adjustment is made. We believe that the estimates used to produce the liability for claims and other benefits, including the estimate of unsubmitted claims, are the most appropriate under the circumstances. However, there is no certainty that the resulting stated liability will be our ultimate obligation. At this time, we do not expect any change in this estimate to have a material impact on earnings or financial position consistent with our historical experience.

**Valuation of Fixed Maturities.** We hold a substantial investment in high-quality fixed maturities to provide for the funding of our future policy contractual obligations over long periods of time. While these securities are generally expected to be held to maturity, they are classified as available for sale and are sold from time to time, primarily to

manage risk. We report this portfolio at fair value. Fair value is the price that we would expect to receive upon sale of the asset in an orderly transaction. The fair value of the fixed maturity portfolio is primarily affected by changes in interest rates in financial markets, having a greater impact on longer-term maturities. Because of the size of our fixed maturity portfolio, small changes in rates can have a significant effect on the portfolio and the reported financial position of the Company. This impact is disclosed in 100 basis point increments under the caption *Market Risk Sensitivity* in this report. However, as discussed under the caption *Financial Condition* in this report, we believe these unrealized fluctuations in value have no meaningful impact on our actual financial condition and, as such, we remove them from consideration when viewing our financial position and financial ratios.

At times, the values of our fixed maturities can also be affected by illiquidity in the financial markets. Illiquidity would contribute to a spread widening, and accordingly to unrealized losses, on many securities that we would expect to be fully recoverable. Even though our fixed maturity portfolio is available for sale, we have the ability and intent to hold the securities until maturity as a result of our strong and stable cash flows generated from our insurance products. Considerable information concerning the policies, procedures, classification levels, and other relevant data concerning the valuation of our fixed maturity investments is presented in *Note 1—Significant Accounting Policies* and in *Note 4—Investments* under the captions *Fair Value Measurements* in both notes.

**Impairment of Investments.** We continually monitor our investment portfolio for investments where fair value has declined below carrying value and that have become impaired in value. While the values of the investments in our portfolio constantly fluctuate due to market conditions, an other-than-temporary impairment charge is recorded only when a security has experienced a decline in fair market value which is deemed to be other than temporary. The policies and procedures that we use to evaluate and account for impairments of investments are disclosed in *Note 1—Significant Accounting Policies* and the discussions under the captions *Investments* and *Realized Gains and Losses* in this report. While every effort is made to make the best estimate of status and value with the information available regarding an other-than-temporary impairment, it is difficult to predict the future prospects of a distressed or impaired security.

**Defined benefit pension plans.** We maintain funded defined benefit plans covering most full-time employees. We also have an unfunded nonqualified defined benefit plan covering certain key and other employees. Our obligations under these plans are determined actuarially based on specified actuarial assumptions. In accordance with GAAP, an expense is recorded each year as these pension obligations grow due to the increase in the service period of employees and the interest cost associated with the passage of time. These obligations are offset, at least in part, by the growth in value of the assets in the funded plans. At December 31, 2018, our gross liability under these plans was \$556 million, but was offset by assets of \$393 million.

The actuarial assumptions used in determining our obligations for pensions include employee mortality and turnover, retirement age, the expected return on plan assets, projected salary increases, and the discount rate at which future obligations could be settled. These assumptions have an important effect on the pension obligation. A decrease in the discount rate or rate of return on plan assets will cause an increase in the pension obligation. A decrease in projected salary increases will cause a decrease in this obligation. Small changes in assumptions may cause significant differences in reported results for these plans. For example, a sensitivity analysis is presented below for the impact of change in the discount rate and the long-term rate of return on assets assumed on our defined benefit pension plans expense for the year 2018 and projected benefit obligation as of December 31, 2018.

**Pension Assumptions**  
(Dollar amounts in thousands)

| Assumption                            | Change <sup>(1)</sup> | Impact on<br>Expense | Impact on Projected<br>Benefit Obligation |
|---------------------------------------|-----------------------|----------------------|-------------------------------------------|
| <b>Discount Rate<sup>(2)</sup>:</b>   |                       |                      |                                           |
| Increase .....                        | 25                    | \$ (2,450)           | \$ (20,542)                               |
| Decrease .....                        | (25)                  | 2,679                | 21,765                                    |
| <b>Expected Return<sup>(3)</sup>:</b> |                       |                      |                                           |
| Increase .....                        | 25                    | (1,037)              | —                                         |
| Decrease .....                        | (25)                  | 1,037                | —                                         |

(1) In basis points.

(2) The discount rate for determining the net periodic benefit cost was 3.75% for 2018. The discount rate used for determining the projected benefit obligation as of December 31, 2018 was 4.37%.

(3) The expected long-term return rate assumed was 6.72%.

The Company determines mortality assumptions through the use of published mortality tables that reflect broad-based studies of mortality and published longevity improvement scales.

The criteria used to determine the primary assumptions are discussed in *Note 9—Postretirement Benefits*. While we have used our best efforts to determine the most reliable assumptions, given the information available from Company experience, economic data, independent consultants and other sources, we cannot be certain that actual results will be the same as expected. The assumptions are reviewed annually and revised, if necessary, based on more current information available to us. *Note 9—Postretirement Benefits* also contains information about pension plan assets, investment policies, and other related data.

## CAUTIONARY STATEMENTS

We caution readers regarding certain forward-looking statements contained in the foregoing discussion and elsewhere in this document, and in any other statements made by us or on our behalf whether or not in future filings with the Securities and Exchange Commission. Any statement that is not a historical fact, or that might otherwise be considered an opinion or projection concerning us or our business, whether express or implied, is meant as and should be considered a forward-looking statement. Such statements represent our opinions concerning future operations, strategies, financial results or other developments.

Forward-looking statements are based upon estimates and assumptions that are subject to significant business, economic and competitive uncertainties, many of which are beyond our control. If these estimates or assumptions prove to be incorrect, the actual results may differ materially from the forward-looking statements made on the basis of such estimates or assumptions. Whether or not actual results differ materially from forward-looking statements may depend on numerous foreseeable and unforeseeable events or developments, which may be national in scope, related to the insurance industry generally, or applicable to Torchmark specifically. Such events or developments could include, but are not necessarily limited to:

- (1) Changes in lapse rates and/or sales of our insurance policies as well as levels of mortality, morbidity, and utilization of healthcare services that differ from our assumptions;
- (2) Federal and state legislative and regulatory developments, particularly those impacting taxes and changes to the federal Medicare program that would affect Medicare Supplement;
- (3) Market trends in the senior-aged health care industry that provide alternatives to traditional Medicare, such as health maintenance organizations (HMOs) and other managed care or private plans, and that could affect the sales of traditional Medicare Supplement insurance;
- (4) Interest rate changes that affect product sales and/or investment portfolio yield;
- (5) General economic, industry sector or individual debt issuers' financial conditions that may affect the current market value of securities that we own, or that may impair issuers' ability to pay interest due us on those securities;
- (6) Changes in pricing competition;
- (7) Litigation results;
- (8) Levels of administrative and operational efficiencies that differ from our assumptions;
- (9) Our inability to obtain timely and appropriate premium rate increases for health insurance policies due to regulatory delay;
- (10) The customer response to new products and marketing initiatives; and
- (11) Reported amounts in the consolidated financial statements which are based on our estimates and judgments which may differ from the actual amounts ultimately realized.

Readers are also directed to consider other risks and uncertainties described in our other documents on file with the Securities and Exchange Commission.

## ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Information required by this item is found under the heading *Market Risk Sensitivity* in *Item 7* of this report.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

**Consolidated Financial Statements Index**

|                                                                                                                                | <b>Page</b> |
|--------------------------------------------------------------------------------------------------------------------------------|-------------|
| Report of Independent Registered Public Accounting Firm .....                                                                  | 51          |
| Consolidated Financial Statements:                                                                                             |             |
| Consolidated Balance Sheets at December 31, 2018 and 2017 .....                                                                | 52          |
| Consolidated Statements of Operations for each of the three years in the period ended December 31, 2018 .....                  | 53          |
| Consolidated Statements of Comprehensive Income (Loss) for each of the three years in the period ended December 31, 2018 ..... | 54          |
| Consolidated Statements of Shareholders' Equity for each of the three years in the period ended December 31, 2018 .....        | 55          |
| Consolidated Statements of Cash Flows for each of the three years in the period ended December 31, 2018 .....                  | 56          |
| Notes to Consolidated Financial Statements .....                                                                               | 57          |

## **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the shareholders and the Board of Directors of Torchmark Corporation (McKinney, Texas)

### **Opinion on the Financial Statements**

We have audited the accompanying consolidated balance sheets of Torchmark Corporation and subsidiaries ("Torchmark") as of December 31, 2018 and 2017, the related consolidated statements of operations, comprehensive income, shareholders' equity, and cash flows, for each of the three years in the period ended December 31, 2018, and the related notes and the schedules listed in the Index at Item 15 (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of Torchmark as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), Torchmark's internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 28, 2019, expressed an unqualified opinion on Torchmark's internal control over financial reporting.

### **Basis for Opinion**

These financial statements are the responsibility of Torchmark's management. Our responsibility is to express an opinion on Torchmark's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to Torchmark in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ DELOITTE & TOUCHE LLP  
Dallas, Texas  
February 28, 2019

We have served as Torchmark's auditor since 1999.

**TORCHMARK CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**  
(Dollar amounts in thousands, except per share data)

|                                                                                                                                            | <b>December 31,</b>  |                      |
|--------------------------------------------------------------------------------------------------------------------------------------------|----------------------|----------------------|
|                                                                                                                                            | <b>2018</b>          | <b>2017</b>          |
| <b>Assets:</b>                                                                                                                             |                      |                      |
| Investments:                                                                                                                               |                      |                      |
| Fixed maturities—available for sale, at fair value (amortized cost: 2018—\$15,753,471; 2017—\$14,995,101) .....                            | \$ 16,297,932        | \$ 16,969,325        |
| Policy loans .....                                                                                                                         | 550,066              | 529,529              |
| Other long-term investments (includes: 2018—\$108,241; 2017—\$0, under the fair value option) .....                                        | 207,258              | 108,559              |
| Short-term investments .....                                                                                                               | 63,288               | 127,071              |
| Total investments .....                                                                                                                    | <u>17,118,544</u>    | <u>17,734,484</u>    |
| Cash .....                                                                                                                                 | 121,026              | 118,563              |
| Accrued investment income .....                                                                                                            | 243,003              | 233,453              |
| Other receivables .....                                                                                                                    | 415,157              | 391,775              |
| Deferred acquisition costs .....                                                                                                           | 4,137,925            | 3,958,063            |
| Goodwill .....                                                                                                                             | 441,591              | 441,591              |
| Other assets .....                                                                                                                         | 549,899              | 528,536              |
| Assets related to discontinued operations .....                                                                                            | 68,577               | 68,520               |
| Total assets .....                                                                                                                         | <u>\$ 23,095,722</u> | <u>\$ 23,474,985</u> |
| <b>Liabilities:</b>                                                                                                                        |                      |                      |
| Future policy benefits .....                                                                                                               | \$ 13,953,826        | \$ 13,439,472        |
| Unearned and advance premiums .....                                                                                                        | 61,208               | 61,430               |
| Policy claims and other benefits payable .....                                                                                             | 350,826              | 333,294              |
| Other policyholders' funds .....                                                                                                           | 97,459               | 97,635               |
| Total policy liabilities .....                                                                                                             | <u>14,463,319</u>    | <u>13,931,831</u>    |
| Current and deferred income taxes payable .....                                                                                            | 1,047,737            | 1,312,002            |
| Other liabilities .....                                                                                                                    | 453,270              | 489,609              |
| Short-term debt .....                                                                                                                      | 307,848              | 328,067              |
| Long-term debt (estimated fair value: 2018—\$1,384,455; 2017—\$1,228,392) .....                                                            | 1,357,185            | 1,132,201            |
| Liabilities related to discontinued operations .....                                                                                       | 51,186               | 49,854               |
| Total liabilities .....                                                                                                                    | <u>17,680,545</u>    | <u>17,243,564</u>    |
| Commitments and Contingencies (Note 6)                                                                                                     |                      |                      |
| <b>Shareholders' equity:</b>                                                                                                               |                      |                      |
| Preferred stock, par value \$1 per share—5,000,000 shares authorized; outstanding: 0 in 2018 and 2017 .....                                | —                    | —                    |
| Common stock, par value \$1 per share—320,000,000 shares authorized; outstanding: (2018—121,218,183 issued; 2017—124,218,183 issued) ..... | 121,218              | 124,218              |
| Additional paid-in capital .....                                                                                                           | 524,414              | 508,476              |
| Accumulated other comprehensive income (loss) .....                                                                                        | 319,475              | 1,424,274            |
| Retained earnings .....                                                                                                                    | 5,213,468            | 4,806,208            |
| Treasury stock, at cost: (2018—10,525,147 shares; 2017—9,625,104 shares) .....                                                             | (763,398)            | (631,755)            |
| Total shareholders' equity .....                                                                                                           | <u>5,415,177</u>     | <u>6,231,421</u>     |
| Total liabilities and shareholders' equity .....                                                                                           | <u>\$ 23,095,722</u> | <u>\$ 23,474,985</u> |

See accompanying Notes to Consolidated Financial Statements.

**TORCHMARK CORPORATION**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(Dollar amounts in thousands, except per share data)

|                                                                      | Year Ended December 31, |                     |                   |
|----------------------------------------------------------------------|-------------------------|---------------------|-------------------|
|                                                                      | 2018                    | 2017                | 2016              |
| <b>Revenue:</b>                                                      |                         |                     |                   |
| Life premium .....                                                   | \$ 2,406,555            | \$ 2,306,547        | \$ 2,189,333      |
| Health premium .....                                                 | 1,015,339               | 976,373             | 947,663           |
| Other premium .....                                                  | 12                      | 15                  | 38                |
| Total premium .....                                                  | 3,421,906               | 3,282,935           | 3,137,034         |
| Net investment income .....                                          | 882,512                 | 847,885             | 806,903           |
| Realized gains (losses) .....                                        | (1,804)                 | 23,611              | (10,683)          |
| Other income .....                                                   | 1,137                   | 1,142               | 1,375             |
| Total revenue .....                                                  | 4,303,751               | 4,155,573           | 3,934,629         |
| <b>Benefits and expenses:</b>                                        |                         |                     |                   |
| Life policyholder benefits .....                                     | 1,591,790               | 1,558,261           | 1,479,272         |
| Health policyholder benefits .....                                   | 649,188                 | 633,778             | 612,725           |
| Other policyholder benefits .....                                    | 34,264                  | 35,836              | 36,751            |
| Total policyholder benefits .....                                    | 2,275,242               | 2,227,875           | 2,128,748         |
| Amortization of deferred acquisition costs .....                     | 516,690                 | 490,403             | 469,063           |
| Commissions, premium taxes, and non-deferred acquisition costs ..... | 278,487                 | 264,860             | 249,174           |
| Other operating expense .....                                        | 279,585                 | 257,255             | 232,064           |
| Interest expense .....                                               | 90,076                  | 84,532              | 83,345            |
| Total benefits and expenses .....                                    | 3,440,080               | 3,324,925           | 3,162,394         |
| Income before income taxes .....                                     | 863,671                 | 830,648             | 772,235           |
| Income tax benefit (expense) .....                                   | (162,161)               | 627,615             | (232,645)         |
| <b>Income from continuing operations</b> .....                       | <b>701,510</b>          | <b>1,458,263</b>    | <b>539,590</b>    |
| Discontinued operations:                                             |                         |                     |                   |
| Income (loss) from discontinued operations, net of tax .....         | (44)                    | (3,769)             | 10,189            |
| <b>Net income</b> .....                                              | <b>\$ 701,466</b>       | <b>\$ 1,454,494</b> | <b>\$ 549,779</b> |
| Basic net income (loss) per common share:                            |                         |                     |                   |
| Continuing operations .....                                          | \$ 6.22                 | \$ 12.53            | \$ 4.50           |
| Discontinued operations .....                                        | —                       | (0.03)              | 0.08              |
| <b>Total basic net income per common share</b> .....                 | <b>\$ 6.22</b>          | <b>\$ 12.50</b>     | <b>\$ 4.58</b>    |
| Diluted net income (loss) per common share:                          |                         |                     |                   |
| Continuing operations .....                                          | \$ 6.09                 | \$ 12.26            | \$ 4.41           |
| Discontinued operations .....                                        | —                       | (0.04)              | 0.08              |
| <b>Total diluted net income per common share</b> .....               | <b>\$ 6.09</b>          | <b>\$ 12.22</b>     | <b>\$ 4.49</b>    |

See accompanying Notes to Consolidated Financial Statements.

**TORCHMARK CORPORATION**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**  
(Dollar amounts in thousands)

|                                                                                           | Year Ended December 31, |                     |                   |
|-------------------------------------------------------------------------------------------|-------------------------|---------------------|-------------------|
|                                                                                           | 2018                    | 2017                | 2016              |
| <b>Net income</b> .....                                                                   | \$ 701,466              | \$ 1,454,494        | \$ 549,779        |
| <b>Other comprehensive income (loss):</b>                                                 |                         |                     |                   |
| <b>Investments:</b>                                                                       |                         |                     |                   |
| Unrealized gains (losses) on securities:                                                  |                         |                     |                   |
| Unrealized holding gains (losses) arising during period .....                             | (1,426,581)             | 950,088             | 544,886           |
| Reclassification adjustment for (gains) losses on securities included in net income ..... | (5,715)                 | (34,954)            | 10,645            |
| Reclassification adjustment for amortization of (discount) premium .....                  | 3,957                   | (47)                | (4,185)           |
| Foreign exchange adjustment on securities recorded at fair value .....                    | (1,424)                 | 1,326               | 312               |
| Unrealized gains (losses) on securities .....                                             | (1,429,763)             | 916,413             | 551,658           |
| Unrealized gains (losses) on other investments:                                           |                         |                     |                   |
| Unrealized holding gains (losses) arising during period .....                             | (5,155)                 | 5,008               | 2,503             |
| Reclassification adjustment for (gains) losses included in net income .....               | —                       | —                   | (360)             |
| Unrealized gains (losses) on other investments .....                                      | (5,155)                 | 5,008               | 2,143             |
| Total unrealized investment gains (losses) .....                                          | (1,434,918)             | 921,421             | 553,801           |
| Less applicable (taxes) benefits .....                                                    | 301,327                 | (322,553)           | (193,820)         |
| Unrealized gains (losses) on investments, net of tax .....                                | (1,133,591)             | 598,868             | 359,981           |
| <b>Deferred acquisition costs:</b>                                                        |                         |                     |                   |
| Unrealized gains (losses) attributable to deferred acquisition costs .....                | 5,549                   | (538)               | (2,412)           |
| Less applicable (taxes) benefits .....                                                    | (1,165)                 | 188                 | 845               |
| Unrealized gains (losses) attributable to deferred acquisition costs, net of tax .....    | 4,384                   | (350)               | (1,567)           |
| <b>Foreign exchange translation:</b>                                                      |                         |                     |                   |
| Foreign exchange translation adjustments, other than securities .....                     | (12,417)                | 11,389              | 2,178             |
| Less applicable (taxes) benefits .....                                                    | 2,610                   | (2,937)             | (838)             |
| Foreign exchange translation adjustments, other than securities, net of tax...            | (9,807)                 | 8,452               | 1,340             |
| <b>Pension:</b>                                                                           |                         |                     |                   |
| Pension adjustments:                                                                      |                         |                     |                   |
| Amortization of pension costs .....                                                       | 15,095                  | 12,436              | 10,168            |
| Plan amendments .....                                                                     | (2,377)                 | —                   | —                 |
| Experience gain (loss) .....                                                              | 30,591                  | (31,933)            | (31,902)          |
| Pension adjustments .....                                                                 | 43,309                  | (19,497)            | (21,734)          |
| Less applicable (taxes) benefits .....                                                    | (9,094)                 | 6,827               | 7,607             |
| Pension adjustments, net of tax .....                                                     | 34,215                  | (12,670)            | (14,127)          |
| Other comprehensive income (loss) .....                                                   | (1,104,799)             | 594,300             | 345,627           |
| <b>Comprehensive income (loss)</b> .....                                                  | <u>\$ (403,333)</u>     | <u>\$ 2,048,794</u> | <u>\$ 895,406</u> |

See accompanying Notes to Consolidated Financial Statements.

**TORCHMARK CORPORATION**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**  
(Dollar amounts in thousands, except per share data)

|                                                    | Preferred Stock | Common Stock      | Additional Paid-in Capital | Accumulated Other Comprehensive Income (Loss) | Retained Earnings   | Treasury Stock      | Total Shareholders' Equity |
|----------------------------------------------------|-----------------|-------------------|----------------------------|-----------------------------------------------|---------------------|---------------------|----------------------------|
| <b>Year Ended December 31, 2016</b>                |                 |                   |                            |                                               |                     |                     |                            |
| Balance at January 1, 2016 .....                   | \$ —            | \$ 130,218        | \$ 482,284                 | \$ 231,947                                    | \$ 3,614,369        | \$ (403,266)        | \$ 4,055,552               |
| Comprehensive income (loss) .....                  | —               | —                 | —                          | 345,627                                       | 549,779             | —                   | 895,406                    |
| Common dividends declared (\$ .56 per share) ..... | —               | —                 | —                          | —                                             | (66,968)            | —                   | (66,968)                   |
| Acquisition of treasury stock .....                | —               | —                 | —                          | —                                             | —                   | (404,784)           | (404,784)                  |
| Stock-based compensation .....                     | —               | —                 | 19,659                     | —                                             | (2,224)             | 8,891               | 26,326                     |
| Exercise of stock options .....                    | —               | —                 | —                          | —                                             | (53,845)            | 115,174             | 61,329                     |
| Retirement of treasury stock .....                 | —               | (3,000)           | (11,522)                   | —                                             | (150,313)           | 164,835             | —                          |
| <b>Balance at December 31, 2016</b> ....           | <b>—</b>        | <b>127,218</b>    | <b>490,421</b>             | <b>577,574</b>                                | <b>3,890,798</b>    | <b>(519,150)</b>    | <b>4,566,861</b>           |
| <b>Year Ended December 31, 2017</b>                |                 |                   |                            |                                               |                     |                     |                            |
| Comprehensive income (loss) .....                  | —               | —                 | —                          | 594,300                                       | 1,454,494           | —                   | 2,048,794                  |
| Common dividends declared (\$ .60 per share) ..... | —               | —                 | —                          | —                                             | (69,494)            | —                   | (69,494)                   |
| Acquisition of treasury stock .....                | —               | —                 | —                          | —                                             | —                   | (412,989)           | (412,989)                  |
| Stock-based compensation .....                     | —               | —                 | 30,190                     | —                                             | (606)               | 7,450               | 37,034                     |
| Exercise of stock options .....                    | —               | —                 | —                          | —                                             | (38,333)            | 99,548              | 61,215                     |
| Reclassifications, Tax Reform .....                | —               | —                 | —                          | 252,400                                       | (252,400)           | —                   | —                          |
| Retirement of treasury stock .....                 | —               | (3,000)           | (12,135)                   | —                                             | (178,251)           | 193,386             | —                          |
| <b>Balance at December 31, 2017</b> ....           | <b>—</b>        | <b>124,218</b>    | <b>508,476</b>             | <b>1,424,274</b>                              | <b>4,806,208</b>    | <b>(631,755)</b>    | <b>6,231,421</b>           |
| <b>Year Ended December 31, 2018</b>                |                 |                   |                            |                                               |                     |                     |                            |
| Comprehensive income (loss) .....                  | —               | —                 | —                          | (1,104,799)                                   | 701,466             | —                   | (403,333)                  |
| Common dividends declared (\$ .64 per share) ..... | —               | —                 | —                          | —                                             | (71,941)            | —                   | (71,941)                   |
| Acquisition of treasury stock .....                | —               | —                 | —                          | —                                             | —                   | (421,749)           | (421,749)                  |
| Stock-based compensation .....                     | —               | —                 | 28,836                     | —                                             | (1,803)             | 12,759              | 39,792                     |
| Exercise of stock options .....                    | —               | —                 | —                          | —                                             | (24,811)            | 60,902              | 36,091                     |
| Adoption of ASU 2016-01 <sup>(1)</sup> .....       | —               | —                 | —                          | —                                             | 4,896               | —                   | 4,896                      |
| Retirement of treasury stock .....                 | —               | (3,000)           | (12,898)                   | —                                             | (200,547)           | 216,445             | —                          |
| <b>Balance at December 31, 2018</b> ....           | <b>\$ —</b>     | <b>\$ 121,218</b> | <b>\$ 524,414</b>          | <b>\$ 319,475</b>                             | <b>\$ 5,213,468</b> | <b>\$ (763,398)</b> | <b>\$ 5,415,177</b>        |

(1) In January 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-01, Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, which primarily revises the classification and measurement of certain equity investments such that they will be measured at fair value through net income. Additionally, the guidance eliminates the cost method for certain partnerships and joint ventures and requires these types of investments to be accounted for under the fair value through net income or equity method. This standard became effective for the Company on January 1, 2018. See further discussion in *Note 1—Significant Accounting Policies*.

See accompanying Notes to Consolidated Financial Statements.

**TORCHMARK CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Dollar amounts in thousands)

|                                                                                                             | Year Ended December 31, |                   |                    |
|-------------------------------------------------------------------------------------------------------------|-------------------------|-------------------|--------------------|
|                                                                                                             | 2018                    | 2017              | 2016               |
| <b>Net income</b> .....                                                                                     | \$ 701,466              | \$ 1,454,494      | \$ 549,779         |
| Adjustments to reconcile net income from continuing operations to cash provided from continuing operations: |                         |                   |                    |
| Loss (income) from discontinued operations, net of income taxes .....                                       | 44                      | 3,769             | (10,189)           |
| Increase (decrease) in future policy benefits .....                                                         | 664,997                 | 687,407           | 645,844            |
| Increase (decrease) in other policy benefits .....                                                          | 17,134                  | 31,784            | 24,668             |
| Deferral of policy acquisition costs .....                                                                  | (699,551)               | (660,134)         | (635,318)          |
| Amortization of deferred policy acquisition costs .....                                                     | 516,690                 | 490,403           | 469,063            |
| Change in current and deferred income taxes .....                                                           | 69,369                  | (700,660)         | 152,210            |
| Realized (gains) losses .....                                                                               | 1,804                   | (23,611)          | 10,683             |
| Other, net .....                                                                                            | 4,463                   | 67,933            | 20,079             |
| Net cash provided from (used for) continuing operations .....                                               | 1,276,416               | 1,351,385         | 1,226,819          |
| Net cash provided from (used for) discontinued operations .....                                             | 1,231                   | 77,673            | 171,889            |
| <b>Cash provided from (used for) operating activities</b> .....                                             | <b>1,277,647</b>        | <b>1,429,058</b>  | <b>1,398,708</b>   |
| <b>Cash provided from (used for) investing activities:</b>                                                  |                         |                   |                    |
| Investments sold or matured:                                                                                |                         |                   |                    |
| Fixed maturities available for sale—sold .....                                                              | 32,021                  | 67,246            | 340,434            |
| Fixed maturities available for sale—matured, called, and repaid .....                                       | 343,712                 | 488,843           | 236,353            |
| Other long-term investments .....                                                                           | 477                     | 3,534             | 1,217              |
| Total investments sold or matured .....                                                                     | 376,210                 | 559,623           | 578,004            |
| Acquisition of investments:                                                                                 |                         |                   |                    |
| Fixed maturities—available for sale .....                                                                   | (1,155,539)             | (1,314,609)       | (1,530,053)        |
| Other long-term investments .....                                                                           | (93,631)                | (55,096)          | (20,444)           |
| Total investments acquired .....                                                                            | (1,249,170)             | (1,369,705)       | (1,550,497)        |
| Net (increase) decrease in policy loans .....                                                               | (20,537)                | (21,554)          | (15,513)           |
| Net (increase) decrease in short-term investments .....                                                     | 63,783                  | (55,031)          | (17,274)           |
| Additions to properties .....                                                                               | (45,092)                | (20,285)          | (25,162)           |
| Sale of other assets .....                                                                                  | 1,987                   | 18                | 90                 |
| Investments in low-income housing interests .....                                                           | (23,404)                | (19,890)          | (32,084)           |
| <b>Cash provided from (used for) investing activities</b> .....                                             | <b>(896,223)</b>        | <b>(926,824)</b>  | <b>(1,062,436)</b> |
| <b>Cash provided from (used for) financing activities:</b>                                                  |                         |                   |                    |
| Issuance of common stock .....                                                                              | 36,091                  | 61,215            | 61,329             |
| Cash dividends paid to shareholders .....                                                                   | (71,421)                | (68,831)          | (66,931)           |
| Repayment of debt .....                                                                                     | (327,762)               | (126,875)         | (250,000)          |
| Proceeds from issuance of debt .....                                                                        | 550,000                 | 125,000           | 400,000            |
| Payment for debt issuance costs .....                                                                       | (6,969)                 | (1,661)           | (9,638)            |
| Net borrowing (repayment) of commercial paper .....                                                         | (22,719)                | 61,092            | 22,224             |
| Acquisition of treasury stock .....                                                                         | (421,749)               | (412,989)         | (404,784)          |
| Net receipts (payments) from deposit-type product .....                                                     | (126,991)               | (90,932)          | (71,991)           |
| <b>Cash provided from (used for) financing activities</b> .....                                             | <b>(391,520)</b>        | <b>(453,981)</b>  | <b>(319,791)</b>   |
| Effect of foreign exchange rate changes on cash .....                                                       | 12,559                  | (5,853)           | (1,701)            |
| Increase (decrease) in cash .....                                                                           | 2,463                   | 42,400            | 14,780             |
| Cash at beginning of year .....                                                                             | 118,563                 | 76,163            | 61,383             |
| Cash at end of year .....                                                                                   | <u>\$ 121,026</u>       | <u>\$ 118,563</u> | <u>\$ 76,163</u>   |

See accompanying Notes to Consolidated Financial Statements.

**TORCHMARK CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(Dollar amounts in thousands, except per share data)

**Note 1—Significant Accounting Policies**

**Business:** Torchmark Corporation (Torchmark or alternatively, the Company) through its wholly-owned subsidiaries provides a variety of life and supplemental health insurance products and annuities to a broad base of customers. Torchmark is organized into four reportable segments: life insurance, health insurance, annuity, and investment.

**Basis of Presentation:** The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), under guidance issued by the Financial Accounting Standards Board (FASB). The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Principles of Consolidation:** The consolidated financial statements include the results of Torchmark and its wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation. When Torchmark acquires a subsidiary or a block of business, the assets acquired and the liabilities assumed are measured at fair value at the acquisition date. Any excess of acquisition cost over the fair value of net assets is recorded as goodwill. Expenses incurred to effect the acquisition are charged to earnings as of the acquisition date. Upon acquisition, the accounts and results of operations are consolidated as of and subsequent to the acquisition date.

Torchmark accounts for its variable interest entities (VIEs) under accounting guidance which clarifies the definition of a variable interest and the instructions for consolidating VIEs. Only primary beneficiaries are required or allowed to consolidate VIEs. Therefore, a company may have voting control of a VIE, but if it is not the primary beneficiary, it is not permitted to consolidate the VIE. As further described under the caption *Low-Income Housing Tax Credit Interests* below in this note, Torchmark holds passive interests in limited partnerships which provide investment returns through the provision of tax benefits (principally from the transfer of federal or state tax credits related to federal low-income housing). These interests are considered to be VIEs. They are not consolidated because the Company has no power to control the activities that most significantly affect the economic performance of these entities and therefore the Company is not the primary beneficiary of any of these interests. Torchmark's involvement is limited to its limited partnership interest in the entities. Torchmark 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.

**Discontinued Operations:** When a component of Torchmark's business is sold or expected to be sold during the ensuing year, Torchmark considers whether the criteria of ASC 205-20, *Discontinued Operations*, have been met, which includes evaluating if the disposal of a component represents a strategic shift that has, or will have, a major effect on the Company. If the disposal meets the criteria for discontinued operations, the assets and liabilities are segregated and recorded in the *Consolidated Balance Sheets* as "Assets and Liabilities related to discontinued operations" for all periods presented. If the carrying amount of the business exceeds its estimated fair value, a loss is recognized. The results of operations for the discontinued component are reported in "Income from discontinued operations, net of tax" in the *Consolidated Statements of Operations* for current and prior periods. Discontinued operations are reported commencing in the period in which the business is either disposed of or meets the accounting criteria for discontinued operations, including any gain or loss recognized on the sale or adjustment of the carrying amount to the estimated fair value less cost to sell.

Torchmark sold one of its operating segments, Medicare Part D, during 2016. The financial results of this business are excluded from Torchmark's continuing operations including the *Notes to the Consolidated Financial Statements*.

**Investments:** Torchmark classifies all of its fixed maturity investments as available for sale. Investments classified as available for sale are carried at fair value with unrealized gains and losses, net of deferred taxes, reflected directly in accumulated other comprehensive income. Policy loans are carried at unpaid principal balances. Other long-term investments include equity securities, real estate, commercial mortgage loan participations, and limited partnerships.

**TORCHMARK CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
(Dollar amounts in thousands, except per share data)

**Note 1—Significant Accounting Policies (continued)**

Investments in equity securities are reported at fair value with changes in fair value, net of deferred taxes, reflected directly in "Realized Gains (Losses)" in the *Consolidated Statements of Operations*. Investments in real estate are reported at cost less allowances for depreciation. Depreciation is calculated on the straight-line method. Investments in certain limited partnerships are accounted for using the fair value option and fluctuations in fair value are reported in "Realized Gains (Losses)." Short-term investments include investments in interest-bearing assets with original maturities of twelve months or less. Gains and losses realized on the disposition of investments are determined on a specific identification basis.

Commercial mortgage loan participations, a type of investment where the mortgage loan is shared among investors, are accounted for as financing receivables. The commercial mortgage loan participations are managed by a third party. The Company purchased the legal rights to interests in commercial mortgage loans which are secured by properties such as hotels, retail, multiple family, or offices. The commercial mortgage loans typically have a term of three years with the option to extend up to two years. The commercial mortgages loans are recorded at unpaid principal balance, net of unamortized origination fees and net of allowance for loan losses, if applicable. Interest income, net of the amortization of origination fees, is recorded in "Net Investment Income" under the effective yield method. The Company evaluates the performance and credit quality of each individual commercial mortgage on a quarterly basis, or as needed, by utilizing common metrics such as loan-to-value and debt service coverage ratios as well as evaluating the fair value of the underlying collateral. The fair value of the underlying collateral is based on a third party appraisal of the property. The Company will also determine the probability of estimated losses for each commercial mortgage loan and record an allowance if conclusions are reached that collection of principal and interest are not probable. The allowance for loan losses are based on estimates, historical experience, probability of loss, value of the underlying collateral, and macro factors that affect the collectability of the loan. All assumptions are reviewed and updated as necessary.

*Fair Value Measurements, Investments in Securities:* Torchmark measures the fair value of its fixed maturities based on a hierarchy consisting of three levels which indicate the quality of the fair value measurements as described below:

- *Level 1*—fair values are based on quoted prices in active markets for identical assets or liabilities that the Company has the ability to access as of the measurement date.
- *Level 2*—fair values are based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, or inputs that can otherwise be corroborated by observable market data.
- *Level 3*—fair values are based on inputs that are considered unobservable where there is little, if any, market activity for the asset or liability as of the measurement date. In this circumstance, the Company has to rely on values derived by independent brokers or internally-developed assumptions. Unobservable inputs are developed based on the best information available to the Company which may include the Company's own data or bid and ask prices in the dealer market.

The great majority of Torchmark's fixed maturities are not actively traded and direct quotes are not generally available. Management therefore determines the fair values of these securities after consideration of data provided by third-party pricing services, independent broker/dealers, and other resources. At December 31, 2018, Torchmark's investments in fixed maturities were primarily composed of the following significant security types: corporate securities, state and municipal securities, and U.S. government securities. The remaining security types represented less than 2% of the total in the aggregate.

Over 95% of the fair value reported at December 31, 2018 was 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.

**TORCHMARK CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
(Dollar amounts in thousands, except per share data)

**Note 1—Significant Accounting Policies (continued)**

For all asset classes within Torchmark's significant security types, third-party pricing 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 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.

Torchmark invests in a portfolio of private placement fixed maturities that 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 they cannot be corroborated, the fair values are classified as Level 3.

The fair values for each class of security and by valuation hierarchy level are indicated in *Note 4—Investments* under the caption *Fair value measurements* and *Note 9—Postretirement Benefits* under the caption *Pension Plans*.

***Fair Value Measurements, Other Financial Instruments:*** Fair values for cash, short-term investments, short-term debt, commercial mortgage loan participations, limited partnerships, receivables, and payables approximate carrying value. 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 commercial mortgage loan participations and the limited partnerships are classified as level 3. Policy loans are an integral part of Torchmark's subsidiaries' life insurance policies in force and their fair values cannot be valued separately and apart from the insurance contracts.

The fair values of Torchmark's long-term debt issues are based on the same methodology as investments in fixed maturities. At December 31, 2018, observable inputs were available for these debt securities and as such were classified

**TORCHMARK CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
(Dollar amounts in thousands, except per share data)

**Note 1—Significant Accounting Policies (continued)**

as Level 2 in the valuation hierarchy. The fair value for each debt instrument as of December 31, 2018 is disclosed in *Note 11—Debt*.

As described in *Note 9—Postretirement Benefits*, Torchmark maintains a nonqualified supplemental retirement plan. Therefore the assets, that support the liability for this plan, are considered general assets of the Company. These assets consist of the cash value of corporate-owned life insurance policies (COLI) and exchange traded funds (ETFs). The fair value of the insurance cash values approximates carrying value. Fair values for the ETFs are derived from direct quotes and are considered Level 1 in the valuation hierarchy.

*Impairment of Investments:* Torchmark's portfolio of fixed maturities fluctuates in value due to changes in interest rates in the financial markets as well as other factors. Fluctuations caused by market interest rate changes have little bearing on whether or not the investment will be ultimately recoverable. Therefore, Torchmark considers these declines in value resulting from changes in market interest rates to be temporary. In certain circumstances, however, Torchmark determines that the decline in the value of a security is other-than-temporary and writes the book value of the security down to its fair value, realizing an investment loss. The evaluation of Torchmark's securities for other-than-temporary impairments is a process that is undertaken at least quarterly and is overseen by a team of investment and accounting professionals. Each security, which is impaired because the fair value is less than the cost or amortized cost, is identified and evaluated. The determination that an impairment is other-than-temporary is highly subjective and involves the careful consideration of many factors. Among the factors considered are:

- The length of time and extent to which the security has been impaired
- The reason(s) for the impairment
- The financial condition of the issuer and the 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 underlying collateral
- News and information included in press releases issued by the issuer
- News and information reported in the media concerning the issuer
- News and information published by or otherwise provided by securities, economic, or research analysts
- The nature and amount of recent and expected future sources and uses of cash
- Default on a required payment
- Issuer bankruptcy filings

While all available information is taken into account, it is difficult to predict the ultimate recoverable amount of a distressed or impaired security. If a security is determined to be other-than-temporarily impaired, the cost basis of the

**TORCHMARK CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
(Dollar amounts in thousands, except per share data)

**Note 1—Significant Accounting Policies (continued)**

security is written down to fair value and is treated as a realized loss in the period the determination is made. The written-down security will be amortized and revenue recognized in accordance with estimated future cash flows.

Current accounting guidance is such that if an entity intends to sell or if it is more likely than not that it will be required to sell an impaired security prior to recovery of its cost basis, the security is to be considered other-than-temporarily impaired and the full amount of impairment must be charged to earnings. Otherwise, losses on fixed maturities which are other-than-temporarily impaired are separated into two categories, the portion of loss which is considered credit loss and the portion of loss which is due to other factors. The credit loss portion is charged to earnings while the loss due to other factors is charged to other comprehensive income. The credit loss portion of an impairment is determined as the difference between the security's amortized cost and the present value of expected future cash flows discounted at the security's original effective yield rate. The temporary portion is the difference between this present value of expected future cash flows and fair value (as discounted by a market yield). The expected cash flows are determined using judgment and the best information available to the Company. Inputs used to derive expected cash flows include expected default rates, current levels of subordination, and loan-to-collateral value ratios.

Cash: Cash consists of balances on hand and on deposit in banks and financial institutions.

Accrued investment income: Accrued investment income consists of interest income or dividends earned on the investment portfolio, but are yet to be received as of the balance sheet date. The Company will write-off accrued investment income that is deemed to be uncollectible.

Other Receivables: Other receivables consist mostly of agent debit balances that primarily represent commissions advanced to insurance agents. These balances are repaid to the Company over time as the premiums associated with the advanced commissions are collected by the Company and the agents' commissions on such premiums are retained. The balances were \$396 million and \$378 million at December 31, 2018 and 2017, respectively. Management believes these balances are recoverable as they are less than the estimated present value of future commissions.

Deferred Acquisition Costs: Certain costs of acquiring new insurance business are deferred and recorded as an asset. These costs are essential for the acquisition of new insurance business and are directly related to the successful issuance of an insurance contract including sales commissions, policy issue costs, and underwriting costs. Additionally, deferred acquisition costs (DAC) include the value of business acquired (VOBA), which are the costs of acquiring blocks of insurance from other companies or through the acquisition of other companies. These costs represent the difference between the fair value of the contractual insurance assets acquired and liabilities assumed compared against the assets and liabilities for insurance contracts that the Company issues or holds measured in accordance with GAAP.

DAC and VOBA are amortized in a systematic manner which matches these costs with the associated revenues. Policies other than universal life-type policies are amortized with interest over the estimated premium-paying period of the policies in a manner which charges each year's operations in proportion to the receipt of premium income. Universal life-type policies are amortized with interest in proportion to estimated gross profits. The assumptions used to amortize acquisition costs include interest, mortality, morbidity, and persistency, and are consistent with those used to estimate the liability for future policy benefits. For interest-sensitive and deposit-balance type products, these assumptions are reviewed on a regular basis and are revised if actual experience differs significantly from original expectations. For all other products, amortization assumptions are generally not revised once established.

DAC and VOBA are subject to periodic recoverability and loss recognition testing to determine if there is a premium deficiency. These tests evaluate whether the present value of future contract-related cash flows will support the capitalized DAC and VOBA assets. These cash flows consist primarily of premium income, less benefits and expenses taking inflation into account. The present value of these cash flows, less the benefit reserve, is then compared with the unamortized deferred acquisition cost balance. In the event the estimated present value of net cash flows is less, the deficiency would be recognized by a charge to earnings and either a reduction of unamortized acquisition costs or an increase in the liability for future benefits, as described under the caption *Future Policy Benefits*.

**TORCHMARK CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
(Dollar amounts in thousands, except per share data)

**Note 1—Significant Accounting Policies (continued)**

**Advertising Costs:** Costs related to advertising are generally charged to expense as incurred. However, certain Globe Life Direct Response advertising costs are capitalized when there is a reliable and demonstrated relationship between total costs and future benefits that is a direct result of incurring these costs. Globe Life Direct Response advertising costs consist primarily of the production and distribution costs of direct mail advertising materials, and when capitalized are included as a component of DAC. They are amortized in the same manner as other DAC. Globe Life Direct Response advertising costs charged to earnings and included in other operating expense were \$9.0 million, \$9.3 million, and \$9.3 million in 2018, 2017, and 2016, respectively. At December 31, 2018, unamortized capitalized advertising costs included within DAC were \$1.3 billion at December 31, 2018 and \$1.3 billion at December 31, 2017.

**Goodwill:** The excess cost of a business acquired over the fair value of net assets acquired is reported as goodwill. Goodwill is subject to impairment testing in accordance with GAAP on an annual basis, or whenever potential impairment triggers occur. The Company may perform a qualitative analysis under certain circumstances, or perform a two-step quantitative analysis. In the qualitative analysis, the Company determines if it is more likely than not that the fair value of a reporting unit is less than its carrying amount by assessing current events and circumstances. If there are factors present indicating potential impairment, the Company would proceed to the two-step quantitative analysis.

In the two-step quantitative analysis, the Company utilizes two approaches, income and market, to determine the fair value of each reporting unit. In the income approach, judgment and assumptions are used in developing the projected cash flows for the reporting units, and such estimates are subject to change. The Company also exercises judgment in the determination of the discount rate as management believes this to be appropriate for the risk associated with the cash flow expectations. In the market approach, the Company utilizes the share price and a control premium based on businesses with similar assets to determine a fair value. In both cases, the fair value of each reporting unit is then measured against that reporting unit's corresponding carrying value. In the event the fair value is less than the carrying value, further testing is required under the accounting guidance to determine the amount of impairment, if any. If there is an impairment in the goodwill of any reporting unit, it is written down and charged to earnings in the period of the test.

Torchmark tested its goodwill annually as of June 30th in each of the years 2016 through 2018. Torchmark's goodwill was not impaired in any of those periods.

**Low-Income Housing Tax Credit Interests:** Torchmark invests in limited partnerships that provide low-income housing tax credits and other related federal income tax benefits to Torchmark. The carrying value of Torchmark's investment in these entities was \$226 million and \$228 million at December 31, 2018 and 2017, respectively and was included in "Other assets" on the *Consolidated Balance Sheets*. As of December 31, 2018, Torchmark was obligated under future commitments of \$51 million, which are recorded in "Other liabilities". For guaranteed investments acquired prior to January 1, 2015, the Company utilizes the effective-yield method of amortization, while the proportional method of amortization is utilized for all non-guaranteed and guaranteed investments acquired on or after January 1, 2015. All amortization expense is recorded in "Income tax benefit (expense)" on the *Consolidated Statements of Operations*.

**Property and Equipment:** Property and equipment, included in "Other assets," is reported at cost less allowances for depreciation. Depreciation is recorded primarily on the straight line method over the estimated useful lives of these assets which range from three to five years for equipment and ten to forty years for buildings and improvements. Ordinary maintenance and repairs are charged to income as incurred. Impairments, if any, are recorded when certain events and circumstances become evident that the fair value of the asset is less than its carrying amount. Original cost of property and equipment was \$256 million at December 31, 2018 and \$217 million at December 31, 2017. Accumulated depreciation was \$121 million at year end 2018 and \$109 million at the end of 2017. Depreciation expense was \$13 million in 2018, \$11 million in 2017, and \$10 million in 2016. Internally generated software costs are expensed as incurred in the preliminary project phase and post-implementation phase, and are capitalized during the application development stage.

**Future Policy Benefits:** The liability for future policy benefits for annuity and universal life-type products is represented by policy account value. The liability for future policy benefits for all other life and health products, approximately 88%

**TORCHMARK CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
(Dollar amounts in thousands, except per share data)

**Note 1—Significant Accounting Policies (continued)**

of total liabilities for future policy benefits, is determined on the net level premium method. This method provides for the present value of expected future benefit payments less the present value of expected future net premiums, based on estimated investment yields, mortality, morbidity, persistency, and other assumptions which were considered appropriate at the time the policies were issued. For limited-payment contracts, a deferred profit liability is also recorded which causes profits to emerge over the life of the contract in proportion to policies in force.

Assumptions used for traditional life and health insurance products are based primarily on Company experience. Assumptions for interest rates range from 2.5% to 7.0% for Torchmark's insurance companies with an overall weighted average assumed rate of 5.7%. Mortality tables used for individual life insurance include various statutory tables and modifications of a variety of generally accepted actuarial tables. Morbidity assumptions for individual health are based on Company experience and industry data. Withdrawal and termination assumptions are based on Torchmark's experience. Once established, assumptions for these products are generally not changed. An additional provision is made on most products to allow for possible adverse deviation from the assumptions. These estimates are reviewed annually and compared with actual experience. If it is determined that existing contract liabilities, together with the present value of future gross premiums, will not be sufficient to cover the present value of future benefits and to recover unamortized deferred acquisition costs, then a premium deficiency exists. Such a deficiency would be recognized immediately by a charge to earnings and either a reduction of unamortized deferred acquisition costs or an increase in the liability for future policy benefits. From that point forward, the liability for future policy benefits would be based on revised assumptions.

*Policy Claims and Other Benefits Payable:* Torchmark establishes a liability for known policy benefits payable and an estimate of claims that have been incurred but not yet reported to the Company. Torchmark makes an estimate of unreported claims after careful evaluation of all information available to the Company. This estimate is based on prior experience and is reviewed quarterly. However, there is no certainty the stated liability for claims and other benefits, including the estimate of unsubmitted claims, will be Torchmark's ultimate obligation. See *Note 7—Liability for Unpaid Claims* for disclosures.

*Income Taxes:* Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the consolidated 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. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

On December 22, 2017, the Tax Cuts and Jobs Act (Tax Legislation) was enacted into law which changed existing tax law, including a reduction of the corporate income tax rate from 35% to 21% effective January 1, 2018. In 2017, the Company recorded \$874 million in net income, primarily as a result of remeasuring its deferred assets and liabilities using the lower corporate tax rate as of the date of enactment. In the fourth quarter of 2018, the Company completed its analysis of the tax legislation and recorded an additional \$798 thousand adjustment related to the remeasurement of the deferred tax assets and liabilities based on the 21% rate. More information concerning income taxes is provided in *Note 8—Income Taxes*.

*Postretirement Benefits:* Torchmark accounts for its postretirement defined benefit plans by recognizing the funded status of those plans on its *Consolidated Balance Sheets* in accordance with accounting guidance. Periodic gains and losses attributable to changes in plan assets and liabilities that are not recognized as components of net periodic benefit costs are recognized as components of other comprehensive income, net of tax. More information concerning the accounting and disclosures for postretirement benefits is found in *Note 9—Postretirement Benefits*.

*Treasury Stock:* Torchmark accounts for purchases of treasury stock on the cost method. Issuance of treasury stock is accounted for using the weighted-average cost method. More information is found in *Note 12—Shareholders' Equity*.

**TORCHMARK CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
(Dollar amounts in thousands, except per share data)

**Note 1—Significant Accounting Policies (continued)**

***Recognition of Premium Revenue and Related Expenses:*** Premium income for traditional long-duration life and health insurance products is recognized evenly over the contract period and when due from the policyholder. Premiums for short-duration health contracts are recognized as revenue over the contract period in proportion to the insurance protection provided. Premiums for universal life-type and annuity contracts are added to the policy account value, and revenues for such products are recognized as charges to the policy account value for mortality, administration, and surrenders (retrospective deposit method). Life premium includes policy charges of \$16 million, \$17 million, and \$18 million for the years ended December 31, 2018, 2017, and 2016, respectively. Other premium consists of annuity policy charges in each year. For most insurance products, the related benefits and expenses are matched with revenues by means of the provision of future policy benefits and the amortization of DAC in a manner which recognizes profits as they are earned over the revenue recognition period. For limited-payment life insurance products, the profits are recognized over the contract period.

***Stock-Based Compensation:*** Torchmark accounts for stock-based compensation by recognizing an expense in the consolidated financial statements based on the “fair value method.” The fair value method requires that a fair value be assigned to a stock option or other stock grant on its grant date and that this value be amortized over the grantees’ service period.

The fair value method requires the use of an option valuation model to value employee stock options. Torchmark has elected to use the Black-Scholes valuation model for option expensing. A summary of assumptions for options granted in each of the three years 2016 through 2018 is as follows:

|                                | <b>2018</b> | <b>2017</b> | <b>2016</b> |
|--------------------------------|-------------|-------------|-------------|
| Volatility factor .....        | 13.7%       | 14.8%       | 19.2%       |
| Dividend yield .....           | 0.7%        | 0.7%        | 1.1%        |
| Expected term (in years) ..... | 5.76        | 5.71        | 5.78        |
| Risk-free rate .....           | 2.7%        | 2.0%        | 1.3%        |

The expected term is generally derived from Company experience. However, expected terms are determined based on the simplified method as permitted under the ASC 718 *Stock Compensation* topic when Company experience is insufficient. The Torchmark Corporation 2011 Incentive Plan replaced all previous plans and allows for option grants for employees with a ten-year contractual term which vest over five years in addition to seven-year grants which vest over three years as permitted by the previous plans. Director grants vest over six months. The Company has sufficient experience with seven-year grants that vest in three years, but insufficient historical experience with five-year vesting. Therefore, Torchmark has used the simplified method to determine the expected term for the ten-year grants with five-year vesting and will do so until adequate experience is developed. Volatility and risk-free interest rates are assumed over a period of time consistent with the expected term of the option. Volatility is measured on a historical basis. Monthly data points are utilized to derive volatility for periods greater than three years. Expected dividend yield is based on current dividend yield held constant over the expected term. Once the fair value of an option has been determined, it is amortized on a straight-line basis over the employee’s service period for that grant (from the grant date to the date the grant is fully vested). Expenses for restricted stock and restricted stock units are based on the grant date fair value allocated on a straight-line basis over the service period. Performance share expense is recognized based on management’s estimate of the probability of meeting the metrics identified in the performance share award agreement, assigned to each service period as these estimates develop. On April 26, 2018, the shareholders approved of the Torchmark Corporation 2018 Incentive Plan. No awards related to this plan were issued as of December 31, 2018. The 2018 Incentive Plan replaced all previous plans.

Torchmark management views all stock-based compensation expense as a corporate or Parent Company expense and, therefore, presents it as such in its segment analysis (See *Note 14—Business Segments*). It is included in “Other operating expense” in the *Consolidated Statements of Operations*.

***Earnings per Share:*** Torchmark presents basic and diluted earnings per common share (EPS) on the face of the *Consolidated Statements of Operations* for income from continuing operations and income from discontinued

**TORCHMARK CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
(Dollar amounts in thousands, except per share data)

**Note 1—Significant Accounting Policies (continued)**

operations. Basic EPS is computed by dividing income available to common shareholders by the weighted average common shares outstanding for the period. Diluted EPS is calculated by adding to shares outstanding the additional net effect of potentially dilutive securities or contracts, such as stock options, which could be exercised or converted into common shares. For more information on earnings per share, see *Note 12—Shareholders' Equity*.

**Accounting Pronouncements Adopted in the Current Year**

| Standard                                                                                                                                                                   | Description                                                                                                                                                                                                                                                                                                                                                                   | Effective date                                                                                                                                                                                            | Effect on the consolidated financial statements                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>ASU No. 2016-01, Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities</b>                         | This ASU primarily revises the classification and measurement of certain equity investments such that they will be measured at fair value through net income. Additionally, the guidance eliminates the cost method for partnerships and joint ventures and requires these types of investments to be accounted for under the fair value through net income or equity method. | This standard became effective for the Company on January 1, 2018.                                                                                                                                        | On January 1, 2018, the Company adopted this standard on a modified retrospective basis for two types of investments: equity securities and certain limited partnerships. The adoption resulted in a \$4.9 million after-tax positive adjustment to the opening balance of retained earnings. Subsequent to the adoption, the Company elected to measure its investment in certain limited partnerships at fair value in accordance with the fair value option for financial instruments with changes recognized in "Realized Gains (Losses)" in the <i>Consolidated Statements of Operations</i> . As of December 31, 2018, the fair value balance of the limited partnerships was \$108 million. See <i>Note 4—Investments</i> for further discussion. |
| <b>ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments</b>                                                     | This ASU provided uniformity in the classification of cash receipts and payments recorded in the statement of cash flows including debt prepayment or debt extinguishment costs, settlement of zero-coupon bonds, and proceeds from the settlement of insurance claims.                                                                                                       | This standard became effective on January 1, 2018.                                                                                                                                                        | This standard did not have a material impact to the classification on the <i>Consolidated Statement of Cash Flows</i> .                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| <b>ASU No. 2017-07, Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost</b> | This standard was issued to simplify the reporting of pension costs by disaggregating the service-cost component from the other components of net benefit costs and reporting it separately on the income statement. The service-cost component is the only component of net benefit cost that will be eligible for capitalization.                                           | This standard became effective on January 1, 2018 with a retrospective transition method for separation of net benefit costs and a prospective transition method for the capitalization of service costs. | For the twelve months ended December 31, 2018, the Company recorded \$3.1 million in additional expense to the 2018 <i>Consolidated Statements of Operations</i> due to the elimination of the ability to capitalize a portion of the benefit costs. There was no impact to the <i>Consolidated Statements of Operations</i> in regards to separately reporting expenses as the Company reports all costs on one line item (Other Operating Expenses). See <i>Note 9—Postretirement benefits</i> .                                                                                                                                                                                                                                                       |

**TORCHMARK CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
(Dollar amounts in thousands, except per share data)

**Note 1—Significant Accounting Policies (continued)****Accounting Pronouncements Yet to be Adopted**

| <b>Standard</b>                                                                                                                                   | <b>Description</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                | <b>Effective date</b>                                                                                                                                                                                                               | <b>Effect on the consolidated financial statements</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
|---------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>ASU No. 2016-02/2018-11, Leases (Topic 842), with clarification guidance issued in July 2018.</b>                                              | The standard requires lessees to record a right-of-use asset and corresponding lease liability on the balance sheet for all operating leases that do not qualify for the practical expedients allowed for in this standard. Additional qualitative and quantitative disclosures will be required.                                                                                                                                                                 | This standard will become effective for the Company beginning January 1, 2019.                                                                                                                                                      | <p>The Company plans to adopt the optional transition method allowed for under ASU 2018-11 by not restating comparative periods and recognizing a cumulative-effect adjustment to the opening balance of retained earnings on the period of adoption. The Company does not have any significant lessor contracts.</p> <p>In 2018, the Company completed and implemented appropriate solutions to identify and quantify applicable operating leases in accordance with this standard. Based on our analysis, this standard has an immaterial impact to the consolidated financial statements. Refer to <i>Note 6—Commitments and Contingencies</i> for consideration of the noncancelable operating lease commitments.</p> |
| <b>ASU No. 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments</b>                    | This standard provides financial statement users with more decision-useful information about the expected credit losses on financial instruments as well as to change the loss impairment methodology for available-for-sale debt securities by use of an allowance rather than a direct write-down.                                                                                                                                                              | This standard will become effective on January 1, 2020. The applicable section of the standard related to debt securities requires a prospective transition.                                                                        | The Company is in the process of determining the impact this guidance will have on the consolidated financial statements.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| <b>ASU No. 2017-08, Receivables—Nonrefundable Fees and Other Costs (Topic 310-20): Premium Amortization on Purchased Callable Debt Securities</b> | This guidance was issued to shorten the amortization period for certain callable debt securities held at a premium. The guidance requires the premium to be amortized to the earliest call date.                                                                                                                                                                                                                                                                  | This standard will become effective on January 1, 2019 with early adoption permitted, including during interim periods. The adoption is to be applied on a modified retrospective basis through an adjustment to retained earnings. | This adoption did not have a material impact on the consolidated financial statements as of January 1, 2019.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| <b>ASU No. 2018-12, Financial Services - Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts</b>           | The guidance was primarily issued to 1) improve the timeliness of recognizing changes in the liability for future policy benefits and modify the rate used to discount future cash flows, 2) simplify and improve the accounting for certain market-based options or guarantees associated with deposit (or account balance) contracts, 3) simplify the amortization of deferred acquisition costs, and 4) improve the effectiveness of the required disclosures. | This standard is effective beginning January 1, 2021, and should be applied on a retrospective basis. Early adoption of the amendments is permitted.                                                                                | ASU 2018-12 will require changes to the Company's actuarial systems and data inputs related to the valuation of the future policy benefits. The Company is in the process of evaluating the impact this guidance will have on the consolidated financial statements and cannot reasonably estimate such impact at this time.                                                                                                                                                                                                                                                                                                                                                                                              |

**TORCHMARK CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
(Dollar amounts in thousands, except per share data)

**Note 1—Significant Accounting Policies (continued)****Accounting Pronouncements Yet to be Adopted (continued)**

| <b>Standard</b>                                                                                                                                                                                                               | <b>Description</b>                                                                                                                                                                                                                                                                                                                                                                          | <b>Effective date</b>                                                                                                                                                                                                                   | <b>Effect on the consolidated financial statements</b>                                                                        |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------|
| <b>ASU No. 2018-13,</b><br><i>Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement</i>                                                                  | The amendment modifies the disclosure requirements for fair value measurements by removing, modifying, or adding certain disclosures.                                                                                                                                                                                                                                                       | The revised standard is effective beginning January 1, 2020. The removed and modified disclosures will be adopted on a retrospective basis and the new disclosures will be adopted on a prospective basis. Early adoption is permitted. | The Company does not expect the adoption of this guidance to have a material impact on the consolidated financial statements. |
| <b>ASU No. 2018-14,</b><br><i>Compensation-Retirement Benefits-Defined Benefit Plans-General (Subtopic 715-20), Changes to the Disclosure Requirements for Defined Benefit Plans.</i>                                         | The guidance removes disclosures that are no longer considered cost beneficial, clarifies the specific requirements of disclosures and adds disclosure requirements identified as relevant.                                                                                                                                                                                                 | This standard is effective beginning January 1, 2021, and will be applied retrospectively. Early adoption is permitted.                                                                                                                 | The Company does not expect the adoption of this guidance to have a material impact on the consolidated financial statements. |
| <b>ASU No. 2018-15,</b><br><i>Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract</i> | The guidance was issued to align the accounting for implementation costs of hosting arrangements, regardless of whether they convey a license to the hosted software. Accordingly, the standard requires the capitalization of implementation costs incurred in a hosting arrangement that is a service contract, similar to the treatment for developed or obtained internal-use software. | The guidance is effective beginning January 1, 2020, and the Company plans to apply the standards on a prospective basis. Early adoption of the amendments is also permitted.                                                           | The Company is in the process of determining the impact this guidance will have on the consolidated financial statements.     |

**TORCHMARK CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
(Dollar amounts in thousands, except per share data)

**Note 2—Statutory Accounting**

Life insurance subsidiaries of Torchmark are required to file statutory financial statements with state insurance regulatory authorities. Accounting principles used to prepare these statutory financial statements differ from GAAP. Consolidated net income and shareholders' equity (capital and surplus) on a statutory basis for the insurance subsidiaries were as follows:

|                                   | Net Income              |            |            | Shareholders' Equity |              |
|-----------------------------------|-------------------------|------------|------------|----------------------|--------------|
|                                   | Year Ended December 31, |            |            | At December 31,      |              |
|                                   | 2018                    | 2017       | 2016       | 2018                 | 2017         |
| Life insurance subsidiaries ..... | \$ 437,549              | \$ 426,285 | \$ 429,563 | \$ 1,443,156         | \$ 1,254,875 |

The excess, if any, of shareholder's equity of the insurance subsidiaries on a GAAP basis over that determined on a statutory basis is not available for distribution by the insurance subsidiaries to Torchmark without regulatory approval. Insurance subsidiaries' statutory capital and surplus necessary to satisfy regulatory requirements in the aggregate was \$499 million at December 31, 2018. More information on the restrictions on the payment of dividends can be found in *Note 12—Shareholders' Equity*.

Torchmark's statutory financial statements are presented on the basis of accounting practices prescribed by the insurance department of the state of domicile of each insurance subsidiary. While all states have adopted the National Association of Insurance Commissioners' (NAIC) statutory accounting practices (NAIC SAP) as the basis for statutory accounting, certain states have retained prescribed practices of their respective insurance code or administrative code which can differ from NAIC SAP. For Torchmark's life insurance companies, there are no significant differences between NAIC SAP and the accounting practices prescribed by the states of domicile.

**TORCHMARK CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
(Dollar amounts in thousands, except per share data)

**Note 3—Supplemental Information about Changes to Accumulated Other Comprehensive Income**

An analysis in the change in balance by component of Accumulated Other Comprehensive Income is as follows for each of the years 2016 through 2018.

**Components of Accumulated Other Comprehensive Income**

|                                                                              | Available<br>for Sale<br>Assets | Deferred<br>Acquisition<br>Costs | Foreign<br>Exchange | Pension<br>Adjustments | Total             |
|------------------------------------------------------------------------------|---------------------------------|----------------------------------|---------------------|------------------------|-------------------|
| <b>For the year ended December 31, 2016:</b>                                 |                                 |                                  |                     |                        |                   |
| Balance at January 1, 2016 .....                                             | \$ 332,333                      | \$ (5,115)                       | \$ 3,627            | \$ (98,898)            | \$ 231,947        |
| Other comprehensive income (loss) before reclassifications, net of tax ..... | 356,016                         | (1,567)                          | 1,340               | (20,736)               | 335,053           |
| Reclassifications, net of tax .....                                          | 3,965                           | —                                | —                   | 6,609                  | 10,574            |
| Other comprehensive income (loss) .....                                      | 359,981                         | (1,567)                          | 1,340               | (14,127)               | 345,627           |
| <b>Balance at December 31, 2016 .....</b>                                    | <b>692,314</b>                  | <b>(6,682)</b>                   | <b>4,967</b>        | <b>(113,025)</b>       | <b>577,574</b>    |
| <b>For the year ended December 31, 2017:</b>                                 |                                 |                                  |                     |                        |                   |
| Other comprehensive income (loss) before reclassifications, net of tax ..... | 621,619                         | (350)                            | 8,452               | (20,753)               | 608,968           |
| Reclassifications, net of tax .....                                          | (22,751)                        | —                                | —                   | 8,083                  | (14,668)          |
| Other comprehensive income (loss) .....                                      | 598,868                         | (350)                            | 8,452               | (12,670)               | 594,300           |
| Reclassifications, Tax reform .....                                          | 278,107                         | (1,515)                          | 2,883               | (27,075)               | 252,400           |
| <b>Balance at December 31, 2017 .....</b>                                    | <b>1,569,289</b>                | <b>(8,547)</b>                   | <b>16,302</b>       | <b>(152,770)</b>       | <b>1,424,274</b>  |
| <b>For the year ended December 31, 2018:</b>                                 |                                 |                                  |                     |                        |                   |
| Other comprehensive income (loss) before reclassifications, net of tax ..... | (1,132,202)                     | 4,384                            | (9,807)             | 22,290                 | (1,115,335)       |
| Reclassifications, net of tax .....                                          | (1,389)                         | —                                | —                   | 11,925                 | 10,536            |
| Other comprehensive income (loss) .....                                      | (1,133,591)                     | 4,384                            | (9,807)             | 34,215                 | (1,104,799)       |
| <b>Balance at December 31, 2018 .....</b>                                    | <b>\$ 435,698</b>               | <b>\$ (4,163)</b>                | <b>\$ 6,495</b>     | <b>\$ (118,555)</b>    | <b>\$ 319,475</b> |

**TORCHMARK CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
(Dollar amounts in thousands, except per share data)

**Note 3—Supplemental Information about Changes to Accumulated Other Comprehensive Income (continued)**

Reclassification adjustments out of Accumulated Other Comprehensive Income are presented below for each of the years 2016 through 2018.

**Reclassification Adjustments**

| Component Line Item                                            | Year Ended December 31, |                    |                  | Affected line items in the Statement of Operations |
|----------------------------------------------------------------|-------------------------|--------------------|------------------|----------------------------------------------------|
|                                                                | 2018                    | 2017               | 2016             |                                                    |
| <b>Unrealized gains (losses) on available for sale assets:</b> |                         |                    |                  |                                                    |
| Realized (gains) losses .....                                  | \$ (5,715)              | \$ (34,954)        | \$ 10,285        | Realized investment gains (losses)                 |
| Amortization of (discount) premium .....                       | 3,957                   | (47)               | (4,185)          | Net investment income                              |
| Total before tax .....                                         | (1,758)                 | (35,001)           | 6,100            |                                                    |
| Tax .....                                                      | 369                     | 12,250             | (2,135)          | Income taxes                                       |
| Total after tax .....                                          | (1,389)                 | (22,751)           | 3,965            |                                                    |
| <b>Pension adjustments:</b>                                    |                         |                    |                  |                                                    |
| Amortization of prior service cost .....                       | 535                     | 476                | 477              | Other operating expenses                           |
| Amortization of actuarial (gain) loss .....                    | 14,560                  | 11,960             | 9,691            | Other operating expenses                           |
| Total before tax .....                                         | 15,095                  | 12,436             | 10,168           |                                                    |
| Tax .....                                                      | (3,170)                 | (4,353)            | (3,559)          | Income taxes                                       |
| Total after tax .....                                          | 11,925                  | 8,083              | 6,609            |                                                    |
| <b>Total reclassifications (after tax) .....</b>               | <b>\$ 10,536</b>        | <b>\$ (14,668)</b> | <b>\$ 10,574</b> |                                                    |

**TORCHMARK CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
(Dollar amounts in thousands, except per share data)

**Note 4—Investments**

**Portfolio Composition:** Summaries of fixed maturities available for sale by cost or amortized cost and estimated fair value at December 31, 2018 and 2017 are as follows. Redeemable preferred stock is included within the corporates by sector.

| At December 31, 2018                                                           |                              |                              |                               |                              |                                                  |
|--------------------------------------------------------------------------------|------------------------------|------------------------------|-------------------------------|------------------------------|--------------------------------------------------|
|                                                                                | Cost or<br>Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Value <sup>(1)</sup> | % of Total<br>Fixed<br>Maturities <sup>(2)</sup> |
| <b>Fixed maturities available for sale:</b>                                    |                              |                              |                               |                              |                                                  |
| U.S. Government direct, guaranteed, and government-sponsored enterprises ..... | \$ 390,351                   | \$ 5,104                     | \$ (2,787)                    | \$ 392,668                   | 2                                                |
| States, municipalities, and political subdivisions .....                       | 1,354,810                    | 83,600                       | (1,750)                       | 1,436,660                    | 9                                                |
| Foreign governments .....                                                      | 19,006                       | 1,810                        | —                             | 20,816                       | —                                                |
| Corporates, by sector:                                                         |                              |                              |                               |                              |                                                  |
| Financial .....                                                                | 3,759,768                    | 262,875                      | (87,515)                      | 3,935,128                    | 24                                               |
| Utilities .....                                                                | 1,989,506                    | 217,846                      | (24,399)                      | 2,182,953                    | 13                                               |
| Energy .....                                                                   | 1,652,700                    | 93,880                       | (62,371)                      | 1,684,209                    | 10                                               |
| Other corporate sectors .....                                                  | 6,382,707                    | 283,524                      | (242,509)                     | 6,423,722                    | 40                                               |
| Total corporates .....                                                         | 13,784,681                   | 858,125                      | (416,794)                     | 14,226,012                   | 87                                               |
| Collateralized debt obligations .....                                          | 57,769                       | 22,014                       | (6,414)                       | 73,369                       | 1                                                |
| Other asset-backed securities .....                                            | 146,854                      | 2,187                        | (634)                         | 148,407                      | 1                                                |
| <b>Total fixed maturities</b> .....                                            | <b>\$15,753,471</b>          | <b>\$ 972,840</b>            | <b>\$ (428,379)</b>           | <b>\$16,297,932</b>          | <b>100</b>                                       |

(1) Amount reported in the balance sheet.

(2) At fair value.

| At December 31, 2017                                                           |                              |                              |                               |                              |                                                  |
|--------------------------------------------------------------------------------|------------------------------|------------------------------|-------------------------------|------------------------------|--------------------------------------------------|
|                                                                                | Cost or<br>Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Value <sup>(1)</sup> | % of Total<br>Fixed<br>Maturities <sup>(2)</sup> |
| <b>Fixed maturities available for sale:</b>                                    |                              |                              |                               |                              |                                                  |
| U.S. Government direct, guaranteed, and government-sponsored enterprises ..... | \$ 390,646                   | \$ 18,173                    | \$ (1,373)                    | \$ 407,446                   | 2                                                |
| States, municipalities, and political subdivisions .....                       | 1,091,960                    | 127,890                      | (135)                         | 1,219,715                    | 7                                                |
| Foreign governments .....                                                      | 20,236                       | 1,782                        | —                             | 22,018                       | —                                                |
| Corporates, by sector:                                                         |                              |                              |                               |                              |                                                  |
| Financial .....                                                                | 3,619,147                    | 538,853                      | (26,119)                      | 4,131,881                    | 25                                               |
| Utilities .....                                                                | 1,984,290                    | 371,538                      | (1,395)                       | 2,354,433                    | 14                                               |
| Energy .....                                                                   | 1,619,349                    | 226,140                      | (25,392)                      | 1,820,097                    | 11                                               |
| Other corporate sectors .....                                                  | 6,065,803                    | 747,612                      | (20,616)                      | 6,792,799                    | 40                                               |
| Total corporates .....                                                         | 13,288,589                   | 1,884,143                    | (73,522)                      | 15,099,210                   | 90                                               |
| Collateralized debt obligations .....                                          | 59,150                       | 20,084                       | (7,653)                       | 71,581                       | —                                                |
| Other asset-backed securities .....                                            | 144,520                      | 4,835                        | —                             | 149,355                      | 1                                                |
| <b>Total fixed maturities</b> .....                                            | <b>\$14,995,101</b>          | <b>\$ 2,056,907</b>          | <b>\$ (82,683)</b>            | <b>\$16,969,325</b>          | <b>100</b>                                       |

(1) Amount reported in the balance sheet.

(2) At fair value.

**TORCHMARK CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
(Dollar amounts in thousands, except per share data)

**Note 4—Investments (continued)**

Securities, cash, and short-term investments held on deposit with various state and federal regulatory authorities had an amortized cost and fair value, respectively, of \$712 million and \$763 million at December 31, 2018 and \$657 million and \$753 million at December 31, 2017.

A schedule of fixed maturities available for sale by contractual maturity date at December 31, 2018 is shown below on an amortized cost basis and on a fair value basis. Actual disposition dates could differ from contractual maturities due to call or prepayment provisions.

|                                                   | <b>At December 31, 2018</b> |                      |
|---------------------------------------------------|-----------------------------|----------------------|
|                                                   | <b>Amortized Cost</b>       | <b>Fair Value</b>    |
| <b>Fixed maturities available for sale:</b>       |                             |                      |
| Due in one year or less .....                     | \$ 190,025                  | \$ 192,792           |
| Due after one year through five years .....       | 631,833                     | 656,317              |
| Due after five years through ten years .....      | 1,680,184                   | 1,811,532            |
| Due after ten years through twenty years .....    | 5,090,608                   | 5,516,103            |
| Due after twenty years .....                      | 7,955,528                   | 7,898,702            |
| Mortgage-backed and asset-backed securities ..... | 205,293                     | 222,486              |
|                                                   | <u>\$ 15,753,471</u>        | <u>\$ 16,297,932</u> |

Analysis of investment operations: Net investment income is summarized as follows:

|                                           | <b>Year Ended December 31,</b> |                   |                   |
|-------------------------------------------|--------------------------------|-------------------|-------------------|
|                                           | <b>2018</b>                    | <b>2017</b>       | <b>2016</b>       |
| Fixed maturities available for sale ..... | \$ 843,510                     | \$ 817,213        | \$ 778,912        |
| Policy loans .....                        | 41,359                         | 39,578            | 38,436            |
| Other long-term investments .....         | 10,638                         | 4,991             | 2,786             |
| Short-term investments .....              | 2,642                          | 948               | 447               |
|                                           | <u>898,149</u>                 | <u>862,730</u>    | <u>820,581</u>    |
| Less investment expense .....             | (15,637)                       | (14,845)          | (13,678)          |
| <b>Net investment income</b> .....        | <u>\$ 882,512</u>              | <u>\$ 847,885</u> | <u>\$ 806,903</u> |

**TORCHMARK CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
(Dollar amounts in thousands, except per share data)

**Note 4—Investments (continued)**

An analysis of realized gains (losses) is as follows:

|                                                                | Year Ended December 31, |                  |                   |
|----------------------------------------------------------------|-------------------------|------------------|-------------------|
|                                                                | 2018                    | 2017             | 2016              |
| <b>Realized investment gains (losses):</b>                     |                         |                  |                   |
| Fixed maturities available for sale:                           |                         |                  |                   |
| Sales and other .....                                          | \$ 5,715                | \$ 35,199        | \$ (10,645)       |
| Other-than-temporary impairments .....                         | —                       | (245)            | —                 |
| Fair value option—change in fair value .....                   | 2,650                   | —                | —                 |
| Other investments .....                                        | 909                     | (7,302)          | (38)              |
| <b>Realized gains (losses) from investments</b> .....          | <u>9,274</u>            | <u>27,652</u>    | <u>(10,683)</u>   |
| <b>Realized loss on redemption of debt<sup>(1)</sup></b> ..... | <u>(11,078)</u>         | <u>(4,041)</u>   | <u>—</u>          |
|                                                                | (1,804)                 | 23,611           | (10,683)          |
| Applicable tax .....                                           | 379                     | (6,021)          | 3,739             |
| <b>Realized gains (losses), net of tax</b> .....               | <u>\$ (1,425)</u>       | <u>\$ 17,590</u> | <u>\$ (6,944)</u> |

(1) Refer to *Note 11—Debt* for further discussion.

An analysis of the net change in unrealized investment gains (losses) is as follows:

|                                                      | Year Ended December 31, |                   |                   |
|------------------------------------------------------|-------------------------|-------------------|-------------------|
|                                                      | 2018                    | 2017              | 2016              |
| <b>Change in investment gains (losses) on:</b>       |                         |                   |                   |
| Fixed maturities available for sale .....            | \$ (1,429,763)          | \$ 916,413        | \$ 551,658        |
| Other investments .....                              | (5,155)                 | 5,008             | 2,143             |
| <b>Net change in unrealized gains (losses)</b> ..... | <u>\$ (1,434,918)</u>   | <u>\$ 921,421</u> | <u>\$ 553,801</u> |

Additional information about securities sold is as follows:

|                                             | Year Ended December 31, |           |            |
|---------------------------------------------|-------------------------|-----------|------------|
|                                             | 2018                    | 2017      | 2016       |
| <b>Fixed maturities available for sale:</b> |                         |           |            |
| Proceeds from sales <sup>(1)</sup> .....    | \$ 32,021               | \$ 67,246 | \$ 358,285 |
| Gross realized gains .....                  | 66                      | 5,079     | 6,133      |
| Gross realized losses .....                 | (13,996)                | (1,100)   | (32,608)   |

(1) Includes unsettled sales of \$17.9 million at December 31, 2016. There were no unsettled sales in 2018 or 2017.

**TORCHMARK CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
(Dollar amounts in thousands, except per share data)

**Note 4—Investments (continued)**

*Fair value measurements:* The following tables represent the fair value of fixed maturities measured on a recurring basis at December 31, 2018 and 2017:

| Fair Value Measurements at December 31, 2018 Using:                               |                                                                         |                                                     |                                                 |                      |
|-----------------------------------------------------------------------------------|-------------------------------------------------------------------------|-----------------------------------------------------|-------------------------------------------------|----------------------|
|                                                                                   | Quoted Prices in<br>Active Markets<br>for Identical<br>Assets (Level 1) | Significant Other<br>Observable<br>Inputs (Level 2) | Significant<br>Unobservable<br>Inputs (Level 3) | Total Fair<br>Value  |
| <b>Fixed maturities available for sale:</b>                                       |                                                                         |                                                     |                                                 |                      |
| U.S. Government direct, guaranteed, and<br>government-sponsored enterprises ..... | \$ —                                                                    | \$ 392,668                                          | \$ —                                            | \$ 392,668           |
| States, municipalities, and political subdivisions..                              | —                                                                       | 1,436,660                                           | —                                               | 1,436,660            |
| Foreign governments .....                                                         | —                                                                       | 20,816                                              | —                                               | 20,816               |
| Corporates, by sector:                                                            |                                                                         |                                                     |                                                 |                      |
| Financial .....                                                                   | —                                                                       | 3,891,728                                           | 43,400                                          | 3,935,128            |
| Utilities .....                                                                   | —                                                                       | 2,032,127                                           | 150,826                                         | 2,182,953            |
| Energy .....                                                                      | —                                                                       | 1,645,077                                           | 39,132                                          | 1,684,209            |
| Other corporate sectors .....                                                     | —                                                                       | 6,103,609                                           | 320,113                                         | 6,423,722            |
| Total corporates .....                                                            | —                                                                       | 13,672,541                                          | 553,471                                         | 14,226,012           |
| Collateralized debt obligations .....                                             | —                                                                       | —                                                   | 73,369                                          | 73,369               |
| Other asset-backed securities .....                                               | —                                                                       | 135,425                                             | 12,982                                          | 148,407              |
| <b>Total fixed maturities</b> .....                                               | <b>\$ —</b>                                                             | <b>\$ 15,658,110</b>                                | <b>\$ 639,822</b>                               | <b>\$ 16,297,932</b> |
| Percentage of total .....                                                         | —%                                                                      | 96%                                                 | 4%                                              | 100%                 |

| Fair Value Measurements at December 31, 2017 Using:                               |                                                                         |                                                     |                                                 |                      |
|-----------------------------------------------------------------------------------|-------------------------------------------------------------------------|-----------------------------------------------------|-------------------------------------------------|----------------------|
|                                                                                   | Quoted Prices in<br>Active Markets<br>for Identical<br>Assets (Level 1) | Significant Other<br>Observable<br>Inputs (Level 2) | Significant<br>Unobservable<br>Inputs (Level 3) | Total Fair<br>Value  |
| <b>Fixed maturities available for sale:</b>                                       |                                                                         |                                                     |                                                 |                      |
| U.S. Government direct, guaranteed, and<br>government-sponsored enterprises ..... | \$ —                                                                    | \$ 407,446                                          | \$ —                                            | \$ 407,446           |
| States, municipalities, and political subdivisions..                              | 44                                                                      | 1,219,671                                           | —                                               | 1,219,715            |
| Foreign governments .....                                                         | —                                                                       | 22,018                                              | —                                               | 22,018               |
| Corporates, by sector:                                                            |                                                                         |                                                     |                                                 |                      |
| Financial .....                                                                   | —                                                                       | 4,069,875                                           | 62,006                                          | 4,131,881            |
| Utilities .....                                                                   | —                                                                       | 2,198,703                                           | 155,730                                         | 2,354,433            |
| Energy .....                                                                      | —                                                                       | 1,779,281                                           | 40,816                                          | 1,820,097            |
| Other corporate sectors .....                                                     | —                                                                       | 6,468,541                                           | 324,258                                         | 6,792,799            |
| Total corporates .....                                                            | —                                                                       | 14,516,400                                          | 582,810                                         | 15,099,210           |
| Collateralized debt obligations .....                                             | —                                                                       | —                                                   | 71,581                                          | 71,581               |
| Other asset-backed securities .....                                               | —                                                                       | 135,306                                             | 14,049                                          | 149,355              |
| <b>Total fixed maturities</b> .....                                               | <b>\$ 44</b>                                                            | <b>\$ 16,300,841</b>                                | <b>\$ 668,440</b>                               | <b>\$ 16,969,325</b> |
| Percentage of total .....                                                         | —%                                                                      | 96%                                                 | 4%                                              | 100%                 |

**TORCHMARK CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
(Dollar amounts in thousands, except per share data)

**Note 4—Investments (continued)**

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

|                                                      | Analysis of Changes in Fair Value Measurements Using Significant Unobservable Inputs (Level 3) |                                 |            |            |
|------------------------------------------------------|------------------------------------------------------------------------------------------------|---------------------------------|------------|------------|
|                                                      | Asset-backed Securities                                                                        | Collateralized Debt Obligations | Corporates | Total      |
| <b>Balance at January 1, 2016</b> .....              | \$ —                                                                                           | \$ 70,382                       | \$ 530,806 | \$ 601,188 |
| Total gains or losses:                               |                                                                                                |                                 |            |            |
| Included in realized gains/losses .....              | —                                                                                              | —                               | 788        | 788        |
| Included in other comprehensive income .....         | —                                                                                              | (3,943)                         | 6,403      | 2,460      |
| Acquisitions .....                                   | —                                                                                              | —                               | 33,662     | 33,662     |
| Sales .....                                          | —                                                                                              | —                               | —          | —          |
| Amortization .....                                   | —                                                                                              | 5,186                           | 17         | 5,203      |
| Other <sup>(1)</sup> .....                           | —                                                                                              | (8,122)                         | (12,076)   | (20,198)   |
| Transfers into (out of) Level 3 <sup>(2)</sup> ..... | —                                                                                              | —                               | —          | —          |
| <b>Balance at December 31, 2016</b> .....            | —                                                                                              | 63,503                          | 559,600    | 623,103    |
| Total gains or losses:                               |                                                                                                |                                 |            |            |
| Included in realized gains/losses .....              | —                                                                                              | —                               | —          | —          |
| Included in other comprehensive income .....         | 410                                                                                            | 9,654                           | 10,900     | 20,964     |
| Acquisitions .....                                   | 14,000                                                                                         | —                               | 21,666     | 35,666     |
| Sales .....                                          | —                                                                                              | —                               | —          | —          |
| Amortization .....                                   | —                                                                                              | 4,914                           | 17         | 4,931      |
| Other <sup>(1)</sup> .....                           | (361)                                                                                          | (6,490)                         | (9,373)    | (16,224)   |
| Transfers into (out of) Level 3 <sup>(2)</sup> ..... | —                                                                                              | —                               | —          | —          |
| <b>Balance at December 31, 2017</b> .....            | 14,049                                                                                         | 71,581                          | 582,810    | 668,440    |
| Total gains or losses:                               |                                                                                                |                                 |            |            |
| Included in realized gains/losses .....              | —                                                                                              | —                               | 698        | 698        |
| Included in other comprehensive income .....         | (591)                                                                                          | 3,170                           | (23,687)   | (21,108)   |
| Acquisitions .....                                   | —                                                                                              | —                               | 27,453     | 27,453     |
| Sales .....                                          | —                                                                                              | —                               | —          | —          |
| Amortization .....                                   | —                                                                                              | 4,737                           | 16         | 4,753      |
| Other <sup>(1)</sup> .....                           | (476)                                                                                          | (6,119)                         | (38,352)   | (44,947)   |
| Transfers into (out of) Level 3 <sup>(2)</sup> ..... | —                                                                                              | —                               | 4,533      | 4,533      |
| <b>Balance at December 31, 2018</b> .....            | \$ 12,982                                                                                      | \$ 73,369                       | \$ 553,471 | \$ 639,822 |

(1) Includes capitalized interest, foreign exchange adjustments and principal repayments.

(2) There were no transfers in or out of Level 3 during 2016 and 2017.

Acquisitions of Level 3 investments in each of the years 2016 through 2018 are comprised of private-placement fixed maturities managed by an unaffiliated third-party.

**TORCHMARK CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
(Dollar amounts in thousands, except per share data)

**Note 4—Investments (continued)**

**Quantitative Information about Level 3  
Fair Value Measurements  
As of December 31, 2018**

|                                          | <b>Fair Value</b> | <b>Valuation Techniques</b>    | <b>Significant Unobservable Input</b> | <b>Range</b>  | <b>Weighted Average</b> |
|------------------------------------------|-------------------|--------------------------------|---------------------------------------|---------------|-------------------------|
| Asset-backed securities .....            | \$ 12,982         | Determination of credit spread | Credit rating                         | BBB-          | BBB-                    |
|                                          |                   | Discounted cash flows          | Discount rate                         | 5.65%         | 5.65%                   |
| Collateralized debt obligations .....    | 73,369            | Discounted cash flows          | Discount rate                         | 6.70 - 7.70%  | 7.51%                   |
| Private placement fixed maturities ..... | 553,471           | Determination of credit spread | Credit rating                         | A+ to BB-     | BBB                     |
|                                          |                   | Discounted cash flows          | Discount rate                         | 3.62 - 11.30% | 4.67%                   |
|                                          | <u>\$ 639,822</u> |                                |                                       |               |                         |

The private placement fixed maturities and asset-backed securities reported as Level 3 are managed by third party investment managers. These securities are valued based on the contractual cash flows discounted by a yield determined as a treasury benchmark adjusted for a credit spread. The credit spread is developed from observable indices for similar public fixed maturities and unobservable indices for private fixed maturities for corresponding credit ratings. However, the credit ratings for the securities are considered unobservable inputs, as they are assigned by the third party investment manager based on a quantitative and qualitative assessment of the credit underwritten. A higher (lower) credit rating would result in a higher (lower) valuation.

The collateral underlying collateralized debt obligations for which fair values are reported as Level 3 consists primarily of trust preferred securities issued by banks and insurance companies. Collateralized debt obligations are valued at the present value of expected future cash flows using an unobservable discount rate. Expected cash flows are determined by scheduling the projected repayment of the collateral assuming no future defaults, deferrals, or recoveries. The discount rate is risk-adjusted to take these items into account. A significant increase (decrease) in the discount rate will produce a significant decrease (increase) in fair value. Additionally, a significant increase (decrease) in the cash flow expectations would result in a significant increase (decrease) in fair value. For more information regarding valuation procedures, please refer to *Note 1—Significant Accounting Policies* under the caption *Fair Value Measurements, Investments in Securities*.

The following table presents transfers in and out of each of the valuation levels of fair values.

|               | <b>2018</b> |            |            | <b>2017</b> |            |            | <b>2016</b> |            |            |
|---------------|-------------|------------|------------|-------------|------------|------------|-------------|------------|------------|
|               | <b>In</b>   | <b>Out</b> | <b>Net</b> | <b>In</b>   | <b>Out</b> | <b>Net</b> | <b>In</b>   | <b>Out</b> | <b>Net</b> |
| Level 1 ..... | \$ —        | \$ —       | \$ —       | \$ 42,372   | \$ (597)   | \$ 41,775  | \$ 45,344   | \$ —       | \$ 45,344  |
| Level 2 ..... | —           | (4,533)    | (4,533)    | 597         | (42,372)   | (41,775)   | —           | (45,344)   | (45,344)   |
| Level 3 ..... | 4,533       | —          | 4,533      | —           | —          | —          | —           | —          | —          |

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

**TORCHMARK CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
(Dollar amounts in thousands, except per share data)

**Note 4—Investments (continued)**

Other-than-temporary impairments (OTTI): Based on the Company's evaluation of its fixed maturities available for sale in an unrealized loss position in accordance with the OTTI policy as described in *Note 1—Significant Accounting Policies*, the Company concluded that there was an other-than-temporary impairment of \$245 thousand (\$159 thousand, net of tax) during the year ended December 31, 2017. For the years ended December 31, 2018 and 2016, there were no other-than-temporary impairments.

As of year-end 2018, previously written down securities remaining in the portfolio were carried at a fair value of \$60 million, or less than 0.4% of the fair value of the fixed maturity portfolio. Torchmark is continuously monitoring the market conditions impacting its portfolio. While adverse market conditions for an extended duration could lead to some ratings downgrades in certain sectors, Torchmark has the ability and intent to hold these investments to recovery, and does not intend to sell or expect to be required to sell any of its securities in such a position.

**TORCHMARK CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
(Dollar amounts in thousands, except per share data)

**Note 4—Investments (continued)**

Unrealized gains/loss analysis: The following tables disclose gross unrealized investment losses by class and major sector of investments at December 31, 2018 and December 31, 2017 for the respective periods of time in a loss position. Torchmark considers these investments to be only temporarily impaired.

**Analysis of Gross Unrealized Investment Losses**

|                                                                                | At December 31, 2018       |                     |                            |                     |                    |                     |
|--------------------------------------------------------------------------------|----------------------------|---------------------|----------------------------|---------------------|--------------------|---------------------|
|                                                                                | Less than<br>Twelve Months |                     | Twelve Months<br>or Longer |                     | Total              |                     |
|                                                                                | Fair<br>Value              | Unrealized<br>Loss  | Fair<br>Value              | Unrealized<br>Loss  | Fair<br>Value      | Unrealized<br>Loss  |
| <b>Fixed maturities available for sale:</b>                                    |                            |                     |                            |                     |                    |                     |
| <b>Investment grade securities:</b>                                            |                            |                     |                            |                     |                    |                     |
| U.S. Government direct, guaranteed, and government-sponsored enterprises ..... | \$ 37,182                  | \$ (212)            | \$ 89,664                  | \$ (2,575)          | \$ 126,846         | \$ (2,787)          |
| States, municipalities and political subdivisions .....                        | 124,907                    | (1,648)             | 7,981                      | (102)               | 132,888            | (1,750)             |
| Foreign governments .....                                                      | —                          | —                   | —                          | —                   | —                  | —                   |
| Corporates, by sector:                                                         |                            |                     |                            |                     |                    |                     |
| Financial .....                                                                | 931,161                    | (36,337)            | 241,442                    | (21,572)            | 1,172,603          | (57,909)            |
| Utilities .....                                                                | 329,753                    | (11,680)            | 121,308                    | (9,442)             | 451,061            | (21,122)            |
| Energy .....                                                                   | 475,736                    | (29,426)            | 54,937                     | (9,382)             | 530,673            | (38,808)            |
| Other corporate sectors .....                                                  | 2,515,541                  | (149,168)           | 575,796                    | (62,994)            | 3,091,337          | (212,162)           |
| Total corporates .....                                                         | 4,252,191                  | (226,611)           | 993,483                    | (103,390)           | 5,245,674          | (330,001)           |
| Other asset-backed securities .....                                            | 44,603                     | (634)               | —                          | —                   | 44,603             | (634)               |
| Total investment grade securities .....                                        | 4,458,883                  | (229,105)           | 1,091,128                  | (106,067)           | 5,550,011          | (335,172)           |
| <b>Below investment grade securities:</b>                                      |                            |                     |                            |                     |                    |                     |
| States, municipalities and political subdivisions .....                        | —                          | —                   | —                          | —                   | —                  | —                   |
| Corporates, by sector:                                                         |                            |                     |                            |                     |                    |                     |
| Financial .....                                                                | 22,087                     | (8,674)             | 81,101                     | (20,932)            | 103,188            | (29,606)            |
| Utilities .....                                                                | 28,613                     | (3,277)             | —                          | —                   | 28,613             | (3,277)             |
| Energy .....                                                                   | 42,874                     | (3,901)             | 36,122                     | (19,662)            | 78,996             | (23,563)            |
| Other corporate sectors .....                                                  | 146,373                    | (7,235)             | 69,053                     | (23,112)            | 215,426            | (30,347)            |
| Total corporates .....                                                         | 239,947                    | (23,087)            | 186,276                    | (63,706)            | 426,223            | (86,793)            |
| Collateralized debt obligations .....                                          | —                          | —                   | 13,586                     | (6,414)             | 13,586             | (6,414)             |
| Total below investment grade securities .....                                  | 239,947                    | (23,087)            | 199,862                    | (70,120)            | 439,809            | (93,207)            |
| <b>Total fixed maturities</b> .....                                            | <u>\$4,698,830</u>         | <u>\$ (252,192)</u> | <u>\$1,290,990</u>         | <u>\$ (176,187)</u> | <u>\$5,989,820</u> | <u>\$ (428,379)</u> |

**TORCHMARK CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
(Dollar amounts in thousands, except per share data)

**Note 4—Investments (continued)****Analysis of Gross Unrealized Investment Losses**

|                                                                                | At December 31, 2017       |                    |                            |                    |                    |                    |
|--------------------------------------------------------------------------------|----------------------------|--------------------|----------------------------|--------------------|--------------------|--------------------|
|                                                                                | Less than<br>Twelve Months |                    | Twelve Months<br>or Longer |                    | Total              |                    |
|                                                                                | Fair Value                 | Unrealized<br>Loss | Fair<br>Value              | Unrealized<br>Loss | Fair Value         | Unrealized<br>Loss |
| <b>Fixed maturities available for sale:</b>                                    |                            |                    |                            |                    |                    |                    |
| <b>Investment grade securities:</b>                                            |                            |                    |                            |                    |                    |                    |
| U.S. Government direct, guaranteed, and government-sponsored enterprises ..... | \$ 34,388                  | \$ (422)           | \$ 47,514                  | \$ (951)           | \$ 81,902          | \$ (1,373)         |
| States, municipalities and political subdivisions .....                        | 4,561                      | (21)               | 1,771                      | (9)                | 6,332              | (30)               |
| Foreign governments .....                                                      | —                          | —                  | —                          | —                  | —                  | —                  |
| Corporates, by sector:                                                         |                            |                    |                            |                    |                    |                    |
| Financial .....                                                                | 133,080                    | (652)              | 35,302                     | (1,429)            | 168,382            | (2,081)            |
| Utilities .....                                                                | 48,562                     | (569)              | 38,298                     | (826)              | 86,860             | (1,395)            |
| Energy .....                                                                   | 23,463                     | (81)               | 67,775                     | (3,682)            | 91,238             | (3,763)            |
| Other corporate sectors .....                                                  | 220,661                    | (2,312)            | 163,886                    | (4,257)            | 384,547            | (6,569)            |
| Total corporates .....                                                         | 425,766                    | (3,614)            | 305,261                    | (10,194)           | 731,027            | (13,808)           |
| Collateralized debt obligations .....                                          | —                          | —                  | —                          | —                  | —                  | —                  |
| Other asset-backed securities .....                                            | —                          | —                  | —                          | —                  | —                  | —                  |
| Total investment grade securities .....                                        | 464,715                    | (4,057)            | 354,546                    | (11,154)           | 819,261            | (15,211)           |
| <b>Below investment grade securities:</b>                                      |                            |                    |                            |                    |                    |                    |
| States, municipalities and political subdivisions .....                        | 200                        | (105)              | —                          | —                  | 200                | (105)              |
| Corporates, by sector:                                                         |                            |                    |                            |                    |                    |                    |
| Financial .....                                                                | —                          | —                  | 108,808                    | (24,038)           | 108,808            | (24,038)           |
| Energy .....                                                                   | 8,114                      | (104)              | 75,204                     | (21,525)           | 83,318             | (21,629)           |
| Other corporate sectors .....                                                  | 25,334                     | (5,066)            | 54,383                     | (8,981)            | 79,717             | (14,047)           |
| Total corporates .....                                                         | 33,448                     | (5,170)            | 238,395                    | (54,544)           | 271,843            | (59,714)           |
| Collateralized debt obligations .....                                          | —                          | —                  | 12,347                     | (7,653)            | 12,347             | (7,653)            |
| Total below investment grade securities .....                                  | 33,648                     | (5,275)            | 250,742                    | (62,197)           | 284,390            | (67,472)           |
| <b>Total fixed maturities .....</b>                                            | <b>\$ 498,363</b>          | <b>\$ (9,332)</b>  | <b>\$ 605,288</b>          | <b>\$ (73,351)</b> | <b>\$1,103,651</b> | <b>\$ (82,683)</b> |

Gross unrealized losses increased from \$83 million at year end 2017 to \$428 million at year end 2018, an increase of \$346 million. The increase in the gross unrealized losses from prior year was primarily attributable to the increase in market rates.

**TORCHMARK CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
(Dollar amounts in thousands, except per share data)

**Note 4—Investments (continued)**

Additional information about fixed maturities available for sale in an unrealized loss position is as follows:

|                                               | <b>Less than<br/>Twelve<br/>Months</b> | <b>Twelve<br/>Months<br/>or Longer</b> | <b>Total</b> |
|-----------------------------------------------|----------------------------------------|----------------------------------------|--------------|
| <b>Number of issues (CUSIP numbers) held:</b> |                                        |                                        |              |
| As of December 31, 2018 .....                 | 495                                    | 234                                    | 729          |
| As of December 31, 2017 .....                 | 92                                     | 102                                    | 194          |

Torchmark's entire fixed maturity portfolio consisted of 1,548 issues at December 31, 2018 and 1,502 issues at December 31, 2017. The weighted-average quality rating of all unrealized loss positions at amortized cost was BBB+ for 2018 and BBB- for 2017.

**Concentrations of Credit Risk:** Torchmark maintains a diversified investment portfolio with limited concentration in any given issuer. At December 31, 2018, the investment portfolio, at fair value, consisted of the following:

**Investment grade fixed maturities:**

|                                                     |     |
|-----------------------------------------------------|-----|
| Corporate securities .....                          | 80% |
| Securities of state and municipal governments ..... | 8   |
| Government-sponsored enterprises .....              | 2   |
| Other .....                                         | 2   |

**Below investment grade fixed maturities:**

|                                                                                 |             |
|---------------------------------------------------------------------------------|-------------|
| Corporate securities .....                                                      | 3           |
| Other .....                                                                     | —           |
| Policy loans, which are secured by the underlying insurance policy values ..... | 3           |
| Other investments .....                                                         | 2           |
|                                                                                 | <u>100%</u> |

As of December 31, 2018, securities of state and municipal governments represented 8% of invested assets at fair value. Such investments are made throughout the U.S. At yearend 2018, the state and municipal bond portfolio at fair value was invested in securities issued within the following states: Texas (30%), Washington (7%), Ohio (7%), Florida (6%), Illinois (6%), and Michigan (4%). Otherwise, there was no concentration within any given state greater than 4%.

Corporate debt securities and redeemable preferred stocks represent 83% of Torchmark's investment portfolio. These investments are spread across a wide range of industries. Below are the ten largest industry concentrations held in the corporate portfolio of corporate debt securities and redeemable preferred stocks at December 31, 2018, based on fair value:

|                                                      |     |
|------------------------------------------------------|-----|
| Insurance .....                                      | 15% |
| Electric utilities .....                             | 11  |
| Oil and natural gas pipelines .....                  | 7   |
| Banks .....                                          | 6   |
| Transportation .....                                 | 4   |
| Real estate investment trusts .....                  | 4   |
| Oil and natural gas exploration and production ..... | 4   |
| Chemicals .....                                      | 4   |
| Food .....                                           | 4   |
| Gas utilities .....                                  | 3   |

**TORCHMARK CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
(Dollar amounts in thousands, except per share data)

**Note 4—Investments (continued)**

At year end 2018, 3% of invested assets at fair value were represented by fixed maturities rated below investment grade. Par value of these investments was \$757 million, amortized cost was \$666 million, and fair value was \$601 million. While these investments could be subject to additional credit risk, such risk should generally be reflected in their fair value.

Other investment information: Other long-term investments consist of the following:

|                                               | Year Ended December 31, |                   |
|-----------------------------------------------|-------------------------|-------------------|
|                                               | 2018                    | 2017              |
| Investment in limited partnerships .....      | \$ 108,241              | \$ 66,522         |
| Commercial mortgage loan participations ..... | 96,266                  | 39,489            |
| Other .....                                   | 2,751                   | 2,548             |
| Total .....                                   | <u>\$ 207,258</u>       | <u>\$ 108,559</u> |

Torchmark held invested assets with a fair value of \$399 thousand that were non-income producing during the twelve months ended December 31, 2018.

Commercial mortgage loan participations: Summaries of commercial mortgage loan participations at December 31, 2018 and 2017 are as follows:

|                                                  | 2018             |            | 2017             |            |
|--------------------------------------------------|------------------|------------|------------------|------------|
|                                                  | Carrying Value   | % of Total | Carrying Value   | % of Total |
| <b>Property type:</b>                            |                  |            |                  |            |
| Office .....                                     | \$ 35,289        | 37         | \$ 18,378        | 46         |
| Hospitality .....                                | 15,137           | 16         | 10,496           | 27         |
| Industrial .....                                 | 13,896           | 14         | —                | —          |
| Retail .....                                     | 12,934           | 13         | —                | —          |
| Mixed use .....                                  | 11,309           | 12         | 7,148            | 18         |
| Multi-family .....                               | 7,701            | 8          | 3,467            | 9          |
| Total recorded investment .....                  | <u>96,266</u>    | <u>100</u> | <u>39,489</u>    | <u>100</u> |
| Less valuation allowance .....                   | —                | —          | —                | —          |
| Carrying value, net of valuation allowance ..... | <u>\$ 96,266</u> | <u>100</u> | <u>\$ 39,489</u> | <u>100</u> |

|                                                  | 2018             |            | 2017             |            |
|--------------------------------------------------|------------------|------------|------------------|------------|
|                                                  | Carrying Value   | % of Total | Carrying Value   | % of Total |
| <b>Geographic location:</b>                      |                  |            |                  |            |
| South Atlantic .....                             | \$ 39,414        | 41         | \$ 18,378        | 46         |
| Middle Atlantic .....                            | 23,488           | 24         | 3,467            | 9          |
| Pacific .....                                    | 20,843           | 22         | 7,148            | 18         |
| East North Central .....                         | 10,531           | 11         | 10,496           | 27         |
| West South Central .....                         | 1,990            | 2          | —                | —          |
| Total recorded investment .....                  | <u>96,266</u>    | <u>100</u> | <u>39,489</u>    | <u>100</u> |
| Less valuation allowance .....                   | —                | —          | —                | —          |
| Carrying value, net of valuation allowance ..... | <u>\$ 96,266</u> | <u>100</u> | <u>\$ 39,489</u> | <u>100</u> |

**TORCHMARK CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
(Dollar amounts in thousands, except per share data)

**Note 4—Investments (continued)**

| <b>2018</b>                         |                  |                    |                  |                  |                   |
|-------------------------------------|------------------|--------------------|------------------|------------------|-------------------|
| <b>Recorded Investment</b>          |                  |                    |                  |                  |                   |
| <b>Debt Service Coverage Ratios</b> |                  |                    |                  |                  |                   |
|                                     | <b>&lt;1.00x</b> | <b>1.00x—1.20x</b> | <b>&gt;1.20x</b> | <b>Total</b>     | <b>% of Total</b> |
| <b>Loan-to-value ratio:</b>         |                  |                    |                  |                  |                   |
| Less than 70% .....                 | \$ 18,343        | \$ 56,813          | \$ 10,531        | \$ 85,687        | 89                |
| 70% to 80% .....                    | 10,579           | —                  | —                | 10,579           | 11                |
| 81% to 90% .....                    | —                | —                  | —                | —                | —                 |
| Greater than 90% .....              | —                | —                  | —                | —                | —                 |
| Total .....                         | <u>\$ 28,922</u> | <u>\$ 56,813</u>   | <u>\$ 10,531</u> | <u>\$ 96,266</u> | <u>100</u>        |

| <b>2017</b>                         |                  |                    |                  |                  |                   |
|-------------------------------------|------------------|--------------------|------------------|------------------|-------------------|
| <b>Recorded Investment</b>          |                  |                    |                  |                  |                   |
| <b>Debt Service Coverage Ratios</b> |                  |                    |                  |                  |                   |
|                                     | <b>&lt;1.00x</b> | <b>1.00x—1.20x</b> | <b>&gt;1.20x</b> | <b>Total</b>     | <b>% of Total</b> |
| <b>Loan-to-value ratio:</b>         |                  |                    |                  |                  |                   |
| Less than 70% .....                 | \$ —             | \$ 18,378          | \$ 10,496        | \$ 28,874        | 73                |
| 70% to 80% .....                    | 3,467            | 7,148              | —                | 10,615           | 27                |
| 81% to 90% .....                    | —                | —                  | —                | —                | —                 |
| Greater than 90% .....              | —                | —                  | —                | —                | —                 |
| Total .....                         | <u>\$ 3,467</u>  | <u>\$ 25,526</u>   | <u>\$ 10,496</u> | <u>\$ 39,489</u> | <u>100</u>        |

As of December 31, 2018 and 2017, the Company evaluated the commercial mortgage loan portfolio on a loan-by-loan basis to determine any allowance for loss. Factors considered include, but are not limited to, collateral value, loan-to-value ratio, debt service coverage ratio, local market conditions, credit quality of the borrower and tenants, and loan performance. As of December 31, 2018 and 2017, there was no allowance for loss.

**TORCHMARK CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
(Dollar amounts in thousands, except per share data)

**Note 5—Deferred Acquisition Costs**

An analysis of DAC is as follows:

|                                                                              | Year Ended December 31, |                     |                     |
|------------------------------------------------------------------------------|-------------------------|---------------------|---------------------|
|                                                                              | 2018                    | 2017                | 2016                |
| <b>Balance at beginning of year</b> .....                                    | \$ 3,958,063            | \$ 3,783,158        | \$ 3,617,135        |
| <b>Additions:</b>                                                            |                         |                     |                     |
| Deferred during period:                                                      |                         |                     |                     |
| Commissions .....                                                            | 497,459                 | 465,920             | 436,252             |
| Other expenses .....                                                         | 202,092                 | 194,214             | 199,066             |
| Total deferred .....                                                         | 699,551                 | 660,134             | 635,318             |
| Foreign exchange adjustment .....                                            | —                       | 5,712               | 2,180               |
| Adjustment attributable to unrealized investment losses <sup>(1)</sup> ..... | 5,549                   | —                   | —                   |
| Total additions .....                                                        | 705,100                 | 665,846             | 637,498             |
| <b>Deductions:</b>                                                           |                         |                     |                     |
| Amortized during period .....                                                | (516,690)               | (490,403)           | (469,063)           |
| Foreign exchange adjustment .....                                            | (8,548)                 | —                   | —                   |
| Adjustment attributable to unrealized investment gains <sup>(1)</sup> .....  | —                       | (538)               | (2,412)             |
| Total deductions .....                                                       | (525,238)               | (490,941)           | (471,475)           |
| <b>Balance at end of year</b> .....                                          | <u>\$ 4,137,925</u>     | <u>\$ 3,958,063</u> | <u>\$ 3,783,158</u> |

(1) Represents amounts pertaining to investments relating to universal life-type products.

**TORCHMARK CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
(Dollar amounts in thousands, except per share data)

**Note 6—Commitments and Contingencies**

**Reinsurance:** Insurance affiliates of Torchmark reinsure that portion of insurance risk which is in excess of their retention limits. Retention limits for ordinary life insurance range up to \$2 million per life. Life insurance ceded represented 0.4% of total life insurance in force at December 31, 2018. Insurance ceded on life and accident and health products represented 0.2% of premium income for 2018. Torchmark would be liable for the reinsured risks ceded to other companies to the extent that such reinsuring companies are unable to meet their obligations.

Insurance affiliates also assume insurance risks of other external companies. Life reinsurance assumed represented 1.6% of life insurance in force at December 31, 2018 and reinsurance assumed on life and accident and health products represented 0.6% of premium income for 2018.

**Leases:** Torchmark leases office space, office equipment, and aviation equipment under a variety of operating lease arrangements. The Company does not have any capital leases.

Rental expense for operating leases for each of the three years ended December 31, 2018 is as follows:

| Year Ended December 31, |          |          |          |
|-------------------------|----------|----------|----------|
|                         | 2018     | 2017     | 2016     |
| Rental expense .....    | \$ 3,959 | \$ 6,446 | \$ 6,520 |

Future minimum rental commitments required under operating leases having remaining noncancelable lease terms in excess of one year at December 31, 2018 were as follows:

| Year Ended December 31,           |          |          |          |          |          |            |
|-----------------------------------|----------|----------|----------|----------|----------|------------|
|                                   | 2019     | 2020     | 2021     | 2022     | 2023     | Thereafter |
| Operating lease commitments ..... | \$ 4,304 | \$ 4,208 | \$ 3,560 | \$ 2,755 | \$ 1,916 | \$ 6,596   |

**Purchase Commitments:** Torchmark has various long-term noncancelable purchase commitments as well as commitments to provide capital for low-income housing tax credit interests. See further discussion related to tax credits in *Note 1—Significant Accounting Policies*.

| Year Ended December 31,    |           |           |          |          |          |            |
|----------------------------|-----------|-----------|----------|----------|----------|------------|
|                            | 2019      | 2020      | 2021     | 2022     | 2023     | Thereafter |
| Purchase commitments ..... | \$ 27,938 | \$ 23,515 | \$ 4,121 | \$ 2,705 | \$ 3,018 | \$ 244,854 |

**Investments:** As of December 31, 2018, Torchmark is committed to purchase \$154 million of commercial mortgage loan participations from a third party by 2021 and \$250 million to fund investments related to a limited partnership by 2022.

**Guarantees:** At December 31, 2018, Torchmark had in place three guarantee agreements, of which were either Parent Company guarantees of subsidiary obligations to a third party, or Parent Company guarantees of obligations between wholly-owned subsidiaries. As of December 31, 2018, Torchmark had no liability with respect to these guarantees.

**Letters of Credit:** Torchmark has guaranteed letters of credit in connection with its credit facility with a group of banks as disclosed in *Note 11—Debt*. The letters of credit were issued by TMK Re, Ltd., a wholly-owned subsidiary, to secure TMK Re, Ltd.'s obligation for claims on certain policies reinsured by TMK Re, Ltd. that were sold by other Torchmark insurance companies. These letters of credit facilitate TMK Re, Ltd.'s ability to reinsure the business of Torchmark's insurance carriers. The agreement expires in 2021. The maximum amount of letters of credit available is \$250 million. The Parent Company would be liable to the extent that TMK Re, Ltd. does not pay the reinsured party. On March 14, 2018, the letters of credit were amended to reduce the

**TORCHMARK CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
(Dollar amounts in thousands except per share data)

**Note 6—Commitments and Contingencies (continued)**

current amount outstanding to \$155 million from \$177 million as of December 31, 2017. As of December 31, 2018, the letters of credit outstanding were \$155 million.

*Equipment leases:* Torchmark has guaranteed performance of certain subsidiaries as lessees under two aviation leasing arrangements. At December 31, 2018, total remaining undiscounted payments under the leases were approximately \$8 million. The Parent Company would be responsible for any subsidiary obligation in the event the subsidiary did not make payments or otherwise perform under the terms of the lease.

*Unclaimed Property Audits:* Torchmark subsidiaries are currently the subject of audits regarding the identification, reporting and escheatment of unclaimed property arising from life insurance policies and a limited number of annuity contracts. These audits are being conducted by private entities that have contracted with forty-seven states through their respective Departments of Revenue, and have not resulted in any financial assessment from any state nor indicated any liability. The audits are wide-ranging and seek large amounts of data regarding claims handling, procedures, and payments of contract benefits arising from unreported death claims. No estimate of range can be made at this time for loss contingencies related to possible administrative penalties or amounts that could be payable to the states for the escheatment of abandoned property.

*Litigation:* Torchmark and its subsidiaries, 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 Torchmark's subsidiaries, employment discrimination, and miscellaneous other causes of action. Based upon information presently available, and in light of legal and other factual defenses available to Torchmark and its subsidiaries, management does not believe that it is reasonably possible that such litigation will have a material adverse effect on Torchmark'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. Torchmark'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 Torchmark and its subsidiaries have substantial business, creating the potential for unpredictable material adverse judgments in any given punitive damage suit.

On September 12, 2018, putative class action litigation was filed against American Income Life Insurance Company in California's Contra Costa County Superior Court (*Joh v. American Income Life Insurance Company*, Case No. C18-01863). 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). The plaintiff, a former insurance sales agent of American Income, is suing on behalf of all current and former 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 amended complaint alleges that such individuals are employees and asserts claims under the California Labor Code, California Business and Professions Code, and California Private Attorney General Act. The complaint seeks 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 and unfair business practices. The Company continues to assess the amount and thus does not have a reasonable estimate of any potential liability.

On October 18, 2018, putative class action litigation was filed against Torchmark Corporation and American Income Life Insurance Company in California's Los Angeles County Superior Court (*Golz v. American Income Life Insurance Company*, et al Case No. 18STCV01354). 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. The amended complaint alleges that the putative class members are employees and asserts claims under the California Labor Code and California Business and Professions Code. The complaint alleges that plaintiff was an American Income insurance agent trainee in California who seeks to represent a class of individuals in California whom American Income classified as independently contracted agent trainees. The class period is alleged to begin four years prior to the complaint's filing. The complaint seeks compensatory damages, penalties, and attorney fees on claims for

**TORCHMARK CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
(Dollar amounts in thousands except per share data)

**Note 6—Commitments and Contingencies (continued)**

failure to pay minimum wage and overtime, failure to provide meal and rest breaks, failure to appropriately pay wages at termination, failure to provide itemized wage statements, failure to reimburse business expenses, and unfair business practices. The Company continues to assess the amount and thus does not have a reasonable estimate of any potential liability.

On December 14, 2018, putative class action litigation was filed against American Income Life Insurance Company 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). An amended complaint was filed on January 23, 2019. The plaintiffs, former insurance sales agents of American Income, are suing on behalf of all current and former 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 alleges that putative class members are employees and asserts claims under the California Labor Code, California Business and Professions Code, and California Private Attorney General Act. The complaint seeks 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, and unfair business practices. The Company continues to assess the amount and thus does not have a reasonable estimate of any potential liability.

On January 16, 2019, putative class action litigation was filed against American Income Life Insurance Company in Orange County, California Superior Court (*Putros v. American Income Life Insurance Company*, Case No. 30-2019-01044772-CU-OE-CXC). The plaintiff, a former insurance sales agent of American Income, is suing on behalf of all current and former 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 alleges that putative class members are employees and asserts claims under the California Labor Code, California Business and Professions Code, and California Private Attorney General Act. The complaint seeks compensatory damages, penalties and attorney fees on claims for failure to pay minimum wage, failure to provide meal and rest breaks, failure to appropriately pay agents at termination, failure to provide itemized wage statements, failure to reimburse expenses, and unfair business practices. The Company continues to assess the amount and thus does not have a reasonable estimate of any potential liability.

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

**Guaranty Fund Assessment:** In 2017, the Commonwealth Court of Pennsylvania issued orders placing Penn Treaty Network America Insurance Company (Penn Treaty) and affiliate American Network Insurance Company (ANIC) in liquidation due to financial difficulties. In such instances, the various state guaranty fund associations employ funding mechanisms, through assessments to their member companies, to cover the obligations of the insolvent entities. Consequently, the Company continues to receive guaranty fund assessments from the state associations related to these companies. The Company has projected its share of the ultimate assessments from these insolvencies based on assumptions about future events and its market share of premiums by state. We anticipate a majority of the estimates will be recoverable through state premium tax credit offsets. In 2017, we recorded \$1.8 million as the estimated amount deemed unrecoverable.

**TORCHMARK CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
(Dollar amounts in thousands, except per share data)

**Note 7—Liability for Unpaid Claims**

Activity in the liability for unpaid health claims is summarized as follows:

|                                           | Year Ended December 31, |                   |                   |
|-------------------------------------------|-------------------------|-------------------|-------------------|
|                                           | 2018                    | 2017              | 2016              |
| <b>Balance at beginning of year</b> ..... | \$ 146,865              | \$ 143,128        | \$ 137,120        |
| Incurred related to:                      |                         |                   |                   |
| Current year .....                        | 555,647                 | 520,528           | 510,075           |
| Prior years .....                         | (3,017)                 | (8,048)           | (1,127)           |
| Total incurred .....                      | 552,630                 | 512,480           | 508,948           |
| Paid related to:                          |                         |                   |                   |
| Current year .....                        | 424,633                 | 394,506           | 386,278           |
| Prior years .....                         | 120,334                 | 114,237           | 116,662           |
| Total paid .....                          | 544,967                 | 508,743           | 502,940           |
| <b>Balance at end of year</b> .....       | <u>\$ 154,528</u>       | <u>\$ 146,865</u> | <u>\$ 143,128</u> |

At the end of each period, 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 difference between the estimate made at the end of the prior period and the actual experience during the period is reflected above under the caption "Incurred related to: Prior years."

Below is the reconciliation of the liability for "Policy claims and other benefits payable" in the *Consolidated Balance Sheets*.

|                                                  | At December 31,   |                   |
|--------------------------------------------------|-------------------|-------------------|
|                                                  | 2018              | 2017              |
| <b>Policy claims and other benefits payable:</b> |                   |                   |
| Life insurance .....                             | \$ 196,298        | \$ 186,429        |
| Health insurance .....                           | 154,528           | 146,865           |
| Total .....                                      | <u>\$ 350,826</u> | <u>\$ 333,294</u> |

**TORCHMARK CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
(Dollar amounts in thousands, except per share data)

**Note 8—Income Taxes**

The following table discloses significant components of income taxes for each year presented:

|                                                                 | Year Ended December 31, |                     |                   |
|-----------------------------------------------------------------|-------------------------|---------------------|-------------------|
|                                                                 | 2018                    | 2017                | 2016              |
| <b>Income tax expense (benefit) from continuing operations:</b> |                         |                     |                   |
| Current income tax expense (benefit) .....                      | \$ 134,626              | \$ 138,262          | \$ 132,806        |
| Deferred income tax expense (benefit) .....                     | 27,535                  | (765,877)           | 99,839            |
|                                                                 | <u>162,161</u>          | <u>(627,615)</u>    | <u>232,645</u>    |
| <b>Shareholders' equity:</b>                                    |                         |                     |                   |
| Other comprehensive income (loss) .....                         | (293,678)               | 318,475             | 186,206           |
|                                                                 | <u>\$ (131,517)</u>     | <u>\$ (309,140)</u> | <u>\$ 418,851</u> |

In each of the years 2016 through 2018, deferred income tax expense (benefit) was incurred because of certain differences between net income before income tax expense (benefit) as reported on the *Consolidated Statements of Operations* and taxable income as reported on Torchmark's income tax returns. As explained in *Note 1—Significant Accounting Policies*, these differences caused the consolidated financial statement book values of some assets and liabilities to be different from their respective tax bases.

Due to the passage of tax legislation in 2017, the Company recorded an \$877 million deferred income tax benefit as a result of remeasuring its deferred assets and liabilities using the lower corporate tax rate as of the date of enactment. In the fourth quarter of 2018, the Company completed its analysis of the tax legislation, as required by ASC 740 *Income Taxes*, and recorded an additional \$798 thousand adjustment related to the remeasurement of the deferred tax assets and liabilities based on the 21% rate.

The effective income tax rate differed from the expected U.S. federal statutory rate of 21% for 2018 and 35% for prior years as shown below:

|                                                             | Year Ended December 31, |             |                     |               |                   |             |
|-------------------------------------------------------------|-------------------------|-------------|---------------------|---------------|-------------------|-------------|
|                                                             | 2018                    | %           | 2017                | %             | 2016              | %           |
| <b>Expected federal income tax expense (benefit) .....</b>  | <b>\$ 181,371</b>       | <b>21.0</b> | <b>\$ 290,727</b>   | <b>35.0</b>   | <b>\$ 270,282</b> | <b>35.0</b> |
| <b>Increase (reduction) in income taxes resulting from:</b> |                         |             |                     |               |                   |             |
| Tax reform adjustment .....                                 | (798)                   | (0.1)       | (877,400)           | (105.6)       | —                 | —           |
| Low income housing investments .....                        | (12,240)                | (1.4)       | (18,515)            | (2.2)         | (18,202)          | (2.4)       |
| Share-based awards .....                                    | (6,450)                 | (0.7)       | (19,549)            | (2.4)         | (18,653)          | (2.4)       |
| Other .....                                                 | 278                     | —           | (2,878)             | (0.4)         | (782)             | (0.1)       |
| <b>Income tax expense (benefit) .....</b>                   | <b>\$ 162,161</b>       | <b>18.8</b> | <b>\$ (627,615)</b> | <b>(75.6)</b> | <b>\$ 232,645</b> | <b>30.1</b> |

**TORCHMARK CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
(Dollar amounts in thousands except per share data)

**Note 8—Income Taxes (continued)**

The tax effects of temporary differences that gave rise to significant portions of the deferred tax assets and deferred tax liabilities are presented below:

|                                                                                | December 31,        |                     |
|--------------------------------------------------------------------------------|---------------------|---------------------|
|                                                                                | 2018                | 2017                |
| <b>Deferred tax assets:</b>                                                    |                     |                     |
| Fixed maturity investments .....                                               | \$ 6,131            | \$ 8,692            |
| Carryover of tax losses .....                                                  | 7,406               | 4,760               |
| Total gross deferred tax assets .....                                          | 13,537              | 13,452              |
| <b>Deferred tax liabilities:</b>                                               |                     |                     |
| Unrealized gains .....                                                         | 87,871              | 380,251             |
| Employee and agent compensation .....                                          | 70,551              | 65,576              |
| Deferred acquisition costs .....                                               | 633,687             | 618,889             |
| Future policy benefits, unearned and advance premiums, and policy claims ..... | 242,285             | 248,752             |
| Other liabilities .....                                                        | 25,603              | 11,289              |
| Total gross deferred tax liabilities .....                                     | 1,059,997           | 1,324,757           |
| <b>Net deferred tax liability</b> .....                                        | <u>\$ 1,046,460</u> | <u>\$ 1,311,305</u> |

**Income Tax Return:** Torchmark and all of its subsidiaries file a life-nonlife consolidated federal income tax return for the year ended December 31, 2018. Family Heritage Life Insurance Company (Family Heritage) filed its federal income tax return on a separate company basis for the taxable years prior to 2018. The statutes of limitations for the Internal Revenue Service's examination and assessment of additional tax are closed for all tax years prior to 2015 with respect to Torchmark's consolidated as well as Family Heritage's federal income tax returns. Management believes that adequate provision has been made in the consolidated financial statements for any potential assessments that may result from current or future tax examinations and other tax-related matters for all open years.

**Valuations:** Torchmark has net operating loss carryforwards of approximately \$35.3 million at December 31, 2018 that will begin to expire in 2033 if not otherwise used to offset future taxable income. A valuation allowance is to be provided when it is more likely than not that deferred tax assets will not be realized by the Company. No valuation allowance has been recorded relating to Torchmark's deferred tax assets as management believes Torchmark will more likely than not have sufficient taxable income in future periods to fully realize its existing deferred tax assets.

Torchmark's tax liability is adjusted to include a provision for uncertain tax positions taken or expected to be taken in a tax return. However, during the years 2016 through 2018, Torchmark did not have any uncertain tax positions which resulted in unrecognized tax benefits.

**Tax penalties and interest:** Torchmark's continuing practice is to recognize penalties and interest related to income tax matters in income tax expense. No penalties or interest were recognized in 2018, however the Company recognized interest income of \$5 thousand and \$9 thousand, net of federal income tax expense, in its *Consolidated Statements of Operations* for 2017 and 2016, respectively. The Company had no accrued interest or penalties at December 31, 2018 or 2017.

**TORCHMARK CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
(Dollar amounts in thousands, except per share data)

**Note 9—Postretirement Benefits**

Torchmark has qualified noncontributory defined benefit pension plans and contributory savings plans that cover substantially all employees. There is also a nonqualified noncontributory supplemental executive retirement plan (SERP) that covers a limited number of employees. The total cost of these retirement plans charged to operations was as follows:

| Year Ended December 31, | Defined<br>Contribution<br>Plans <sup>(1)</sup> | Defined<br>Benefit<br>Pension Plans <sup>(2)</sup> |
|-------------------------|-------------------------------------------------|----------------------------------------------------|
| 2018 .....              | \$ 4,068                                        | \$ 32,593                                          |
| 2017 .....              | 4,145                                           | 28,828                                             |
| 2016 .....              | 3,614                                           | 24,202                                             |

(1) 401K plans

(2) Qualified pension plans and SERP

Torchmark accrues expense for the defined contribution plans based on a percentage of the employees' contributions. The plans are funded by the employee contributions and a Torchmark contribution equal to the amount of accrued expense. Plan contributions are both mandatory and discretionary, depending on the terms of the plan.

**Pension Plans:** Cost for the defined benefit pension plans has been calculated on the projected unit credit actuarial cost method. All plan measurements for the defined benefit plans are as of December 31 of the respective year. The defined benefit pension plans covering the majority of employees are qualified and funded. Contributions are made to funded pension plans subject to minimums required by regulation and maximums allowed for tax purposes. Torchmark's SERP provides to a limited number of executives an additional supplemental defined pension benefit. The supplemental benefit is based on the participant's qualified plan benefit without consideration to the regulatory limits on compensation and benefit payments applicable to qualified plans, except that eligible compensation is capped at \$1 million. The SERP is nonqualified and unfunded. However, a Rabbi Trust has been established to support the liability for this plan. The trust consists of life insurance policies on the lives of plan participants with an unaffiliated insurance carrier as well as an investment account.

Since this plan is nonqualified, the investments and the policyholder value of the insurance policies in the Rabbi Trust are not included as defined benefit plan assets, but rather assets of the Company. They are included in "Other Assets" in the *Consolidated Balance Sheets*.

Defined benefit and SERP plan contributions were \$52.8 million in 2018, \$21.3 million in 2017, and \$15.8 million in 2016.

**TORCHMARK CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
(Dollar amounts in thousands, except per share data)

**Note 9—Postretirement Benefits (continued)**

The following table includes premiums paid for the SERP for the three years ended December 31, 2018 and investments of the Rabbi Trust for the two years ended December 31, 2018.

|                                            | Year Ended December 31, |          |          |
|--------------------------------------------|-------------------------|----------|----------|
|                                            | 2018                    | 2017     | 2016     |
| Premiums paid for insurance coverage ..... | \$ 2,997                | \$ 2,050 | \$ 2,050 |

|                                    | At December 31,  |                  |
|------------------------------------|------------------|------------------|
|                                    | 2018             | 2017             |
| <b>Total investments:</b>          |                  |                  |
| Company owned life insurance ..... | \$ 44,285        | \$ 40,273        |
| Exchange traded funds .....        | 52,659           | 55,442           |
|                                    | <u>\$ 96,944</u> | <u>\$ 95,715</u> |

Plan assets in the funded plans consist primarily of investments in marketable fixed maturities and equity securities that are valued at fair value. Torchmark measures the fair value of its financial assets, including the assets in its benefit plans, in accordance with accounting guidance which establishes a hierarchy for asset values and provides a methodology for the measurement of value. Please refer to *Note 1—Significant Accounting Policies* under the caption *Fair Value Measurements, Investments in Securities* for a complete discussion of valuation procedures. The following table presents the assets of Torchmark's defined benefit pension plans for the years ended December 31, 2018 and 2017.

**Pension Assets by Component at December 31, 2018**

|                                                  | Fair Value Determined by:                                               |                                               |                                                 |                   |               |
|--------------------------------------------------|-------------------------------------------------------------------------|-----------------------------------------------|-------------------------------------------------|-------------------|---------------|
|                                                  | Quoted Prices in<br>Active Markets<br>for Identical<br>Assets (Level 1) | Significant<br>Observable<br>Inputs (Level 2) | Significant<br>Unobservable<br>Inputs (Level 3) | Total<br>Amount   | % to<br>Total |
| Corporate bonds:                                 |                                                                         |                                               |                                                 |                   |               |
| Financial .....                                  | \$ —                                                                    | \$ 44,236                                     | \$ —                                            | \$ 44,236         | 11            |
| Utilities .....                                  | —                                                                       | 39,443                                        | —                                               | 39,443            | 10            |
| Energy .....                                     | —                                                                       | 19,744                                        | —                                               | 19,744            | 5             |
| Other corporates .....                           | —                                                                       | 83,202                                        | —                                               | 83,202            | 22            |
| Total corporate bonds .....                      | —                                                                       | 186,625                                       | —                                               | 186,625           | 48            |
| Exchange traded fund <sup>(1)</sup> .....        | 157,717                                                                 | —                                             | —                                               | 157,717           | 40            |
| Other bonds .....                                | —                                                                       | 245                                           | —                                               | 245               | —             |
| Other long-term investments .....                | —                                                                       | 8,475                                         | —                                               | 8,475             | 2             |
| Guaranteed annuity contract <sup>(2)</sup> ..... | —                                                                       | 26,505                                        | —                                               | 26,505            | 7             |
| Short-term investments .....                     | 9,289                                                                   | —                                             | —                                               | 9,289             | 2             |
| Other .....                                      | 3,816                                                                   | —                                             | —                                               | 3,816             | 1             |
| Total .....                                      | <u>\$ 170,822</u>                                                       | <u>\$ 221,850</u>                             | <u>\$ —</u>                                     | <u>\$ 392,672</u> | <u>100</u>    |

(1) A fund including marketable securities that mirror the S&P 500 index.

(2) Representing a guaranteed annuity contract issued by Torchmark's subsidiary, American Income Life Insurance Company, to fund the obligations of the American Income Pension Plan.

**TORCHMARK CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
(Dollar amounts in thousands, except per share data)

**Note 9—Postretirement Benefits (continued)****Pension Assets by Component at December 31, 2017**

|                                                  | Fair Value Determined by:                                      |                                         |                                           |            | Total Amount | % to Total |
|--------------------------------------------------|----------------------------------------------------------------|-----------------------------------------|-------------------------------------------|------------|--------------|------------|
|                                                  | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |            |              |            |
| Corporate bonds:                                 |                                                                |                                         |                                           |            |              |            |
| Financial .....                                  | \$ —                                                           | \$ 43,451                               | \$ —                                      | \$ 43,451  | 12           |            |
| Utilities .....                                  | —                                                              | 46,144                                  | —                                         | 46,144     | 12           |            |
| Energy .....                                     | —                                                              | 25,023                                  | —                                         | 25,023     | 7            |            |
| Other corporates .....                           | —                                                              | 65,888                                  | —                                         | 65,888     | 17           |            |
| Total corporate bonds .....                      | —                                                              | 180,506                                 | —                                         | 180,506    | 48           |            |
| Exchange traded fund <sup>(1)</sup> .....        | 164,351                                                        | —                                       | —                                         | 164,351    | 43           |            |
| Other bonds .....                                | —                                                              | 256                                     | —                                         | 256        | —            |            |
| Other long-term investments .....                | —                                                              | 2,304                                   | —                                         | 2,304      | 1            |            |
| Guaranteed annuity contract <sup>(2)</sup> ..... | —                                                              | 21,202                                  | —                                         | 21,202     | 6            |            |
| Short-term investments .....                     | 3,984                                                          | —                                       | —                                         | 3,984      | 1            |            |
| Other .....                                      | 5,021                                                          | —                                       | —                                         | 5,021      | 1            |            |
| Total .....                                      | \$ 173,356                                                     | \$ 204,268                              | \$ —                                      | \$ 377,624 | 100          |            |

(1) A fund including marketable securities that mirror the S&P 500 index.

(2) Representing a guaranteed annuity contract issued by Torchmark's subsidiary, American Income Life Insurance Company, to fund the obligations of the American Income Pension Plan.

Torchmark's investment objectives for its plan assets include preservation of capital, preservation of purchasing power, and long-term growth. Torchmark seeks to preserve capital through investments made in high quality securities with adequate diversification by issuer and industry sector to minimize risk. The portfolio is monitored continuously for changes in quality and diversification mix. The preservation of purchasing power is intended to be accomplished through asset growth, exclusive of contributions and withdrawals in excess of the rate of inflation. Torchmark intends to maintain investments that when combined with future plan contributions will produce adequate long-term growth to provide for all plan obligations. It is also Torchmark's objective that the portfolio's investment return will meet or exceed the return of a balanced market index.

The majority of the securities in the portfolio are highly marketable so that there will be adequate liquidity to meet projected payments. There are no specific policies calling for asset durations to match those of benefit obligations.

Allowed investments are limited to equities, fixed maturities, and short-term investments (invested cash). The assets are to be invested in a mix of equity and fixed income investments that best serve the objectives of the pension plan. Factors to be considered in determining the asset mix include funded status, annual pension expense, annual pension contributions, and balance sheet liability. Equities can include common and preferred stocks, securities convertible into equities, mutual funds and exchange traded funds that invest in equities, equity interests in limited partnerships, and other equity-related investments. Primarily, equities are listed on major exchanges and adequate market liquidity is required. Fixed maturities primarily consist of marketable debt securities rated investment grade at purchase by a major rating agency. Short-term investments include fixed maturities with maturities less than one year and invested cash. Short-term investments in commercial paper must be rated at least A-2 by Standard & Poor's with the issuer rated investment grade. Invested cash is limited to banks rated A or higher. Investments outside of the aforementioned list are not permitted, except by prior approval of the Plan's Trustees.

The investment portfolio is to be well diversified to avoid undue exposure to a single sector, industry, business, or security. The equity and fixed maturity portfolios are not permitted to invest in any single issuer that would exceed 10%

**TORCHMARK CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
(Dollar amounts in thousands, except per share data)

**Note 9—Postretirement Benefits (continued)**

of total plan assets at the time of purchase. Torchmark does not employ any other special risk management techniques, such as derivatives, in managing the pension investment portfolio.

Torchmark's equity securities include an exchange traded fund that mirrors the S&P 500 index which better aligns with a passive approach rather than an actively managed portfolio. At December 31, 2018, there were no restricted investments contained in the portfolio. Plan contributions have been invested primarily in fixed maturity and equity securities during the three years ended December 31, 2018.

The following table presents projected benefit obligation (PBO) and accumulated benefit obligation (ABO) for the defined benefit pension plans and SERP at December 31, 2018 and 2017.

**Pension Liability**

|                                      | December 31,      |                   |                   |                   |
|--------------------------------------|-------------------|-------------------|-------------------|-------------------|
|                                      | 2018              |                   | 2017              |                   |
|                                      | PBO               | ABO               | PBO               | ABO               |
| Funded defined benefit pension ..... | \$ 481,792        | \$ 436,316        | \$ 518,141        | \$ 466,307        |
| SERP .....                           | 74,407            | 69,582            | 84,465            | 74,656            |
|                                      | <u>\$ 556,199</u> | <u>\$ 505,898</u> | <u>\$ 602,606</u> | <u>\$ 540,963</u> |

The following table discloses the assumptions used to determine Torchmark's pension liabilities and costs for the appropriate periods. The discount and compensation increase rates are used to determine current year projected benefit obligations and subsequent year pension expense. The long-term rate of return is used to determine current year expense. Differences between assumptions and actual experience are included in actuarial gain or loss.

**Weighted Average Pension Plan Assumptions**

| <b>For Benefit Obligations at December 31:</b> |  | <b>2018</b> | <b>2017</b> |             |
|------------------------------------------------|--|-------------|-------------|-------------|
| Discount rate .....                            |  | 4.37%       | 3.75%       |             |
| Rate of compensation increase .....            |  | 4.00        | 4.37        |             |
| <b>For Periodic Benefit Cost for the Year:</b> |  | <b>2018</b> | <b>2017</b> | <b>2016</b> |
| Discount rate .....                            |  | 3.75%       | 4.27%       | 4.64%       |
| Expected long-term returns .....               |  | 6.72        | 6.96        | 7.19        |
| Rate of compensation increase .....            |  | 4.37        | 4.31        | 4.33        |

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 that match the liability duration. The rate of compensation increase is projected based on Company experience, modified as appropriate for future expectations. The expected long-term rate of return on plan assets is management's best estimate of the average rate of earnings expected to be received on the assets invested in the plan over the benefit period. In determining this assumption, consideration is given to the historical rate of return earned on the assets, the projected returns over future periods, and the discount rate used to compute benefit obligations.

**TORCHMARK CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
(Dollar amounts in thousands, except per share data)

**Note 9—Postretirement Benefits (continued)**

Net periodic benefit cost for the defined benefit plans by expense component was as follows:

|                                                      | Year Ended December 31, |                  |                  |
|------------------------------------------------------|-------------------------|------------------|------------------|
|                                                      | 2018                    | 2017             | 2016             |
| Service cost—benefits earned during the period ..... | \$ 21,092               | \$ 17,942        | \$ 15,502        |
| Interest cost on projected benefit obligation .....  | 22,303                  | 22,124           | 21,631           |
| Expected return on assets .....                      | (25,547)                | (23,597)         | (23,127)         |
| Net amortization .....                               | 15,003                  | 12,281           | 10,135           |
| Recognition of actuarial loss .....                  | (258)                   | 78               | 61               |
| <b>Net periodic benefit cost</b> .....               | <b>\$ 32,593</b>        | <b>\$ 28,828</b> | <b>\$ 24,202</b> |

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

|                                                | Year Ended December 31, |                     |                     |
|------------------------------------------------|-------------------------|---------------------|---------------------|
|                                                | 2018                    | 2017                | 2016                |
| <b>Balance at January 1</b> .....              | <b>\$ (193,380)</b>     | <b>\$ (173,883)</b> | <b>\$ (152,149)</b> |
| Amortization of:                               |                         |                     |                     |
| Prior service cost .....                       | 535                     | 476                 | 477                 |
| Net actuarial (gain) loss <sup>(1)</sup> ..... | 14,560                  | 11,960              | 9,691               |
| Total amortization .....                       | 15,095                  | 12,436              | 10,168              |
| Plan amendments .....                          | (2,377)                 | —                   | —                   |
| Experience gain (loss) .....                   | 30,591                  | (31,933)            | (31,902)            |
| <b>Balance at December 31</b> .....            | <b>\$ (150,071)</b>     | <b>\$ (193,380)</b> | <b>\$ (173,883)</b> |

(1) Includes amortization of postretirement benefits other than pensions of \$92 thousand in 2018, \$155 thousand in 2017, and \$33 thousand in 2016.

**TORCHMARK CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
(Dollar amounts in thousands, except per share data)

**Note 9—Postretirement Benefits (continued)**

The following table presents a reconciliation from the beginning to the end of the year of the PBO and plan assets for the defined benefit plans and SERP. This table also presents the amounts previously recognized as a component of accumulated other comprehensive income.

**Pension Benefits**

|                                                                                 | <b>Year Ended December 31,</b> |                     |
|---------------------------------------------------------------------------------|--------------------------------|---------------------|
|                                                                                 | <b>2018</b>                    | <b>2017</b>         |
| <b>Changes in PBO:</b>                                                          |                                |                     |
| PBO at beginning of year .....                                                  | \$ 602,606                     | \$ 527,522          |
| Service cost .....                                                              | 21,092                         | 17,942              |
| Interest cost .....                                                             | 22,303                         | 22,124              |
| Plan amendments .....                                                           | 2,377                          | —                   |
| Actuarial loss (gain) .....                                                     | (67,270)                       | 55,369              |
| Benefits paid .....                                                             | (24,909)                       | (20,351)            |
| PBO at end of year .....                                                        | 556,199                        | 602,606             |
| <b>Changes in plan assets:</b>                                                  |                                |                     |
| Fair value at beginning of year .....                                           | 377,624                        | 328,871             |
| Return on assets .....                                                          | (12,824)                       | 47,832              |
| Contributions .....                                                             | 52,781                         | 21,272              |
| Benefits paid .....                                                             | (24,909)                       | (20,351)            |
| Fair value at end of year .....                                                 | 392,672                        | 377,624             |
| <b>Funded status at year end .....</b>                                          | <b>\$ (163,527)</b>            | <b>\$ (224,982)</b> |
| <b>Amounts recognized in accumulated other comprehensive income consist of:</b> |                                |                     |
| Net loss (gain) .....                                                           | \$ 143,453                     | \$ 186,563          |
| Prior service cost .....                                                        | 5,976                          | 4,135               |
| Net amounts recognized at year end .....                                        | <b>\$ 149,429</b>              | <b>\$ 190,698</b>   |

The portion of other comprehensive income that is expected to be reflected in pension expense in 2019 is as follows:

|                                          |                 |
|------------------------------------------|-----------------|
| Amortization of prior service cost ..... | \$ 631          |
| Amortization of net actuarial loss ..... | 7,580           |
| Total .....                              | <b>\$ 8,211</b> |

Torchmark has estimated its expected pension benefits to be paid over the next ten years as of December 31, 2018. These estimates use the same assumptions that measure the benefit obligation at December 31, 2018, taking estimated future employee service into account. Those estimated benefits are as follows:

|                         |           |
|-------------------------|-----------|
| <b>For the year(s):</b> |           |
| 2019 .....              | \$ 21,442 |
| 2020 .....              | 23,159    |
| 2021 .....              | 24,806    |
| 2022 .....              | 26,847    |
| 2023 .....              | 28,661    |
| 2024-2028 .....         | 167,177   |

**Note 10—Supplemental Disclosures of Cash Flow Information**

The following table summarizes Torchmark's noncash transactions, which are not reflected on the *Consolidated Statements of Cash Flows*:

|                                                    | Year Ended December 31, |           |           |
|----------------------------------------------------|-------------------------|-----------|-----------|
|                                                    | 2018                    | 2017      | 2016      |
| Stock-based compensation not involving cash .....  | \$ 39,792               | \$ 37,034 | \$ 26,326 |
| Commitments for low-income housing interests ..... | 50,883                  | 33,846    | 56,818    |
| Exchanges of fixed maturity investments .....      | 193,449                 | 84,312    | 224,901   |
| Net unsettled security trades .....                | 39,851                  | —         | 15,020    |

The following table summarizes certain amounts paid during the period:

|                         | Year Ended December 31, |           |           |
|-------------------------|-------------------------|-----------|-----------|
|                         | 2018                    | 2017      | 2016      |
| Interest paid .....     | \$ 83,518               | \$ 82,494 | \$ 81,338 |
| Income taxes paid ..... | 91,510                  | 74,379    | 79,790    |

**TORCHMARK CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
(Dollar amounts in thousands, except per share data)

**Note 11—Debt**

The following table presents information about the terms and outstanding balances of Torchmark's debt.

**Selected Information about Debt Issues**

|                                                                    |                            |                 |                                         | As of December 31,                      |                                          |                                          |                                          |
|--------------------------------------------------------------------|----------------------------|-----------------|-----------------------------------------|-----------------------------------------|------------------------------------------|------------------------------------------|------------------------------------------|
|                                                                    |                            |                 |                                         | 2018                                    |                                          |                                          | 2017                                     |
|                                                                    | Annual<br>Interest<br>Rate | Issue<br>Date   | Periodic<br>Interest<br>Payments<br>Due | Outstanding<br>Principal<br>(Par Value) | Outstanding<br>Principal<br>(Book Value) | Outstanding<br>Principal<br>(Fair Value) | Outstanding<br>Principal<br>(Book Value) |
| <b>Long-term debt:</b>                                             |                            |                 |                                         |                                         |                                          |                                          |                                          |
| Notes, due 5/15/23 <sup>(3,5)</sup>                                | 7.875%                     | 5/93            | 5/15 & 11/15                            | \$ 165,612                              | \$ 164,490                               | \$ 192,945                               | \$ 164,284                               |
| Senior Notes, due 6/15/19 <sup>(3,14)</sup>                        | 9.250%                     | 6/09            | 6/15 & 12/15                            | —                                       | —                                        | —                                        | 291,888                                  |
| Senior Notes, due 9/15/22 <sup>(3,7)</sup>                         | 3.800%                     | 9/12            | 3/15 & 9/15                             | 150,000                                 | 148,777                                  | 150,481                                  | 148,477                                  |
| Senior Notes, due 9/15/28 <sup>(3,7)</sup>                         | 4.550%                     | 9/18            | 3/15 & 9/15                             | 550,000                                 | 543,169                                  | 558,825                                  | —                                        |
| Junior Subordinated<br>Debentures due 3/15/36 <sup>(4,11,15)</sup> | —% <sup>(12)</sup>         | <sup>(10)</sup> | quarterly                               | —                                       | —                                        | —                                        | 20,000                                   |
| Junior Subordinated<br>Debentures due 6/15/56 <sup>(4,8,11)</sup>  | 6.125%                     | 4/16            | quarterly                               | 300,000                                 | 290,520                                  | 301,200                                  | 290,460                                  |
| Junior Subordinated<br>Debentures due 11/17/57 <sup>(4,9)</sup>    | 5.275%                     | 11/17           | 6/15 & 12/15                            | 125,000                                 | 123,354                                  | 94,129                                   | 123,342                                  |
| Term loan due 5/17/21 <sup>(1,6)</sup>                             | 3.595% <sup>(13)</sup>     | 6/16            | monthly                                 | 93,750                                  | 93,750                                   | 93,750                                   | 98,125                                   |
|                                                                    |                            |                 |                                         | 1,384,362                               | 1,364,060                                | 1,391,330                                | 1,136,576                                |
| Less current maturity of term loan                                 |                            |                 |                                         | 6,875                                   | 6,875                                    | 6,875                                    | 4,375                                    |
| Total long-term debt                                               |                            |                 |                                         | 1,377,487                               | 1,357,185                                | 1,384,455                                | 1,132,201                                |
| <b>Short-term debt:</b>                                            |                            |                 |                                         |                                         |                                          |                                          |                                          |
| Current maturity of term loan                                      |                            |                 |                                         | 6,875                                   | 6,875                                    | 6,875                                    | 4,375                                    |
| Commercial paper <sup>(2)</sup>                                    |                            |                 |                                         | 302,100                                 | 300,973                                  | 300,973                                  | 323,692                                  |
| Total short-term debt                                              |                            |                 |                                         | 308,975                                 | 307,848                                  | 307,848                                  | 328,067                                  |
| Total debt                                                         |                            |                 |                                         | \$ 1,686,462                            | \$ 1,665,033                             | \$ 1,692,303                             | \$ 1,460,268                             |

(1) The term loan has higher priority than all other debt issues.

(2) Commercial paper has priority over all other debt except the term loan.

(3) All securities, other than the term loan, commercial paper and Junior Subordinated Debentures have equal priority with one another.

(4) All Junior Subordinated Debentures have equal priority, but are subordinate to all other issues.

(5) Not callable.

(6) Callable anytime.

(7) Callable subject to "make-whole" premium.

(8) Callable at any time on or after June 15, 2021, and prior to this date upon the occurrence of a Tax Event or Rating Agency Event.

(9) Callable at any time on or after November 17, 2022, and prior to this date upon the occurrence of a Tax Event or Rating Agency Event.

(10) Assumed upon November 1, 2012 acquisition of Family Heritage.

(11) Quarterly payments on the 15th of March, June, September, and December.

(12) Interest paid at 3 Month LIBOR plus 330 basis points, resets each quarter.

(13) Interest paid at 1 Month LIBOR plus 125 basis points, resets each month.

(14) Redeemed on October 29, 2018.

(15) Redeemed on June 15, 2018.

**TORCHMARK CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
(Dollar amounts in thousands except per share data)

**Note 11—Debt (continued)**

Contractual Debt Obligations: The following table presents expected scheduled principal payments under our contractual debt obligations:

|                        | Year Ended December 31, |          |           |            |            |            |
|------------------------|-------------------------|----------|-----------|------------|------------|------------|
|                        | 2019                    | 2020     | 2021      | 2022       | 2023       | Thereafter |
| Debt obligations ..... | \$ 308,975              | \$ 9,375 | \$ 77,500 | \$ 150,000 | \$ 165,612 | \$ 975,000 |

Funded debt: On September 27, 2018, Torchmark completed the issuance and sale of \$550 million in aggregate principal of Torchmark's 4.55% Senior Notes due 2028. The notes were sold pursuant to Torchmark's shelf registration statement on Form S-3. The net proceeds from the sale of the notes were \$543 million, after giving effect to the underwriting discounts and commissions and offering expenses payable by Torchmark. Torchmark used the net proceeds from the sale of the notes to redeem the \$293 million outstanding principal amount on Torchmark's 9.25% Senior Notes on October 29, 2018, the payment of \$11 million for the make-whole premium plus accrued and unpaid interest of \$10 million, and to fund \$150 million of additional capital to its insurance subsidiaries. Torchmark used the remaining net proceeds to repay outstanding commercial paper and for general corporate purposes. The Company recorded an \$11 million loss on redemption of debt to *Realized gains (losses)* on the *Consolidated Statements of Operations* for the make-whole premium and removal of unamortized debt issuance cost.

Due to increasing variable interest rates, on June 15, 2018, the Company called its \$20 million Junior Subordinated Debentures.

On November 17, 2017, Torchmark completed the issuance and sale of \$125 million in aggregate principal of Torchmark's 5.275% Junior Subordinated Debentures due 2057. The debentures were sold in a private placement pursuant to exemptions from the registration requirements of the Securities Act of 1933. The initial purchaser of the debentures was outside the United States. The net proceeds from the sale of the debentures were \$123 million, after giving effect to the discount payable to the initial purchaser and expenses of the offering of the debentures. Torchmark used the net proceeds from the offering of the debentures to repay the \$125 million outstanding principal, plus accrued interest of \$143 thousand on the 5.875% Junior Subordinated Debentures on December 22, 2017. The Debentures were due December 15, 2052 and were callable beginning December 15, 2017. The Company recorded a \$4 million loss on redemption of debt to *Realized gains (losses)* on the *Consolidated Statements of Operations* for the removal of unamortized debt issuance cost.

Credit Facility: On May 17, 2016, Torchmark amended its credit facility to include, as a part of the facility, the issuance of a \$100 million term loan and to extend the maturity date of the entire credit facility to May 2021. The facility is further designated as a back-up credit line for a commercial paper program under which the Company may either borrow from the credit line or issue commercial paper at any time, with total commercial paper outstanding not to exceed the facility maximum of \$750 million, less any letters of credit issued. Interest is charged at variable rates. The term loan will be repaid on a redemption schedule which provides for quarterly installments that began June 30, 2017 that escalate each annual period with a balloon payment of \$75 million due in May 2021. Interest on the term loan is computed and paid monthly at 125 basis points plus 1 Month LIBOR. In accordance with the agreement, Torchmark is subject to certain covenants regarding capitalization. As of December 31, 2018, the Company was in full compliance with these covenants.

**TORCHMARK CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
(Dollar amounts in thousands except per share data)

**Note 11—Debt (continued)**

Commercial paper outstanding and any amortization payments of the term loan due within one year are reported as short-term debt on the *Consolidated Balance Sheets*. A table presenting selected information concerning Torchmark's commercial paper borrowings is presented below.

**Credit Facility - Commercial Paper**

|                                                    | <b>At December 31,</b> |             |
|----------------------------------------------------|------------------------|-------------|
|                                                    | <b>2018</b>            | <b>2017</b> |
| Balance at end of period (at par value) .....      | \$ 302,100             | \$ 324,250  |
| Annualized interest rate .....                     | 2.93%                  | 1.78%       |
| Letters of credit outstanding .....                | \$ 155,000             | \$ 177,000  |
| Remaining amount available under credit line ..... | \$ 292,900             | \$ 248,750  |

|                                                         | <b>Year Ended December 31,</b> |             |             |
|---------------------------------------------------------|--------------------------------|-------------|-------------|
|                                                         | <b>2018</b>                    | <b>2017</b> | <b>2016</b> |
| Average balance outstanding during period .....         | \$ 368,228                     | \$ 323,429  | \$ 301,550  |
| Daily-weighted average interest rate (annualized) ..... | 2.40%                          | 1.30%       | 0.83%       |
| Maximum daily amount outstanding during period .....    | \$ 525,990                     | \$ 455,912  | \$ 412,676  |

**TORCHMARK CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
(Dollar amounts in thousands, except per share data)

**Note 12—Shareholders' Equity**

Share Data: A summary of common share activity is presented in the following chart.

|                                                                 | <b>Common Stock</b> |                       |
|-----------------------------------------------------------------|---------------------|-----------------------|
|                                                                 | <b>Issued</b>       | <b>Treasury Stock</b> |
| <b>2016:</b>                                                    |                     |                       |
| Balance at January 1, 2016 .....                                | 130,218,183         | (7,848,231)           |
| Grants of restricted stock .....                                | —                   | 12,549                |
| Vesting of performance shares .....                             | —                   | 159,020               |
| Issuance of common stock due to exercise of stock options ..... | —                   | 2,184,169             |
| Treasury stock acquired .....                                   | —                   | (6,694,582)           |
| Retirement of treasury stock .....                              | (3,000,000)         | 3,000,000             |
| Balance at December 31, 2016 .....                              | 127,218,183         | (9,187,075)           |
| <b>2017:</b>                                                    |                     |                       |
| Grants of restricted stock .....                                | —                   | 9,135                 |
| Vesting of performance shares .....                             | —                   | 119,896               |
| Issuance of common stock due to exercise of stock options ..... | —                   | 1,661,808             |
| Treasury stock acquired .....                                   | —                   | (5,228,868)           |
| Retirement of treasury stock .....                              | (3,000,000)         | 3,000,000             |
| Balance at December 31, 2017 .....                              | 124,218,183         | (9,625,104)           |
| <b>2018:</b>                                                    |                     |                       |
| Grants of restricted stock .....                                | —                   | 10,805                |
| Forfeitures of restricted stock .....                           | —                   | (7,500)               |
| Vesting of performance shares .....                             | —                   | 149,898               |
| Issuance of common stock due to exercise of stock options ..... | —                   | 897,622               |
| Treasury stock acquired .....                                   | —                   | (4,950,868)           |
| Retirement of treasury stock .....                              | (3,000,000)         | 3,000,000             |
| Balance at December 31, 2018 .....                              | 121,218,183         | (10,525,147)          |

There was no activity related to the preferred stock in years 2016 through 2018.

Acquisition of Common Shares: Torchmark shares are acquired from time to time through open market purchases under the Torchmark stock repurchase program when it is believed to be the best use of Torchmark's excess cash flows. When stock options are exercised, proceeds from the exercises are generally used to repurchase approximately the number of shares available with those funds in order to reduce dilution. See the following summary below:

|                   | <b>Torchmark Share Repurchase Program</b> |                   |                      | <b>Share Repurchase for Dilution Purposes</b> |                   |                      |
|-------------------|-------------------------------------------|-------------------|----------------------|-----------------------------------------------|-------------------|----------------------|
|                   | <b>Shares Acquired (in thousands)</b>     | <b>Total Cost</b> | <b>Average Price</b> | <b>Shares Acquired (in thousands)</b>         | <b>Total Cost</b> | <b>Average Price</b> |
| <b>2018</b> ..... | 4,406                                     | \$ 371,794        | \$ 84.38             | 571                                           | \$ 49,955         | \$ 87.54             |
| <b>2017</b> ..... | 4,126                                     | 324,622           | 78.67                | 1,103                                         | 88,367            | 80.15                |
| <b>2016</b> ..... | 5,208                                     | 311,332           | 59.78                | 1,487                                         | 93,452            | 62.87                |

**TORCHMARK CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
(Dollar amounts in thousands except per share data)

**Note 12—Shareholders' Equity (continued)**

**Restrictions:** Restrictions exist on the flow of funds to Torchmark from its insurance subsidiaries. Statutory regulations require life insurance subsidiaries to maintain certain minimum amounts of capital and surplus. Dividends from insurance subsidiaries of Torchmark are restricted based on regulations by their states of domicile. Additionally, insurance company distributions are generally not permitted in excess of statutory surplus. Subsidiaries are also subject to certain minimum capital requirements. Subsidiaries of Torchmark paid cash dividends to the Parent Company in the amount of \$448 million in 2018, \$454 million in 2017, and \$438 million in 2016. As of December 31, 2018, dividends and transfers from insurance subsidiaries to Parent available to be paid in 2019 are limited to the amount of \$396 million without regulatory approval, such that \$1.0 billion was considered restricted net assets of the subsidiaries. Dividends exceeding these limitations may be available during the year pending regulatory approval. While there are no legal restrictions on the payment of dividends to shareholders from Torchmark's retained earnings, retained earnings as of December 31, 2018 were restricted by lenders' covenants which require the Company to maintain and not distribute \$3.8 billion from its total consolidated retained earnings of \$5.2 billion.

**Earnings per Share:** A reconciliation of basic and diluted weighted-average shares outstanding used in the computation of basic and diluted earnings per share is as follows:

|                                                     | Year Ended December 31, |             |             |
|-----------------------------------------------------|-------------------------|-------------|-------------|
|                                                     | 2018                    | 2017        | 2016        |
| Basic weighted average shares outstanding .....     | 112,872,581             | 116,342,529 | 120,001,191 |
| Weighted average dilutive options outstanding ..... | 2,376,372               | 2,640,965   | 2,366,594   |
| Diluted weighted average shares outstanding .....   | 115,248,953             | 118,983,494 | 122,367,785 |
| Antidilutive shares .....                           | 1,161,521               | —           | —           |

Antidilutive shares are excluded from the calculation of diluted earnings per share.

**TORCHMARK CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
(Dollar amounts in thousands, except per share data)

**Note 13—Stock-Based Compensation**

Torchmark's stock-based compensation consists of stock options, restricted stock, restricted stock units, and performance shares. Certain employees and directors have been granted fixed equity options to buy shares of Torchmark stock at the market value of the stock on the date of grant, under the provisions of the Torchmark stock option plans. The options are exercisable during the period commencing from the date they vest until expiring according to the terms of the grant. Options generally expire the earlier of employee termination or option contract term, which are either seven-year or ten-year terms. Options generally vest in accordance with the following schedule:

|                 | Contract Period | Shares vested by period |        |        |        |        |        |
|-----------------|-----------------|-------------------------|--------|--------|--------|--------|--------|
|                 |                 | 6 Months                | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 |
| Directors ..... | 7 years         | 100%                    | —%     | —%     | —%     | —%     | —%     |
| Employees ..... | 7 years         | —%                      | —%     | 50%    | 50%    | —%     | —%     |
| Employees ..... | 10 years        | —%                      | —%     | 25%    | 25%    | 25%    | 25%    |

All employee options vest immediately upon retirement on or after the attainment of age 65, upon death, or disability. Torchmark generally issues shares for the exercise of stock options from treasury stock. The Company generally uses the proceeds from option exercises to buy shares of Torchmark common stock in the open market to reduce the dilution from option exercises.

An analysis of shares available for grant is as follows:

|                                                                                                                                                    | Available for Grant |                  |                  |
|----------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|------------------|------------------|
|                                                                                                                                                    | 2018                | 2017             | 2016             |
| <b>Balance at January 1, .....</b>                                                                                                                 | 2,964,320           | 5,088,461        | 6,872,282        |
| Approval of Torchmark Corporation 2018 Incentive Plan <sup>(1)</sup> .....                                                                         | 8,984,000           | —                | —                |
| Cancellation of available shares from prior plans .....                                                                                            | (184,000)           | —                | —                |
| Options expired and forfeited during year <sup>(2)</sup> .....                                                                                     | 41,317              | 26,488           | 8,518            |
| Restricted stock expired and forfeited during year <sup>(3)</sup> .....                                                                            | —                   | 46,500           | —                |
| Options granted during year <sup>(2)</sup> .....                                                                                                   | (1,262,037)         | (1,328,513)      | (1,306,306)      |
| Restricted stock, restricted stock units, and performance shares granted under the Torchmark Corporation 2011 Incentive Plans <sup>(3)</sup> ..... | (1,120,840)         | (868,616)        | (486,033)        |
| <b>Balance at December 31, .....</b>                                                                                                               | <b>9,422,760</b>    | <b>2,964,320</b> | <b>5,088,461</b> |

(1) See plan document referenced in *Exhibits*.

(2) Plan allows for grant of options such that each grant reduces shares available for grant in a range from 0.85 share to 1 share.

(3) Plan allows for grant of restricted stock such that each stock grant reduces shares available for grant in a range from 3.1 shares to 3.88 shares.

A summary of stock compensation activity for each of the three years ended December 31, 2018 is presented below:

|                                                                  | 2018      | 2017      | 2016      |
|------------------------------------------------------------------|-----------|-----------|-----------|
| Stock-based compensation expense recognized <sup>(1)</sup> ..... | \$ 39,792 | \$ 37,034 | \$ 26,326 |
| Tax benefit recognized .....                                     | 14,806    | 32,511    | 27,867    |

(1) No stock-based compensation expense was capitalized in any period.

Additional stock compensation information is as follows at December 31:

|                                                                                 | 2018      | 2017      |
|---------------------------------------------------------------------------------|-----------|-----------|
| Unrecognized compensation <sup>(1)</sup> .....                                  | \$ 38,627 | \$ 31,309 |
| Weighted average period of expected recognition (in years) <sup>(1)</sup> ..... | 0.81      | 0.86      |

(1) Includes restricted stock and performance shares.

**TORCHMARK CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
(Dollar amounts in thousands except per share data)

**Note 13—Stock-Based Compensation (continued)**

No equity awards were cash settled during the three years ended December 31, 2018.

Options: The following table summarizes information about stock options outstanding at December 31, 2018.

| Range of Exercise Prices | Options Outstanding |                                                     |                                 | Options Exercisable |                                 |
|--------------------------|---------------------|-----------------------------------------------------|---------------------------------|---------------------|---------------------------------|
|                          | Number Outstanding  | Weighted-Average Remaining Contractual Life (Years) | Weighted-Average Exercise Price | Number Exercisable  | Weighted-Average Exercise Price |
| \$29.59 - \$37.40        | 909,471             | 1.57                                                | \$ 36.21                        | 909,471             | \$ 36.21                        |
| 50.64                    | 1,308,101           | 5.38                                                | 50.64                           | 467,288             | 50.64                           |
| 50.69 - 51.62            | 920,372             | 2.66                                                | 50.70                           | 859,552             | 50.70                           |
| 53.61 - 56.32            | 1,251,337           | 3.60                                                | 53.66                           | 1,117,163           | 53.66                           |
| 73.92 - 77.26            | 1,439,081           | 6.19                                                | 77.24                           | 10,843              | 74.29                           |
| 83.17 - 90.21            | 1,375,403           | 7.31                                                | 87.62                           | 28,773              | 88.44                           |
| \$29.59 - \$90.21        | <u>7,203,765</u>    | <u>4.77</u>                                         | <u>\$ 61.72</u>                 | <u>3,393,090</u>    | <u>\$ 48.18</u>                 |

An analysis of option activity for each of the three years ended December 31, 2018 is as follows:

|                                            | 2018             |                                 | 2017             |                                 | 2016             |                                 |
|--------------------------------------------|------------------|---------------------------------|------------------|---------------------------------|------------------|---------------------------------|
|                                            | Options          | Weighted Average Exercise Price | Options          | Weighted Average Exercise Price | Options          | Weighted Average Exercise Price |
| <b>Outstanding—beginning of year</b> ..... | 6,753,801        | \$ 53.59                        | 6,973,591        | \$ 44.64                        | 7,734,841        | \$ 38.84                        |
| Granted:                                   |                  |                                 |                  |                                 |                  |                                 |
| 7-year term .....                          | 845,773          | 87.63                           | 933,286          | 77.19                           | 834,212          | 50.78                           |
| 10-year term .....                         | 543,130          | 87.60                           | 535,220          | 77.26                           | 597,225          | 50.64                           |
| Exercised .....                            | (897,622)        | 40.21                           | (1,661,808)      | 36.84                           | (2,184,169)      | 28.08                           |
| Expired and forfeited .....                | (41,317)         | 70.90                           | (26,488)         | 57.94                           | (8,518)          | 39.35                           |
| <b>Outstanding—end of year</b> .....       | <u>7,203,765</u> | <u>\$ 61.72</u>                 | <u>6,753,801</u> | <u>\$ 53.59</u>                 | <u>6,973,591</u> | <u>\$ 44.64</u>                 |
| <b>Exercisable at end of year</b> .....    | <u>3,393,090</u> | <u>\$ 48.18</u>                 | <u>2,928,979</u> | <u>\$ 43.79</u>                 | <u>3,115,847</u> | <u>\$ 36.81</u>                 |

Additional information about Torchmark's stock option activity as of December 31, 2018 and 2017 is as follows:

|                                                              | 2018       | 2017       |
|--------------------------------------------------------------|------------|------------|
| <b>Outstanding options:</b>                                  |            |            |
| Weighted-average remaining contractual term (in years) ..... | 4.77       | 4.89       |
| Aggregate intrinsic value .....                              | \$ 114,161 | \$ 231,277 |
| <b>Exercisable options:</b>                                  |            |            |
| Weighted-average remaining contractual term (in years) ..... | 2.89       | 2.99       |
| Aggregate intrinsic value .....                              | \$ 89,817  | \$ 137,424 |

**TORCHMARK CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
(Dollar amounts in thousands except per share data)

**Note 13—Stock-Based Compensation (continued)**

Selected stock option activity for the three years ended December 31, 2018 is presented below:

|                                                                             | 2018     | 2017     | 2016    |
|-----------------------------------------------------------------------------|----------|----------|---------|
| Weighted-average grant-date fair value of options granted (per share) ..... | \$ 15.65 | \$ 12.88 | \$ 9.04 |
| Intrinsic value of options exercised .....                                  | 42,517   | 70,948   | 73,995  |
| Cash received from options exercised .....                                  | 36,091   | 61,215   | 61,329  |
| Actual tax benefit received .....                                           | 8,929    | 24,832   | 25,898  |

Additional information concerning Torchmark's unvested options is as follows at December 31:

|                                                              | 2018      | 2017       |
|--------------------------------------------------------------|-----------|------------|
| Number of shares outstanding .....                           | 3,810,675 | 3,824,822  |
| Weighted-average exercise price (per share) .....            | \$ 73.78  | \$ 61.10   |
| Weighted-average remaining contractual term (in years) ..... | 6.45      | 6.34       |
| Aggregate intrinsic value .....                              | \$ 24,344 | \$ 113,246 |

Torchmark expects that substantially all unvested options will vest.

**Restricted Stock:** Restricted stock grants consist of time-vested grants, restricted stock units, and performance shares. Time-vested restricted stock is available to both senior executives and directors. The employee grants generally vest over five years and the director grants vest over six months. Restricted stock units are available only to directors. They vest over six months and are not converted to shares until the directors' retirement, death, or disability. Director restricted stock and restricted stock units are generally granted on the first work day of the year. Performance shares are granted to a limited number of senior executives. Performance shares have a three-year contract life and are not settled in shares until the termination of the three-year contract period. While the grant specifies a stated target number of shares, the determination of the actual settlement in shares will be based on the achievement of certain performance objectives of Torchmark over the respective three-year contract periods. Certain executive restricted stock and performance share grants contain terms related to age that could accelerate vesting.

Below are the following restricted stock units outstanding for each of the three years ended 2018. All restricted stock units were fully vested at the end of each year of grant.

| Year of grants | Outstanding as of<br>year end |
|----------------|-------------------------------|
| 2016 .....     | 112,591                       |
| 2017 .....     | 120,326                       |
| 2018 .....     | 102,116                       |

Below is the final determination of the performance share grants in 2014 to 2016:

| Year of grants | Final settlement of<br>shares | Final settlement date |
|----------------|-------------------------------|-----------------------|
| 2014 .....     | 119,896                       | February 21, 2017     |
| 2015 .....     | 149,898                       | February 27, 2018     |
| 2016 .....     | 311,399                       | February 28, 2019     |

For the 2017 and 2018 performance share grants, actual shares that could be distributed range from 0 to 306 thousand for the 2017 grants and 0 to 318 thousand shares for the 2018 grants.

**TORCHMARK CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
(Dollar amounts in thousands except per share data)

**Note 13—Stock-Based Compensation (continued)**

A summary of restricted stock grants for each of the years in the three-year period ended December 31, 2018 is presented in the table below.

|                                                                           | <b>2018</b> | <b>2017</b> | <b>2016</b> |
|---------------------------------------------------------------------------|-------------|-------------|-------------|
| <b>Directors restricted stock:</b>                                        |             |             |             |
| Shares .....                                                              | 10,805      | 9,135       | 12,549      |
| Price per share .....                                                     | \$ 88.19    | \$ 73.92    | \$ 57.39    |
| Aggregate value .....                                                     | \$ 953      | \$ 675      | \$ 720      |
| Percent vested as of 12/31/18 .....                                       | 100%        | 100%        | 85%         |
| <b>Directors restricted stock units (including dividend equivalents):</b> |             |             |             |
| Shares .....                                                              | 7,688       | 7,735       | 6,912       |
| Price per share .....                                                     | \$ 89.15    | \$ 74.45    | \$ 56.74    |
| Aggregate value .....                                                     | \$ 685      | \$ 576      | \$ 392      |
| Percent vested as of 12/31/18 .....                                       | 100%        | 100%        | 100%        |
| <b>Performance shares:</b>                                                |             |             |             |
| Target shares .....                                                       | 159,000     | 153,000     | 167,500     |
| Target price per share .....                                              | \$ 87.60    | \$ 77.26    | \$ 50.64    |
| Assumed adjustment for performance objectives (in shares) .....           | 179,415     | 106,084     | (35,073)    |
| Aggregate value .....                                                     | \$ 13,928   | \$ 11,821   | \$ 8,482    |
| Percent vested as of 12/31/18 .....                                       | —%          | —%          | —%          |

Time-vested restricted stockholders, both employees and directors, are entitled to dividend payments on the unvested stock. Restricted stock unit holders are entitled to dividend equivalents. These equivalents are granted in the form of additional restricted stock units and vest immediately upon grant. Dividend equivalents are applicable only to restricted stock units. Performance shareholders are not entitled to dividend equivalents and are not entitled to dividend payments until the shares are vested and settled.

**TORCHMARK CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
(Dollar amounts in thousands except per share data)

**Note 13—Stock-Based Compensation (continued)**

An analysis of unvested restricted stock is as follows:

|                                                    | Executive<br>Restricted<br>Stock | Executive<br>Performance<br>Shares | Directors<br>Restricted<br>Stock | Directors<br>Restricted<br>Stock<br>Units | Total     |
|----------------------------------------------------|----------------------------------|------------------------------------|----------------------------------|-------------------------------------------|-----------|
| <b>2016:</b>                                       |                                  |                                    |                                  |                                           |           |
| Balance at January 1, 2016 .....                   | 187,665                          | 459,017                            | —                                | —                                         | 646,682   |
| Grants .....                                       | —                                | 167,500                            | 12,549                           | 6,912                                     | 186,961   |
| Additional performance shares <sup>(1)</sup> ..... | —                                | (35,073)                           | —                                | —                                         | (35,073)  |
| Restriction lapses .....                           | (130,215)                        | (159,020)                          | (10,655)                         | (6,912)                                   | (306,802) |
| Forfeitures .....                                  | —                                | —                                  | —                                | —                                         | —         |
| Balance at December 31, 2016 .....                 | 57,450                           | 432,424                            | 1,894                            | —                                         | 491,768   |
| <b>2017:</b>                                       |                                  |                                    |                                  |                                           |           |
| Grants .....                                       | —                                | 153,000                            | 9,135                            | 7,735                                     | 169,870   |
| Additional performance shares <sup>(1)</sup> ..... | —                                | 106,084                            | —                                | —                                         | 106,084   |
| Restriction lapses .....                           | (14,700)                         | (119,896)                          | (11,029)                         | (7,735)                                   | (153,360) |
| Forfeitures .....                                  | (7,500)                          | (7,500)                            | —                                | —                                         | (15,000)  |
| Balance at December 31, 2017 .....                 | 35,250                           | 564,112                            | —                                | —                                         | 599,362   |
| <b>2018:</b>                                       |                                  |                                    |                                  |                                           |           |
| Grants .....                                       | —                                | 159,000                            | 10,805                           | 7,688                                     | 177,493   |
| Additional performance shares <sup>(1)</sup> ..... | —                                | 179,415                            | —                                | —                                         | 179,415   |
| Restriction lapses .....                           | (23,250)                         | (149,898)                          | (10,805)                         | (7,688)                                   | (191,641) |
| Forfeitures .....                                  | —                                | —                                  | —                                | —                                         | —         |
| Balance at December 31, 2018 .....                 | 12,000                           | 752,629                            | —                                | —                                         | 764,629   |

(1) Estimated additional (reduced) share grants expected due to achievement of performance criteria.

An analysis of the weighted-average grant-date fair values per share of unvested restricted stock is as follows for the year 2018:

|                                                                   | Executive<br>Restricted<br>Stock | Executive<br>Performance<br>Shares | Directors<br>Restricted<br>Stock | Directors<br>Restricted<br>Stock<br>Units |
|-------------------------------------------------------------------|----------------------------------|------------------------------------|----------------------------------|-------------------------------------------|
| <b>Grant-date fair value per share at January 1, 2018 .....</b>   | \$ 41.93                         | \$ 56.64                           | \$ —                             | \$ —                                      |
| Grants .....                                                      | —                                | 87.60                              | 88.19                            | 89.33                                     |
| Estimated additional performance shares .....                     | —                                | 70.39                              | —                                | —                                         |
| Restriction lapses .....                                          | (37.40)                          | (53.61)                            | (88.19)                          | (89.33)                                   |
| Forfeitures .....                                                 | —                                | —                                  | —                                | —                                         |
| <b>Grant-date fair value per share at December 31, 2018 .....</b> | 50.69                            | 67.06                              | —                                | —                                         |

**TORCHMARK CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
(Dollar amounts in thousands, except per share data)

**Note 14—Business Segments**

Torchmark is organized into four segments: life insurance, supplemental health insurance, annuities, and investments. We also have other administrative expenses reported in "Corporate & Other."

Torchmark's reportable segments are based on the insurance product lines it markets and administers: life insurance, supplemental health insurance, and annuities. These major product lines are set out as reportable segments because of the common characteristics of products within these categories, comparability of margins, and the similarity in regulatory environment and management techniques. There is also an investment segment which manages the investment portfolio, debt, and cash flow for the insurance segments and the corporate function. Torchmark's chief operating decision makers evaluate the overall performance of the operations of the Company in accordance with these segments.

Life insurance products include traditional and interest-sensitive whole life insurance as well as term life insurance. Health insurance products are generally guaranteed-renewable and include Medicare Supplement, critical illness, accident, and limited-benefit supplemental hospital and surgical coverage. Annuities include fixed-benefit contracts.

Torchmark markets its insurance products through a number of distribution channels, each of which sells the products of one or more of Torchmark's insurance segments. The tables below present segment premium revenue by each of Torchmark's distribution channels.

**Torchmark Corporation**  
**Premium Income by Distribution Channel**

| <b>For the Year 2018</b>           |                     |                   |                     |                   |                |                   |                     |                   |
|------------------------------------|---------------------|-------------------|---------------------|-------------------|----------------|-------------------|---------------------|-------------------|
| <b><u>Distribution Channel</u></b> | <b>Life</b>         |                   | <b>Health</b>       |                   | <b>Annuity</b> |                   | <b>Total</b>        |                   |
|                                    | <b>Amount</b>       | <b>% of Total</b> | <b>Amount</b>       | <b>% of Total</b> | <b>Amount</b>  | <b>% of Total</b> | <b>Amount</b>       | <b>% of Total</b> |
| American Income Exclusive .....    | \$ 1,081,333        | 45                | \$ 93,313           | 9                 | \$ —           | —                 | \$ 1,174,646        | 34                |
| Direct Response .....              | 828,935             | 34                | 76,297              | 7                 | —              | —                 | 905,232             | 26                |
| Liberty National Exclusive .....   | 278,878             | 12                | 191,378             | 19                | —              | —                 | 470,256             | 14                |
| United American Independent...     | 11,451              | 1                 | 381,076             | 38                | 12             | 100               | 392,539             | 12                |
| Family Heritage Exclusive .....    | 3,501               | —                 | 273,275             | 27                | —              | —                 | 276,776             | 8                 |
| Other .....                        | 202,457             | 8                 | —                   | —                 | —              | —                 | 202,457             | 6                 |
|                                    | <u>\$ 2,406,555</u> | <u>100</u>        | <u>\$ 1,015,339</u> | <u>100</u>        | <u>\$ 12</u>   | <u>100</u>        | <u>\$ 3,421,906</u> | <u>100</u>        |

| <b>For the Year 2017</b>           |                     |                   |                   |                   |                |                   |                     |                   |
|------------------------------------|---------------------|-------------------|-------------------|-------------------|----------------|-------------------|---------------------|-------------------|
| <b><u>Distribution Channel</u></b> | <b>Life</b>         |                   | <b>Health</b>     |                   | <b>Annuity</b> |                   | <b>Total</b>        |                   |
|                                    | <b>Amount</b>       | <b>% of Total</b> | <b>Amount</b>     | <b>% of Total</b> | <b>Amount</b>  | <b>% of Total</b> | <b>Amount</b>       | <b>% of Total</b> |
| American Income Exclusive .....    | \$ 999,279          | 43                | \$ 89,036         | 9                 | \$ —           | —                 | \$ 1,088,315        | 33                |
| Direct Response .....              | 812,907             | 35                | 73,468            | 8                 | —              | —                 | 886,375             | 27                |
| Liberty National Exclusive .....   | 274,635             | 12                | 196,207           | 20                | —              | —                 | 470,842             | 14                |
| United American Independent...     | 12,547              | 1                 | 364,128           | 37                | 15             | 100               | 376,690             | 12                |
| Family Heritage Exclusive .....    | 3,193               | —                 | 253,534           | 26                | —              | —                 | 256,727             | 8                 |
| Other .....                        | 203,986             | 9                 | —                 | —                 | —              | —                 | 203,986             | 6                 |
|                                    | <u>\$ 2,306,547</u> | <u>100</u>        | <u>\$ 976,373</u> | <u>100</u>        | <u>\$ 15</u>   | <u>100</u>        | <u>\$ 3,282,935</u> | <u>100</u>        |

**TORCHMARK CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
(Dollar amounts in thousands except per share data)

**Note 14—Business Segments (continued)**

| <u>Distribution Channel</u>      | <b>For the Year 2016</b> |                   |                   |                   |                |                   |                     |                   |
|----------------------------------|--------------------------|-------------------|-------------------|-------------------|----------------|-------------------|---------------------|-------------------|
|                                  | <b>Life</b>              |                   | <b>Health</b>     |                   | <b>Annuity</b> |                   | <b>Total</b>        |                   |
|                                  | <b>Amount</b>            | <b>% of Total</b> | <b>Amount</b>     | <b>% of Total</b> | <b>Amount</b>  | <b>% of Total</b> | <b>Amount</b>       | <b>% of Total</b> |
| American Income Exclusive .....  | \$ 913,355               | 42                | \$ 84,382         | 9                 | \$ —           | —                 | \$ 997,737          | 32                |
| Direct Response .....            | 782,765                  | 36                | 70,393            | 7                 | —              | —                 | 853,158             | 27                |
| Liberty National Exclusive ..... | 270,476                  | 12                | 201,798           | 21                | —              | —                 | 472,274             | 15                |
| United American Independent...   | 13,733                   | 1                 | 355,015           | 38                | 38             | 100               | 368,786             | 12                |
| Family Heritage Exclusive .....  | 2,866                    | —                 | 236,075           | 25                | —              | —                 | 238,941             | 8                 |
| Other .....                      | 206,138                  | 9                 | —                 | —                 | —              | —                 | 206,138             | 6                 |
|                                  | <u>\$ 2,189,333</u>      | <u>100</u>        | <u>\$ 947,663</u> | <u>100</u>        | <u>\$ 38</u>   | <u>100</u>        | <u>\$ 3,137,034</u> | <u>100</u>        |

Due to the nature of the life insurance industry, Torchmark has no individual or group which would be considered a major customer. Substantially all of Torchmark's business is conducted in the United States.

The measure of profitability established by the chief operating decision makers for insurance segments is underwriting margin before other income and administrative expenses, in accordance with the manner the segments are managed. It essentially represents gross profit margin on insurance products before insurance administrative expenses and consists primarily of premium less net policy benefits, acquisition expenses, and commissions. Required interest on net policy liabilities (benefit reserves less deferred acquisition costs) is reflected as a component of the Investment segment (rather than as a component of underwriting margin in the insurance and annuity segments) in order to match this cost with the investment income earned on the assets supporting the net policy liabilities.

The measure of profitability for the Investment segment is excess investment income, which represents the income earned on the investment portfolio in excess of net policy requirements and financing costs associated with Torchmark's debt. Other than the above-mentioned interest allocations and an intersegment commission, there are no other intersegment revenues or expenses. Expenses directly attributable to corporate operations are included in the "Corporate & Other" category. Stock-based compensation expense is considered a corporate expense by Torchmark management and is included in this category. All other unallocated revenues and expenses on a pretax basis, including insurance administrative expense, are also included in the "Corporate & Other" segment category.

Torchmark holds a sizable investment portfolio to support its insurance liabilities, the yield from which is used to offset policy benefit, acquisition, administrative and tax expenses. This yield or investment income is taken into account when establishing premium rates and profitability expectations of its insurance products. In holding such a portfolio, investments are sold, called, or written down from time to time, resulting in a realized gain or loss. These gains or losses generally occur as a result of disposition due to issuer calls, compliance with Company investment policies, or other reasons often beyond management's control. Unlike investment income, realized gains and losses are incidental to insurance operations, and only overall yields are considered when setting premium rates or insurance product profitability expectations. While these gains and losses are not relevant to segment profitability or core operating results, they can have a material positive or negative result on net income. For these reasons, management removes realized investment gains and losses when it views its segment operations.

Management removes items that are related to prior periods when evaluating the operating results of current periods. Management also removes non-operating items unrelated to its core insurance activities when evaluating those results. Therefore, these items are excluded in its presentation of segment results, because accounting guidance requires that operating segment results be presented as management views its business. With the exception of the administrative settlements noted in the paragraphs above, all of these items are included in "Other operating expense" in the *Consolidated Statements of Operations* for the appropriate year. See additional detail below in the tables.

**TORCHMARK CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
(Dollar amounts in thousands except per share data)

**Note 14—Business Segments (continued)**

The following tables set forth a reconciliation of Torchmark's revenues and operations by segment to its major income statement line items. See *Note 1—Significant Accounting Policies* for additional information concerning reconciling items of segment profits to pretax income.

|                                                                                  | For the year 2018 |                   |                  |                   |                     |                        |                   |
|----------------------------------------------------------------------------------|-------------------|-------------------|------------------|-------------------|---------------------|------------------------|-------------------|
|                                                                                  | Life              | Health            | Annuity          | Investment        | Corporate & Other   | Adjustments            | Consolidated      |
| <b>Revenue:</b>                                                                  |                   |                   |                  |                   |                     |                        |                   |
| Premium .....                                                                    | \$2,406,555       | \$1,015,339       | \$ 12            | \$ —              | \$ —                | \$ —                   | \$ 3,421,906      |
| Net investment income .....                                                      | —                 | —                 | —                | 882,512           | —                   | —                      | 882,512           |
| Other income .....                                                               | —                 | —                 | —                | —                 | 1,236               | (99) <sup>(2)</sup>    | 1,137             |
| Total revenue .....                                                              | 2,406,555         | 1,015,339         | 12               | 882,512           | 1,236               | (99)                   | 4,305,555         |
| <b>Expenses:</b>                                                                 |                   |                   |                  |                   |                     |                        |                   |
| Policy benefits .....                                                            | 1,591,790         | 649,188           | 34,264           | —                 | —                   | —                      | 2,275,242         |
| Required interest on reserves .....                                              | (636,040)         | (83,243)          | (47,357)         | 766,640           | —                   | —                      | —                 |
| Required interest on deferred acquisition costs .....                            | 194,297           | 24,412            | 589              | (219,298)         | —                   | —                      | —                 |
| Amortization of acquisition costs .....                                          | 414,200           | 100,376           | 2,114            | —                 | —                   | —                      | 516,690           |
| Commissions, premium taxes, and non-deferred acquisition costs .....             | 190,007           | 88,553            | 26               | —                 | —                   | (99) <sup>(2)</sup>    | 278,487           |
| Insurance administrative expense <sup>(1)</sup> .....                            | —                 | —                 | —                | —                 | 223,941             | 3,590 <sup>(3)</sup>   | 227,531           |
| Parent expense .....                                                             | —                 | —                 | —                | —                 | 10,684              | 1,578 <sup>(4)</sup>   | 12,262            |
| Stock-based compensation expense .....                                           | —                 | —                 | —                | —                 | 39,792              | —                      | 39,792            |
| Interest expense .....                                                           | —                 | —                 | —                | 90,076            | —                   | —                      | 90,076            |
| Total expenses .....                                                             | 1,754,254         | 779,286           | (10,364)         | 637,418           | 274,417             | 5,069                  | 3,440,080         |
| Subtotal .....                                                                   | 652,301           | 236,053           | 10,376           | 245,094           | (273,181)           | (5,168)                | 865,475           |
| Non-operating items .....                                                        | —                 | —                 | —                | —                 | —                   | 5,168 <sup>(3,4)</sup> | 5,168             |
| <b>Measure of segment profitability (pretax) .....</b>                           | <b>\$ 652,301</b> | <b>\$ 236,053</b> | <b>\$ 10,376</b> | <b>\$ 245,094</b> | <b>\$ (273,181)</b> | <b>\$ —</b>            | <b>870,643</b>    |
| Realized gain (loss)—investments .....                                           |                   |                   |                  |                   |                     |                        | 9,274             |
| Realized loss—redemption of debt .....                                           |                   |                   |                  |                   |                     |                        | (11,078)          |
| Administrative settlements .....                                                 |                   |                   |                  |                   |                     |                        | (3,590)           |
| Non-operating fees .....                                                         |                   |                   |                  |                   |                     |                        | (1,578)           |
| <b>Income before income taxes per Consolidated Statement of Operations .....</b> |                   |                   |                  |                   |                     |                        | <b>\$ 863,671</b> |

(1) Administrative expense is not allocated to insurance segments.

(2) Elimination of intersegment commission.

(3) In 2018, the Company recorded \$3.6 million in administrative settlements related to state regulatory examinations. These administrative settlements were included in "Policyholder benefits" in the *Consolidated Statements of Operations*.

(4) Non-operating fees.

**TORCHMARK CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
(Dollar amounts in thousands except per share data)

**Note 14—Business Segments (continued)**

|                                                                                  | For the year 2017 |                   |                  |                   |                     |                             | Consolidated   |
|----------------------------------------------------------------------------------|-------------------|-------------------|------------------|-------------------|---------------------|-----------------------------|----------------|
|                                                                                  | Life              | Health            | Annuity          | Investment        | Corporate & Other   | Adjustments                 |                |
| <b>Revenue:</b>                                                                  |                   |                   |                  |                   |                     |                             |                |
| Premium .....                                                                    | \$2,306,547       | \$ 976,373        | \$ 15            | \$ —              | \$ —                | \$ —                        | \$ 3,282,935   |
| Net investment income .....                                                      | —                 | —                 | —                | 847,885           | —                   | —                           | 847,885        |
| Other income .....                                                               | —                 | —                 | —                | —                 | 1,270               | (128) <sup>(2)</sup>        | 1,142          |
| Total revenue .....                                                              | 2,306,547         | 976,373           | 15               | 847,885           | 1,270               | (128)                       | 4,131,962      |
| <b>Expenses:</b>                                                                 |                   |                   |                  |                   |                     |                             |                |
| Policy benefits .....                                                            | 1,549,602         | 628,640           | 35,836           | —                 | —                   | 13,797 <sup>(3,4)</sup>     | 2,227,875      |
| Required interest on reserves .....                                              | (607,007)         | (77,792)          | (49,571)         | 734,370           | —                   | —                           | —              |
| Required interest on deferred acquisition costs .....                            | 186,236           | 23,454            | 690              | (210,380)         | —                   | —                           | —              |
| Amortization of acquisition costs .....                                          | 396,268           | 96,519            | 2,466            | —                 | —                   | (4,850) <sup>(4)</sup>      | 490,403        |
| Commissions, premium taxes, and non-deferred acquisition costs .....             | 177,111           | 86,044            | 32               | —                 | —                   | 1,673 <sup>(2,5)</sup>      | 264,860        |
| Insurance administrative expense <sup>(1)</sup> .....                            | —                 | —                 | —                | —                 | 210,590             | —                           | 210,590        |
| Parent expense .....                                                             | —                 | —                 | —                | —                 | 9,631               | —                           | 9,631          |
| Stock-based compensation expense ...                                             | —                 | —                 | —                | —                 | 33,654              | 3,380 <sup>(6)</sup>        | 37,034         |
| Interest expense .....                                                           | —                 | —                 | —                | 84,532            | —                   | —                           | 84,532         |
| Total expenses .....                                                             | 1,702,210         | 756,865           | (10,547)         | 608,522           | 253,875             | 14,000                      | 3,324,925      |
| Subtotal .....                                                                   | 604,337           | 219,508           | 10,562           | 239,363           | (252,605)           | (14,128)                    | 807,037        |
| Non-operating items .....                                                        | —                 | —                 | —                | —                 | —                   | 14,128 <sup>(3,4,5,6)</sup> | 14,128         |
| <b>Measure of segment profitability (pretax) .....</b>                           | <b>\$ 604,337</b> | <b>\$ 219,508</b> | <b>\$ 10,562</b> | <b>\$ 239,363</b> | <b>\$ (252,605)</b> | <b>\$ —</b>                 | <b>821,165</b> |
| Realized gain (loss)—investments .....                                           |                   |                   |                  |                   |                     |                             | 27,652         |
| Realized loss—redemption of debt .....                                           |                   |                   |                  |                   |                     |                             | (4,041)        |
| Administrative settlements .....                                                 |                   |                   |                  |                   |                     |                             | (8,659)        |
| Non-operating fees .....                                                         |                   |                   |                  |                   |                     |                             | (288)          |
| Guaranty fund assessments .....                                                  |                   |                   |                  |                   |                     |                             | (1,801)        |
| Stock-based compensation expense—Tax reform adjustment .....                     |                   |                   |                  |                   |                     |                             | (3,380)        |
| <b>Income before income taxes per Consolidated Statement of Operations .....</b> |                   |                   |                  |                   |                     |                             | <b>830,648</b> |

(1) Administrative expense is not allocated to insurance segments.

(2) Elimination of intersegment commission.

(3) In 2017, the Company recorded \$8.7 million (\$5.6 million, net of tax) in administrative settlements where claims were not properly filed or information to support the validity of the claim had not been properly submitted. These administrative settlements were included in "Policyholder benefits" in the *Consolidated Statements of Operations*.

(4) Non-operating fees.

(5) In 2017, the Company recorded \$1.8 million (\$1.2 million, net of tax) in unrecoverable guaranty fund assessments. See *Note 6—Commitment and Contingencies* for further discussion.

(6) The Company increased stock-based compensation expense by \$3.4 million (\$2.2 million, net of tax) due to the impact of the tax rate change on certain performance-based equity awards.

**TORCHMARK CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
(Dollar amounts in thousands except per share data)

**Note 14—Business Segments (continued)**

|                                                                                  | For the Year 2016 |                   |                 |                   |                     |                        |                   |
|----------------------------------------------------------------------------------|-------------------|-------------------|-----------------|-------------------|---------------------|------------------------|-------------------|
|                                                                                  | Life              | Health            | Annuity         | Investment        | Corporate & Other   | Adjustments            | Consolidated      |
| <b>Revenue:</b>                                                                  |                   |                   |                 |                   |                     |                        |                   |
| Premium .....                                                                    | \$2,189,333       | \$ 947,663        | \$ 38           | \$ —              | \$ —                | \$ —                   | \$ 3,137,034      |
| Net investment income .....                                                      | —                 | —                 | —               | 806,903           | —                   | —                      | 806,903           |
| Other income .....                                                               | —                 | —                 | —               | —                 | 1,534               | (159) <sup>(2)</sup>   | 1,375             |
| Total revenue .....                                                              | 2,189,333         | 947,663           | 38              | 806,903           | 1,534               | (159)                  | 3,945,312         |
| <b>Expenses:</b>                                                                 |                   |                   |                 |                   |                     |                        |                   |
| Policy benefits .....                                                            | 1,475,477         | 612,725           | 36,751          | —                 | —                   | 3,795 <sup>(3)</sup>   | 2,128,748         |
| Required interest on reserves .....                                              | (577,827)         | (73,382)          | (51,131)        | 702,340           | —                   | —                      | —                 |
| Required interest on deferred acquisition costs .....                            | 178,946           | 23,060            | 807             | (202,813)         | —                   | —                      | —                 |
| Amortization of acquisition costs .....                                          | 374,499           | 90,385            | 4,179           | —                 | —                   | —                      | 469,063           |
| Commissions, premium taxes, and non-deferred acquisition costs .....             | 164,476           | 84,819            | 38              | —                 | —                   | (159) <sup>(2)</sup>   | 249,174           |
| Insurance administrative expense <sup>(1)</sup> .....                            | —                 | —                 | —               | —                 | 196,598             | 553 <sup>(4)</sup>     | 197,151           |
| Parent expense .....                                                             | —                 | —                 | —               | —                 | 8,587               | —                      | 8,587             |
| Stock-based compensation expense ...                                             | —                 | —                 | —               | —                 | 26,326              | —                      | 26,326            |
| Interest expense .....                                                           | —                 | —                 | —               | 83,345            | —                   | —                      | 83,345            |
| Total expenses .....                                                             | 1,615,571         | 737,607           | (9,356)         | 582,872           | 231,511             | 4,189                  | 3,162,394         |
| Subtotal .....                                                                   | 573,762           | 210,056           | 9,394           | 224,031           | (229,977)           | (4,348)                | 782,918           |
| Non-operating items .....                                                        | —                 | —                 | —               | —                 | —                   | 4,348 <sup>(3,4)</sup> | 4,348             |
| <b>Measure of segment profitability (pretax) .....</b>                           | <b>\$ 573,762</b> | <b>\$ 210,056</b> | <b>\$ 9,394</b> | <b>\$ 224,031</b> | <b>\$ (229,977)</b> | <b>\$ —</b>            | <b>787,266</b>    |
| Realized gain (loss)—investments .....                                           |                   |                   |                 |                   |                     |                        | (10,683)          |
| Administrative settlements .....                                                 |                   |                   |                 |                   |                     |                        | (3,795)           |
| Non-operating fees .....                                                         |                   |                   |                 |                   |                     |                        | (553)             |
| <b>Income before income taxes per Consolidated Statement of Operations .....</b> |                   |                   |                 |                   |                     |                        | <b>\$ 772,235</b> |

(1) Administrative expense is not allocated to insurance segments.

(2) Elimination of intersegment commission.

(3) In 2016, the Company recorded \$3.8 million in administrative settlements related to benefits paid for deaths occurring in prior years where claims had not been filed. These administrative settlements were included in "Policyholder benefits" in the *Consolidated Statements of Operations*.

(4) Non-operating fees.

**TORCHMARK CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
(Dollar amounts in thousands except per share data)

**Note 14—Business Segments (continued)**

Assets for each segment are reported based on a specific identification basis. The insurance segments' assets contain DAC. The investment segment includes the investment portfolio, cash, and accrued investment income. Goodwill is assigned to the insurance segments at the time of purchase. All other assets are included in the Other category. The table below reconciles segment assets to total assets as reported in the consolidated financial statements.

**Assets by Segment**

| <b>At December 31, 2018</b>      |                     |                   |                 |                      |                     |                      |
|----------------------------------|---------------------|-------------------|-----------------|----------------------|---------------------|----------------------|
|                                  | <b>Life</b>         | <b>Health</b>     | <b>Annuity</b>  | <b>Investment</b>    | <b>Other</b>        | <b>Consolidated</b>  |
| Cash and invested assets .....   | \$ —                | \$ —              | \$ —            | \$ 17,239,570        | \$ —                | \$ 17,239,570        |
| Accrued investment income .....  | —                   | —                 | —               | 243,003              | —                   | 243,003              |
| Deferred acquisition costs ..... | 3,580,693           | 548,640           | 8,592           | —                    | —                   | 4,137,925            |
| Goodwill .....                   | 309,609             | 131,982           | —               | —                    | —                   | 441,591              |
| Other assets .....               | —                   | —                 | —               | —                    | 1,033,633           | 1,033,633            |
| <b>Total assets</b> .....        | <b>\$ 3,890,302</b> | <b>\$ 680,622</b> | <b>\$ 8,592</b> | <b>\$ 17,482,573</b> | <b>\$ 1,033,633</b> | <b>\$ 23,095,722</b> |

| <b>At December 31, 2017</b>      |                     |                   |                 |                      |                   |                      |
|----------------------------------|---------------------|-------------------|-----------------|----------------------|-------------------|----------------------|
|                                  | <b>Life</b>         | <b>Health</b>     | <b>Annuity</b>  | <b>Investment</b>    | <b>Other</b>      | <b>Consolidated</b>  |
| Cash and invested assets .....   | \$ —                | \$ —              | \$ —            | \$ 17,853,047        | \$ —              | \$ 17,853,047        |
| Accrued investment income .....  | —                   | —                 | —               | 233,453              | —                 | 233,453              |
| Deferred acquisition costs ..... | 3,423,296           | 529,068           | 5,699           | —                    | —                 | 3,958,063            |
| Goodwill .....                   | 309,609             | 131,982           | —               | —                    | —                 | 441,591              |
| Other assets .....               | —                   | —                 | —               | —                    | 988,831           | 988,831              |
| <b>Total assets</b> .....        | <b>\$ 3,732,905</b> | <b>\$ 661,050</b> | <b>\$ 5,699</b> | <b>\$ 18,086,500</b> | <b>\$ 988,831</b> | <b>\$ 23,474,985</b> |

Liabilities for each segment are reported also on a specific identification basis similar to the assets. The insurance segments' liabilities contain future policy benefits, unearned and advance premiums, and policy claims and other benefits payable. Other policyholders' funds are included in Other as well as current and deferred income taxes payable. Debt represents both short and long-term.

**Liabilities by Segment**

| <b>At December 31, 2018</b>                    |                      |                     |                     |                     |                     |                      |
|------------------------------------------------|----------------------|---------------------|---------------------|---------------------|---------------------|----------------------|
|                                                | <b>Life</b>          | <b>Health</b>       | <b>Annuity</b>      | <b>Investment</b>   | <b>Other</b>        | <b>Consolidated</b>  |
| Future policy benefits .....                   | \$ 10,847,356        | \$ 1,927,732        | \$ 1,178,738        | \$ —                | \$ —                | \$ 13,953,826        |
| Unearned and advance premiums .....            | 17,850               | 43,358              | —                   | —                   | —                   | 61,208               |
| Policy claims and other benefits payable ..... | 196,298              | 154,528             | —                   | —                   | —                   | 350,826              |
| Debt .....                                     | —                    | —                   | —                   | 1,665,033           | —                   | 1,665,033            |
| Other .....                                    | —                    | —                   | —                   | —                   | 1,649,652           | 1,649,652            |
| <b>Total liabilities</b> .....                 | <b>\$ 11,061,504</b> | <b>\$ 2,125,618</b> | <b>\$ 1,178,738</b> | <b>\$ 1,665,033</b> | <b>\$ 1,649,652</b> | <b>\$ 17,680,545</b> |

**TORCHMARK CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
(Dollar amounts in thousands except per share data)

**Note 14—Business Segments (continued)**

|                                                | At December 31, 2017 |                     |                     |                     |                     |                      |
|------------------------------------------------|----------------------|---------------------|---------------------|---------------------|---------------------|----------------------|
|                                                | Life                 | Health              | Annuity             | Investment          | Other               | Consolidated         |
| Future policy benefits .....                   | \$ 10,353,286        | \$ 1,831,338        | \$ 1,254,848        | \$ —                | \$ —                | \$ 13,439,472        |
| Unearned and advance premiums .....            | 16,927               | 44,503              | —                   | —                   | —                   | 61,430               |
| Policy claims and other benefits payable ..... | 186,429              | 146,865             | —                   | —                   | —                   | 333,294              |
| Debt .....                                     | —                    | —                   | —                   | 1,460,268           | —                   | 1,460,268            |
| Other .....                                    | —                    | —                   | —                   | —                   | 1,949,100           | 1,949,100            |
| <b>Total liabilities</b> .....                 | <u>\$ 10,556,642</u> | <u>\$ 2,022,706</u> | <u>\$ 1,254,848</u> | <u>\$ 1,460,268</u> | <u>\$ 1,949,100</u> | <u>\$ 17,243,564</u> |

**TORCHMARK CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
(Dollar amounts in thousands, except per share data)

**Note 15—Selected Quarterly Data (Unaudited)**

The following is an unaudited summary of quarterly results for the two years ended December 31, 2018. The information includes all adjustments (consisting of normal accruals) which management considers necessary for a fair presentation of the results of operations for these periods.

|                                                  | Three Months Ended |            |               |              |
|--------------------------------------------------|--------------------|------------|---------------|--------------|
|                                                  | March 31,          | June 30,   | September 30, | December 31, |
| <b>2018:</b>                                     |                    |            |               |              |
| Premium income .....                             | \$ 850,106         | \$ 853,979 | \$ 860,750    | \$ 857,071   |
| Net investment income .....                      | 218,084            | 218,568    | 221,627       | 224,233      |
| Realized gains (losses) .....                    | 1,951              | 11,813     | 1,032         | (16,600)     |
| Total revenue .....                              | 1,070,436          | 1,084,776  | 1,083,802     | 1,064,737    |
| Policyholder benefits .....                      | 569,889            | 568,377    | 567,856       | 569,120      |
| Amortization of deferred acquisition costs ..... | 129,620            | 129,077    | 129,492       | 128,501      |
| Pretax income from continuing operations .....   | 212,842            | 226,864    | 220,330       | 203,635      |
| Income from continuing operations .....          | 173,711            | 184,393    | 178,700       | 164,706      |
| Income (loss) from discontinued operations ..... | (111)              | 32         | 24            | 11           |
| Net income .....                                 | 173,600            | 184,425    | 178,724       | 164,717      |
| Basic net income per common share:               |                    |            |               |              |
| Continuing operations .....                      | 1.52               | 1.63       | 1.59          | 1.48         |
| Discontinued operations .....                    | —                  | —          | —             | —            |
| Total basic net income per common share .....    | 1.52               | 1.63       | 1.59          | 1.48         |
| Diluted net income per common share:             |                    |            |               |              |
| Continuing operations .....                      | 1.49               | 1.59       | 1.55          | 1.45         |
| Discontinued operations .....                    | —                  | —          | —             | —            |
| Total diluted net income per common share .....  | 1.49               | 1.59       | 1.55          | 1.45         |

|                                                  | Three Months Ended |            |               |              |
|--------------------------------------------------|--------------------|------------|---------------|--------------|
|                                                  | March 31,          | June 30,   | September 30, | December 31, |
| <b>2017:</b>                                     |                    |            |               |              |
| Premium income .....                             | \$ 820,631         | \$ 816,614 | \$ 819,217    | \$ 826,473   |
| Net investment income .....                      | 208,282            | 212,776    | 213,872       | 212,955      |
| Realized gains (losses) .....                    | (5,748)            | (705)      | 12,595        | 17,469       |
| Total revenue .....                              | 1,023,581          | 1,029,078  | 1,046,015     | 1,056,899    |
| Policyholder benefits .....                      | 557,776            | 556,415    | 551,219       | 562,465      |
| Amortization of deferred acquisition costs ..... | 125,908            | 122,121    | 122,334       | 120,040      |
| Pretax income from continuing operations .....   | 191,741            | 201,926    | 220,610       | 216,371      |
| Income from continuing operations .....          | 137,178            | 140,363    | 153,346       | 1,027,376    |
| Income from discontinued operations .....        | (3,637)            | (90)       | (12)          | (30)         |
| Net income .....                                 | 133,541            | 140,273    | 153,334       | 1,027,346    |
| Basic net income per common share:               |                    |            |               |              |
| Continuing operations .....                      | 1.16               | 1.20       | 1.32          | 8.93         |
| Discontinued operations .....                    | (0.03)             | —          | —             | —            |
| Total basic net income per common share .....    | 1.13               | 1.20       | 1.32          | 8.93         |
| Diluted net income per common share:             |                    |            |               |              |
| Continuing operations .....                      | 1.14               | 1.18       | 1.29          | 8.71         |
| Discontinued operations .....                    | (0.03)             | —          | —             | —            |
| Total diluted net income per common share .....  | 1.11               | 1.18       | 1.29          | 8.71         |

## **ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES**

None.

### **ITEM 9A. CONTROLS AND PROCEDURES**

*Evaluation of Disclosure Controls and Procedures:* Torchmark, under the direction of the Co-Chairmen and Chief Executive Officers and the Executive Vice President and Chief Financial Officer, has established disclosure controls and procedures that are designed to ensure that information required to be disclosed by Torchmark in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. The disclosure controls and procedures are also intended to ensure that such information is accumulated and communicated to Torchmark's management, including the Co-Chairmen and Chief Executive Officers and the Executive Vice President and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures.

As of the end of the fiscal year completed December 31, 2018, an evaluation was performed under the supervision and with the participation of Torchmark management, including the Co-Chairmen and Chief Executive Officers and the Executive Vice President and Chief Financial Officer, of Torchmark's disclosure controls and procedures (as those terms are defined in Rule 13a-15(e) under the Securities Exchange Act of 1934). Based upon their evaluation, the Co-Chairmen and Chief Executive Officers and the Executive Vice President and Chief Financial Officer have concluded that Torchmark's disclosure controls and procedures are effective as of the date of this Form 10-K. In compliance with Section 302 of the Sarbanes Oxley Act of 2002 (18 U.S.C. § 1350), each of these officers executed a Certification included as an exhibit to this Form 10-K.

*Management's Annual Report on Internal Control over Financial Reporting:* Management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934. Management evaluated the design and operating effectiveness of the Company's internal control over financial reporting based on the criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission. Based upon their evaluation as of December 31, 2018, the Co-Chairmen and Chief Executive Officers, and the Executive Vice President and Chief Financial Officer have concluded that Torchmark's internal control over financial reporting is effective as of the date of this Form 10-K. In compliance with Section 302 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. § 1350), each of these officers executed a Certification included as an exhibit to this Form 10-K.

*Changes in Internal Control over Financial Reporting:* As of the quarter ended December 31, 2018, there have not been any changes in Torchmark's internal control over financial reporting or in other factors that could significantly affect this control over financial reporting subsequent to the date of their evaluation which have materially affected, or are reasonably likely to materially affect, Torchmark's internal control over financial reporting.

*Refer to Deloitte & Touche LLP's*, independent registered public accounting firm, attestation report on the Company's internal controls over financial reporting.

## **MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

Management at Torchmark Corporation is responsible for establishing and maintaining adequate internal control over financial reporting for the Company and for assessing the effectiveness of internal control on an annual basis. As a framework for assessing internal control over financial reporting, the Company utilizes the criteria for effective internal control over financial reporting described in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

There are inherent limitations in the effectiveness of any internal control, including the possibility of human error and the circumvention or overriding of controls. Accordingly, even effective internal controls can provide only reasonable assurance with respect to financial statement preparation. Further, because of changes in conditions, the effectiveness of internal control may vary over time.

Management evaluated the Company's internal control over financial reporting, and based on its assessment, determined that the Company's internal control over financial reporting was effective as of December 31, 2018. The Company's independent registered public accounting firm has issued an attestation report on the Company's internal control over financial reporting as stated in their report which is included herein.

/s/ Gary L. Coleman

---

Gary L. Coleman  
Co-Chairman and Chief Executive Officer

/s/ Larry M. Hutchison

---

Larry M. Hutchison  
Co-Chairman and Chief Executive Officer

/s/ Frank M. Svoboda

---

Frank M. Svoboda  
Executive Vice President and Chief Financial Officer

February 28, 2019

## **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the shareholders and the Board of Directors of Torchmark Corporation (McKinney, Texas)

### **Opinion on Internal Control over Financial Reporting**

We have audited the internal control over financial reporting of Torchmark Corporation and subsidiaries ("Torchmark") as of December 31, 2018, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, Torchmark maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements and financial statement schedules as of and for the year ended December 31, 2018 of Torchmark and our report dated February 28, 2019 expressed an unqualified opinion on those financial statements and financial statement schedules.

### **Basis for Opinion**

Torchmark's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on Torchmark's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

### **Definition and Limitations of Internal Control over Financial Reporting**

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ DELOITTE & TOUCHE LLP  
Dallas, Texas  
February 28, 2019

## ITEM 9B. OTHER INFORMATION

There were no items required.

## PART III

## ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information required by this item is incorporated by reference from the sections entitled “Election of Directors,” “Profiles of Director Nominees,” “Executive Officers,” “Audit Committee Report,” “Governance Guidelines and Codes of Ethics,” “Director Qualification Standards,” “Procedures for Director Nominations by Shareholders,” and “Section 16(a) Beneficial Ownership Reporting Compliance” in the Proxy Statement for the Annual Meeting of Shareholders to be held April 25, 2019 (the Proxy Statement), which is to be filed with the Securities and Exchange Commission (SEC).

## ITEM 11. EXECUTIVE COMPENSATION

Information required by this item is incorporated by reference from the sections entitled “Compensation Discussion and Analysis,” “Compensation Committee Report,” “Summary Compensation Table,” “CEO Pay Ratio,” “2018 Grants of Plan-based Awards,” “Outstanding Equity Awards at Fiscal Year End 2018,” “Option Exercises and Stock Vested during Fiscal Year Ended December 31, 2018,” “Pension Benefits at December 31, 2018,” “Potential Payments upon Termination or Change in Control,” “2018 Director Compensation,” “Payments to Directors” and “Compensation Committee Interlocks and Insider Participation” in the Proxy Statement, which is to be filed with the SEC.

## ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

### 1. Equity Compensation Plan Information as of December 31, 2018

| Plan Category                                                       | Number of securities<br>to be issued<br>upon exercise of<br>outstanding options,<br>warrants, and rights<br>(a) | Weighted-average<br>exercise price of<br>outstanding options,<br>warrants, and rights<br>(b) | Number of securities<br>remaining available for<br>future issuance under<br>equity compensation plans<br>(excluding securities in<br>column (a))<br>(c) |
|---------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------|
| Equity compensation plans approved by<br>security holders .....     | 7,203,765                                                                                                       | \$ 61.72                                                                                     | 9,422,760                                                                                                                                               |
| Equity compensation plans not approved<br>by security holders ..... | —                                                                                                               | —                                                                                            | —                                                                                                                                                       |
| Total .....                                                         | 7,203,765                                                                                                       | \$ 61.72                                                                                     | 9,422,760                                                                                                                                               |

### 2. Security ownership of certain beneficial owners:

Information required by this item is incorporated by reference from the section entitled “Principal Shareholders” in the Proxy Statement, which is to be filed with the SEC.

### 3. Security ownership of management:

Information required by this item is incorporated by reference from the section entitled “Stock Ownership” in the Proxy Statement, which is to be filed with the SEC.

### 4. Changes in control:

Torchmark knows of no arrangements, including any pledges by any person of its securities, the operation of which may at a subsequent date result in a change of control.

## ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

Information required by this item is incorporated by reference from the sections entitled “Related Party Transaction Policy and Transactions” and “Director Independence Determinations” in the Proxy Statement, which is to be filed with the SEC.

## **ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

Information required by this Item is incorporated by reference from the section entitled “Principal Accounting Firm Fees” and “Pre-approval Policy for Accounting Fees” in the Proxy Statement, which is to be filed with the SEC.

## **PART IV**

## **ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

Index of documents filed as a part of this report:

|                                                                                                                            | <b><u>Page of<br/>this report</u></b> |
|----------------------------------------------------------------------------------------------------------------------------|---------------------------------------|
| Financial Statements:                                                                                                      |                                       |
| Torchmark Corporation and Subsidiaries:                                                                                    |                                       |
| Report of Independent Registered Public Accounting Firm .....                                                              | 51                                    |
| Consolidated Balance Sheets at December 31, 2018 and 2017 .....                                                            | 52                                    |
| Consolidated Statements of Operations for each of the three years in the period ended<br>December 31, 2018 .....           | 53                                    |
| Consolidated Statements of Comprehensive Income for each of the three years in the period ended<br>December 31, 2018 ..... | 54                                    |
| Consolidated Statements of Shareholders' Equity for each of the three years in the period ended<br>December 31, 2018 ..... | 55                                    |
| Consolidated Statements of Cash Flows for each of the three years in the period ended<br>December 31, 2018 .....           | 56                                    |
| Notes to Consolidated Financial Statements .....                                                                           | 57                                    |
| Schedules Supporting Financial Statements for each of the three years in the period ended<br>December 31, 2018:            |                                       |
| II. Condensed Financial Information of Registrant (Parent Company) .....                                                   | 125                                   |
| IV. Reinsurance (Consolidated) .....                                                                                       | 129                                   |
| Schedules not referred to have been omitted as inapplicable or not required by Regulation S-X.                             |                                       |

## EXHIBITS

|      |                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | Page of<br>this<br>Report |
|------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------|
| 3.1  | Restated Certificate of Incorporation of Torchmark Corporation, filed with the Delaware Secretary of State on April 30, 2010 (incorporated by reference from Exhibit 3.1.2 to Form 8-K dated May 5, 2010)                                                                                                                                                                                                                                                                 |                           |
| 3.2  | Amended and Restated By-Laws of Torchmark Corporation, as amended April 20, 2012 (incorporated by reference from Exhibit 3.2 to Form 8-K dated April 24, 2012)                                                                                                                                                                                                                                                                                                            |                           |
| 4.1  | Trust Indenture dated as of February 1, 1987 between Torchmark Corporation and Morgan Guaranty Trust Company of New York, as Trustee (incorporated by reference from Exhibit 4.1 to Form 10-K for the fiscal year ended December 31, 2017)                                                                                                                                                                                                                                |                           |
| 4.2  | Supplemental Indenture, dated as of December 14, 2001, between Torchmark, BankOne Trust Company, National Association and The Bank of New York, supplementing the Indenture Agreement dated February 1, 1987 (incorporated herein by reference to Exhibit 4(b) to Torchmark's Registration Statement on Form S-3 (File No. 33-11716), and defining the rights of the 6 1/4% Senior Notes (incorporated by reference from Exhibit 4.1 to Form 8-K dated December 14, 2001) |                           |
| 4.3  | Third Supplemental Indenture dated as of June 30, 2009 between Torchmark Corporation and The Bank of New York Mellon Trust Company, N.A. (incorporated by reference from Exhibit 4 to Form 10-Q for the quarter ended June 30, 2009)                                                                                                                                                                                                                                      |                           |
| 4.4  | Fourth Supplemental Indenture dated as of September 24, 2012 between Torchmark Corporation and The Bank of New York Mellon Trust Company, N.A., as Trustee, supplementing the Indenture dated February 1, 1987 (incorporated by reference from Exhibit 4.2 to Form 8-K dated September 24, 2012)                                                                                                                                                                          |                           |
| 4.5  | Junior Subordinated Indenture, dated November 2, 2001, between Torchmark Corporation and The Bank of New York defining the rights of the 7 3/4% Junior Subordinated Debentures (incorporated by reference from Exhibit 4.3 to Form 8-K dated November 2, 2001)                                                                                                                                                                                                            |                           |
| 4.6  | Second Supplemental Indenture dated as of April 5, 2016 between Torchmark Corporation and The Bank of New York Mellon Trust Company of New York, N.A., as Trustee, supplementing the Junior Subordinated Indenture dated as of November 2, 2001 (incorporated by reference from Exhibit 4.3 to Form 8-K dated April 5, 2016)                                                                                                                                              |                           |
| 4.7  | Third Supplemental Indenture dated as of November 17, 2017 between Torchmark Corporation and Regions Bank, as Trustee, supplementing the Junior Subordinated Indenture dated as of November 2, 2001 (incorporated by reference from Exhibit 4.4 to Form 8-K dated November 17, 2017)                                                                                                                                                                                      |                           |
| 4.8  | Senior Indenture, dated as of September 24, 2018, between Torchmark Corporation and Regions Bank, as Trustee (incorporated by reference from Exhibit 4.1 to Torchmark's Registration Statement on Form S-3 (File No. 333-227501) filed with the Securities and Exchange Commission on September 24, 2018)                                                                                                                                                                 |                           |
| 4.9  | First Supplemental Indenture, dated as of September 27, 2018, between Torchmark Corporation and Regions Bank, as Trustee (incorporated by reference from Exhibit 4.2 to Form 8-K dated September 27, 2018)                                                                                                                                                                                                                                                                |                           |
| 10.1 | Torchmark Corporation Restated Deferred Compensation Plan for Directors, Advisory Directors, Directors Emeritus and Officers, as amended (incorporated by reference from Exhibit 10.1 to Form 10-K for the fiscal year ended December 31, 2017)*                                                                                                                                                                                                                          |                           |
| 10.2 | Amendment One to the Torchmark Corporation Restated Deferred Compensation Plan for Directors, Advisory Directors, Directors Emeritus and Officers (incorporated by reference from Exhibit 10.54 to Form 10-K for the fiscal year ended December 31, 2008)*                                                                                                                                                                                                                |                           |
| 10.3 | Amendment Two to the Torchmark Corporation Restated Deferred Compensation Plan (incorporated by reference from Exhibit 10.55 to Form 10-K for the fiscal year ended December 31, 2008)*                                                                                                                                                                                                                                                                                   |                           |

- 10.4 Form of Retirement Life Insurance Benefit Agreement (\$1,995,000 face amount limit) (incorporated by reference from Exhibit 10(z) to Form 10-K for the fiscal year ended December 31, 2001)\*
- 10.5 Form of Retirement Life Insurance Benefit Agreement (\$495,000 face amount limit) (incorporated by reference from Exhibit 10(aa) to Form 10-K for the fiscal year ended December 31, 2001)\*
- 10.6 Torchmark Corporation Supplemental Executive Retirement Plan (incorporated by reference from Exhibit 10.1 to Form 8-K dated January 25, 2007)\*
- 10.7 Amendment No. 1 to the Torchmark Corporation Supplemental Executive Retirement Plan (incorporated by reference from Exhibit 10.53 to Form 10-K for the fiscal year ended December 31, 2007)\*
- 10.8 Amendment No. 2 to the Torchmark Corporation Supplemental Executive Retirement Plan (incorporated by reference from Exhibit 10.54 to Form 10-K for the fiscal year ended December 31, 2007)\*
- 10.9 Amendment Three to the Torchmark Corporation Supplemental Executive Retirement Plan (incorporated by reference from Exhibit 10.53 to Form 10-K for the fiscal year ended December 31, 2008)\*
- 10.10 Amendment Five to the Torchmark Corporation Supplemental Executive Retirement Plan (incorporated by reference to Exhibit 10.1 to Form 8-K dated May 5, 2015)\*
- 10.11 Amendment Six to the Torchmark Corporation Supplemental Executive Retirement Plan\*
- 10.12 Torchmark Corporation Non-Employee Director Compensation Plan, as amended and restated (incorporated by reference from Exhibit 10.1 to Form 8-K dated April 29, 2008)\*
- 10.13 Form of Restricted Stock Award Notice under Torchmark Corporation Non-Employee Director Compensation Plan (incorporated by reference from Exhibit 10.57 to Form 10-K for the fiscal year ended December 31, 2007)\*
- 10.14 Form of Restricted Stock Unit Award Notice under Torchmark Corporation Non-Employee Director Compensation Plan (incorporated by reference from Exhibit 10.58 to Form 10-K for the fiscal year ended December 31, 2007)\*
- 10.15 Receivables Purchase Agreement dated as of December 31, 2008 among ALLIC Receivables Corporation, American Income Life Insurance Company and TMK Re, Ltd. (incorporated by reference from Exhibit 10.1 to Form 8-K dated January 6, 2009)
- 10.16 Amendment No.1 to Receivables Purchase Agreement dated as of December 31, 2008 among ALLIC Receivables Corporation, American Income Life Insurance Company, and TMK Re, Ltd. (incorporated by reference to Exhibit 10.58 to Form 10-K for the fiscal year ended December 31, 2013)
- 10.17 Amendment No.2 to Receivables Purchase Agreement dated as of December 31, 2008 among ALLIC Receivables Corporation, American Income Life Insurance Company, and TMK Re, Ltd.
- 10.18 Torchmark Corporation 2011 Incentive Plan (incorporated by reference from Exhibit 10.1 to Form 8-K dated May 4, 2011)\*
- 10.19 First Amendment to Torchmark Corporation 2011 Incentive Plan (incorporated by reference from Exhibit 10.1 to Form 8-K dated April 29, 2014)\*
- 10.20 Form of Restricted Stock Award (Executive) under Torchmark Corporation 2011 Incentive Plan (incorporated by reference from Exhibit 10.2 to Form 8-K dated May 4, 2011)\*
- 10.21 Form of Restricted Stock Award (Special) under Torchmark Corporation 2011 Incentive Plan (incorporated by reference from Exhibit 10.3 to Form 8-K dated May 4, 2011)\*
- 10.22 Form of Ten year Stock Option under Torchmark Corporation 2011 Incentive Plan (incorporated by reference from Exhibit 10.4 to Form 8-K dated May 4, 2011)\*
- 10.23 Form of Seven year Stock Option under Torchmark Corporation 2011 Incentive Plan (incorporated by reference from Exhibit 10.5 to Form 8-K dated May 4, 2011)\*

|       |                                                                                                                                                                                                                                                                                              |  |
|-------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|
| 10.24 | Form of Performance Share Award under Torchmark Corporation 2011 Incentive Plan (incorporated by reference from Exhibit 10.1 to Form 8-K dated February 27, 2012)*                                                                                                                           |  |
| 10.25 | Form of Seven Year Stock Option Grant Agreement under Torchmark Corporation 2011 Incentive Plan, as amended with Non-Compete, Non-Solicit and Confidentiality Provisions (incorporated by reference from Exhibit 10.75 to Form 10-K for the fiscal year ended December 31, 2016)*            |  |
| 10.26 | Form of Ten Year Stock Option Grant Agreement under Torchmark Corporation 2011 Incentive Plan, as amended with Non-Compete, Non-Solicit and Confidentiality Provisions (incorporated by reference from Exhibit 10.76 to Form 10-K for the fiscal year ended December 31, 2016)*              |  |
| 10.27 | Form of Performance Share Award Certificate under Torchmark Corporation 2011 Incentive Plan, as amended with Non-Compete, Non-Solicit and Confidentiality Provisions (incorporated by reference from Exhibit 10.77 to Form 10-K for the fiscal year ended December 31, 2016)*                |  |
| 10.28 | Form of Seven Year Stock Option Grant Agreement (Special) under Torchmark Corporation 2011 Incentive Plan, as amended with Non-Compete, Non-Solicit and Confidentiality Provisions (incorporated by reference from Exhibit 10.78 to Form 10-K for the fiscal year ended December 31, 2016) * |  |
| 10.29 | Torchmark Corporation Amended 2011 Non-Employee Director Compensation Plan, effective January, 2017 (incorporated by reference to Exhibit 10. 55 to Form 10-K for the fiscal year ended December 31, 2016)                                                                                   |  |
| 10.30 | Form of Stock Option under Torchmark Corporation 2011 Non-Employee Director Compensation Plan (incorporated by reference from Exhibit 10.57 to Form 10-K for fiscal year ended December 31,2010)*                                                                                            |  |
| 10.31 | Form of Restricted Stock Award Notice under Torchmark Corporation 2011 Non-Employee Director Compensation Plan (incorporated by reference from Exhibit 10.58 to Form 10-K for fiscal year ended December 31, 2010)*                                                                          |  |
| 10.32 | Form of Restricted Stock Unit Award Notice under Torchmark Corporation 2011 Non-Employee Director Compensation Plan (incorporated by reference from Exhibit 10.59 to Form 10-K for fiscal year ended December 31, 2010)*                                                                     |  |
| 10.33 | Torchmark Corporation 2018 Incentive Plan (incorporated by reference from Exhibit 10.1 to Form 8-K dated May 2, 2018)*                                                                                                                                                                       |  |
| 10.34 | Torchmark Corporation 2018 Non-Employee Director Compensation Plan (incorporated by reference to Exhibit 10.2 to Form 8-K dated May 2, 2018)*                                                                                                                                                |  |
| 10.35 | Form of Performance Share Award under Torchmark Corporation 2018 Incentive Plan (incorporated by reference to Exhibit 10.3 to Form 8-K dated May 2, 2018)*                                                                                                                                   |  |
| 10.36 | Form of Seven Year Stock Option under Torchmark Corporation 2018 Incentive Plan (incorporated by reference from Exhibit 10.4 to Form 8-K dated May 2, 2018)*                                                                                                                                 |  |
| 10.37 | Form of Seven Year Stock Option under Torchmark Corporation 2018 Incentive Plan with Non-Compete, Non-Solicit and Confidentiality Provisions (incorporated by reference from Exhibit 10.5 to Form 8-K dated May 2, 2018)*                                                                    |  |
| 10.38 | Form of Ten Year Stock Option under Torchmark Corporation 2018 Incentive Plan (incorporated by reference from Exhibit 10.6 to Form 8-K dated May 2, 2018)*                                                                                                                                   |  |
| 10.39 | Form of Ten Year Stock Option under Torchmark Corporation 2018 Incentive Plan with Non-Compete, Non-Solicit and Confidentiality Provisions (incorporated by reference from Exhibit 10.7 to Form 8-K dated May 2, 2018)*                                                                      |  |
| 10.40 | Form of Stock Option under Torchmark Corporation 2018 Non-Employee Director Compensation Plan (incorporated by reference from Exhibit 10.8 to Form 8-K dated May 2, 2018)*                                                                                                                   |  |
| 10.41 | Form of Restricted Stock Award Notice under Torchmark Corporation 2018 Non-Employee Director Compensation Plan (incorporated by reference from Exhibit 10.9 to Form 8-K dated May 2, 2018)*                                                                                                  |  |

|       |                                                                                                                                                                                                                                                                                                                                                                              |     |
|-------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----|
| 10.42 | Form of Restricted Stock Unit Award Notice under Torchmark Corporation 2018 Non-Employee Director Compensation Plan (incorporated by reference from Exhibit 10.10 to Form 8-K dated May 2, 2018)*                                                                                                                                                                            |     |
| 10.43 | Torchmark Corporation 2013 Management Incentive Plan effective as of January 1, 2013 (incorporated by reference from Exhibit 10.1 to Form 8-K dated April 30, 2013)*                                                                                                                                                                                                         |     |
| 10.44 | The Torchmark Corporation Amended and Restated Pension Plan Generally Effective as of January 1, 2014* (incorporated by reference from Exhibit 10.14 to Form 10-K for the fiscal year ended December 31, 2015)                                                                                                                                                               |     |
| 10.45 | Torchmark Corporation Pension Plan 2016 Amendment to Limit Eligibility (effective December 31, 2016) (incorporated by reference to Exhibit 10.80 to Form 10-K for the fiscal year ended December 31, 2016)*                                                                                                                                                                  |     |
| 10.46 | The Torchmark Corporation Savings and Investment Plan and Adoption Agreement effective as of December 1, 2017 (adopting the Great-West Trust Company Defined Contribution Prototype Plan and Trust)*                                                                                                                                                                         |     |
| 10.47 | Payments to Directors (incorporated by reference from Exhibit 10.23 to Form 10-K for the fiscal year ended December 31, 2016)*                                                                                                                                                                                                                                               |     |
| 10.48 | Second Amended and Restated Credit Agreement dated as of May 17, 2016 among Torchmark Corporation, as the Borrower, TMK Re, Ltd., as a Loan Party, Wells Fargo Bank, National Association, as Administrative Agent, Swing Line Lender and L/C Administrator and the other lenders party thereto (incorporated by reference from Exhibit 10.1 to Form 8-K dated May 16, 2016) |     |
| 20    | Proxy Statement for Annual Meeting of Shareholders to be held April 25, 2019**                                                                                                                                                                                                                                                                                               |     |
| 21    | Subsidiaries of the registrant                                                                                                                                                                                                                                                                                                                                               | 124 |
| 23    | Consent of Deloitte & Touche LLP                                                                                                                                                                                                                                                                                                                                             |     |
| 24    | Powers of attorney                                                                                                                                                                                                                                                                                                                                                           |     |
| 31.1  | Rule 13a-14(a)/15d-14(a) Certification by Gary L. Coleman                                                                                                                                                                                                                                                                                                                    |     |
| 31.2  | Rule 13a-14(a)/15d-14(a) Certification by Larry M. Hutchison                                                                                                                                                                                                                                                                                                                 |     |
| 31.3  | Rule 13a-14(a)/15d-14(a) Certification by Frank M. Svoboda                                                                                                                                                                                                                                                                                                                   |     |
| 32.1  | Section 1350 Certification by Gary L. Coleman, Larry M. Hutchison and Frank M. Svoboda                                                                                                                                                                                                                                                                                       |     |
| 101   | Interactive Data File                                                                                                                                                                                                                                                                                                                                                        |     |

\* Compensatory plan or arrangement.

\*\* To be filed with the Securities and Exchange Commission within 120 days after the fiscal year ended December 31, 2018.

***Exhibit 21. Subsidiaries of the Registrant:*** The following table lists subsidiaries of the registrant which meet the definition of “significant subsidiary” according to Regulation S-X:

| <b>Company</b>                                    | <b>State of Incorporation</b> | <b>Name Under Which Company Does Business</b>     |
|---------------------------------------------------|-------------------------------|---------------------------------------------------|
| Globe Life And Accident Insurance Company         | Nebraska                      | Globe Life And Accident Insurance Company         |
| American Income Life Insurance Company            | Indiana                       | American Income Life Insurance Company            |
| Liberty National Life Insurance Company           | Nebraska                      | Liberty National Life Insurance Company           |
| Family Heritage Life Insurance Company of America | Ohio                          | Family Heritage Life Insurance Company of America |

While United American Life Insurance Company (Nebraska) does not qualify as a significant subsidiary in accordance with Regulation S-X, management views this subsidiary as significant to our operations.

All other exhibits required by Regulation S-K are listed as to location in the “Index of documents filed as a part of this report” in this report. Exhibits not referred to have been omitted as inapplicable or not required.

**TORCHMARK CORPORATION**  
**(PARENT COMPANY)**  
**SCHEDULE II. CONDENSED FINANCIAL INFORMATION OF REGISTRANT**  
**Condensed Balance Sheets**  
(Dollar amounts in thousands)

|                                                  | <b>December 31,</b> |                     |
|--------------------------------------------------|---------------------|---------------------|
|                                                  | <b>2018</b>         | <b>2017</b>         |
| <b>Assets:</b>                                   |                     |                     |
| Investments:                                     |                     |                     |
| Long-term investments .....                      | \$ 29,603           | \$ 35,562           |
| Short-term investments .....                     | 21                  | 5,624               |
| Total investments .....                          | 29,624              | 41,186              |
| Cash .....                                       | 760                 | 1,008               |
| Investment in affiliates .....                   | 7,128,588           | 7,763,704           |
| Due from affiliates .....                        | 96,110              | 95,920              |
| Taxes receivable from affiliates .....           | 50,656              | 63,099              |
| Other assets .....                               | 152,103             | 135,616             |
| Total assets .....                               | <u>\$ 7,457,841</u> | <u>\$ 8,100,533</u> |
| <b>Liabilities and shareholders' equity:</b>     |                     |                     |
| <b>Liabilities:</b>                              |                     |                     |
| Short-term debt .....                            | \$ 307,848          | \$ 328,067          |
| Long-term debt .....                             | 1,507,000           | 1,281,971           |
| Due to affiliates .....                          | 3,002               | 8,002               |
| Other liabilities .....                          | 224,814             | 251,072             |
| Total liabilities .....                          | 2,042,664           | 1,869,112           |
| <b>Shareholders' equity:</b>                     |                     |                     |
| Preferred stock .....                            | 351                 | 351                 |
| Common stock .....                               | 121,218             | 124,218             |
| Additional paid-in capital .....                 | 874,925             | 858,987             |
| Accumulated other comprehensive income .....     | 319,475             | 1,424,274           |
| Retained earnings .....                          | 5,213,468           | 4,806,208           |
| Treasury stock .....                             | (1,114,260)         | (982,617)           |
| Total shareholders' equity .....                 | 5,415,177           | 6,231,421           |
| Total liabilities and shareholders' equity ..... | <u>\$ 7,457,841</u> | <u>\$ 8,100,533</u> |

See Notes to Condensed Financial Statements and accompanying Report of Independent Registered  
Public Accounting Firm.

**TORCHMARK CORPORATION**  
**(PARENT COMPANY)**  
**SCHEDULE II. CONDENSED FINANCIAL INFORMATION OF REGISTRANT (continued)**  
**Condensed Statement of Operations**  
(Dollar amounts in thousands)

|                                                                                      | Year Ended December 31, |                     |                   |
|--------------------------------------------------------------------------------------|-------------------------|---------------------|-------------------|
|                                                                                      | 2018                    | 2017                | 2016              |
| Net investment income .....                                                          | \$ 28,077               | \$ 26,130           | \$ 25,352         |
| Realized investment gains (losses) .....                                             | (11,078)                | (2,791)             | —                 |
| <b>Total revenue</b> .....                                                           | <b>16,999</b>           | <b>23,339</b>       | <b>25,352</b>     |
| General operating expenses .....                                                     | 65,762                  | 61,447              | 52,613            |
| Reimbursements from affiliates .....                                                 | (61,620)                | (52,776)            | (54,288)          |
| Interest expense .....                                                               | 94,159                  | 88,474              | 86,853            |
| <b>Total expenses</b> .....                                                          | <b>98,301</b>           | <b>97,145</b>       | <b>85,178</b>     |
| Operating income (loss) before income taxes and equity in earnings of affiliates ... | (81,302)                | (73,806)            | (59,826)          |
| Income taxes .....                                                                   | 15,262                  | (9,874)             | 23,479            |
| Net operating loss before equity in earnings of affiliates .....                     | (66,040)                | (83,680)            | (36,347)          |
| Equity in earnings of affiliates, net of tax .....                                   | 767,506                 | 1,538,174           | 586,126           |
| <b>Net income</b> .....                                                              | <b>701,466</b>          | <b>1,454,494</b>    | <b>549,779</b>    |
| <b>Other comprehensive income (loss):</b>                                            |                         |                     |                   |
| Attributable to Parent Company .....                                                 | 23,805                  | (8,409)             | (11,314)          |
| Attributable to affiliates .....                                                     | (1,128,604)             | 602,709             | 356,941           |
| Comprehensive income (loss) .....                                                    | <b>\$ (403,333)</b>     | <b>\$ 2,048,794</b> | <b>\$ 895,406</b> |

See Notes to Condensed Financial Statements and accompanying Report of Independent Registered  
Public Accounting Firm.

**TORCHMARK CORPORATION**  
**(PARENT COMPANY)**  
**SCHEDULE II. CONDENSED FINANCIAL INFORMATION OF REGISTRANT—(continued)**  
**Condensed Statement of Cash Flows**  
(Dollar amounts in thousands)

|                                                                 | Year Ended December 31, |                  |                  |
|-----------------------------------------------------------------|-------------------------|------------------|------------------|
|                                                                 | 2018                    | 2017             | 2016             |
| Net income .....                                                | \$ 701,466              | \$ 1,454,494     | \$ 549,779       |
| Equity in earnings of affiliates .....                          | (767,506)               | (1,538,174)      | (586,126)        |
| Cash dividends from subsidiaries .....                          | 448,142                 | 453,904          | 437,566          |
| Other, net .....                                                | 64,734                  | 52,957           | (6,718)          |
| <b>Cash provided from operations .....</b>                      | <b>446,836</b>          | <b>423,181</b>   | <b>394,501</b>   |
| <b>Cash provided from (used for) investing activities:</b>      |                         |                  |                  |
| Net decrease (increase) in short-term investments .....         | 5,603                   | (5,624)          | (3,466)          |
| Investment in subsidiaries .....                                | (140,000)               | (31,000)         | (35,000)         |
| Additions to properties .....                                   | (19,888)                | (7,230)          | (21,965)         |
| Loaned money to affiliates .....                                | (584,000)               | (180,000)        | (363,056)        |
| Repayments from affiliates .....                                | 584,000                 | 180,000          | 318,056          |
| <b>Cash provided from (used for) investing activities .....</b> | <b>(154,285)</b>        | <b>(43,854)</b>  | <b>(105,431)</b> |
| <b>Cash provided from (used for) financing activities:</b>      |                         |                  |                  |
| Repayment of debt .....                                         | (327,762)               | (126,875)        | (250,000)        |
| Proceeds from issuance of debt .....                            | 550,000                 | 125,000          | 400,000          |
| Payment for debt issuance costs .....                           | (6,969)                 | (1,661)          | (9,638)          |
| Net issuance (repayment) of commercial paper .....              | (22,719)                | 61,092           | 22,224           |
| Issuance of stock .....                                         | 36,091                  | 61,215           | 61,329           |
| Acquisitions of treasury stock .....                            | (421,749)               | (412,989)        | (404,784)        |
| Borrowed money from affiliate .....                             | 197,690                 | 278,500          | 60,000           |
| Repayments to affiliates .....                                  | (202,690)               | (270,500)        | (78,000)         |
| Payment of dividends .....                                      | (94,691)                | (92,101)         | (90,201)         |
| <b>Cash provided from (used for) financing activities .....</b> | <b>(292,799)</b>        | <b>(378,319)</b> | <b>(289,070)</b> |
| Net increase (decrease) in cash .....                           | (248)                   | 1,008            | —                |
| Cash balance at beginning of period .....                       | 1,008                   | —                | —                |
| Cash balance at end of period .....                             | <u>\$ 760</u>           | <u>\$ 1,008</u>  | <u>\$ —</u>      |

See Notes to Condensed Financial Statements and accompanying Report of Independent Registered  
Public Accounting Firm.

**TORCHMARK CORPORATION**  
**(PARENT COMPANY)**  
**SCHEDULE II. CONDENSED FINANCIAL INFORMATION OF REGISTRANT (continued)**  
**Notes to Condensed Financial Statements**  
(Dollar amounts in thousands)

**Note A—Dividends from Subsidiaries**

Cash dividends paid to Torchmark from the subsidiaries were as follows:

|                                   | Year Ended December 31, |            |            |
|-----------------------------------|-------------------------|------------|------------|
|                                   | 2018                    | 2017       | 2016       |
| Dividends from subsidiaries ..... | \$ 448,142              | \$ 453,904 | \$ 437,566 |

**Note B—Supplemental Disclosures of Cash Flow Information**

The following table summarizes noncash transactions, which are not reflected on the *Condensed Statements of Cash Flows*:

|                                                   | Year Ended December 31, |           |           |
|---------------------------------------------------|-------------------------|-----------|-----------|
|                                                   | 2018                    | 2017      | 2016      |
| Stock-based compensation not involving cash ..... | \$ 39,792               | \$ 37,034 | \$ 26,326 |
| Investment in subsidiaries .....                  | 11,889                  | 317,027   | —         |
| Dividend of property to Parent .....              | 11,889                  | —         | —         |

The following table summarizes certain amounts paid (received) during the period:

|                                    | Year Ended December 31, |           |           |
|------------------------------------|-------------------------|-----------|-----------|
|                                    | 2018                    | 2017      | 2016      |
| Interest paid .....                | \$ 86,982               | \$ 86,606 | \$ 84,952 |
| Income taxes paid (received) ..... | (21,377)                | (19,961)  | (20,838)  |

**Note C—Preferred Stock**

As of December 31, 2018, Torchmark had 351 thousand shares of Cumulative Preferred Stock, Series A, issued and outstanding, of which 280 thousand shares were 6.50% Cumulative Preferred Stock, Series A, and 71 thousand shares were 7.15% Cumulative Preferred Stock, Series A (collectively, the “Series A Preferred Stock”). All issued and outstanding shares of Series A Preferred Stock were held by wholly-owned insurance subsidiaries. In the event of liquidation, the holders of the Series A Preferred Stock at the time outstanding would be entitled to receive a liquidating distribution out of the assets legally available to stockholders in the amount of \$1 thousand per share or \$351 million in the aggregate, plus any accrued and unpaid dividends, before any distribution is made to holders of Torchmark common stock. Holders of Series A Preferred Stock do not have any voting rights nor have rights to convert such shares into shares of any other class of Torchmark capital stock.

See accompanying Report of Independent Registered Public Accounting Firm.

**TORCHMARK CORPORATION**  
**SCHEDULE IV. REINSURANCE (CONSOLIDATED)**  
(Dollar Amounts in thousands)

|                                             | <b>Gross<br/>Amount</b> | <b>Ceded<br/>to Other<br/>Companies<sup>(1)</sup></b> | <b>Assumed<br/>from Other<br/>Companies</b> | <b>Net<br/>Amount</b> | <b>Percentage<br/>of Amount<br/>Assumed<br/>to Net</b> |
|---------------------------------------------|-------------------------|-------------------------------------------------------|---------------------------------------------|-----------------------|--------------------------------------------------------|
| <b>For the Year Ended December 31, 2018</b> |                         |                                                       |                                             |                       |                                                        |
| Life insurance in force .....               | \$ 185,212,195          | \$ 688,384                                            | \$ 3,019,737                                | \$ 187,543,548        | 1.6                                                    |
| Premiums <sup>(2)</sup> :                   |                         |                                                       |                                             |                       |                                                        |
| Life insurance .....                        | \$ 2,373,423            | \$ 4,581                                              | \$ 21,305                                   | \$ 2,390,147          | 0.9                                                    |
| Health insurance .....                      | 1,019,007               | 3,668                                                 | —                                           | 1,015,339             | —                                                      |
| Total premium .....                         | \$ 3,392,430            | \$ 8,249                                              | \$ 21,305                                   | \$ 3,405,486          | 0.6                                                    |
| <b>For the Year Ended December 31, 2017</b> |                         |                                                       |                                             |                       |                                                        |
| Life insurance in force .....               | \$ 179,902,605          | \$ 705,152                                            | \$ 3,211,423                                | \$ 182,408,876        | 1.8                                                    |
| Premiums <sup>(2)</sup> :                   |                         |                                                       |                                             |                       |                                                        |
| Life insurance .....                        | \$ 2,272,038            | \$ 4,437                                              | \$ 21,912                                   | \$ 2,289,513          | 1.0                                                    |
| Health insurance .....                      | 980,082                 | 3,709                                                 | —                                           | 976,373               | —                                                      |
| Total premium .....                         | \$ 3,252,120            | \$ 8,146                                              | \$ 21,912                                   | \$ 3,265,886          | 0.7                                                    |
| <b>For the Year Ended December 31, 2016</b> |                         |                                                       |                                             |                       |                                                        |
| Life insurance in force .....               | \$ 174,314,897          | \$ 725,867                                            | \$ 3,352,113                                | \$ 176,941,143        | 1.9                                                    |
| Premiums <sup>(2)</sup> :                   |                         |                                                       |                                             |                       |                                                        |
| Life insurance .....                        | \$ 2,152,698            | \$ 4,507                                              | \$ 22,915                                   | \$ 2,171,106          | 1.1                                                    |
| Health insurance .....                      | 951,137                 | 3,474                                                 | —                                           | 947,663               | —                                                      |
| Total premium .....                         | \$ 3,103,835            | \$ 7,981                                              | \$ 22,915                                   | \$ 3,118,769          | 0.7                                                    |

(1) No amounts have been netted against ceded premium.

(2) Excludes policy charges of \$16.4 million, \$17.0 million, and \$18.3 million in each of the years 2018, 2017, and 2016, respectively.

See accompanying Report of Independent Registered Public Accounting Firm.

## SIGNATURES

Pursuant to the requirements of Section 12 or 15(d) of the Securities Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

### TORCHMARK CORPORATION

By: /s/ GARY L. COLEMAN  
**Gary L. Coleman**  
**Co-Chairman and Chief Executive Officer and Director**

By: /s/ LARRY M. HUTCHISON  
**Larry M. Hutchison**  
**Co-Chairman and Chief Executive Officer and Director**

By: /s/ FRANK M. SVOBODA  
**Frank M. Svoboda**  
**Executive Vice President and Chief Financial Officer**

By: /s/ M. SHANE HENRIE  
**M. Shane Henrie**  
**Vice President and Chief Accounting Officer**

Date: February 28, 2019

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By: /s/ CHARLES E. ADAIR \*  
**Charles E. Adair**  
**Director**

By: /s/ LINDA L. ADDISON \*  
**Linda L. Addison**  
**Director**

By: /s/ MARILYN A. ALEXANDER \*  
**Marilyn A. Alexander**  
**Director**

By: /s/ CHERYL D. ALSTON \*  
**Cheryl D. Alston**  
**Director**

By: /s/ DAVID L. BOREN \*  
**David L. Boren**  
**Director**

By: /s/ JANE M. BUCHAN \*  
**Jane M. Buchan**  
**Director**

By: /s/ ROBERT W. INGRAM \*  
**Robert W. Ingram**  
**Director**

By: /s/ STEVEN P. JOHNSON \*  
**Steven P. Johnson**  
**Director**

By: /s/ DARREN M. REBELEZ \*  
**Darren M. Rebelez**  
**Director**

By: /s/ LAMAR C. SMITH \*  
**Lamar C. Smith**  
**Director**

By: /s/ MARY E. THIGPEN \*  
**Mary E. Thigpen**  
**Director**

By: /s/ PAUL J. ZUCCONI \*  
**Paul J. Zucconi**  
**Director**

Date: February 28, 2019

\*By: /s/ FRANK M. SVOBODA  
**Frank M. Svoboda**  
**Attorney-in-fact**