

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

FORM 10-K

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

For the fiscal year ended December 31, 2017

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)

63-0780404

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

3700 South Stonebridge Drive, McKinney, TX

(Address of principal executive offices)

75070

(Zip Code)

972-569-4000

(Registrant's telephone number, including area code)

None

(Former name, former address and former fiscal year, if changed since last report)

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 Exchange 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files).

Yes ☒ No ☐

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. (Check one):

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐ (Do not check if a smaller reporting company)	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, 2017, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was \$8,893,792,769 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 16, 2018
Common Stock, \$1.00 par value per share	114,081,876 shares

DOCUMENTS INCORPORATED BY REFERENCE

Document	Parts Into Which Incorporated
Proxy Statement for the Annual Meeting of Stockholders to be held April 26, 2018 (Proxy Statement)	Part III

TORCHMARK CORPORATION

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PART I
Item 1. Business

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

Torchmark's website is: 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.

	Primary Distribution Method	Company	Products and Target Markets	Distribution
 AMERICAN INCOME LIFE insurance company	American Income Exclusive Agency	American Income Life Insurance Company Waco, Texas	Individual life and supplemental health insurance marketed to working families.	6,880 producing agents in the U.S., Canada, and New Zealand.
 GLOBE LIFE AND ACCIDENT INSURANCE CO.	Globe Life Direct Response	Globe Life And Accident Insurance Company McKinney, Texas	Individual life and supplemental health insurance including juvenile and senior life coverage and Medicare Supplement to middle-income Americans.	Nationwide distribution through direct-to-consumer channels; including direct mail, electronic media and insert media.
 Family Heritage A Torchmark Company	Family Heritage Exclusive Agency	Family Heritage Life Insurance Company of America Cleveland, Ohio	Supplemental limited-benefit health insurance to middle- income families.	1,076 producing agents in the U.S.
 Liberty National Life Insurance Company Since 1900	Liberty National Exclusive Agency	Liberty National Life Insurance Company McKinney, Texas	Individual life and supplemental health insurance marketed to middle-income families.	2,106 producing agents in the U.S.
 UA United American Insurance Company Since 1947	United American Independent Agency	United American Insurance Company McKinney, Texas	Medicare Supplement coverage to Medicare beneficiaries and, to a lesser extent, supplemental limited- benefit health coverage to people under age 65.	4,192 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 table presents selected information about Torchmark's life products.

Annualized Premium in Force (Dollar amounts in thousands)						
2017		2016		2015		
Amount	% of Total	Amount	% of Total	Amount	% of Total	
Whole life:						
Traditional	\$ 1,567,077	66	\$ 1,471,054	65	\$ 1,378,290	64
Interest-sensitive	44,286	2	47,358	2	50,808	2
Term	664,558	28	657,797	29	642,599	30
Other	97,178	4	86,527	4	78,801	4
	\$ 2,373,099	100	\$ 2,262,736	100	\$ 2,150,498	100

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

Annualized Premium in Force (Dollar amounts in thousands)			
	2017	2016	2015
Globe Life Direct Response	\$ 796,628	\$ 782,222	\$ 757,518
Exclusive agents:			
American Income	1,059,216	966,990	880,021
Liberty National	295,235	288,005	284,597
Independent agents:			
United American	12,121	13,292	14,488
Other	209,899	212,227	213,874
	<u>\$ 2,373,099</u>	<u>\$ 2,262,736</u>	<u>\$ 2,150,498</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.

On July 1, 2016, Torchmark sold its Medicare Part D business to an unaffiliated third party. Torchmark decided to exit its Medicare Part D business due to increasing risks, declining margins, higher drug costs, and increased administrative and compliance costs. Management believes this sale allows the Company to better focus on its core protection life and health insurance businesses. As the historical results for the Medicare Part D business are accounted for as discontinued operations, all business results and relevant forward looking statements of the Company are reported as continuing operations, excluding the Medicare Part D business. For further discussion of the disposition of the Medicare Part D business, see *Note 6—Discontinued Operations*.

The following table presents supplemental health annualized premium in force information for the three years ended December 31, 2017 by product category.

	Annualized Premium in Force (Dollar amounts in thousands)					
	2017		2016		2015	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Medicare Supplement	\$ 495,982	49	\$ 502,691	51	\$ 498,696	51
Limited-benefit plans	522,038	51	495,943	49	474,346	49
	<u>\$ 1,018,020</u>	<u>100</u>	<u>\$ 998,634</u>	<u>100</u>	<u>\$ 973,042</u>	<u>100</u>

The following table presents supplemental health annualized premium in force for the three years ended December 31, 2017 by distribution method.

	Annualized Premium in Force (Dollar amounts in thousands)		
	2017	2016	2015
Direct Response	\$ 76,672	\$ 74,261	\$ 72,423
Exclusive agents:			
Liberty National	205,136	210,260	216,139
American Income	84,775	78,947	74,058
Family Heritage	268,584	249,857	234,120
Independent agents:			
United American	382,853	385,309	376,302
	<u>\$ 1,018,020</u>	<u>\$ 998,634</u>	<u>\$ 973,042</u>

Annuities

Annuity products include single-premium and flexible-premium deferred annuities. Annuities in each of the three years ended December 31, 2017 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 to the extent actual experience deviates from the assumptions made in pricing 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 credited to policyholder accounts.

Underwriting

The underwriting standards of each Torchmark insurance subsidiary are established by management. Each subsidiary uses information from the application and, in some cases, telephone interviews with applicants, 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 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 96% of our invested assets at fair value are fixed maturities at December 31, 2017. (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. 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 15—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 2017, Torchmark had 3,102 employees.

Item 1A. Risk Factors

Risks Related to Our Business

Product Marketplace and Operational Risks:

The insurance industry is a regulated industry, populated by many public and private companies. We operate in the life and health insurance sectors of the industry, each of which has its own set of 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 rather than groups 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. In Globe Life Direct Response, continuous development of new methods of reaching the consumer and cost efficiency are key. 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 middle-income market for individual protection 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 and claims. 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 claims or 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 meet policyholder and contract holder 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 our independent 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 by limiting our access to capital markets, increasing the cost of debt, or impairing 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 the 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 the rating agencies' 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 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 businesses. 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 under price 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, it is characterized by lower profit margins than life insurance and requires strict administrative discipline and economies of scale for success. Because 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 in the future 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 secure data thereby adversely affecting our financial condition and results of operations. Our business operations are highly dependent upon information technology systems to provide efficient and resilient business operations. Malicious actors, employee errors or disasters affecting these information systems could impair our business operations, regulatory compliance and financial condition. To the extent our information systems may be breached by malicious actors, employee malfeasance or technological attacks, an attacker could circumvent security measures in order to access, alter or delete customer or proprietary information 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 or remediate interruptions, threats and vulnerabilities in our information and technology systems and to comply with existing and future regulatory requirements related thereto. These risks are heightened as the frequency and sophistication of cyber-attacks increase.

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

Additionally, we anticipate more frequent and sophisticated cyber-attacks along with more impactful regulatory oversight models. In addition, an increasing number of states 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 issued by corporations, where we are exposed to the risk that individual corporate issuers will not have the ability to make required interest or principal payments on an investment. 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 can substantially reduce our capital position and shareholders' equity. It is possible that our investment in certain of these securities with unrealized losses may experience a default event and that a portion or all of that unrealized loss may not be recoverable. In that case, the unrealized loss will 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 of issuers could negatively impact our risk-based capital ratios, leading to potential downgrades by our rating agencies, potential reduction in future dividend capacity, 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 the net policy liabilities. While we attempt to manage our investments to earn an excess investment income spread, we can give no assurance that a significant and persistent decline in interest rates will not materially affect such spreads. Significant decreases in interest rates could result in calls by issuers of investments, where such features are available to issuers. These 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 bond 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 bonds 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 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 a disruption in our insurance subsidiaries' operations that reduces their capital or cash flow could limit or disallow payment of dividends to us, a principal source of our cash flow.

We can give no assurance that more stringent restrictions will not be adopted from time to time by states in which our insurance subsidiaries are domiciled, which could, under certain circumstances, significantly reduce dividends or other amounts paid to us by our subsidiaries. Although we do not anticipate changes, changes in laws or regulations could constrain the ability of our 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 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 will 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 prefer or bear an unattractive cost of capital which could decrease our profitability and significantly reduce our financial flexibility. As a result, 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 our policyholders, not our 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, licensing of agents, policy forms, capital adequacy, solvency, reserves and permitted investments. Also, regulatory authorities have relatively broad discretion to grant, renew or initiate procedures to revoke licenses or approvals. The insurance laws, regulations and policies currently affecting Torchmark and its insurance subsidiaries may change at any time, possibly having an adverse effect on our business. Should these regulatory changes occur, we may be unable to maintain all required licenses and approvals, and our business may not 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 us from carrying on some or all of our 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 or employees, 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 the insurance industry, 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 (CCIIO), 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 CCIIO, 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. It is possible that future accounting standards that we are required to adopt could change the current accounting treatment that we apply to our consolidated financial statements and that 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 restrictions on customer and consumer privacy and information security, including taking steps to ensure that our business associates who obtain 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 individually identifiable data 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 individually identifiable health data 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 or any security breach involving the misappropriation, loss or other unauthorized disclosure of sensitive or confidential information, 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 have been returned against insurers in the jurisdictions in which our insurance subsidiaries do business involving the insurers' sales practices, alleged agent misconduct, failure to properly supervise agents and other matters. 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, 2017, Torchmark had no unresolved 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 a subsidiary, United American, 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.

Liberty National, also in McKinney, Texas, leases a 24,000 square foot facility in Hoover, Alabama (a Birmingham suburb). An 8,000 square foot facility is leased for storage in Pelham, Alabama.

Globe leases 34,000 square feet of office area in the Cotter Tower building located in downtown Oklahoma City, Oklahoma. Globe also leases 11,000 square feet at a nearby facility used for storage. Globe Marketing Services, a subsidiary of Globe, owns a 133,000 square foot facility in Oklahoma City which houses the Globe Life Direct Response operation.

American Income owns and occupies two buildings located in Waco, Texas: 70,000 square foot building for corporate operations and a 43,000 square foot printing facility. American Income also leases 10,800 square feet in a building across the street from the main office building. American Income also 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), serving as Family Heritage's headquarters. 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 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 15—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

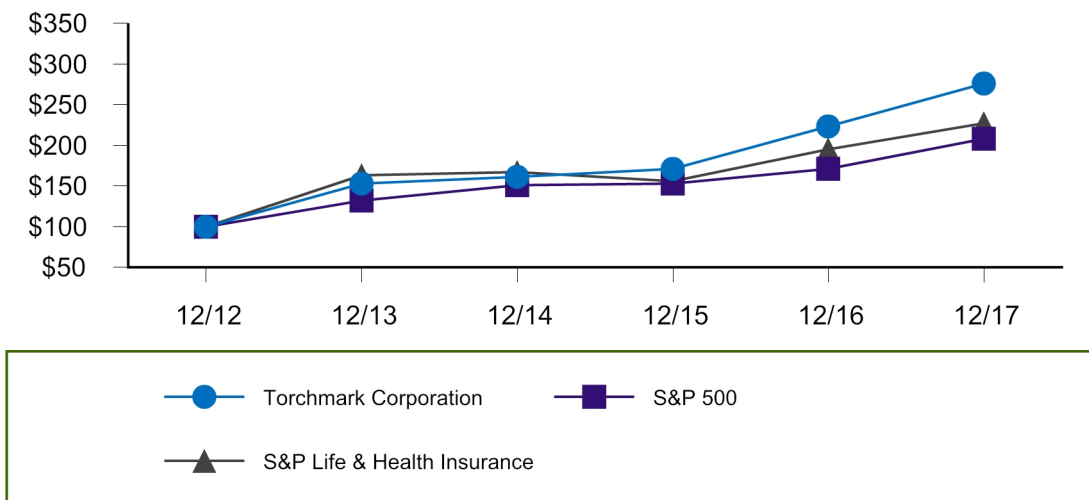
The principal market in which Torchmark's common stock is traded is the New York Stock Exchange. There were 2,662 shareholders of record on December 31, 2017, excluding shareholder accounts held in nominee form. The market prices and cash dividends paid by calendar quarter for the past two years are presented in the following table.

<u>Quarter</u>	2017 Market Price		Dividends Per Share
	High	Low	
1	\$ 78.71	\$ 73.00	\$ 0.140
2	77.77	74.11	0.150
3	80.09	74.68	0.150
4	91.16	80.32	0.150
Year-end closing price \$	90.71		

<u>Quarter</u>	2016 Market Price		Dividends Per Share
	High	Low	
1	\$ 57.01	\$ 48.58	\$ 0.135
2	62.39	52.83	0.140
3	65.21	60.38	0.140
4	74.83	63.17	0.140
Year-end closing price \$	73.76		

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 12/31/12 in stock or index, including reinvestment of dividends. Fiscal year ended December 31st.
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Purchases of Certain Equity Securities by the Issuer and Others for the Fourth Quarter 2017

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid Per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number of Shares (or Approximate Dollar Amount) that May Yet Be Purchased Under the Plans or Programs
October 1-31, 2017	260,690	\$ 82.44	260,690	—
November 1-30, 2017	593,200	85.22	593,200	—
December 1-31, 2017	439,315	89.91	439,315	—

On August 7, 2017, 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)

Year ended December 31,	2017	2016	2015	2014	2013
Premium revenue:					
Life	\$ 2,306,547	\$ 2,189,333	\$ 2,073,065	\$ 1,966,300	\$ 1,885,332
Health	976,373	947,663	925,520	869,440	863,818
Other	15	38	135	400	532
Total	3,282,935	3,137,034	2,998,720	2,836,140	2,749,682
Net investment income	847,885	806,903	773,951	758,286	734,650
Realized investment gains (losses)	23,611	(10,683)	(8,791)	23,548	7,990
Total revenue	4,155,573	3,934,629	3,766,065	3,620,095	3,494,253
Income from continuing operations, net of tax	1,458,263	539,590	516,293	528,074	507,205
Income from discontinued operations, net of tax	(3,769)	10,189	10,807	14,865	21,267
Net income ⁽¹⁾	1,454,494	549,779	527,100	542,939	528,472
Per common share:					
Basic earnings:					
Income from continuing operations	12.53	4.50	4.13	4.04	3.68
Income from discontinued operations	(0.03)	0.08	0.08	0.11	0.16
Net income	12.50	4.58	4.21	4.15	3.84
Diluted earnings:					
Income from continuing operations	12.26	4.41	4.07	3.98	3.63
Income from discontinued operations	(0.04)	0.08	0.09	0.11	0.16
Net income ⁽¹⁾	12.22	4.49	4.16	4.09	3.79
Cash dividends declared	0.60	0.56	0.54	0.51	0.45
Cash dividends paid	0.59	0.56	0.53	0.49	0.44
Basic weighted average shares outstanding	116,343	120,001	125,095	130,722	137,647
Diluted weighted average shares outstanding	118,983	122,368	126,757	132,640	139,564
As of December 31,	2017	2016	2015	2014	2013
Cash and invested assets	\$17,853,047	\$15,955,891	\$14,405,073	\$15,058,996	\$13,456,944
Total assets	23,474,985	21,436,087	19,853,213	20,272,259	18,217,757
Short-term debt	328,067	264,475	490,129	238,398	229,070
Long-term debt	1,132,201	1,133,165	743,733	992,130	990,865
Shareholders' equity ⁽¹⁾	6,231,421	4,566,861	4,055,552	4,697,466	3,776,342
Per diluted common share ⁽¹⁾	52.95	37.76	32.71	36.19	27.66
Effect of fixed maturity revaluation on diluted equity per common share ⁽²⁾	13.18	5.63	2.62	8.28	1.81
Annualized premium in force:					
Life	2,373,099	2,262,736	2,150,498	2,044,545	1,955,401
Health	1,018,020	998,634	973,042	947,323	887,444
Total	3,391,119	3,261,370	3,123,540	2,991,868	2,842,845
Basic shares outstanding	114,593	118,031	122,370	127,930	134,252
Diluted shares outstanding	117,696	120,958	123,996	129,812	136,537

(1) On December 22, 2017, the Tax Cuts and Jobs Act was enacted into law which revises corporate income tax rates from 35% to 21%, among other modifications. See further discussion of the tax reform implications in the *Results of Operations*. Excluding the effects of tax reform, net income, net income per diluted common share, shareholders' equity and shareholders' equity per diluted common share would have been \$581 million, \$4.88, \$5.36 billion and \$45.52, respectively.

(2) There is accounting guidance (ASC 320-10-35-1, *Investments- Debt and Equity Securities*) requiring available-for-sale fixed maturities to be recorded at fair value each period. The effect of this rule on diluted equity per share reflects the amount added or (deducted) under this rule to produce GAAP Shareholders' equity per share. 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 which market primarily individual life, and supplemental health insurance 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. As fully explained in *Note 14—Business Segments*, the insurance product line segments involve the marketing, underwriting, and the 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

The tables in *Note 14—Business Segments* in the *Notes to the Consolidated Financial Statements* reconcile Torchmark's revenues and expenses by segment to its major income statement line items for each of the years in the three-year period ended December 31, 2017.

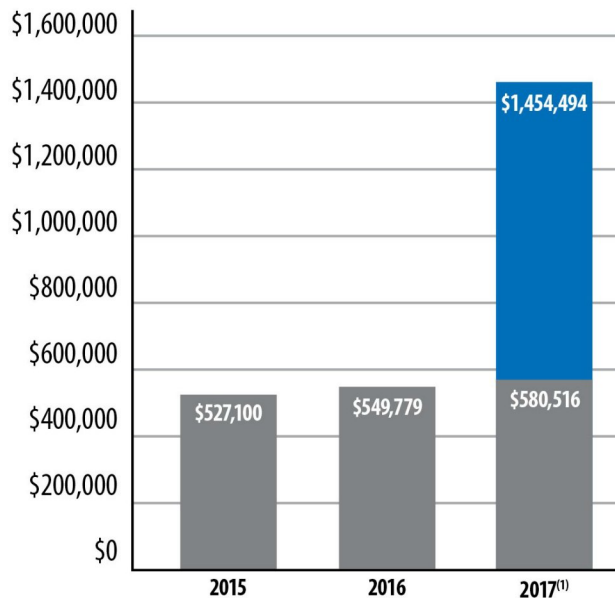
Current Year Highlights:

- Net income as a return on equity (ROE) was 28.2%⁽¹⁾ and net operating income as a ROE, excluding net unrealized gains on the fixed maturity portfolio was 14.3%⁽¹⁾.
- Total premium increased by 5% over the prior year. Life premium also increased by 5% for the year from \$2.2 billion to \$2.3 billion. Life underwriting margin also increased 5% from \$574 million in 2016 to \$604 million in 2017.
- Net investment income increased 5% over the prior year. In addition, excess investment income, a measure used by management as explained below, increased by 7% over the prior year.
- During 2017, the Company repurchased 4.1 million shares at a total cost of \$325 million for an average share price of \$78.67.

The following represents net income and net operating income from continuing operations for the 3 years ended December 31, 2017.

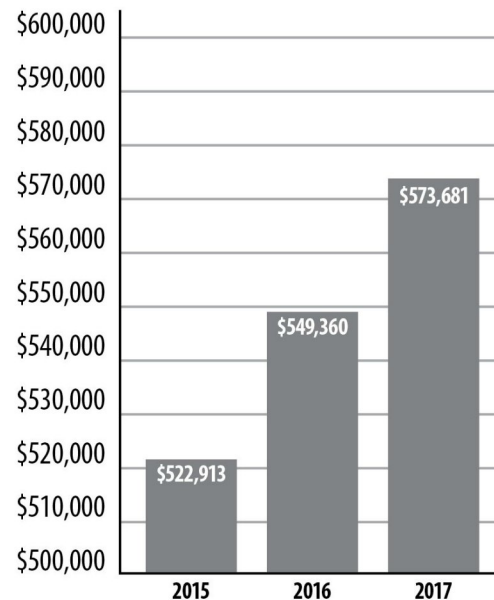
NET INCOME

(\$ in thousands)



NET OPERATING INCOME FROM CONTINUING OPERATIONS

(\$ in thousands)



- (1) As further discussed below regarding Tax Legislation, excluding the tax reform adjustment, net income as a ROE and net operating income as a ROE would have been 11.7% and 14.4%, respectively. In 2017, the Company recorded a one-time adjustment of \$874 million impacting net income. As the impact of the Tax Legislation was treated as a non-operating event, it was excluded from net operating income.

Net income as a ROE and net operating income as a ROE, excluding net unrealized gains on the fixed maturity portfolio in 2016 were 12.0% and 14.6%, respectively and 11.9% and 14.5%, respectively in 2015. Net operating income as a ROE, excluding net unrealized gains on the fixed maturity portfolio is 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 \$1.5 billion in 2017, compared with \$550 million in 2016. This sharp increase was due to an \$874 million increase to net income, primarily relating to a reduction of deferred income tax liabilities resulting from enactment of the Tax Cuts and Jobs Act of 2017 (Tax Legislation). See further discussion below. Net income also increased in 2016 from \$527 million in 2015. On a diluted per common share basis, 2017 net income rose

172% to \$12.22 after an 8% increase in 2016, again largely related to implementation of the Tax Legislation. Without the impact of the Tax Legislation, net income per diluted common share would have been \$4.88. Net income per diluted common share in 2016 rose to \$4.49 from \$4.16 in 2015. The per share results have exceeded the growth in dollar amounts due to our share repurchase program. Each year's per share net income was affected by realized investment gains (losses), which were \$0.15, \$(0.06), and \$(0.05), in 2017, 2016 and 2015, respectively. More information concerning realized investment 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 \$523 million in 2015 to \$549 million in 2016 to \$574 million in 2017. 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. See *Note 14—Business Segments* for a discussion of the usefulness and purpose of this 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 2015 through 2017. 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 matters from our segment analysis for current periods.

Tax Cuts and Jobs Act of 2017: On December 22, 2017, the Tax Legislation was enacted which changed existing tax law, including a reduction of the corporate income tax rate from 35% to 21% effective January 1, 2018. The Company recorded \$877 million of tax benefits in net income as a result of re-measuring its deferred tax liabilities using the lower corporate tax rate as of the date of enactment. Based on the analysis of the Tax Legislation, the Company was able to determine that this amount is a reasonable estimate of the impact of the Tax Legislation in accordance with SEC Staff Accounting Bulletin No. 118. However, the Company will continue to analyze relevant information to complete the accounting for income taxes which may result in an adjustment to income tax expense in 2018. The accounting is expected to be complete when the 2017 U.S. corporate income tax returns are filed later in 2018. In addition, the Company early adopted ASU 2018-02, *Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*, and recorded a \$252 million reclassification from *Accumulated Other Comprehensive Income* to *Retained Earnings* to eliminate the stranded tax effects associated with the tax rate change, primarily relating to the unrealized gains and losses on the available-for-sale fixed maturity portfolio. More information concerning income taxes is provided in *Note 8—Income Taxes*.

There will be substantial long-term benefits from the Tax Legislation due to the taxation of future profits at the new 21% tax rate. Looking forward, we are anticipating the effective tax rate on our net operating income before stock compensation expense to decrease and be in the range of 19% to 20%. Despite the lower expected tax rate for financial reporting purposes, in the short and intermediate term, we do not anticipate a significant reduction in our current tax expense, as benefits of the lower tax rate will be virtually offset by several provisions included in the Tax Legislation that increase the Company's current taxable income.

The below table illustrates the impact of the tax reform adjustment on certain balances.

	Prior to tax adjustment	Tax reform adjustment	GAAP balance
Current and deferred income taxes payable	\$ 2,189,402	\$ (877,400)	\$ 1,312,002
Accumulated other comprehensive income (loss)	1,171,874	252,400	1,424,274
Retained earnings	4,181,208	625,000	4,806,208
Shareholders' equity	5,357,443	873,978	6,231,421
Income before income taxes	834,028	(3,380)	830,648
Income tax benefit (expense)	(249,743)	877,358	627,615
Net income	580,516	873,978	1,454,494
Total diluted net income per common share	\$ 4.88	\$ 7.34	\$ 12.22

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)

	2017	2016	2015	2017 Change	%	2016 Change	%
Life insurance underwriting margin	\$ 604,337	\$ 573,762	\$ 569,402	\$ 30,575	5	\$ 4,360	1
Health insurance underwriting margin	219,508	210,056	204,377	9,452	4	5,679	3
Annuity underwriting margin	10,562	9,394	4,568	1,168	12	4,826	106
Excess investment income	239,363	224,031	219,504	15,332	7	4,527	2
Other insurance:							
Other income	1,270	1,534	2,379	(264)	(17)	(845)	(36)
Administrative expense	(210,590)	(196,598)	(186,191)	(13,992)	7	(10,407)	6
Corporate and other	(43,285)	(34,913)	(37,667)	(8,372)	24	2,754	(7)
Pre-tax total	821,165	787,266	776,372	33,899	4	10,894	1
Applicable taxes	(247,484)	(237,906)	(253,459)	(9,578)	4	15,553	(6)
Net operating income from continuing operations	573,681	549,360	522,913	24,321	4	26,447	5
Discontinued operations—Part D, net of tax	—	9,033	10,807	(9,033)	(100)	(1,774)	(16)
Net operating income	573,681	558,393	533,720	15,288	3	24,673	5
Reconciling items, net of tax:							
Realized gains (losses)—investments	17,590	(6,944)	(5,714)	24,534		(1,230)	
Part D adjustments—discontinued operations	(3,769)	1,156	—	(4,925)		1,156	
Guaranty fund assessments	(1,171)	—	—	(1,171)		—	
Administrative settlements	(5,628)	(2,467)	(906)	(3,161)		(1,561)	
Non-operating fees	(187)	(359)	—	172		(359)	
Tax reform adjustment	873,978	—	—	873,978		—	
Net income	<u>\$ 1,454,494</u>	<u>\$ 549,779</u>	<u>\$ 527,100</u>	<u>\$904,715</u>	<u>165</u>	<u>\$ 22,679</u>	<u>4</u>

The life insurance segment is our strongest segment and is the largest contributor to earnings in each year presented. This segment contributed \$31 million in 2017 and \$4 million in 2016 to the growth in our underwriting margin. Also contributing to growth in income in both years was our health insurance segment, which provided \$9 million of additional margin in 2017 and \$6 million in 2016.

Excess investment income, the measure of profitability of our investment segment, increased 7% to \$239 million from the prior year amount of \$224 million. In 2016, excess investment income increased 2%. Investment yields continue to be pressured by investing at yields lower than the yield on dispositions and the average yield on the portfolio.

Total revenues rose 6% in 2017 to \$4.2 billion, or \$221 million over the prior year total of \$3.9 billion. Life premium rose 5% or \$117 million in 2017 to \$2.3 billion. Life premium increased \$116 million in 2016 to \$2.2 billion. Net investment income rose \$41 million or 5% in 2017, and rose 4% or \$33 million in 2016. Health premium increased 3% to \$976 million in 2017 and contributed \$29 million to 2017 revenue growth, after having gained 2% to \$948 million in 2016. Health premium contributed \$22 million to 2016 revenue growth.

Life insurance premium and underwriting margins have grown in each of the last three years ended December 31, 2017. The increase in life premium was driven by sales growth and improvements in persistency. While premium and underwriting margins grew, margin as a percent of premium remained flat in 2017 at 26%, after decreasing from 27% to 26% from 2015 to 2016. Net life sales increased in 2017 to \$416 million. Net life sales were flat between 2015 and 2016. The life insurance segment is discussed further in this report under the caption *Life Insurance*.

Health insurance premium income increased 3% to \$976 million in 2017. Health net sales rose 9% to \$158 million during 2017 due 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 fell 3% to \$136 million from the prior year total of \$140 million as a result of higher net sales in Medicare Supplement in the fourth quarter of 2015 that positively affected the 2016 first-year collected premium. Health margins as a percentage of premium were flat at 22%, with underwriting income increasing to \$220 million for 2017 due to the growth in premium income. Underwriting income was \$210 million in 2016 compared with \$204 million in 2015. The health insurance segment is discussed further in this report under the caption *Health Insurance*.

We do not currently market annuities. See the caption *Annuities* for discussion of the Annuity segment.

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 2017, net investment income rose 5%, compared with 4% in 2016. At the same time, our investment portfolio grew 6% in 2017 and 2016, on an amortized cost basis. In recent years, the percentage growth in net investment income has been less than the growth in the overall investment portfolio due primarily to new investments being made at yield rates lower than the yield rates on dispositions and the average yield on the portfolio. The growth rate of net investment income is impacted at times by a lag between the time when proceeds from maturities and dispositions are received and when the proceeds are reinvested, during which the funds are held in cash. In addition, Torchmark's share repurchase program (described later under this caption) has diverted cash that could have otherwise been used to acquire investments and increase net investment income. The growth in the investment portfolio has been augmented in 2017 and 2016 due to the receipt of certain receivables that had accumulated under our Medicare Part D business.

The interest required on net policy liabilities is deducted from net investment income, and generally grows in conjunction with the net policy liabilities that are supported by the invested assets. The lower new-money yields resulting from the low interest rate environment noted above have compressed excess investment income as required interest has continued to grow at approximately the same rate that net policy liabilities have grown. Financing costs, which consist of the interest required for debt service on our long and short-term debt, are also deducted from net investment income. Financing costs in 2017 increased 1% to \$85 million from \$83 million in 2016. The additional interest expense resulted primarily from an increase in the cost of our short-term borrowings and, in lesser part, from the issuance of our new 5.275% Junior Subordinated Debt security thirty-six days before the repayment of our 5.875% Junior Subordinated Debt security.

Insurance administrative expenses were up 7.1% in 2017 when compared with the prior year period, and increased to 6.4% as a percentage of premium from 6.3% in 2016 and 6.2% in 2015. The increase in administrative expenses is primarily due to an increase in other employee costs and investments in information technology. Corporate and Other expenses were up primarily due to an increase in stock-based compensation expense, reflecting Torchmark's higher share price as compared with the same period a year ago, and recognition of a one-time increase in stock-based compensation expense due to the Tax Legislation.

Share Purchases

Torchmark has in place an ongoing share repurchase program which began in 1986. 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)

<u>Purchases</u>	2017		2016		2015	
	Shares	Amount	Shares	Amount	Shares	Amount
Share repurchase program	4,126	\$ 324,622	5,208	\$ 311,332	6,292	\$ 358,552
Option proceeds	1,103	88,367	1,487	93,452	1,049	59,974
Total	5,229	\$ 412,989	6,695	\$ 404,784	7,341	\$ 418,526

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 2017 life premium representing 70% of total premium. Life underwriting income before other income and administrative expense represented 72% of the total in 2017. 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 to 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)

	2017		2016		2015	
	Amount	% of Premium	Amount	% of Premium	Amount	% of Premium
Premium and policy charges	\$2,306,547	100	\$2,189,333	100	\$2,073,065	100
Policy obligations	1,549,602	67	1,475,477	67	1,374,608	67
Required interest on reserves	(607,007)	(26)	(577,827)	(26)	(552,298)	(27)
Net policy obligations	942,595	41	897,650	41	822,310	40
Commissions, premium taxes, and non-deferred acquisition expenses	177,111	8	164,476	8	154,811	8
Amortization of acquisition costs	582,504	25	553,445	25	526,542	25
Total expense	1,702,210	74	1,615,571	74	1,503,663	73
Insurance underwriting margin before other income and administrative expenses	\$ 604,337	26	\$ 573,762	26	\$ 569,402	27

Life insurance premium rose 5% to \$2.3 billion in 2017 after having increased 6% in 2016 to \$2.2 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)

	2017		2016		2015	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
American Income Exclusive Agency	\$ 999,279	43	\$ 913,355	42	\$ 830,903	40
Globe Life Direct Response	812,907	35	782,765	36	746,693	36
Liberty National Exclusive Agency	274,635	12	270,476	12	271,113	13
Other Agencies	219,726	10	222,737	10	224,356	11
	<u>\$2,306,547</u>	<u>100</u>	<u>\$2,189,333</u>	<u>100</u>	<u>\$2,073,065</u>	<u>100</u>

Annualized life premium in force was \$2.37 billion at December 31, 2017, an increase of 4.9% over \$2.26 billion a year earlier. Annualized life premium in force was \$2.15 billion at December 31, 2015.

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)

	2017		2016		2015	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
American Income Exclusive Agency	\$ 223,259	54	\$ 209,856	51	\$ 198,046	48
Globe Life Direct Response	135,704	33	150,267	36	164,348	40
Liberty National Exclusive Agency	46,886	11	40,159	10	35,782	9
Other Agencies	10,233	2	11,673	3	13,705	3
	<u>\$ 416,082</u>	<u>100</u>	<u>\$ 411,955</u>	<u>100</u>	<u>\$ 411,881</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)

	2017		2016		2015	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
American Income Exclusive Agency	\$ 182,538	58	\$ 173,573	56	\$ 156,206	52
Globe Life Direct Response	92,057	29	98,496	31	106,417	35
Liberty National Exclusive Agency	33,191	10	29,103	9	27,554	9
Other Agencies	9,633	3	11,458	4	12,036	4
	<u>\$ 317,419</u>	<u>100</u>	<u>\$ 312,630</u>	<u>100</u>	<u>\$ 302,213</u>	<u>100</u>

The **American Income Exclusive Agency** has historically marketed primarily to members of labor unions. While labor unions are still the core market for this agency, American Income 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 43% of Torchmark's 2017 total. This group produced premium income of \$999 million, an increase of 9% over the prior year total of \$913 million, after having risen 10% in 2016. First-year collected premium was \$183 million compared to \$174 million in 2016, an increase of 5%. First-year collected premium rose 11% in 2016. Net sales increased 6% to \$223 million in 2017 over the 2016 total of \$210 million. Net sales increased 6% in 2016 over the 2015 total of \$198 million. Sales growth in our captive agencies is generally dependent on growth in the size of the agency force. The American Income Agency's average agent count rose 4% to 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 middle management to support sustainable growth of the agency force. To accomplish this, the agency places an emphasis on agent training programs and financial incentives that appropriately reward agents at all levels for helping develop and train its agents, including more home-office and webinar training programs. These programs are designed to provide each agent, from new recruits to top level managers, coaching and instruction specifically designed for their level of experience and responsibility. We have made considerable investments in information technology in support of the agency, including the launching of a lead mapping and management tool to the agency force. We anticipate this tool will help the Agency 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 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 4% to \$813 million, representing 35% of Torchmark's total life premium during 2017. Life premium in this channel increased 5% in 2016 to \$783 million over the 2015 total of \$747 million. Net sales of \$136 million for this group decreased 10% from \$150 million in 2016, after a 9% decrease in 2016 due to operational changes designed to maximize underwriting margin dollars. We expect sales to decline, consistent with this recent trend, through 2018. First-year collected premium decreased 7% to \$92 million in 2017 after having decreased 7% in 2016.

The **Liberty National Exclusive Agency** markets individual and group life insurance to middle-income customers. Life premium income for this agency was \$275 million in 2017, an increase of 2% from \$270 million in 2016. Life premium income in 2015 totaled \$271 million. Net sales increased 17% during 2017 to \$47 million over the 2016 total of \$40 million. Net sales in 2016 increased 12%. The continued increases in net sales reflect changes in structure of the agency that were put in place several years ago. Middle management has also grown within the agency which will help continue this growth. First-year collected premium increased 14% to \$33 million during 2017 and increased 6% in 2016 to \$29 million.

The Liberty average producing agent count increased from 1,715 in 2016 to 2,017 in 2017. 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 \$220 million of life premium income, or 10% of Torchmark's total in 2017, but contributed only 2% 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 2017, 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.

HEALTH INSURANCE Summary of Results (Dollar amounts in thousands)

	2017		2016		2015	
	Amount	% of Premium	Amount	% of Premium	Amount	% of Premium
Premium	\$ 976,373	100	\$ 947,663	100	\$ 925,520	100
Policy obligations	628,640	65	612,725	65	602,610	65
Required interest on reserves	(77,792)	(8)	(73,382)	(8)	(69,057)	(7)
Net policy obligations	550,848	57	539,343	57	533,553	58
Commissions, premium taxes, and non-deferred acquisition expenses	86,044	9	84,819	9	81,489	9
Amortization of acquisition costs	119,973	12	113,445	12	106,101	11
Total expense	756,865	78	737,607	78	721,143	78
Insurance underwriting margin before other income and administrative expense	\$ 219,508	22	\$ 210,056	22	\$ 204,377	22

Health premium increased 3% from \$948 million in 2016 to \$976 million in 2017. Health underwriting margin increased 4% from \$210 million in 2016 to \$220 million in 2017. 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)

	2017		2016		2015	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
United American Independent Agency						
Limited-benefit plans	\$ 11,438		\$ 12,704		\$ 15,260	
Medicare Supplement	352,690		342,311		330,070	
	<u>364,128</u>	37	<u>355,015</u>	38	<u>345,330</u>	37
Family Heritage Exclusive Agency						
Limited-benefit plans	253,534		236,075		221,091	
Medicare Supplement	—		—		—	
	<u>253,534</u>	26	<u>236,075</u>	25	<u>221,091</u>	24
Liberty National Exclusive Agency						
Limited-benefit plans	144,128		142,026		142,130	
Medicare Supplement	52,079		59,772		67,020	
	<u>196,207</u>	20	<u>201,798</u>	21	<u>209,150</u>	23
American Income Exclusive Agency						
Limited-benefit plans	88,776		84,064		79,984	
Medicare Supplement	260		318		355	
	<u>89,036</u>	9	<u>84,382</u>	9	<u>80,339</u>	9
Direct Response						
Limited-benefit plans	545		552		869	
Medicare Supplement	72,923		69,841		68,741	
	<u>73,468</u>	8	<u>70,393</u>	7	<u>69,610</u>	7
Total Premium						
Limited-benefit plans	498,421	51	475,421	50	459,334	50
Medicare Supplement	477,952	49	472,242	50	466,186	50
	<u>\$976,373</u>	100	<u>\$947,663</u>	100	<u>\$925,520</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)

	2017		2016		2015	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
United American Independent Agency						
Limited-benefit plans	\$ 500		\$ 558		\$ 734	
Medicare Supplement	60,670		55,451		70,891	
	<u>61,170</u>	39	<u>56,009</u>	39	<u>71,625</u>	46
Family Heritage Exclusive Agency						
Limited-benefit plans	56,534		51,349		50,266	
Medicare Supplement	—		—		—	
	<u>56,534</u>	36	<u>51,349</u>	35	<u>50,266</u>	32
Liberty National Exclusive Agency						
Limited-benefit plans	20,407		19,513		18,021	
Medicare Supplement	—		9		41	
	<u>20,407</u>	13	<u>19,522</u>	13	<u>18,062</u>	12
American Income Exclusive Agency						
Limited-benefit plans	13,943		12,666		11,501	
Medicare Supplement	—		—		—	
	<u>13,943</u>	9	<u>12,666</u>	9	<u>11,501</u>	7
Direct Response						
Limited-benefit plans	—		—		—	
Medicare Supplement	5,582		5,560		5,003	
	<u>5,582</u>	3	<u>5,560</u>	4	<u>5,003</u>	3
Total Net Sales						
Limited-benefit plans	91,384	58	84,086	58	80,522	51
Medicare Supplement	66,252	42	61,020	42	75,935	49
	<u>\$157,636</u>	100	<u>\$145,106</u>	100	<u>\$156,457</u>	100

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)

	2017		2016		2015	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
United American Independent Agency						
Limited-benefit plans	\$ 458		\$ 547		\$ 660	
Medicare Supplement	54,393		64,848		76,575	
	<u>54,851</u>	40	<u>65,395</u>	47	<u>77,235</u>	49
Family Heritage Exclusive Agency						
Limited-benefit plans	44,535		40,822		39,196	
Medicare Supplement	—		—		—	
	<u>44,535</u>	33	<u>40,822</u>	29	<u>39,196</u>	25
Liberty National Exclusive Agency						
Limited-benefit plans	16,425		16,103		14,690	
Medicare Supplement	2		6		168	
	<u>16,427</u>	12	<u>16,109</u>	11	<u>14,858</u>	9
American Income Exclusive Agency						
Limited-benefit plans	14,673		13,710		12,041	
Medicare Supplement	—		—		—	
	<u>14,673</u>	11	<u>13,710</u>	10	<u>12,041</u>	8
Direct Response						
Limited-benefit plans	—		—		(2)	
Medicare Supplement	5,657		4,457		13,843	
	<u>5,657</u>	4	<u>4,457</u>	3	<u>13,841</u>	9
Total First-Year Collected Premium						
Limited-benefit plans	76,091	56	71,182	51	66,585	42
Medicare Supplement	60,052	44	69,311	49	90,586	58
	<u>\$136,143</u>	<u>100</u>	<u>\$140,493</u>	<u>100</u>	<u>\$157,171</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 2017, premium income was \$364 million, representing 37% of Torchmark's total health premium. Net sales were \$61 million, or 39% of Torchmark's health sales. This agency is also Torchmark's largest producer of Medicare Supplement insurance, with Medicare Supplement premium income of \$353 million. The UA Independent Agency represents 74% of all Torchmark Medicare Supplement premium and 92% of Medicare Supplement net sales. Medicare Supplement premium in this agency rose 3% in 2017. Total health premium increased 3% in 2017 and 2016. Medicare Supplement net sales increased 9% in 2017 from the prior year due to increases in individual and group sales. Group Medicare Supplement sales have historically fluctuated from period to period.

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 whereby 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 \$57 million in net sales in 2017, compared with \$51 million in 2016 and \$50 million in 2015. Health premium income was \$254 million in 2017, representing 26% of Torchmark's

health premium. This compared with \$236 million or 25% of health premium in 2016 and \$221 million or 24% in 2015. The average producing agent count was 995 for the year ended December 31, 2017, compared with 923 for the same period in 2016, an increase of 8%.

The **Liberty National Exclusive Agency** represented 20% of all Torchmark health premium income at \$196 million in 2017. 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 2017, health premium income declined 3% after declining 4% during 2016. Liberty's health premium decline has been due primarily to its declining Medicare Supplement block. Liberty's first-year collected premium increased 2% to \$16 million in 2017 compared with an increase of 8% in 2016, 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 17% of health premium in 2017 and 16% in 2016. 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 \$6 million of Medicare Supplement net sales in 2017 and 2016 and \$5 million in 2015.

In 2016 and 2015, the Affordable Care Act (ACA) imposed an annual fee to health insurance issuers offering commercial health insurance as well as another fee for premium stabilization. These fees totaled \$621 thousand and \$1.2 million in 2016 and 2015, respectively. There were no fees for 2017.

Annuities. Our fixed annuity balances at the end of 2017 and 2016 were \$1.25 billion and \$1.29 billion, respectively. Underwriting income was \$10.6 million, \$9.4 million, and \$4.6 million for the three years ended December 31, 2017, respectively.

While the fixed annuity account balance has been declining slightly year over year, underwriting income has increased each year over the prior year. The significant increase in underwriting income in 2016 was primarily due to a slowdown in amortization as assumptions were adjusted to reflect longer retention of the annuity block than previously estimated as a result of the continuing low interest rate environment. Policy charges have actually declined slightly in each successive year. The majority of policy charges consist of surrender charges which are based on a function of account size and time lapsed since deposit. A considerable portion of fixed annuity profitability is derived from the spread of investment income exceeding contractual interest requirements, which can result in negative net policy obligations. We do not currently market 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. The following table is an analysis of operating expenses for the three years ended December 31, 2017.

Operating Expenses Selected Information
(Dollar amounts in thousands)

	2017		2016		2015	
	Amount	% of Premium	Amount	% of Premium	Amount	% of Premium
Insurance administrative expenses:						
Salaries	\$ 96,185	2.9	\$ 91,415	2.9	\$ 87,262	2.9
Non-salary employee costs	33,539	1.0	29,852	1.0	30,683	1.0
Information technology costs	26,048	0.8	23,303	0.7	17,307	0.6
Other administrative expense	46,066	1.4	43,727	1.4	43,694	1.4
Legal expense—insurance	8,752	0.3	8,301	0.3	7,245	0.3
Total insurance administrative expenses	210,590	6.4	196,598	6.3	186,191	6.2
Parent company expense	9,631		8,587		9,003	
Stock-based compensation expense	37,034		26,326		28,664	
Non-operating fees	—		553		—	
Total operating expenses, per <i>Consolidated Statements of Operations</i>	<u>\$257,255</u>		<u>\$232,064</u>		<u>\$223,858</u>	
Insurance administrative expenses:						
Increase (decrease) over prior year	7.1%		5.6%		6.5%	
Total operating expenses:						
Increase (decrease) over prior year	10.9%		3.7%		2.9%	

Insurance administrative expenses were up 7.1% in 2017 when compared with the prior year after increasing 5.6% during 2016. As a percentage of total premium, insurance administrative expenses increased to 6.4% in 2017 from 6.3% in 2016 and 6.2% 2015. Total operating expenses increased 10.9% in 2017, after increasing 3.7% in 2016. The increase in other employee costs was due primarily to higher pension expense driven by lower interest rates.

The increase in information technology costs was due to investments that will enhance our customer experience, expand our data analytics capabilities, modernize our systems in order to improve our ability to react quickly to future changes, and bolster our 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 and higher stock option values as compared with the same period a year ago. The increase also reflects a one-time increase in stock-based compensation expense due to the effects of the Tax Legislation as previously discussed.

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. It 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 attributable to 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 \$7.1 billion of excess cash flow at the Parent Company to repurchase Torchmark shares after determining that the repurchases provided a greater 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. 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)

	2017	2016	2015
Net investment income	\$ 847,885	\$ 806,903	\$ 773,951
Interest on net insurance policy liabilities:			
Interest on reserves	(734,370)	(702,340)	(674,650)
Interest on deferred acquisition costs	210,380	202,813	196,845
Net required interest	(523,990)	(499,527)	(477,805)
Financing costs	(84,532)	(83,345)	(76,642)
Excess investment income	<u>\$ 239,363</u>	<u>\$ 224,031</u>	<u>\$ 219,504</u>
Excess investment income per diluted share	<u>\$ 2.01</u>	<u>\$ 1.83</u>	<u>\$ 1.73</u>
Mean invested assets (at amortized cost)	\$15,376,781	\$14,461,502	\$13,697,129
Average net insurance policy liabilities ⁽¹⁾	9,359,780	8,945,850	8,574,699
Average debt and preferred securities (at amortized cost)	1,458,706	1,379,933	1,343,663

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

Excess investment income increased \$15 million or 7% during 2017 after increasing 2% during 2016. The rate of growth was higher in 2017 than in 2016, in part, because excess investment income during 2016 was negatively impacted by an increase in financing costs attributable to the early refinancing of our 6.375% Senior Notes as is discussed below in the discussion of our financing costs. In addition, the growth rate in 2017 was positively impacted by the investment of positive cash flows relating to the collection in 2016 and 2017 of various receivables that had accumulated in prior years in the Medicare Part D business.

Excess investment income per diluted common share increased 10% during 2017 after increasing 6% during 2016. 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.

The largest component of excess investment income is net investment income, which 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. Presented in the following chart is the growth in net investment income and the growth in mean invested assets.

	2017	2016	2015
Growth in net investment income	5.1%	4.3%	2.1%
Growth in mean invested assets (at amortized cost)	6.3%	5.6%	3.2%

Should interest rates rise, especially long-term rates, 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 100 to 105 basis points before the net unrealized gains on our fixed maturity portfolio as of December 31, 2017 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 and the current positive spread between the yield on our investment portfolio and the weighted-average discount rate of our in force block, 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)

	Required Interest	Average Net Insurance Policy Liabilities	Average Discount Rate
2017			
Life and Health	\$ 468,038	\$ 8,099,319	5.78%
Annuity	55,952	1,260,461	4.44
Total	<u>\$ 523,990</u>	<u>\$ 9,359,780</u>	5.60
Increase in 2017	4.90%	4.63%	
2016			
Life and Health	\$ 442,021	\$ 7,658,639	5.77%
Annuity	57,506	1,287,211	4.47
Total	<u>\$ 499,527</u>	<u>\$ 8,945,850</u>	5.58
Increase in 2016	4.55%	4.33%	
2015			
Life and Health	\$ 418,432	\$ 7,256,732	5.77%
Annuity	59,373	1,317,967	4.50
Total	<u>\$ 477,805</u>	<u>\$ 8,574,699</u>	5.57
Increase in 2015	4.37%	4.06%	

Excess investment income is also impacted by financing costs. 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)

	2017	2016	2015
Interest on funded debt	\$ 74,115	\$ 75,988	\$ 71,180
Interest on term loan	2,336	993	—
Interest on short-term debt	8,076	6,360	5,457
Other	5	4	5
Financing costs	<u><u>\$ 84,532</u></u>	<u><u>\$ 83,345</u></u>	<u><u>\$ 76,642</u></u>

Financing costs increased \$1 million or 1% from 2016 to 2017. In 2017, interest on short-term debt increased because of the increase in the weighted-average interest rate on such debt. Financing costs also increased \$7 million or 9% from 2015 to 2016 due primarily to the additional interest expense on our funded debt associated with the issuance of a 6.125% Junior Subordinated Debt security seventy days before the maturity and repayment of the 6.375% Senior Notes. 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. Because 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, 2017.

Analysis of Realized Gains (Losses), Net of Tax

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

	Year Ended December 31,					
	2017		2016		2015	
	Amount	Per Share	Amount	Per Share	Amount	Per Share
Fixed maturities:						
Sales	\$ 2,587	\$ 0.02	\$ (17,209)	\$ (0.14)	\$ (10,813)	\$ (0.09)
Called or tendered	20,292	0.17	10,290	0.08	4,652	0.04
Write-downs	(159)	—	—	—	—	—
Loss on redemption of debt	(2,627)	(0.02)	—	—	—	—
Other	(2,503)	(0.02)	(25)	—	447	—
Total	<u>\$ 17,590</u>	<u>\$ 0.15</u>	<u>\$ (6,944)</u>	<u>\$ (0.06)</u>	<u>\$ (5,714)</u>	<u>\$ (0.05)</u>

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. We did not incur any write downs in our fixed maturity portfolio as a result of other-than-temporary impairment for the years 2015 and 2016.

Investment Acquisitions. Torchmark's investment policy calls for investing in fixed maturities that are investment grade and 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 because our cash flows are generally stable and predictable. If longer-term securities that meet our quality and yield objectives are not available, we do not relax our quality objectives, but instead, consider investing in shorter term or lower yielding securities, taking into consideration the slope of the yield curve and other factors.

During calendar years 2015 through 2017, Torchmark invested almost exclusively 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, typically the first call date.

Fixed Maturity Acquisitions Selected Information

(Dollar amounts in thousands)

	Year Ended December 31,		
	2017	2016	2015
Cost of acquisitions ⁽¹⁾ :			
Investment-grade corporate securities	\$ 1,308,567	\$ 1,505,135	\$ 1,026,520
Taxable municipal securities	—	13,023	29,092
Other investment-grade securities	6,042	14,727	15,296
Total fixed maturity acquisitions	<u>\$ 1,314,609</u>	<u>\$ 1,532,885</u>	<u>\$ 1,070,908</u>
Effective annual yield (one year compounded) ⁽²⁾	4.67%	4.67%	4.79%
Average life (in years, to next call)	23.0	24.6	27.2
Average life (in years to maturity)	24.0	25.4	27.9
Average rating	BBB+	BBB+	BBB+

(1) Includes unsettled trades of \$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, 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 2015 through 2017, 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 \$55 million in other long-term investments in 2017 compared with \$20 million in 2016 and \$32 million in 2015.

New cash flow available for investment has been primarily provided through our insurance operations and interest received on existing investments. The amount of cash available for investment in 2016 was greater than 2015 due in part to the collection of various receivables from our Medicare Part D business. In some years, a significant amount of new investments can be derived from proceeds from dispositions including issuer calls. 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 \$371 million in 2017, \$182 million in 2016, and \$178 million in 2015.

Portfolio Composition. The composition of the investment portfolio at book value on December 31, 2017 and 2016 was as follows:

Invested Assets

(Dollar amounts in thousands)

	2017		2016	
	Amount	% of Total	Amount	% of Total
Fixed maturities (at amortized cost)	\$ 14,995,101	95	\$ 14,188,050	96
Policy loans	529,529	3	507,975	3
Other long-term investments ⁽¹⁾	107,953	1	53,355	—
Short-term investments	127,071	1	72,040	1
Total	<u>\$ 15,759,654</u>	<u>100</u>	<u>\$ 14,821,420</u>	<u>100</u>

(1) Includes equities available for sale at cost.

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 insignificant investments in equity securities and other long-term investments. Because fixed maturities represent such a significant portion of our investment portfolio, the remainder of the discussion of portfolio composition will focus on fixed maturities.

Selected information concerning the fixed maturity portfolio is as follows:

Fixed Maturities
Fixed Maturity Portfolio Selected Information

	At December 31,	
	2017	2016
Average annual effective yield ⁽¹⁾	5.60%	5.74%
Average life, in years, to:		
Next call ⁽²⁾	17.5	17.6
Maturity ⁽²⁾	19.1	19.8
Effective duration to:		
Next call ^(2, 3)	10.8	10.4
Maturity ^(2, 3)	11.5	11.3

- (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, 2017 and 2016.

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
Corporates:										
Financial										
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
Utilities										
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
Industrial - Energy										
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
Industrial - Basic materials										
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
Total corporates	642,800	24,608	(59,714)	607,694	13,288,589	1,884,143	(73,522)	15,099,210	89	90
Other fixed maturities:										
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 ⁽¹⁾	—	—	—	—	1,457	118	(1)	1,574	—	—
Total fixed maturities	\$ 702,256	\$ 44,692	\$ (67,472)	\$ 679,476	\$14,995,101	\$2,056,907	\$ (82,683)	\$16,969,325	100	100

(1) Includes GNMA's

Fixed Maturities by Sector
At December 31, 2016
(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
Corporates:										
Financial										
Insurance - life, health, P&C	\$ 58,400	\$ 1,760	\$ (4,003)	\$ 56,157	\$ 2,030,188	\$ 217,377	\$ (16,783)	\$ 2,230,782	15	15
Banks	41,558	512	(7,218)	34,852	681,422	71,828	(11,692)	741,558	5	5
Other financial	74,955	—	(18,589)	56,366	623,836	39,215	(24,628)	638,423	4	4
Total financial	174,913	2,272	(29,810)	147,375	3,335,446	328,420	(53,103)	3,610,763	24	24
Utilities										
Electric	21,300	486	—	21,786	1,433,742	219,154	(9,384)	1,643,512	10	11
Gas and water	—	—	—	—	470,804	31,345	(3,464)	498,685	3	3
Total utilities	21,300	486	—	21,786	1,904,546	250,499	(12,848)	2,142,197	13	14
Industrial - Energy										
Pipelines	45,394	87	(3,297)	42,184	809,300	67,313	(11,431)	865,182	6	6
Exploration and production	28,954	182	(744)	28,392	531,754	43,009	(11,806)	562,957	4	4
Oil field services	33,880	—	(6,483)	27,397	83,753	7,624	(6,483)	84,894	1	1
Refiner	—	—	—	—	62,977	9,721	(7)	72,691	—	—
Driller	54,642	322	(14,597)	40,367	54,642	322	(14,597)	40,367	—	—
Total energy	162,870	591	(25,121)	138,340	1,542,426	127,989	(44,324)	1,626,091	11	11
Industrial - Basic materials										
Chemicals	—	—	—	—	481,127	21,538	(10,204)	492,461	3	3
Metals and mining	107,102	491	(2,195)	105,398	389,908	25,247	(2,613)	412,542	3	3
Forestry products and paper	—	—	—	—	112,702	10,270	(415)	122,557	1	1
Total basic materials	107,102	491	(2,195)	105,398	983,737	57,055	(13,232)	1,027,560	7	7
Industrial - Consumer, non-cyclical	—	—	—	—	1,629,706	101,254	(31,938)	1,699,022	11	11
Other industrials	80,311	4,066	(1,327)	83,050	1,282,000	115,119	(14,412)	1,382,707	9	9
Industrial - Transportation	26,675	—	(2,918)	23,757	494,527	59,067	(4,709)	548,885	4	4
Other corporate sectors	116,696	1,076	(6,063)	111,709	1,211,166	91,526	(20,256)	1,282,436	9	8
Total corporates	689,867	8,982	(67,434)	631,415	12,383,554	1,130,929	(194,822)	13,319,661	88	88
Other fixed maturities:										
Government (U.S., municipal, and foreign)	551	—	(194)	357	1,686,021	129,064	(10,539)	1,804,546	12	12
Collateralized debt obligations	60,726	13,062	(10,285)	63,503	60,726	13,062	(10,285)	63,503	—	—
Other asset-backed securities	—	—	—	—	53,786	530	(337)	53,979	—	—
Mortgage-backed securities ⁽¹⁾	—	—	—	—	3,963	210	(1)	4,172	—	—
Total fixed maturities	\$ 751,144	\$ 22,044	\$ (77,913)	\$ 695,275	\$ 14,188,050	\$ 1,273,795	\$ (215,984)	\$ 15,245,861	100	100

(1) Includes GNMA's

At December 31, 2017, fixed maturities had a fair value of \$17.0 billion, compared with \$15.2 billion at December 31, 2016. The net unrealized gain position in the fixed maturity portfolio increased from \$1.1 billion at December 31, 2016 to \$2.0 billion at December 31, 2017, primarily as a result of a decrease in credit spreads. The December 31, 2017 net unrealized gain consisted of gross unrealized gains of \$2.1 billion offset by \$83 million of gross unrealized losses, compared with the December 31, 2016 net unrealized gain which consisted of a gross unrealized gain of \$1.3 billion and a gross unrealized loss of \$216 million.

Corporate securities, which consist of bonds and redeemable preferred stocks, were the largest component of the fixed maturity portfolio, representing 89% of amortized cost and 90% 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 50% of the portfolio. At December 31, 2017, the total fixed maturity portfolio consists of 596 issuers, with 220 issuers within the financial, utility, and energy sectors.

The net unrealized gain of the fixed maturity portfolio increased \$916 million from December 31, 2016. The financial, utility, energy, and basic materials sectors experienced increases of \$237 million, \$132 million, \$117 million, and \$117 million respectively, in net unrealized gains from December 31, 2016 to December 31, 2017. The fair value of the entire portfolio increased 11% for the period. Over the past year, oil and many other commodity prices have increased meaningfully to the benefit of our holdings in the energy and basic materials sectors. While a sustained period of low prices might lead to some downgrades in ratings, we do not currently anticipate any losses from defaults or write-downs in the foreseeable future.

For more information about our fixed maturity portfolio by component at December 31, 2017 and 2016, 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 rating at December 31, 2017 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 \$591 million at amortized cost (\$613 million at fair value) for which the ratings were assigned by the third party managers.

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

	Amortized Cost	%	Fair Value	%
Investment grade:				
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
Investment grade	<u>14,292,845</u>	<u>95</u>	<u>16,289,849</u>	<u>96</u>
Below investment grade:				
BB	413,425	3	397,063	2
B	152,454	1	133,582	1
Below B	136,377	1	148,831	1
Below investment grade	<u>702,256</u>	<u>5</u>	<u>679,476</u>	<u>4</u>
	<u><u>\$ 14,995,101</u></u>	<u><u>100</u></u>	<u><u>\$ 16,969,325</u></u>	<u><u>100</u></u>

Of the \$15.0 billion of fixed maturities at amortized cost as of December 31, 2017, \$14.3 billion or 95% were investment grade with an average rating of A-. Below-investment-grade bonds were \$702 million with an average rating of B+. Below-investment-grade bonds at amortized cost were 15% of our shareholders' equity, excluding the effect of unrealized gains and losses on fixed maturities as of December 31, 2017. Overall, the total portfolio had a weighted average quality rating of BBB+ based on amortized cost, the same as at the end of 2016.

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)

	Year Ended December 31,	
	2017	2016
Balance at beginning of year	\$ 751,144	\$ 640,150
Downgrades by rating agencies	61,691	179,077
Upgrades by rating agencies	(55,345)	(58,626)
Disposals	(59,420)	(13,860)
Write down of other-than-temporarily impaired securities	(245)	—
Amortization	4,431	4,403
Balance at end of year	<u>\$ 702,256</u>	<u>\$ 751,144</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. 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, 2017. Our exposure to Puerto Rican obligations is insignificant.

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 do not expect to realize these unrealized gains and losses because we have the ability and the intent to hold these 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, 2017 and 2016. 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 ⁽¹⁾	At December 31,	
	2017	2016
(200)	\$ 21,455,515	\$ 19,126,303
(100)	19,024,031	17,030,458
0	16,969,325	15,245,861
100	15,221,207	13,716,023
200	13,723,745	12,395,635

(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, and Parent Company dividends to Torchmark shareholders. In 2017, the Parent received \$454 million of cash dividends from its subsidiaries, compared with \$438 million in 2016 and \$466 million in 2015. Including transfers from other subsidiaries and after paying debt obligations, shareholder dividends, and other expenses (but before share repurchases), the Parent Company had excess cash flow in 2017 of approximately \$330 million, compared with \$311 million in 2016 and \$358 million in 2015.

Parent Company cash flow in excess of its operating requirements is available for other corporate purposes, such as insurance subsidiary capital or financing needs, strategic acquisitions, additional shareholder dividends, or share repurchases. In 2018, it is expected that the Parent Company will receive approximately \$450 million in dividends and transfers from subsidiaries and that approximately \$320 to \$330 million will be available as excess cash flow. Certain restrictions exist on the payment of these dividends. 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, 2017, we had available \$249 million of additional borrowing capacity under this facility, compared with \$310 million a year earlier. There have been no difficulties in accessing the commercial paper market during the three years ended December 31, 2017.

In summary, Torchmark expects to have readily available funds for 2018 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 additional debt, additional borrowings on our short-term credit facility, and intercompany borrowing.

Consolidated Liquidity. Consolidated net cash inflows provided from continuing operations were \$1.4 billion in 2017, compared with \$1.2 billion in 2016 and \$1.1 billion in 2015. In addition to cash inflows from operations, our companies received proceeds from maturities, calls, and repayments of fixed maturities in the amount of \$489 million in 2017, compared with \$236 million in 2016 and \$376 million in 2015.

Our cash and short-term investments were \$246 million at year-end 2017 and \$148 million at year-end 2016. 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 \$17.0 billion at December 31, 2017. However, our strong cash flows from operations, investment maturities, and the availability of our 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 \$177 million in stand-by letters of credit at December 31, 2017 and 2016. 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, 2017, 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 15—Commitments and Contingencies*.

The following table presents information about future payments under our contractual obligations for the selected periods as of December 31, 2017.

Contractual Obligations
(Dollar amounts in thousands)

	Actual Liability	Total Payments	Less than One Year	One to Three Years	Three to Five Years	More than Five Years
Fixed and determinable:						
Debt—principal ⁽¹⁾	\$ 1,460,268	\$ 1,475,634	\$ 328,625	\$ 308,897	\$ 227,500	\$ 610,612
Debt—interest ⁽²⁾	6,837	1,134,369	73,967	111,475	87,988	860,939
Capital leases	—	—	—	—	—	—
Operating leases	—	16,564	3,483	6,422	4,829	1,830
Purchase obligations ⁽³⁾	33,846	290,999	27,326	12,455	4,382	246,836
Postretirement obligations ⁽⁴⁾	250,595	292,824	21,603	48,572	55,059	167,590
Future insurance obligations ⁽⁵⁾	13,439,472	52,462,823	1,584,774	3,074,789	2,955,996	44,847,264
Total	\$15,191,018	\$55,673,213	\$2,039,778	\$3,562,610	\$3,335,754	\$46,735,071

(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, 2017, these pension obligations were \$603 million, but there were also assets of \$378 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. There are also obligations for benefits other than pensions with a liability of \$26 million. 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, 2017. 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 \$13.4 billion at December 31, 2017, 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 \$1.1 billion at December 31, 2017, the same as a year earlier.

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.

On April 5, 2016, Torchmark completed the issuance and sale of \$300 million aggregate principal amount of Torchmark's 6.125% Junior Subordinated Debentures due 2056. The debentures were sold pursuant to Torchmark's shelf registration statement on Form S-3, filed September 25, 2015. The net proceeds from the sale of the debentures were \$290 million, after giving effect to the underwriting discount and estimated expenses of the offering of the debentures. Torchmark used the net proceeds from the offering of the debentures to repay the \$250 million outstanding principal amount plus accrued interest of \$8 million on its 6.375% Senior Notes that were due June 15, 2016. The remaining proceeds were used for general corporate purposes.

Subsidiary Capital: For the past several years, our insurance subsidiaries have targeted a capital ratio of approximately 325% of Company Action Level regulatory capital under Risk-Based Capital (RBC) standards, a formula designed by insurance regulatory authorities to monitor the adequacy of capital. At December 31, 2017, our insurance subsidiaries had an aggregate RBC ratio of 314%, a decrease in the ratio from the prior year of 324% due to the reduction in deferred tax assets as a result of the Tax Legislation previously discussed in the *Results of Operations* in this report. Should the NAIC adjust the RBC factors in 2018, as expected, to take into account the lower tax rate, we would expect a further reduction in our consolidated RBC ratio for the year ending December 31, 2018. At this time, target RBC levels for 2018 are yet to be determined pending discussion with regulators and rating agencies. Management believes more than sufficient liquidity exists at the Parent Company to make additional contributions as necessary to maintain the targeted ratio.

Shareholder's Equity: As noted under the caption *Analysis of Share Repurchases* in this report, we have an ongoing share repurchase program. Under this program, we acquired 4 million shares at a cost of \$325 million in 2017, 5 million shares at a cost of \$311 million in 2016, and 6 million shares for \$359 million in 2015. The majority of purchased shares are retired each year. Please refer to the description of our share repurchase program under the caption *Summary of Operations* in this report.

Torchmark has continually increased the quarterly dividend on its common shares over the past three years. In the first quarter of 2015, it was increased to \$0.135 per share from \$0.1267 per share. In the first quarter of 2016, it was raised to \$0.14 per share. Finally, in the first quarter of 2017, dividends were raised to \$0.15 per share.

Shareholders' equity was \$6.2 billion at December 31, 2017, compared with \$4.6 billion at December 31, 2016, a \$1.7 billion or 36% increase. During the twelve months since December 31, 2016, shareholders' equity was reduced by \$325 million in share purchases under the repurchase program and \$88 million to offset the dilution from stock option exercises. However, it was increased by \$1.5 billion of net income, \$874 million of which was attributed to a tax adjustment as a result of the Tax Legislation and \$870 million of after-tax unrealized gains, of which \$275 million was attributed to a tax adjustment as a result of the Tax Legislation.

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 policyholders' 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 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. If these liabilities were revalued in the same manner

as the assets, the effect on equity would be largely offset. 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. Because of 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, 2017		At December 31, 2016		At December 31, 2015	
	GAAP	Effect of Accounting Rule Requiring Revaluation ⁽¹⁾	GAAP	Effect of Accounting Rule Requiring Revaluation ⁽¹⁾	GAAP	Effect of Accounting Rule Requiring Revaluation ⁽¹⁾
Fixed maturities	\$16,969,325	\$1,974,224	\$15,245,861	\$1,057,811	\$13,758,024	\$ 506,153
Deferred acquisition costs ⁽²⁾	3,958,063	(10,819)	3,783,158	(10,281)	3,617,135	(7,869)
Total assets	23,474,985	1,963,405	21,436,087	1,047,530	19,853,213	498,284
Short-term debt	328,067	—	264,475	—	490,129	—
Long-term debt	1,132,201	—	1,133,165	—	743,733	—
Shareholders' equity	6,231,421	1,551,090	4,566,861	680,894	4,055,552	323,885
Book value per diluted share	52.95	13.18	37.76	5.63	32.71	2.62
Debt to capitalization ⁽³⁾	19.0%	(4.8)%	23.4%	(3.1)%	23.3%	(1.5)%
Diluted shares outstanding	117,696		120,958		123,996	
Actual shares outstanding	114,593		118,031		122,370	

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

(2) Includes the value of insurance purchased.

(3) 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 10.8 times in 2017, compared with 10.3 times in 2016 and 11.0 times in 2015 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, 2017.

	Standard & Poor's	A.M Best
Liberty	AA-	A+ (Superior)
Globe	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.

During the fourth quarter of 2017, S&P reviewed our operations and financial outlook. Based on their review, they confirmed our "AA-" financial strength ratings at our insurance subsidiaries and Torchmark Corporation's senior debt "A" credit rating.

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 15—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 87% of our liabilities for future policy benefits at December 31, 2017 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. Torchmark did not have a premium deficiency event for its traditional business during the three years ended December 31, 2017.

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 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 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 purchased, 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, 2017 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, 2017.

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, 2017.

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 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 unfunded nonqualified defined benefit plans 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, 2017, our gross liability under these plans was \$603 million, but was offset by assets of \$378 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 2017 and projected benefit obligation as of December 31, 2017.

Pension Assumptions
(Dollar amounts in thousands)

Assumption	% Change	Impact on Expense	Impact on Projected Benefit Obligation
Discount Rate ⁽¹⁾ :			
Increase	0.25	\$ (2,890)	\$ (23,697)
Decrease	(0.25)	3,054	25,181
Expected Return ⁽²⁾ :			
Increase	0.25	(923)	
Decrease	(0.25)	923	

(1) The discount rate was 4.27% for 2017 expense and 3.75% for the projected benefit obligation at December 31, 2017.

(2) The expected return rate assumed was 6.96%.

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 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

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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 (the "Company") as of December 31, 2017 and 2016, 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, 2017, 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 the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2017, 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), the Company's internal control over financial reporting as of December 31, 2017, 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 26, 2018, expressed an unqualified opinion on the Company's internal control over financial reporting.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company'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 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 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 26, 2018

We have served as the Company's auditor since 1999.

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

	December 31,	
	2017	2016
Assets:		
Investments:		
Fixed maturities-available for sale, at fair value (amortized cost: 2017—\$14,995,101; 2016—\$14,188,050)	\$ 16,969,325	\$ 15,245,861
Policy loans	529,529	507,975
Other long-term investments	108,559	53,852
Short-term investments	127,071	72,040
Total investments	17,734,484	15,879,728
Cash	118,563	76,163
Accrued investment income	233,453	223,148
Other receivables	391,775	384,454
Deferred acquisition costs	3,958,063	3,783,158
Goodwill	441,591	441,591
Other assets	528,536	520,313
Assets related to discontinued operations	68,520	127,532
Total assets	<u>\$ 23,474,985</u>	<u>\$ 21,436,087</u>
Liabilities:		
Future policy benefits	\$ 13,439,472	\$ 12,825,837
Unearned and advance premiums	61,430	64,017
Policy claims and other benefits payable	333,294	299,565
Other policyholders' funds	97,635	96,993
Total policy liabilities	13,931,831	13,286,412
Current and deferred income taxes payable	1,312,002	1,743,990
Other liabilities	489,609	413,760
Short-term debt	328,067	264,475
Long-term debt (estimated fair value: 2017—\$1,228,392; 2016—\$1,233,019)	1,132,201	1,133,165
Liabilities related to discontinued operations	49,854	27,424
Total liabilities	17,243,564	16,869,226
Commitments and Contingencies (Note 15)		
Shareholders' equity:		
Preferred stock, par value \$1 per share—Authorized 5,000,000 shares; outstanding: 0 in 2017 and 2016	—	—
Common stock, par value \$1 per share—Authorized 320,000,000 shares; outstanding: (2017—124,218,183 issued, less 9,625,104 held in treasury and 2016—127,218,183 issued, less 9,187,075 held in treasury)	124,218	127,218
Additional paid-in capital	508,476	490,421
Accumulated other comprehensive income (loss)	1,424,274	577,574
Retained earnings	4,806,208	3,890,798
Treasury stock	(631,755)	(519,150)
Total shareholders' equity	6,231,421	4,566,861
Total liabilities and shareholders' equity	<u>\$ 23,474,985</u>	<u>\$ 21,436,087</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,		
	2017	2016	2015
Revenue:			
Life premium	\$ 2,306,547	\$ 2,189,333	\$ 2,073,065
Health premium	976,373	947,663	925,520
Other premium	15	38	135
Total premium	3,282,935	3,137,034	2,998,720
Net investment income	847,885	806,903	773,951
Realized investment gains (losses)	23,611	(10,683)	(8,791)
Other income	1,142	1,375	2,185
Total revenue	4,155,573	3,934,629	3,766,065
Benefits and expenses:			
Life policyholder benefits	1,558,261	1,479,272	1,374,608
Health policyholder benefits	633,778	612,725	602,610
Other policyholder benefits	35,836	36,751	38,994
Total policyholder benefits	2,227,875	2,128,748	2,016,212
Amortization of deferred acquisition costs	490,403	469,063	445,625
Commissions, premium taxes, and non-deferred acquisition expenses	264,860	249,174	237,541
Other operating expense	257,255	232,064	223,858
Interest expense	84,532	83,345	76,642
Total benefits and expenses	3,324,925	3,162,394	2,999,878
Income before income taxes	830,648	772,235	766,187
Income tax benefit (expense)	627,615	(232,645)	(249,894)
Income from continuing operations	1,458,263	539,590	516,293
Discontinued operations:			
Income (loss) from discontinued operations, net of tax	(3,769)	10,189	10,807
Net income	<u>\$ 1,454,494</u>	<u>\$ 549,779</u>	<u>\$ 527,100</u>
Basic net income per common share:			
Continuing operations	\$ 12.53	\$ 4.50	\$ 4.13
Discontinued operations	(0.03)	0.08	0.08
Total basic net income per common share	<u>\$ 12.50</u>	<u>\$ 4.58</u>	<u>\$ 4.21</u>
Diluted net income per common share:			
Continuing operations	\$ 12.26	\$ 4.41	\$ 4.07
Discontinued operations	(0.04)	0.08	0.09
Total diluted net income per common share	<u>\$ 12.22</u>	<u>\$ 4.49</u>	<u>\$ 4.16</u>

See accompanying Notes to Consolidated Financial Statements.

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

	Year Ended December 31,		
	2017	2016	2015
Net income	\$ 1,454,494	\$ 549,779	\$ 527,100
Other comprehensive income (loss):			
Unrealized investment gains (losses):			
Unrealized gains (losses) on securities:			
Unrealized holding gains (losses) arising during period	950,088	544,886	(1,163,417)
Reclassification adjustment for (gains) losses on securities included in net income	(34,954)	10,645	9,478
Reclassification adjustment for amortization of (discount) premium	(47)	(4,185)	(6,346)
Foreign exchange adjustment on securities recorded at fair value	1,326	312	(3,010)
Unrealized gains (losses) on securities	916,413	551,658	(1,163,295)
Unrealized gains (losses) on other investments:			
Unrealized holding gains (losses) arising during period	5,008	2,503	(1,635)
Reclassification adjustment for (gains) losses included in net income	—	(360)	(1,102)
Unrealized gains (losses) on other investments	5,008	2,143	(2,737)
Total unrealized investment gains (losses)	921,421	553,801	(1,166,032)
Less applicable (taxes) benefits	(322,553)	(193,820)	408,092
Unrealized gains (losses) on investments, net of tax	598,868	359,981	(757,940)
Unrealized gains (losses) attributable to deferred acquisition costs	(538)	(2,412)	8,682
Less applicable (taxes) benefits	188	845	(3,039)
Unrealized gains (losses) attributable to deferred acquisition costs, net of tax	(350)	(1,567)	5,643
Foreign exchange translation adjustments, other than securities	11,389	2,178	(20,651)
Less applicable (taxes) benefits	(2,937)	(838)	6,892
Foreign exchange translation adjustments, other than securities, net of tax	8,452	1,340	(13,759)
Pension adjustments:			
Amortization of pension costs	12,436	10,168	14,586
Plan amendments	—	—	(2,104)
Experience gain (loss)	(31,933)	(31,902)	(11,632)
Pension adjustments	(19,497)	(21,734)	850
Less applicable (taxes) benefits	6,827	7,607	(299)
Pension adjustments, net of tax	(12,670)	(14,127)	551
Other comprehensive income (loss)	594,300	345,627	(765,505)
Comprehensive income (loss)	\$ 2,048,794	\$ 895,406	\$ (238,405)

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
<u>Year Ended December 31, 2015</u>							
Balance at January 1, 2015	\$ —	\$ 134,218	\$ 457,613	\$ 997,452	\$ 3,376,846	\$ (268,663)	\$ 4,697,466
Comprehensive income (loss)				(765,505)	527,100		(238,405)
Common dividends declared (\$.54 per share)					(67,182)		(67,182)
Acquisition of treasury stock						(418,526)	(418,526)
Stock-based compensation			21,813		(2,132)	8,983	28,664
Exercise of stock options			17,577		(36,322)	72,280	53,535
Retirement of treasury stock		(4,000)	(14,719)		(183,941)	202,660	—
Balance at December 31, 2015	—	130,218	482,284	231,947	3,614,369	(403,266)	4,055,552
<u>Year Ended December 31, 2016</u>							
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	—
Balance at December 31, 2016	—	127,218	490,421	577,574	3,890,798	(519,150)	4,566,861
<u>Year Ended December 31, 2017</u>							
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 ⁽¹⁾				252,400	(252,400)		—
Retirement of treasury stock		(3,000)	(12,135)		(178,251)	193,386	—
Balance at December 31, 2017	\$ —	\$ 124,218	\$ 508,476	\$ 1,424,274	\$ 4,806,208	\$ (631,755)	\$ 6,231,421

- (1) Income tax effects of certain items were reclassified from accumulated other comprehensive income to retained earnings to remove stranded tax effects as a result of early adoption of ASU 2018-02, *Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*. 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,		
	2017	2016	2015
Net income	\$ 1,454,494	\$ 549,779	\$ 527,100
Adjustments to reconcile net income from continuing operations to cash provided from continuing operations:			
Loss (Income) from discontinued operations, net of income taxes	3,769	(10,189)	(10,807)
Increase (decrease) in future policy benefits	687,407	645,844	631,202
Increase (decrease) in other policy benefits	31,784	24,668	14,609
Deferral of policy acquisition costs	(660,134)	(635,318)	(612,181)
Amortization of deferred policy acquisition costs	490,403	469,063	445,625
Change in current and deferred income taxes	(700,660)	152,210	103,558
Realized (gains) losses on sale of investments and properties	(23,611)	10,683	8,791
Other, net	67,933	20,079	13,985
Net cash provided from (used for) continuing operations	1,351,385	1,226,819	1,121,882
Net cash provided from (used for) discontinued operations	77,673	171,889	(1,832)
Cash provided from (used for) operating activities	1,429,058	1,398,708	1,120,050
Cash provided from (used for) investing activities:			
Investments sold or matured:			
Fixed maturities available for sale—sold	67,246	340,434	226,792
Fixed maturities available for sale—matured, called, and repaid	488,843	236,353	376,158
Other long-term investments	3,534	1,217	3,740
Total investments sold or matured	559,623	578,004	606,690
Acquisition of investments:			
Fixed maturities—available for sale	(1,314,609)	(1,530,053)	(1,070,908)
Other long-term investments	(55,096)	(20,444)	(31,707)
Total investments acquired	(1,369,705)	(1,550,497)	(1,102,615)
Net (increase) decrease in policy loans	(21,554)	(15,513)	(20,353)
Net (increase) decrease in short-term investments	(55,031)	(17,274)	(38,884)
Additions to properties	(20,285)	(25,162)	(36,957)
Sale of other assets	18	90	—
Investments in low-income housing interests	(19,890)	(32,084)	(41,231)
Cash provided from (used for) investing activities	(926,824)	(1,062,436)	(633,350)
Cash provided from (used for) financing activities:			
Issuance of common stock	61,215	61,329	35,958
Cash dividends paid to shareholders	(68,831)	(66,931)	(66,899)
Repayment of debt	(126,875)	(250,000)	—
Proceeds from issuance of debt	125,000	400,000	—
Payment for debt issuance costs	(1,661)	(9,638)	—
Net borrowing (repayment) of commercial paper	61,092	22,224	1,978
Excess tax benefit from stock option exercises	—	—	17,577
Acquisition of treasury stock	(412,989)	(404,784)	(418,526)
Net receipts (payments) from deposit-type product	(90,932)	(71,991)	(95,793)
Cash provided from (used for) financing activities	(453,981)	(319,791)	(525,705)
Effect of foreign exchange rate changes on cash	(5,853)	(1,701)	34,369
Increase (decrease) in cash	42,400	14,780	(4,636)
Cash at beginning of year	76,163	61,383	66,019
Cash at end of year	\$ 118,563	\$ 76,163	\$ 61,383

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 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 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.

As discussed in further detail in *Note 6—Discontinued Operations*, 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*, other than *Note 2—Statutory Accounting* and *Note 6—Discontinued Operations*.

Investments: Torchmark classifies all of its fixed maturity investments, which include bonds and redeemable preferred stocks, 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

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

Note 1—Significant Accounting Policies (continued)

carried at unpaid principal balances. Other long-term investments include equity securities, real estate, mortgage participations, and limited partnerships. Investments in equity securities, which include common and nonredeemable preferred stocks, are reported at fair value with unrealized gains and losses, net of deferred taxes, reflected directly in accumulated other comprehensive income. Investments in real estate are reported at cost less allowances for depreciation. Depreciation is calculated on the straight-line method. Mortgage participations, a type of investment where the mortgage loan is shared among investors, are accounted for as financing receivables. Investments in limited partnerships are primarily accounted for using the cost method of accounting as Torchmark's partnership interest is minor as Torchmark lacks the ability to exercise significant influence over the partnership's operating and financial policies. The Company considers its cost method investments for impairment when the carrying value of such investments exceeds the net asset value ("NAV"). As further discussed below in *Accounting Pronouncements Not Yet Adopted*, the Company will adopt ASU 2016-01 on January 1, 2018 which removes the cost method for certain investments and replaces it with fair value through net income method. Under the new guidance, limited partnerships will be reported at fair value and all fluctuations in fair value will be reported through realized gains and 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.

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, 2017, Torchmark's investments in fixed maturities were primarily composed of the following significant security types: Corporate securities, state and municipal securities, redeemable preferred stocks, and U.S. government securities. The remaining security types represented less than 1% of the total in the aggregate.

Over 95% of the fair value reported at December 31, 2017 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.

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.

TORCHMARK CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
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Note 1—Significant Accounting Policies (continued)

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 bonds which are not actively traded. This portfolio is managed by third parties. The portfolio managers provide valuations for the bonds based on a pricing matrix utilizing observable inputs, such as the benchmark treasury rate and published sector indices, and unobservable inputs such as an internally-developed credit rating. If 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, mortgage participations, receivables and payables approximate carrying value. 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, 2017, observable inputs were available for these debt securities and as such were classified as Level 2 in the valuation hierarchy. The fair value for each debt instrument as of December 31, 2017 is disclosed in *Note 11—Debt*. As described in *Note 9—Postretirement Benefits*, Torchmark maintains a nonqualified supplemental retirement plan. Therefore the assets which 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

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

Note 1—Significant Accounting Policies (continued)

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 credit 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 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.

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

Note 1—Significant Accounting Policies (continued)

Other Receivables: Other receivables consist mostly of agent debit balances, which 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 \$378 million and \$353 million at December 31, 2017 and 2016, 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 with regard to interest, mortality, morbidity, and persistency 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 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 asset. These cash flows consist primarily of premium income, less benefits and expenses taking inflation into account. The present value of these cash flows, less the benefit reserve, is then compared with the unamortized deferred acquisition cost balance. In the event the estimated present value of net cash flows is less, the deficiency would be recognized by a charge to earnings and either a reduction of unamortized acquisition costs or an increase in the liability for future benefits, as described under the caption *Future Policy Benefits*.

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 \$9.3 million, \$9.3 million, and \$9.7 million in 2017, 2016, and 2015, respectively. At December 31, 2017, unamortized capitalized advertising costs included within DAC were \$1.28 billion at December 31, 2017 and \$1.25 billion at December 31, 2016.

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

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

Note 1—Significant Accounting Policies (continued)

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 2015 through 2017. 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 \$228 million and \$280 million at December 31, 2017 and 2016, respectively and was included in "Other assets" on the *Consolidated Balance Sheets*. As of December 31, 2017, Torchmark was obligated under future commitments of \$34 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 as well as 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 \$217 million at December 31, 2017 and \$196 million at December 31, 2016. Accumulated depreciation was \$109 million at year end 2017 and \$99 million at the end of 2016. Depreciation expense was \$10.5 million in 2017, \$9.8 million in 2016, and \$8.0 million in 2015. Internally generated software costs are expensed as incurred in the preliminary project phase and post-implementation phase, and will be 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 87% of total 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 5.80%. 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.

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

Note 1—Significant Accounting Policies (continued)

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.

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 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. The Company recorded \$877 million of tax benefits in net income in 2017 as a result of re-measuring its deferred assets and liabilities using the lower corporate tax rate as of the date of enactment. Based on the analysis of the Tax Legislation, the Company was able to determine that this amount is a reasonable estimate of the impact of the Tax Legislation in accordance with SEC Staff Accounting Bulletin (SAB) No. 118. However, the Company will continue to analyze relevant information to complete the accounting for income taxes which may result in an adjustment to tax expense in 2018. The accounting is expected to be complete when the 2017 U.S. corporate income tax returns are filed later in 2018. 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*.

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 \$17 million, \$18 million, and \$19 million for the years ended December 31, 2017, 2016, and 2015, 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 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.

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

Note 1—Significant Accounting Policies (continued)

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 2015 through 2017 is as follows:

	2017	2016	2015
Volatility factor	14.8%	19.2%	23.6%
Dividend yield	0.7%	1.1%	0.9%
Expected term (in years)	5.71	5.78	5.66
Risk-free rate	2.0%	1.3%	1.6%

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.

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 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:

ASU 2018-02: In February 2018, the FASB issued ASU No. 2018-02, *Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income (AOCI)*. This guidance was issued to allow the reclassification of taxes from AOCI to retained earnings as a result of the reduction in corporate income tax rates due to Tax Legislation. Current accounting requires the effect of changes in tax rates used to measure deferred tax assets and liabilities to be reported in net income as of the date of enactment even though deferred taxes were previously recognized in AOCI (stranded taxes). This guidance, however, allows a company to elect to reclassify the stranded taxes in AOCI to retained earnings and is effective for years beginning after December 15, 2018, with early adoption permitted. The Company elected to early adopt this guidance resulting in a reclassification of \$252 million from AOCI to retained earnings for the period ended December 31, 2017. See *Consolidated Statements of Shareholders' Equity* and *Note 3—Supplemental Information about Changes to Accumulated Other Comprehensive Income*.

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

Note 1—Significant Accounting Policies (continued)*Accounting Pronouncements Not Yet Adopted:*

ASU 2016-01: 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, it 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 method or equity method. Lastly, the guidance will require certain disclosures associated with fair value of financial instruments. This standard became effective for the Company on January 1, 2018. The adoption will result in a \$6 million positive adjustment to the opening balance of retained earnings as we have minimal ownership interests in equity investments and partnerships.

ASU 2016-02: In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which requires all lessees to report a right-of-use asset and a lease liability for leases with a term life greater than 12 months. Operating and financing leases will be recognized on the balance sheet going forward. Additional qualitative and quantitative disclosures will be required. This standard will become effective for the Company beginning January 1, 2019 and will require recognizing and measuring leases at the beginning of the earliest period presented using a modified retrospective approach. Early adoption is permitted. The Company does not expect the adoption to have a significant impact on the financial statements. Refer to *Note 15—Commitments and Contingencies* for consideration of the noncancelable operating lease commitments. The Company is not a lessor.

ASU 2016-13: In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* to provide 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 does not expect the adoption to have a significant impact on the financial statements as we have limited credit losses with respect to our available-for-sale portfolio.

ASU 2016-15: In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments* to provide 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 and will not have a significant impact to the classification on our *Statement of Cash Flows*.

ASU 2016-16: In October 2016, the FASB issued ASU No. 2016-16, *Income Taxes (Topic 740): Intra-Entity Transfer of Assets Other Than Inventory*. This guidance was issued to improve the accounting for income tax consequences of intra-entity transfers of assets other than inventory by allowing the immediate recognition of the current and deferred income tax effects. Current guidance prohibits the recognition of current and deferred income taxes for an intra-entity transfer until the asset has been sold to an outside party. This new guidance should be applied on a modified retrospective approach and became effective on January 1, 2018. This adoption will not have a significant impact on the financial statements.

ASU 2017-04: In January 2017, the FASB issued ASU No. 2017-04, *Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*. This guidance was issued to simplify the subsequent measurement of goodwill through the elimination of Step 2 from the goodwill impairment test which required a hypothetical purchase price allocation. It will become effective on January 1, 2020 and should be applied on a prospective basis. This adoption will not have an impact to the financial statements.

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

Note 1—Significant Accounting Policies (continued)

ASU 2017-07: In March 2017, the FASB issued ASU No. 2017-07, *Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. This guidance 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. The guidance 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. The Company expects the adoption to add an additional \$3 to \$5 million in expense to the 2018 *Consolidated Statements of Operations* due to the elimination of the ability to capitalize a portion of the benefit costs.

ASU 2017-08: In March 2017, the FASB issued ASU No. 2017-08, *Receivables—Nonrefundable Fees and Other Costs (Topic 310-20): Premium Amortization on Purchased Callable Debt Securities*. 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. It 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 will not have a significant impact on the financial statements.

ASU 2017-09: In May 2017, the FASB issued ASU No. 2017-09, *Compensation—Stock Compensation (Topic 718): Scope of Modification Accounting*. This guidance was issued to provide clarity and guidance regarding changes to the terms or conditions of a share-based payment award that requires an entity to apply modification accounting. It became effective on January 1, 2018 with early adoption permitted, including adoption in any interim periods. The adoption will have a minimal impact on the financial statements as modifications to stock compensation are infrequent.

TORCHMARK CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
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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,	
	2017	2016	2015	2017	2016
Life insurance subsidiaries	\$ 426,285	\$ 429,563	\$ 393,466	\$ 1,254,875	\$ 1,335,070

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 \$458 million at December 31, 2017. 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 2015 through 2017.

Components of Accumulated Other Comprehensive Income

For the 12 months ended December 31, 2015:	Available for Sale Assets	Deferred Acquisition Costs	Foreign Exchange	Pension Adjustments	Total
Balance at January 1, 2015	\$ 1,090,273	\$ (10,758)	\$ 17,386	\$ (99,449)	\$ 997,452
Other comprehensive income (loss) before reclassifications, net of tax	(759,976)	5,643	(13,759)	(8,930)	(777,022)
Reclassifications, net of tax	2,036	—	—	9,481	11,517
Other comprehensive income (loss)	(757,940)	5,643	(13,759)	551	(765,505)
Balance at December 31, 2015	332,333	(5,115)	3,627	(98,898)	231,947
For the 12 months ended December 31, 2016:					
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
Balance at December 31, 2016	692,314	(6,682)	4,967	(113,025)	577,574
For the 12 months ended December 31, 2017:					
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 ⁽¹⁾	278,107	(1,515)	2,883	(27,075)	252,400
Balance at December 31, 2017	\$ 1,569,289	\$ (8,547)	\$ 16,302	\$ (152,770)	\$ 1,424,274

- (1) Income tax effects of certain items were reclassified from accumulated other comprehensive income to retained earnings to remove stranded tax effects as a result of early adoption of ASU No. 2018-02, *Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*. See further discussion in Note 1—Significant Accounting Policies.

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 2015 through 2017.

Reclassification Adjustments

Component Line Item	Year Ended December 31,			Affected line items in the Statement of Operations
	2017	2016	2015	
Unrealized gains (losses) on available for sale assets:				
Realized (gains) losses	\$ (34,954)	\$ 10,285	\$ 9,478	Realized investment gains (losses)
Amortization of (discount) premium	(47)	(4,185)	(6,346)	Net investment income
Total before tax	(35,001)	6,100	3,132	
Tax	12,250	(2,135)	(1,096)	Income taxes
Total after tax	(22,751)	3,965	2,036	
Pension adjustments:				
Amortization of prior service cost	476	477	377	Other operating expenses
Amortization of actuarial (gain) loss	11,960	9,691	14,209	Other operating expenses
Total before tax	12,436	10,168	14,586	
Tax	(4,353)	(3,559)	(5,105)	Income taxes
Total after tax	8,083	6,609	9,481	
Total reclassifications (after tax)	<u>\$ (14,668)</u>	<u>\$ 10,574</u>	<u>\$ 11,517</u>	

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

Note 4—InvestmentsPortfolio Composition:

A summary of fixed maturities available for sale by cost or amortized cost and estimated fair value at December 31, 2017 and 2016 is as follows:

	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value⁽¹⁾	% of Total Fixed Maturities⁽²⁾
2017:					
Fixed maturities available for sale:					
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	3,282,526	475,961	(23,392)	3,735,095	22
Utilities	1,955,737	369,406	(1,298)	2,323,845	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	12,923,415	1,819,119	(70,698)	14,671,836	87
Collateralized debt obligations	59,150	20,084	(7,653)	71,581	—
Other asset-backed securities	144,520	4,835	—	149,355	1
Redeemable preferred stocks, by sector:					
Financial	336,621	62,892	(2,727)	396,786	3
Utilities	28,553	2,132	(97)	30,588	—
Total redeemable preferred stocks	365,174	65,024	(2,824)	427,374	3
Total fixed maturities	<u>\$14,995,101</u>	<u>\$ 2,056,907</u>	<u>\$ (82,683)</u>	<u>\$16,969,325</u>	<u>100</u>

(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)

2016:	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value⁽¹⁾	% of Total Fixed Maturities⁽²⁾
Fixed maturities available for sale:					
U.S. Government direct, guaranteed, and government-sponsored enterprises	\$ 381,054	\$ 895	\$ (9,151)	\$ 372,798	3
States, municipalities, and political subdivisions	1,284,605	126,850	(1,327)	1,410,128	9
Foreign governments	21,701	1,438	(62)	23,077	—
Corporates, by sector:					
Financial	2,963,584	285,037	(45,885)	3,202,736	21
Utilities	1,875,946	249,701	(12,604)	2,113,043	14
Energy	1,542,426	127,989	(44,324)	1,626,091	11
Other corporate sectors	5,601,136	424,021	(84,547)	5,940,610	39
Total corporates	11,983,092	1,086,748	(187,360)	12,882,480	85
Collateralized debt obligations	60,726	13,062	(10,285)	63,503	—
Other asset-backed securities	56,410	621	(337)	56,694	—
Redeemable preferred stocks, by sector:					
Financial	371,862	43,383	(7,218)	408,027	3
Utilities	28,600	798	(244)	29,154	—
Total redeemable preferred stocks	400,462	44,181	(7,462)	437,181	3
Total fixed maturities	<u>\$14,188,050</u>	<u>\$ 1,273,795</u>	<u>\$ (215,984)</u>	<u>\$ 15,245,861</u>	<u>100</u>

(1) Amount reported in the balance sheet.

(2) At fair value.

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 \$657 million and \$753 million at December 31, 2017 and \$600 million and \$663 million at December 31, 2016.

A schedule of fixed maturities available for sale by contractual maturity date at December 31, 2017 is shown below on an amortized cost basis and on a fair value basis. Actual maturity dates could differ from contractual maturities due to call or prepayment provisions.

	Amortized Cost	Fair Value
Fixed maturities available for sale:		
Due in one year or less	\$ 147,457	\$ 149,495
Due after one year through five years	682,932	720,186
Due after five years through ten years	1,397,473	1,567,972
Due after ten years through twenty years	4,701,591	5,519,917
Due after twenty years	7,861,000	8,789,769
Mortgage-backed and asset-backed securities	204,648	221,986
	<u>\$ 14,995,101</u>	<u>\$ 16,969,325</u>

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

Note 4—Investments (continued)Analysis of investment operations:

	Year Ended December 31,		
	2017	2016	2015
Net investment income is summarized as follows:			
Fixed maturities available for sale	\$ 817,213	\$ 778,912	\$ 747,663
Policy loans	39,578	38,436	36,763
Other long-term investments	4,991	2,786	2,021
Short-term investments	948	447	95
	<u>862,730</u>	<u>820,581</u>	<u>786,542</u>
Less investment expense	(14,845)	(13,678)	(12,591)
Net investment income	<u>\$ 847,885</u>	<u>\$ 806,903</u>	<u>\$ 773,951</u>

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

Realized investment gains (losses):

Fixed maturities available for sale:

Sales and other	\$ 35,199	\$ (10,645)	\$ (9,479)
Other-than-temporary impairments	(245)	—	—
Other investments	(7,302)	(38)	688
Loss on redemption on debt	(4,041)	—	—
	<u>23,611</u>	<u>(10,683)</u>	<u>(8,791)</u>
Applicable tax	(6,021)	3,739	3,077
Realized gains (losses) from investments, net of tax	<u>\$ 17,590</u>	<u>\$ (6,944)</u>	<u>\$ (5,714)</u>

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

Fixed maturities available for sale	\$ 916,413	\$ 551,658	\$ (1,163,295)
Other investments	5,008	2,143	(2,737)
Net change in unrealized gains (losses)	<u>\$ 921,421</u>	<u>\$ 553,801</u>	<u>\$ (1,166,032)</u>

Additional information about securities sold is as follows:

	At December 31,		
	2017	2016	2015
Fixed maturities available for sale:			
Proceeds from sales ⁽¹⁾	\$ 67,246	\$ 358,285	\$ 226,792
Gross realized gains	5,079	6,133	259
Gross realized losses	(1,100)	(32,608)	(16,894)

(1) Includes unsettled sales of \$17.9 million at December 31, 2016. There were no unsettled sales in 2017 or 2015.

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, 2017 and 2016:

Fair Value Measurements at December 31, 2017 Using:				
Description	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Fixed maturities available for sale:				
U.S. Government direct, guaranteed, and 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	—	3,673,089	62,006	3,735,095
Utilities	—	2,168,115	155,730	2,323,845
Energy	—	1,779,281	40,816	1,820,097
Other corporate sectors	—	6,468,541	324,258	6,792,799
Total corporates	—	14,089,026	582,810	14,671,836
Collateralized debt obligations	—	—	71,581	71,581
Other asset-backed securities	—	135,306	14,049	149,355
Redeemable preferred stocks, by sector:				
Financial	—	396,786	—	396,786
Utilities	—	30,588	—	30,588
Total redeemable preferred stocks	—	427,374	—	427,374
Total fixed maturities	\$ 44	\$ 16,300,841	\$ 668,440	\$ 16,969,325
Percentage of total	—%	96.1%	3.9%	100.0%

Fair Value Measurements at December 31, 2016 Using:				
Description	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Fixed maturities available for sale:				
U.S. Government direct, guaranteed, and government-sponsored enterprises	\$ —	\$ 372,798	\$ —	\$ 372,798
States, municipalities, and political subdivisions	45,302	1,364,826	—	1,410,128
Foreign governments	—	23,077	—	23,077
Corporates, by sector:				
Financial	—	3,141,611	61,125	3,202,736
Utilities	—	1,959,143	153,900	2,113,043
Energy	—	1,598,976	27,115	1,626,091
Other corporate sectors	—	5,623,150	317,460	5,940,610
Total corporates	—	12,322,880	559,600	12,882,480
Collateralized debt obligations	—	—	63,503	63,503
Other asset-backed securities	—	56,694	—	56,694
Redeemable preferred stocks, by sector:				
Financial	—	408,027	—	408,027
Utilities	—	29,154	—	29,154
Total redeemable preferred stocks	—	437,181	—	437,181
Total fixed maturities	\$ 45,302	\$ 14,577,456	\$ 623,103	\$ 15,245,861
Percentage of total	0.3%	95.6%	4.1%	100.0%

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
Balance at January 1, 2015	\$ —	\$ 63,232	\$ 512,714	\$ 575,946
Total gains or losses:				
Included in realized gains/losses	—	—	1,182	1,182
Included in other comprehensive income	—	11,365	(11,925)	(560)
Acquisitions	—	—	38,600	38,600
Sales	—	—	—	—
Amortization	—	5,536	17	5,553
Other ⁽¹⁾	—	(9,751)	(9,782)	(19,533)
Transfers into (out of) Level 3 ⁽²⁾	—	—	—	—
Balance at December 31, 2015	—	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 ⁽¹⁾	—	(8,122)	(12,076)	(20,198)
Transfers into (out of) Level 3 ⁽²⁾	—	—	—	—
Balance at December 31, 2016	—	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 ⁽¹⁾	(361)	(6,490)	(9,373)	(16,224)
Transfers into (out of) Level 3 ⁽²⁾	—	—	—	—
Balance at December 31, 2017	<u>\$ 14,049</u>	<u>\$ 71,581</u>	<u>\$ 582,810</u>	<u>\$ 668,440</u>

(1) Includes foreign exchange adjustments and principal repayments.

(2) There were no transfers in or out of Level 3 during the three years ended 2017.

Acquisitions of Level 3 investments in each of the years 2015 through 2017 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, 2017

	Fair Value	Valuation Techniques	Significant Unobservable Input	Range	Weighted Average
Asset-backed securities	\$ 14,049	Determination of credit spread	Credit rating	BBB	BBB
		Discounted cash flows	Discount rate	5.35%	5.35%
Collateralized debt obligations	71,581	Discounted cash flows	Discount rate	7.0 - 8.25%	8.03%
Private placement fixed maturities	\$ 582,810	Determination of credit spread	Credit rating	A+ to BB-	BBB
		Discounted cash flows	Discount rate	2.97 - 7.27%	3.93%
	<u>\$ 668,440</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.

	2017			2016			2015		
	In	Out	Net	In	Out	Net	In	Out	Net
Level 1	\$ 42,372	\$ (597)	\$ 41,775	\$ 45,344	\$ —	\$ 45,344	\$ 17,252	\$ (49,744)	\$ (32,492)
Level 2	597	(42,372)	(41,775)	—	(45,344)	(45,344)	49,744	(17,252)	32,492
Level 3	—	—	—	—	—	—	—	—	—

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 two years ended December 31, 2016, there were no other-than-temporary impairments.

As of year end 2017, previously written down securities remaining in the portfolio were carried at a fair value of \$59 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, 2017 and December 31, 2016 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, 2017

Description of Securities	Less than Twelve Months		Twelve Months or Longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Fixed maturities available for sale:						
Investment grade securities:						
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)	32,345	(729)	80,907	(1,298)
Energy	23,463	(81)	67,775	(3,682)	91,238	(3,763)
Metals and mining	—	—	—	—	—	—
Other corporate sectors	220,661	(2,312)	163,886	(4,257)	384,547	(6,569)
Total corporates	425,766	(3,614)	299,308	(10,097)	725,074	(13,711)
Other asset-backed securities	—	—	—	—	—	—
Redeemable preferred stocks, by sector:						
Utilities	—	—	5,953	(97)	5,953	(97)
Total redeemable preferred stocks	—	—	5,953	(97)	5,953	(97)
Total investment grade securities	464,715	(4,057)	354,546	(11,154)	819,261	(15,211)
Below investment grade securities:						
States, municipalities and political subdivisions	200	(105)	—	—	200	(105)
Corporates, by sector:						
Financial	—	—	84,432	(21,311)	84,432	(21,311)
Energy	8,114	(104)	75,204	(21,525)	83,318	(21,629)
Metals and mining	—	—	—	—	—	—
Other corporate sectors	25,334	(5,066)	54,383	(8,981)	79,717	(14,047)
Total corporates	33,448	(5,170)	214,019	(51,817)	247,467	(56,987)
Collateralized debt obligations	—	—	12,347	(7,653)	12,347	(7,653)
Redeemable preferred stocks, by sector:						
Financial	—	—	24,376	(2,727)	24,376	(2,727)
Total redeemable preferred stocks	—	—	24,376	(2,727)	24,376	(2,727)
Total below investment grade securities	33,648	(5,275)	250,742	(62,197)	284,390	(67,472)
Total fixed maturities	\$ 498,363	\$ (9,332)	\$ 605,288	\$ (73,351)	\$ 1,103,651	\$ (82,683)

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, 2016

Description of Securities	Less than Twelve Months		Twelve Months or Longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Fixed maturities available for sale:						
Investment grade securities:						
U.S. Government direct, guaranteed, and government-sponsored enterprises	\$ 321,133	\$ (8,553)	\$ 1,404	\$ (598)	\$ 322,537	\$ (9,151)
States, municipalities and political subdivisions	32,178	(1,114)	683	(19)	32,861	(1,133)
Foreign governments	4,416	(62)	—	—	4,416	(62)
Corporates, by sector:						
Financial	479,669	(18,666)	64,335	(4,627)	544,004	(23,293)
Utilities	290,732	(11,000)	16,977	(1,604)	307,709	(12,604)
Energy	83,064	(1,076)	154,908	(18,127)	237,972	(19,203)
Metals and mining	5,936	(231)	5,789	(187)	11,725	(418)
Other corporate sectors	1,564,273	(65,131)	68,968	(6,495)	1,633,241	(71,626)
Total corporates	2,423,674	(96,104)	310,977	(31,040)	2,734,651	(127,144)
Other asset-backed securities	41,498	(337)	—	—	41,498	(337)
Redeemable preferred stocks, by sector:						
Utilities	5,857	(244)	—	—	5,857	(244)
Total redeemable preferred stocks	5,857	(244)	—	—	5,857	(244)
Total investment grade securities	2,828,756	(106,414)	313,064	(31,657)	3,141,820	(138,071)
Below investment grade securities:						
States, municipalities and political subdivisions	—	—	357	(194)	357	(194)
Corporates, by sector:						
Financial	—	—	83,174	(22,592)	83,174	(22,592)
Energy	15,567	(385)	91,165	(24,736)	106,732	(25,121)
Metals and mining	32,478	(172)	34,463	(2,023)	66,941	(2,195)
Other corporate sectors	51,640	(291)	95,679	(10,017)	147,319	(10,308)
Total corporates	99,685	(848)	304,481	(59,368)	404,166	(60,216)
Collateralized debt obligations	—	—	9,714	(10,285)	9,714	(10,285)
Redeemable preferred stocks, by sector:						
Financial	—	—	19,912	(7,218)	19,912	(7,218)
Total redeemable preferred stocks	—	—	19,912	(7,218)	19,912	(7,218)
Total below investment grade securities	99,685	(848)	334,464	(77,065)	434,149	(77,913)
Total fixed maturities	\$ 2,928,441	\$ (107,262)	\$ 647,528	\$ (108,722)	\$ 3,575,969	\$ (215,984)

Gross unrealized losses decreased from \$216 million at year end 2016 to \$83 million at year end 2017, a decrease of \$133 million. The decrease in the gross unrealized losses from prior year was primarily attributable to the improved conditions during 2017 in the energy sector and broadly across all sectors.

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:

	Less than Twelve Months	Twelve Months or Longer	Total
Number of issues (CUSIP numbers) held:			
As of December 31, 2017	92	102	194
As of December 31, 2016	407	94	501

Torchmark's entire fixed maturity portfolio consisted of 1,502 issues at December 31, 2017 and 1,565 issues at December 31, 2016. The weighted-average quality rating of all unrealized loss positions at amortized cost was BBB- for 2017 and BBB+ for 2016.

Other investment information:

Other long-term investments consist of the following:

	Year Ended December 31,	
	2017	2016
Investment in limited partnerships	\$ 66,522	\$ 51,509
Commercial mortgage participations ⁽¹⁾	39,489	—
Other	2,548	2,343
Total	<u>\$ 108,559</u>	<u>\$ 53,852</u>

(1) A mortgage participation is a legal right to a prorata interest in a mortgage loan.

Torchmark did not have any invested assets that were non-income producing during the twelve months ended December 31, 2017.

Concentrations of Credit Risk: Torchmark maintains a diversified investment portfolio with limited concentration in any given issuer. At December 31, 2017, the investment portfolio, at fair value, consisted of the following:

Investment grade fixed maturities:

Corporate securities	82%
Securities of state and municipal governments	7
Government-sponsored enterprises	2
Other	1

Below investment grade fixed maturities:

Corporate securities	3
Other	1
Policy loans, which are secured by the underlying insurance policy values	3
Other investments	1
	<u>100%</u>

As of December 31, 2017, securities of state and municipal governments represented 7% of invested assets at fair value. Such investments are made throughout the U.S. At yearend 2017, the state and municipal bond portfolio at fair value was invested in securities issued within the following states: Texas (29%), Ohio (9%), Washington (8%), Illinois (7%), Michigan (5%), and Georgia (5%). Otherwise, there was no concentration within any given state greater than 5%.

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

Note 4—Investments (continued)

Corporate debt securities and redeemable preferred stocks represent 85% 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, 2017, based on fair value:

Insurance	16%
Electric utilities	12
Oil and natural gas pipelines	7
Banks	6
Transportation	4
Oil and natural gas exploration and production	4
Chemicals	4
Real estate investment trusts	4
Food	3
Metals and mining	3

At yearend 2017, 4% of invested assets at fair value were represented by fixed maturities rated below investment grade. Par value of these investments was \$790 million, amortized cost was \$702 million, and fair value was \$679 million. While these investments could be subject to additional credit risk, such risk should generally be reflected in their fair value.

Note 5—Deferred Acquisition Costs

An analysis of DAC is as follows:

	Year Ended December 31,		
	2017	2016	2015
Balance at beginning of year	\$ 3,783,158	\$ 3,617,135	\$ 3,457,397
Additions:			
Deferred during period:			
Commissions	465,920	436,252	401,166
Other expenses	194,214	199,066	211,015
Total deferred	660,134	635,318	612,181
Foreign exchange adjustment	5,712	2,180	—
Adjustment attributable to unrealized investment losses ⁽¹⁾	—	—	8,682
Total additions	665,846	637,498	620,863
Deductions:			
Amortized during period	(490,403)	(469,063)	(445,625)
Foreign exchange adjustment	—	—	(15,500)
Adjustment attributable to unrealized investment gains ⁽¹⁾	(538)	(2,412)	—
Total deductions	(490,941)	(471,475)	(461,125)
Balance at end of year	<u>\$ 3,958,063</u>	<u>\$ 3,783,158</u>	<u>\$ 3,617,135</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—Discontinued Operations

At December 31, 2015, Torchmark met the criteria to account for its Medicare Part D Prescription Drug Plan business as a discontinued operation. Historically, the business was a reportable segment. Effective July 1, 2016, Torchmark sold its Medicare Part D Prescription Drug Plan business to an unaffiliated third party.

The sale resulted in a net gain of \$1.8 million (\$1.2 million net of tax) in 2016. The operating results from discontinued operations are reflected in income for the twelve months ended December 31, 2017. The remaining assets and liabilities reflected on the Torchmark balance sheet related to discontinued operations are receivables and payables associated with the 2016 and prior plan years that are expected to be settled in the ordinary course of business during 2018.

The net assets related to discontinued operations at December 31, 2017 and 2016 were as follows:

	At December 31,	
	2017	2016
Assets:		
Due premiums	\$ 3,945	\$ 8,840
Other receivables ⁽¹⁾	64,575	118,692
Total assets related to discontinued operations	68,520	127,532
Liabilities:		
Risk sharing payable	8,731	8,374
Current and deferred income taxes payable	1,077	3,820
Other ⁽²⁾	40,046	15,230
Total liabilities related to discontinued operations	49,854	27,424
Net assets	\$ 18,666	\$ 100,108

(1) At December 31, 2017, other receivables included \$65 million from Centers for Medicare and Medicaid Services (CMS). At December 31, 2016, the comparable amounts were \$50 million from CMS and \$69 million from drug manufacturer rebates.

(2) At December 31, 2017, the balance included \$37.3 million due to CMS. At December 31, 2016, the balance includes \$3.6 million contingent sale price reserve.

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

Note 6—Discontinued Operations (continued)

Income from discontinued operations for the three years ended December 31, 2017 is as follows:

	Year Ended December 31,		
	2017	2016	2015
Revenue:			
Health premium	\$ —	\$ 222,840	\$ 260,657
Benefits and expenses:			
Health policyholder benefits	3,827	183,423	213,114
Amortization of deferred acquisition costs	—	3,747	3,506
Commissions, premium taxes, and non-deferred acquisition expenses	763	16,396	20,909
Other operating expense	1,209	5,377	6,502
Total benefits and expenses	5,799	208,943	244,031
Income before income taxes for discontinued operations	(5,799)	13,897	16,626
Gain from sale of discontinued operations	—	1,779	—
Income taxes	2,030	(5,487)	(5,819)
Income from discontinued operations	<u>\$ (3,769)</u>	<u>\$ 10,189</u>	<u>\$ 10,807</u>

Income taxes paid related to discontinued operations for the three years ended December 31, 2017 were as follows:

	Year Ended December 31,		
	2017	2016	2015
Income taxes paid	\$ 714	\$ 15,271	\$ 3,409

Note 7—Liability for Unpaid Claims

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

	Year Ended December 31,		
	2017	2016	2015
Balance at beginning of year	\$ 143,128	\$ 137,120	\$ 128,265
Incurred related to:			
Current year	520,528	510,075	502,009
Prior years	(8,048)	(1,127)	(7,845)
Total incurred	512,480	508,948	494,164
Paid related to:			
Current year	394,506	386,278	379,037
Prior years	114,237	116,662	106,272
Total paid	508,743	502,940	485,309
Balance at end of year	<u>\$ 146,865</u>	<u>\$ 143,128</u>	<u>\$ 137,120</u>

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

Note 7—Liability for Unpaid Claims (continued)

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. Because of 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."

The liability for unpaid health claims is included within "Policy claims and other benefits payable" in the *Consolidated Balance Sheets*.

Short-Duration Contracts

Although Torchmark primarily sells long-duration contracts for both life and health, the Company also has a limited amount of group health products that qualify as short-duration contracts in accordance with the applicable guidance.

The following table illustrates the total incurred claims for short-duration products over the last five years for the year ended December 31, 2017. Claim frequency is determined by duration and incurred date.

Accident Year	For the years ended December 31, 2017					As of December 31, 2017	
	Cumulative incurred claims ⁽¹⁾					Total of incurred-but-not-reported liabilities plus expected development on reported claims	Cumulative number of reported claims ⁽¹⁾ (In thousands)
	2013	2014	2015	2016	2017		
2013	\$ 84,111	\$ 82,644	\$ 83,151	\$ 83,119	\$ 83,103	\$ —	1,337
2014		101,407	99,876	99,810	99,777	—	1,600
2015			141,667	141,460	141,259	17	2,224
2016				140,944	138,899	431	2,158
2017					134,677	24,259	1,765
				Total	\$ 597,715	\$ 24,707	

(1) The incurred claims and cumulative number of reported claims for all years prior to 2017 are unaudited.

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

Note 7—Liability for Unpaid Claims (continued)

This table illustrates the total cumulative paid claims and allocated claims for short-duration products over the last five years for the year ended December 31, 2017.

Accident Year	Cumulative paid claims ⁽¹⁾ For the years ended December 31,				
	2013	2014	2015	2016	2017
2013	\$ 68,159	\$ 82,408	\$ 83,131	\$ 83,119	\$ 83,103
2014		81,054	99,545	99,791	99,777
2015			115,922	140,982	141,242
2016				114,720	138,468
2017					110,418
				Total	573,008
				Short-duration claim liability as of December 31, 2017	24,707
				Total incurred claims & IBNR	<u>\$597,715</u>

(1) The cumulative paid claims for all years prior to 2017 are unaudited.

Below is the reconciliation of the net incurred and paid claims development tables to the liability for "Policy claims and other benefits payable" in the *Consolidated Balance Sheets*.

	December 31, 2017	December 31, 2016
Policy claims and other benefits payable:		
Short-duration products	\$ 24,707	\$ 26,721
Insurance lines other than short duration—health	122,158	116,407
Total health	146,865	143,128
Insurance lines other than short duration—life	186,429	156,437
Total policy claims and other benefits payable	<u>\$ 333,294</u>	<u>\$ 299,565</u>

Note 8—Income Taxes

The components of income taxes were as follows:

	Year Ended December 31,		
	2017	2016	2015
Income tax expense (benefit) from continuing operations	\$ (627,615)	\$ 232,645	\$ 249,894
Shareholders' equity:			
Other comprehensive income (loss)	318,475	186,206	(411,646)
Tax basis compensation expense (from the exercise of stock options and vesting of restricted stock awards) in excess of amounts recognized for financial reporting purposes	—	—	(17,577)
	<u>\$ (309,140)</u>	<u>\$ 418,851</u>	<u>\$ (179,329)</u>

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

Note 8—Income Taxes (continued)

Income tax (benefit) expense from continuing operations consists of:

	Year Ended December 31,		
	2017	2016	2015
Current income tax (benefit) expense	\$ 138,262	\$ 132,806	\$ 174,284
Deferred income tax (benefit) expense	(765,877)	99,839	75,610
	<u>\$ (627,615)</u>	<u>\$ 232,645</u>	<u>\$ 249,894</u>

In each of the years 2015 through 2017, deferred income tax (benefit) expense was incurred because of certain differences between net income before income taxes 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 financial statement book values of some assets and liabilities to be different from their respective tax bases.

As discussed in *Note 1—Significant Accounting Policies*, due to the passage of the Tax Legislation before December 31, 2017, the Company recorded \$877 million reduction in deferred income tax expense related to a one-time adjustment to reduce its net deferred tax liability as of December 22, 2017, as required by ASC 740 *Income Taxes*, due to the reduction in the income tax rate. This adjustment to the Company's net deferred tax liability included \$252 million related to items included in AOCI.

Although many aspects of the Tax Legislation are not effective until 2018, the Company recorded a reasonable estimate for the tax reform adjustment in accordance with SAB 118. We will continue to analyze relevant information to complete our accounting for income taxes which may result in an adjustment to our estimate in 2018. The accounting is expected to be complete when the 2017 U.S. corporate income tax return is filed later in 2018.

The effective income tax rate differed from the expected 35% rate as shown below:

	Year Ended December 31,					
	2017	%	2016	%	2015	%
Expected income taxes	\$ 290,727	35.0	\$ 270,282	35.0	\$ 268,165	35.0
Increase (reduction) in income taxes resulting from:						
Tax reform adjustment	(877,400)	(105.6)	—	—	—	—
Low income housing investments	(18,515)	(2.2)	(18,202)	(2.4)	(19,031)	(2.5)
Share-based awards	(19,549)	(2.4)	(18,653)	(2.4)	—	—
Other	(2,878)	(0.4)	(782)	(0.1)	760	0.1
Income tax expense (benefit) from continuing operations	<u>\$ (627,615)</u>	<u>(75.6)</u>	<u>\$ 232,645</u>	<u>30.1</u>	<u>\$ 249,894</u>	<u>32.6</u>

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,	
	2017	2016
Deferred tax assets:		
Fixed maturity investments	\$ 8,692	\$ 15,004
Carryover of tax losses	4,760	3,906
Total gross deferred tax assets	<u>13,452</u>	<u>18,910</u>
Deferred tax liabilities:		
Unrealized gains	380,251	315,509
Employee and agent compensation	65,576	92,131
Deferred acquisition costs	618,889	975,873
Future policy benefits, unearned and advance premiums, and policy claims	248,752	391,451
Other liabilities	11,289	3,987
Total gross deferred tax liabilities	<u>1,324,757</u>	<u>1,778,951</u>
Net deferred tax liability	<u><u>\$ 1,311,305</u></u>	<u><u>\$ 1,760,041</u></u>

Income Tax Return: Torchmark and its subsidiaries, excluding Family Heritage Life Insurance Company (Family Heritage), file a life-nonlife consolidated federal income tax return. Family Heritage files its federal income tax return on a separate company basis. The statutes of limitations for the Internal Revenue Service's examination and assessment of additional tax are closed for all tax years prior to 2014 with respect to Torchmark's consolidated and 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 \$22.7 million at December 31, 2017 which 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 2015 through 2017, Torchmark did not have any uncertain tax positions which resulted in unrecognized tax benefits.

Tax penalties: Torchmark's continuing practice is to recognize interest and penalties related to income tax matters in income tax expense. The Company recognized interest income of \$5 thousand, \$9 thousand, and \$11 thousand, net of federal income tax expense, in its *Consolidated Statements of Operations* for 2017, 2016, and 2015, respectively. The Company had no accrued interest or penalties at December 31, 2017 or 2016.

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 which cover substantially all employees. There are also two nonqualified noncontributory supplemental executive retirement plans (SERPs) which cover a limited number of employees. The total cost of these retirement plans charged to operations was as follows:

Year Ended December 31,	Defined Contribution Plans ⁽¹⁾	Defined Benefit Pension Plans ⁽²⁾
2017	\$ 4,145	\$ 28,828
2016	3,614	24,202
2015	3,429	29,230

(1) 401K plans

(2) Qualified pension plans and SERPs

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 31st 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. Defined benefit plan contributions were \$21.3 million in 2017, \$15.8 million in 2016, and \$15.5 million in 2015. Torchmark estimates as of December 31, 2017 that it will contribute an amount in the range of \$30 million to \$40 million to these plans in 2018. The actual amount of contribution may be different from this estimate.

Torchmark has two SERPs, one of which is active and 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. This SERP is nonqualified and unfunded. However, a Rabbi Trust has been established to support the liability for this plan. This 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*.

The second supplemental benefit pension plan is limited to a very select group of employees and was closed as of December 31, 1994. It provides the full benefits that an employee would have otherwise received from a defined benefit plan in the absence of the limitation on benefits payable under a qualified plan. This plan is also nonqualified and unfunded. Pension cost for both supplemental defined benefit plans is determined in the same manner as for the qualified defined benefit plans.

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 activity for the SERPs for the three years ended December 31, 2017.

	Year Ended December 31,		
	2017	2016	2015
Premiums paid for insurance coverage	\$ 2,050	\$ 2,050	\$ 10,068
	December 31,		
	2017	2016	
Total investments:			
Company owned life insurance	\$ 40,273	\$ 37,267	
Exchange traded funds	55,442	48,999	
	<u>\$ 95,715</u>	<u>\$ 86,266</u>	
Liability:			
Active plan	\$ 81,457	\$ 74,687	
Closed plan	\$ 3,008	\$ 3,220	

Plan assets in the funded plans consist primarily of investments in marketable fixed maturities and equity securities and 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, 2017 and 2016.

Pension Assets by Component at December 31, 2017

	Fair Value Determined by:				% to Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Amount	
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 ⁽¹⁾	164,351			164,351	43
Other bonds		256		256	—
Other long-term investments		2,304		2,304	1
Guaranteed annuity contract ⁽²⁾		21,202		21,202	6
Short-term investments	3,984			3,984	1
Other	5,021			5,021	1
Grand Total	<u>\$ 173,356</u>	<u>\$ 204,268</u>	<u>\$ —</u>	<u>\$ 377,624</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, 2016**

	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	\$	\$ 41,578	\$	\$ 41,578	13
Utilities		43,890		43,890	13
Energy		25,427		25,427	8
Other corporates		49,141		49,141	15
Total corporate bonds	—	160,036	—	160,036	49
Exchange traded fund ⁽¹⁾	134,771			134,771	41
Other bonds		258		258	—
Guaranteed annuity contract ⁽²⁾		18,997		18,997	6
Short-term investments	7,391			7,391	2
Other	7,418			7,418	2
Grand Total	\$ 149,580	\$ 179,291	\$ —	\$ 328,871	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% 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 CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Dollar amounts in thousands, except per share data)

Note 9—Postretirement Benefits (continued)

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, 2017, 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, 2017.

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

For Benefit Obligations at December 31:	2017	2016	
Discount Rate	3.75%	4.27%	
Rate of Compensation Increase	4.37	4.31	
For Periodic Benefit Cost for the Year:	2017	2016	2015
Discount Rate	4.27%	4.64%	4.23%
Expected Long-Term Returns	6.96	7.19	6.96
Rate of Compensation Increase	4.31	4.33	4.35

The discount rate is determined based on the expected duration of plan liabilities. A yield is then derived based on the current market yield of a hypothetical portfolio of higher-quality corporate bonds which match the liability duration. The rate of compensation increase 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.

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

	Year Ended December 31,		
	2017	2016	2015
Service cost—benefits earned during the period	\$ 17,942	\$ 15,502	\$ 15,902
Interest cost on projected benefit obligation	22,124	21,631	19,887
Expected return on assets	(23,597)	(23,127)	(21,204)
Net amortization	12,281	10,135	14,465
Recognition of actuarial loss	78	61	180
Net periodic pension cost	\$ 28,828	\$ 24,202	\$ 29,230

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

Note 9—Postretirement Benefits (continued)

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

	Year Ended December 31,		
	2017	2016	2015
Balance at January 1	\$ (173,883)	\$ (152,149)	\$ (152,999)
Amortization of:			
Prior service cost	476	477	377
Net actuarial (gain) loss ⁽¹⁾	11,960	9,691	14,209
Total amortization	12,436	10,168	14,586
Plan amendments	—	—	(2,104)
Experience gain (loss)	(31,933)	(31,902)	(11,632)
Balance at December 31	<u>\$ (193,380)</u>	<u>\$ (173,883)</u>	<u>\$ (152,149)</u>

(1) Includes amortization of postretirement benefits other than pensions of \$155 thousand in 2017, \$33 thousand in 2016, and \$120 thousand in 2015.

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

Pension Benefits

	Year Ended December 31,	
	2017	2016
Changes in benefit obligation:		
Obligation at beginning of year	\$ 527,522	\$ 476,581
Service cost	17,942	15,502
Interest cost	22,124	21,631
Plan amendments	—	—
Actuarial loss (gain)	55,369	34,667
Benefits paid	(20,351)	(20,859)
Obligation at end of year	602,606	527,522
Changes in plan assets:		
Fair value at beginning of year	328,871	307,596
Return on assets	47,832	26,377
Contributions	21,272	15,757
Benefits paid	(20,351)	(20,859)
Fair value at end of year	377,624	328,871
Funded status at year end	<u>\$ (224,982)</u>	<u>\$ (198,651)</u>
Amounts recognized in accumulated other comprehensive income consist of:		
Net loss (gain)	\$ 186,563	\$ 167,313
Prior service cost	4,135	4,611
Net amounts recognized at year end	<u>\$ 190,698</u>	<u>\$ 171,924</u>

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

Note 9—Postretirement Benefits (continued)

The portion of other comprehensive income that is expected to be reflected in pension expense in 2018 is as follows:

Amortization of prior service cost	\$ 476
Amortization of net actuarial loss	14,543
Total	<u>\$ 15,019</u>

The accumulated benefit obligation (ABO) for Torchmark's funded defined benefit pension plans was \$466 million and \$411 million at December 31, 2017 and 2016, respectively. In the nonqualified plans, the ABO was \$75 million at December 31, 2017 and \$69 million at 2016.

Torchmark has estimated its expected pension benefits to be paid over the next ten years as of December 31, 2017. These estimates use the same assumptions that measure the benefit obligation at December 31, 2016, taking estimated future employee service into account. Those estimated benefits are as follows:

For the year(s)

2018	\$ 20,375
2019	22,143
2020	23,840
2021	25,239
2022	27,090
2023-2027	160,075

Postretirement Benefit Plans Other Than Pensions: Torchmark provides a small postretirement life insurance benefit for most retired employees, and also provides additional postretirement life insurance benefits for certain key employees. The majority of the life insurance benefits are accrued over the working lives of active employees. Otherwise, Torchmark does not provide postretirement benefits other than pensions and the life insurance benefits described above.

Torchmark's postretirement defined benefit plans other than pensions are not funded. Liabilities for these plans are measured as of December 31 for the appropriate year.

The components of net periodic postretirement benefit cost for plans other than pensions are as follows:

	Year Ended December 31,		
	2017	2016	2015
Service cost	\$ —	\$ —	\$ —
Interest cost on benefit obligation	1,132	1,139	1,075
Expected return on plan assets	—	—	—
Net amortization	155	33	120
Recognition of net actuarial (gain) loss	167	(132)	367
Net periodic postretirement benefit cost	<u>\$ 1,454</u>	<u>\$ 1,040</u>	<u>\$ 1,562</u>

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 of the benefit obligation and plan assets from the beginning to the end of the year. As these plans are unfunded, funded status is equivalent to the accrued benefit liability.

Benefits Other Than Pensions

	Year Ended December 31,	
	2017	2016
Changes in benefit obligation:		
Obligation at beginning of year	\$ 23,721	\$ 22,479
Service cost	—	—
Interest cost	1,132	1,139
Actuarial loss (gain)	1,045	412
Benefits paid	(285)	(309)
Obligation at end of year	<u>25,613</u>	<u>23,721</u>
Changes in plan assets:		
Fair value at beginning of year	—	—
Return on assets	—	—
Contributions	285	309
Benefits paid	(285)	(309)
Fair value at end of year	<u>—</u>	<u>—</u>
Funded status at year end	<u>\$ (25,613)</u>	<u>\$ (23,721)</u>
Amounts recognized in accumulated other comprehensive income:		
Net loss ⁽¹⁾	\$ 2,682	\$ 1,959
Net amounts recognized at year end	<u>\$ 2,682</u>	<u>\$ 1,959</u>

(1) The net loss for benefit plans other than pensions reduces other comprehensive income.

The table below presents the assumptions used to determine the liabilities and costs of Torchmark's postretirement benefit plans other than pensions.

**Weighted Average Assumptions for Postretirement
Benefit Plans Other Than Pensions**

For Benefit Obligations at December 31:	2017	2016	
Discount Rate	<u>3.76%</u>	<u>4.29%</u>	
For Periodic Benefit Cost for the Year:	2017	2016	2015
Discount Rate	<u>4.29%</u>	<u>4.66%</u>	<u>4.23%</u>

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

Note 9—Postretirement Benefits (continued)**Estimated Future Payments for Post-Retirement Benefit Plans Other Than Pensions****For the year(s)**

2018	\$ 1,228
2019	1,278
2020	1,311
2021	1,344
2022	1,386
2023-2027	7,515

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,		
	2017	2016	2015
Stock-based compensation not involving cash	\$ 37,034	\$ 26,326	\$ 28,664
Commitments for low-income housing interests	33,846	56,818	68,949
Exchanges of fixed maturity investments	84,312	224,901	—
Net unsettled security trades	—	15,020	—

The following table summarizes certain amounts paid during the period:

	Year Ended December 31,		
	2017	2016	2015
Interest paid	\$ 82,494	\$ 81,338	\$ 74,792
Income taxes paid	74,379	79,790	110,650

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,			
				2017			2016
	Annual Interest Rate	Issue Date	Periodic Interest Payments Due	Outstanding Principal (Par Value)	Outstanding Principal (Book Value)	Outstanding Principal (Fair Value)	Outstanding Principal (Book Value)
Long-term debt:							
Notes, due 5/15/23 ^(3,5)	7.875%	5/93	5/15 & 11/15	\$ 165,612	\$ 164,284	\$ 195,786	\$ 164,095
Senior Notes, due 6/15/19 ^(3,7)	9.250%	6/09	6/15 & 12/15	292,647	291,888	320,697	291,424
Senior Notes, due 9/15/22 ^(3,7)	3.800%	9/12	3/15 & 9/15	150,000	148,477	155,000	148,189
Junior Subordinated Debentures due 12/15/52 ^(4,8,12)	5.875%	9/12	quarterly	—	—	—	120,929
Junior Subordinated Debentures due 3/15/36 ^(4,6,12)	4.888% ⁽¹³⁾	⁽¹¹⁾	quarterly	20,000	20,000	20,000	20,000
Junior Subordinated Debentures due 6/15/56 ^(4,9)	6.125%	4/16	quarterly	300,000	290,460	321,120	290,403
Junior Subordinated Debentures due 11/17/57 ^(4,10)	5.275%	11/17	6/15 & 12/15	125,000	123,342	122,039	—
Term loan due 5/17/21 ^(1,6)	2.600% ⁽¹⁴⁾	6/16	monthly	98,125	98,125	98,125	100,000
				1,151,384	1,136,576	1,232,767	1,135,040
Less current maturity of term loan				4,375	4,375	4,375	1,875
Total long-term debt				1,147,009	1,132,201	1,228,392	1,133,165
Short-term debt:							
Current maturity of term loan				4,375	4,375	4,375	1,875
Commercial paper ⁽²⁾				324,250	323,692	323,692	262,600
Total short-term debt				328,625	328,067	328,067	264,475
Total debt				\$ 1,475,634	\$ 1,460,268	\$ 1,556,459	\$ 1,397,640

(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) Redeemed on December 22, 2017.

(9) 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.

(10) 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.

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

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

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

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

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,					
	2018	2019	2020	2021	2022	Thereafter
Debt obligations	\$ 328,625	\$ 299,522	\$ 9,375	\$ 77,500	\$ 150,000	\$ 610,612

Funded debt: 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, 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.

On April 5, 2016, Torchmark completed the issuance and sale of \$300 million in aggregate principal of Torchmark's 6.125% Junior Subordinated Debentures due 2056. The debentures were sold pursuant to Torchmark's shelf registration statement on Form S-3, filed September 25, 2015. The net proceeds from the sale of the debentures were \$290 million, after giving effect to the underwriting discount and expenses of the offering of the debentures. Torchmark used the net proceeds from the offering of the debentures to repay the \$250 million outstanding principal, plus accrued interest of \$8 million, on the 6.375% Senior Notes that were due June 15, 2016. The remaining proceeds were used for general corporate purposes.

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, 2017, the Company was in full compliance with these covenants.

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

	At December 31,	
	2017	2016
Balance at end of period (at par value)	\$ 324,250	\$ 262,850
Annualized interest rate	1.78%	0.96%
Letters of credit outstanding	\$ 177,000	\$ 177,000
Remaining amount available under credit line	248,750	310,150

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

Note 11—Debt (continued)

	Year Ended December 31,		
	2017	2016	2015
Average balance outstanding during period	\$ 323,429	\$ 301,550	\$ 350,851
Daily-weighted average interest rate (annualized)	1.30%	0.83%	0.43%
Maximum daily amount outstanding during period	\$ 455,912	\$ 412,676	\$ 458,110

Note 12—Shareholders' Equity

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

	Preferred Stock		Common Stock	
	Issued	Treasury Stock	Issued	Treasury Stock
2015:				
Balance at January 1, 2015	—	—	134,218,183	(6,287,907)
Grants of restricted stock				6,648
Forfeitures of restricted stock				(13,950)
Vesting of performance shares				211,287
Issuance of common stock due to exercise of stock options				1,576,485
Treasury stock acquired				(7,340,794)
Retirement of treasury stock			(4,000,000)	4,000,000
Balance at December 31, 2015	—	—	130,218,183	(7,848,231)
2016:				
Grants of restricted stock				12,549
Forfeitures of restricted stock				—
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)
2017:				
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)

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. Share repurchases under this program were 4.1 million shares at a cost of \$325 million in 2017, 5.2 million shares at a cost of \$311 million in 2016, and 6.3 million shares at a cost of \$359 million in 2015. 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. Shares repurchased for dilution purposes were 1.1 million shares at a cost of \$88 million in 2017, 1.5 million shares at a cost of \$93 million in 2016, and 1.0 million shares at a cost of \$60 million in 2015.

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

Note 12—Shareholders' Equity (continued)

Retirement of Treasury Stock: Torchmark retired 3.0 million shares of treasury stock in 2017, 3.0 million in 2016, and 4.0 million in 2015.

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 \$454 million in 2017, \$438 million in 2016, and \$466 million in 2015. As of December 31, 2017, dividends and transfers from insurance subsidiaries to parent available to be paid in 2018 are limited to the amount of \$315 million without regulatory approval, such that \$940 million 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, 2017 were restricted by lenders' covenants which require the Company to maintain and not distribute \$3.5 billion from its total consolidated retained earnings of \$4.8 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,		
	2017	2016	2015
Basic weighted average shares outstanding	116,342,529	120,001,191	125,094,628
Weighted average dilutive options outstanding	2,640,965	2,366,594	1,662,607
Diluted weighted average shares outstanding	<u>118,983,494</u>	<u>122,367,785</u>	<u>126,757,235</u>

For the three years ended December 31, 2017, there were no anti-dilutive shares. Income available to common shareholders for basic earnings per share is equivalent to income available to common shareholders for diluted earnings per share.

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 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 ⁽¹⁾	10 years	—%	—%	25%	25%	25%	25%

(1) Grant offered through the Torchmark Corporation 2011 Incentive Plan only.

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

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

Note 13—Stock-Based Compensation (continued)

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		
	2017	2016	2015
Balance at January 1,	5,088,461	6,872,282	8,458,593
Options expired and forfeited during year ⁽¹⁾	26,488	8,518	90,371
Restricted stock expired and forfeited during year ⁽²⁾	46,500	—	89,745
Options granted during year ⁽¹⁾	(1,328,513)	(1,306,306)	(1,334,514)
Restricted stock, restricted stock units, and performance shares granted under the Torchmark Corporation 2011 Incentive Plan ⁽²⁾	(868,616)	(486,033)	(431,913)
Balance at December 31,	2,964,320	5,088,461	6,872,282

(1) 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.

(2) 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, 2017 is presented below:

	2017	2016	2015
Stock-based compensation expense recognized ⁽¹⁾	\$ 37,034	\$ 26,326	\$ 28,664
Tax benefit recognized	32,511	27,867	10,033

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

Additional stock compensation information is as follows at December 31:

	2017	2016
Unrecognized compensation ⁽¹⁾	\$ 31,309	\$ 27,334
Weighted average period of expected recognition (in years) ⁽¹⁾	0.86	0.89

(1) Includes restricted stock and performance shares.

No equity awards were cash settled during the three years ended December 31, 2017.

Options: The following table summarizes information about stock options outstanding at December 31, 2017.

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	1,421,268	2.20	\$ 34.54	1,366,689	\$ 34.42
50.64	1,405,725	6.39	50.64	—	—
50.69 - 51.62	1,090,703	3.69	50.70	958,463	50.70
53.61 - 56.32	1,384,582	4.63	53.65	594,184	53.71
73.92 - 77.26	1,451,523	7.23	77.24	9,643	73.92
\$29.59 - \$77.26	6,753,801	4.89	\$ 53.59	2,928,979	\$ 43.79

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 option activity for each of the three years ended December 31, 2017 is as follows:

	2017		2016		2015	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding—beginning of year	6,973,591	\$ 44.64	7,734,841	\$ 38.84	7,889,321	\$ 32.91
Granted:						
7-year term	933,286	77.19	834,212	50.78	1,220,751	53.62
10-year term	535,220	77.26	597,225	50.64	296,875	53.61
Exercised	(1,661,808)	36.84	(2,184,169)	28.08	(1,576,485)	22.81
Expired and forfeited	(26,488)	57.94	(8,518)	39.35	(95,621)	48.85
Outstanding—end of year	<u>6,753,801</u>	<u>\$ 53.59</u>	<u>6,973,591</u>	<u>\$ 44.64</u>	<u>7,734,841</u>	<u>\$ 38.84</u>
Exercisable at end of year	<u>2,928,979</u>	<u>\$ 43.79</u>	<u>3,115,847</u>	<u>\$ 36.81</u>	<u>3,774,061</u>	<u>\$ 29.37</u>

Additional information about Torchmark's stock option activity as of December 31, 2017 and 2016 is as follows:

	2017	2016
Outstanding options:		
Weighted-average remaining contractual term (in years)	4.89	4.70
Aggregate intrinsic value	\$ 231,277	\$ 87,286
Exercisable options:		
Weighted-average remaining contractual term (in years)	2.99	2.96
Aggregate intrinsic value	\$ 137,424	\$ 63,395

Selected stock option activity for the three years ended December 31, 2017 is presented below:

	2017	2016	2015
Weighted-average grant-date fair value of options granted (per share)	\$ 12.88	\$ 9.04	\$ 11.97
Intrinsic value of options exercised	70,948	73,995	54,854
Cash received from options exercised	61,215	61,329	35,958
Actual tax benefit received	24,832	25,898	24,470

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

	2017	2016
Number of shares outstanding	3,824,822	3,857,744
Weighted-average exercise price (per share)	\$ 61.10	\$ 50.97
Weighted-average remaining contractual term (in years)	6.34	6.11
Aggregate intrinsic value	\$ 113,246	\$ 23,891

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

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

Note 13—Stock-Based Compensation (continued)

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.

Restricted stock units outstanding at each of the year ends 2017, 2016, and 2015 were 120,326, 112,591, and 105,679, respectively. All restricted stock units were fully vested at the end of each year of grant.

Below is the final determination of the performance share grants in 2013 to 2015:

Year of grants	Final settlement of shares	Final settlement date
2013	159,020	February 24, 2016
2014	119,896	February 21, 2017
2015	149,898	February 27, 2018

For the 2016 and 2017 performance share grants, actual shares that could be distributed range from 0 to 335 thousand for the 2016 grants and 0 to 306 thousand shares for the 2017 grants.

A summary of restricted stock grants for each of the years in the three-year period ended December 31, 2017 is presented in the table below.

	2017	2016	2015
Directors restricted stock:			
Shares	9,135	12,549	6,648
Price per share	\$ 73.92	\$ 57.39	\$ 54.16
Aggregate value	\$ 675	\$ 720	\$ 360
Percent vested as of 12/31/17	100%	85%	100%
Directors restricted stock units (including dividend equivalents):			
Shares	7,735	6,912	7,640
Price per share	\$ 74.45	\$ 56.74	\$ 54.44
Aggregate value	\$ 576	\$ 392	\$ 416
Percent vested as of 12/31/17	100%	100%	100%
Performance shares:			
Target shares	153,000	167,500	179,500
Target price per share	\$ 77.26	\$ 50.64	\$ 53.61
Assumed adjustment for performance objectives (in shares)	106,084	(35,073)	(58,056)
Aggregate value	\$ 11,821	\$ 8,482	\$ 9,623
Percent vested as of 12/31/17	—%	—%	—%

Time-vested restricted stock holders, 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 Restricted Stock	Executive Performance Shares	Directors Restricted Stock	Directors Restricted Stock Units	Total
2015:					
Balance at January 1, 2015	263,430	556,360	—	—	819,790
Grants	—	179,500	6,648	7,640	193,788
Additional performance shares ⁽¹⁾		(58,056)			(58,056)
Restriction lapses	(61,815)	(211,287)	(6,648)	(7,640)	(287,390)
Forfeitures	(13,950)	(7,500)			(21,450)
Balance at December 31, 2015	187,665	459,017	—	—	646,682
2016:					
Grants	—	167,500	12,549	6,912	186,961
Additional performance shares ⁽¹⁾		(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
2017:					
Grants	—	153,000	9,135	7,735	169,870
Additional performance shares ⁽¹⁾		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

(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 2017:

	Executive Restricted Stock	Executive Performance Shares	Directors Restricted Stock	Directors Restricted Stock Units
Grant-date fair value per share at January 1, 2017	\$ 38.46	\$ 49.79	\$ 63.39	
Grants	—	77.26	73.92	\$ 73.92
Estimated additional performance shares		71.76		
Restriction lapses	(30.69)	(72.42)	(72.11)	(73.92)
Forfeitures	(37.40)	(43.85)		
Grant-date fair value per share at December 31, 2017	41.93	56.64		

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 coverages. 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

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

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

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>	For the Year 2015							
	Life		Health		Annuity		Total	
	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
United American Independent	\$ 15,036	1	\$ 345,330	37	\$ 135	100	\$ 360,501	12
Liberty National Exclusive	271,113	13	209,150	23			480,263	16
American Income Exclusive	830,903	40	80,339	9			911,242	30
Family Heritage Exclusive	2,334	—	221,091	24			223,425	8
Direct Response	746,693	36	69,610	7			816,303	27
Other	206,986	10					206,986	7
	<u>\$ 2,073,065</u>	<u>100</u>	<u>\$ 925,520</u>	<u>100</u>	<u>\$ 135</u>	<u>100</u>	<u>\$ 2,998,720</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 of premium, less net policy obligations, acquisition expenses, and commissions. Interest credited to net policy liabilities (reserves less deferred acquisition costs) is reflected as a component of the Investment segment in order to match this cost to the investment earnings from 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.

In 2017, Torchmark recorded \$8.7 million in administrative settlements (\$5.6 million after tax) 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* in 2017.

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

Note 14—Business Segments (continued)

As further discussed in *Note 15—Commitments and Contingencies*, the Company received an assessment from various state guaranty fund associations for the liquidation of Penn Treaty and its affiliate. The total estimated assessment for Torchmark's subsidiaries is approximately \$9.6 million of which \$1.8 million is estimated to be unrecoverable. We are anticipating the remaining amount of the assessments to be recovered through premium tax credits. The assessment expenses were considered a non-operational event and therefore were excluded from the core underwriting operations of the Company.

As a result of the Tax Legislation, which is discussed in *Note 1—Significant Accounting Policies*, we recorded a one-time increase in stock-based compensation expense of 3.4 million (\$2.2 million after tax) due to the impact the Tax Legislation had on certain performance based equity awards.

In 2016, Torchmark recorded \$3.8 million in administrative settlements (\$2.5 million after tax) 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* in 2016.

In 2015, Torchmark recorded \$1.4 million in administrative settlements (\$906 thousand after tax) related to a post-closing adjustment on the sale of a former subsidiary. These administrative settlements were included in "Commissions, premium taxes, and non-deferred acquisition costs" in the *Consolidated Statements of Operations* in 2015.

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 2017						
	Life	Health	Annuity	Investment	Corporate & Other	Consolidated
Revenue:						
Premium	\$2,306,547	\$ 976,373	\$ 15			\$ 3,282,935
Net investment income				\$ 847,885		847,885
Other income					\$ 1,270	\$ (128) ⁽²⁾
Total revenue	2,306,547	976,373	15	847,885	1,270	(128)
Expenses:						
Policy benefits	1,549,602	628,640	35,836			13,797 ^(3,4)
Required interest on:						
Policy reserves	(607,007)	(77,792)	(49,571)	734,370		—
Deferred acquisition costs	186,236	23,454	690	(210,380)		—
Amortization of acquisition costs	396,268	96,519	2,466			(4,850) ⁽⁴⁾
Commissions, premium taxes, and non-deferred acquisition costs	177,111	86,044	32			1,673 ^(2,5)
Insurance administrative expense ⁽¹⁾					210,590	210,590
Parent expense					9,631	9,631
Stock-based compensation expense					33,654	3,380 ⁽⁶⁾
Interest expense				84,532		84,532
Total expenses	1,702,210	756,865	(10,547)	608,522	253,875	14,000
Subtotal	604,337	219,508	10,562	239,363	(252,605)	(14,128)
Non-operating items						14,128 ^(3,4,5,6)
Measure of segment profitability (pretax)	\$ 604,337	\$ 219,508	\$ 10,562	\$ 239,363	\$ (252,605)	\$ —
Deduct applicable income taxes						(247,484)
Net operating income from continuing operations						573,681
Add back income taxes applicable to segment profitability						247,484
Add (deduct) realized investment gains (losses)						23,611
Deduct administrative settlements						(8,659)
Deduct non-operating expenses						(288)
Deduct guaranty fund assessments						(1,801)
Deduct increase in stock-based compensation expense due to Tax Legislation						(3,380)
Income before income taxes per Consolidated Statement of Operations						\$ 830,648

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

(2) Elimination of intersegment commission.

(3) Administrative settlements.

(4) Non-operating expense.

(5) Guaranty fund assessments.

(6) Recognition of a one-time increase in stock-based compensation expense due to Tax Legislation.

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
Revenue:							
Premium	\$ 2,189,333	\$ 947,663	\$ 38				\$ 3,137,034
Net investment income				\$ 806,903			806,903
Other income					\$ 1,534	\$ (159) ⁽²⁾	1,375
Total revenue	2,189,333	947,663	38	806,903	1,534	(159)	3,945,312
Expenses:							
Policy benefits	1,475,477	612,725	36,751			3,795 ⁽³⁾	2,128,748
Required interest on:							
Policy reserves	(577,827)	(73,382)	(51,131)	702,340			—
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) ⁽²⁾	249,174
Insurance administrative expense ⁽¹⁾					196,598	553 ⁽⁴⁾	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 ^(3,4)	4,348
Measure of segment profitability (pretax)	\$ 573,762	\$ 210,056	\$ 9,394	\$ 224,031	\$ (229,977)	\$ —	787,266
Deduct applicable income taxes							(237,906)
Net operating income from continuing operations							549,360
Add back income taxes applicable to segment profitability							237,906
Add (deduct) realized investment gains (losses)							(10,683)
Deduct administrative settlements							(3,795)
Deduct non-operating fees							(553)
Income before income taxes per Consolidated Statement of Operations							\$ 772,235

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

(2) Elimination of intersegment commission.

(3) Administrative settlements.

(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 2015						Consolidated
	Life	Health	Annuity	Investment	Corporate & Other	Adjustments	
Revenue:							
Premium	\$ 2,073,065	\$ 925,520	\$ 135				\$ 2,998,720
Net investment income				\$ 773,951			773,951
Other income					\$ 2,379	\$ (194) ⁽²⁾	2,185
Total revenue	2,073,065	925,520	135	773,951	2,379	(194)	3,774,856
Expenses:							
Policy benefits	1,374,608	602,610	38,994				2,016,212
Required interest on:							
Policy reserves	(552,298)	(69,057)	(53,295)	674,650			—
Deferred acquisition costs	172,947	22,760	1,138	(196,845)			—
Amortization of acquisition costs	353,595	83,341	8,689				445,625
Commissions, premium taxes, and non-deferred acquisition costs	154,811	81,489	41			1,200 ^(2,3)	237,541
Insurance administrative expense ⁽¹⁾					186,191		186,191
Parent expense					9,003		9,003
Stock-based compensation expense					28,664		28,664
Interest expense				76,642			76,642
Total expenses	1,503,663	721,143	(4,433)	554,447	223,858	1,200	2,999,878
Subtotal	569,402	204,377	4,568	219,504	(221,479)	(1,394)	774,978
Non-operating items						1,394 ⁽³⁾	1,394
Measure of segment profitability (pretax)	\$ 569,402	\$ 204,377	\$ 4,568	\$ 219,504	\$ (221,479)	\$ —	776,372
Deduct applicable income taxes							(253,459)
Net operating income from continuing operations							522,913
Add back income taxes applicable to segment profitability							253,459
Add (deduct) realized investment gains (losses)							(8,791)
Deduct administrative settlements							(1,394)
Income before income taxes per Consolidated Statement of Operations							\$ 766,187

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

(2) Elimination of intersegment commission.

(3) Administrative settlements.

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

	At December 31, 2017					Consolidated
	Life	Health	Annuity	Investment	Other	
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
Total assets	\$ 3,732,905	\$ 661,050	\$ 5,699	\$ 18,086,500	\$ 988,831	\$ 23,474,985

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

Note 14—Business Segments (continued)

	At December 31, 2016					
	Life	Health	Annuity	Investment	Other	Consolidated
Cash and invested assets				\$ 15,955,891		\$ 15,955,891
Accrued investment income				223,148		223,148
Deferred acquisition costs	\$ 3,261,220	\$ 512,701	\$ 9,237			3,783,158
Goodwill	309,609	131,982				441,591
Other assets					\$ 1,032,299	1,032,299
Total assets	\$ 3,570,829	\$ 644,683	\$ 9,237	\$ 16,179,039	\$ 1,032,299	\$ 21,436,087

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

	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
Total liabilities	<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>

	At December 31, 2016					
	Life	Health	Annuity	Investment	Other	Consolidated
Future policy benefits	\$ 9,825,776	\$ 1,706,870	\$ 1,293,191			\$ 12,825,837
Unearned and advance premiums	16,828	47,189				64,017
Policy claims and other benefits payable	156,437	143,128				299,565
Debt				\$ 1,397,640		1,397,640
Other					\$ 2,282,167	2,282,167
Total liabilities	<u>\$ 9,999,041</u>	<u>\$ 1,897,187</u>	<u>\$ 1,293,191</u>	<u>\$ 1,397,640</u>	<u>\$ 2,282,167</u>	<u>\$ 16,869,226</u>

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

Note 15—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, 2017. Insurance ceded on life and accident and health products represented 0.2% of premium income for 2017. 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 1.8% of life insurance in force at December 31, 2017 and reinsurance assumed on life and accident and health products represented 0.7% of premium income for 2017.

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, 2017 is as follows:

	Year Ended December 31,		
	2017	2016	2015
Rental expense	\$ 6,446	\$ 6,520	\$ 6,722

Future minimum rental commitments required under operating leases having remaining noncancelable lease terms in excess of one year at December 31, 2017 were as follows:

	Year Ended December 31,					
	2018	2019	2020	2021	2022	Thereafter
Operating lease commitments	\$ 3,483	\$ 3,298	\$ 3,124	\$ 2,886	\$ 1,943	\$ 1,830

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,					
	2018	2019	2020	2021	2022	Thereafter
Purchase commitments	\$27,326	\$ 9,198	\$ 3,257	\$ 2,213	\$ 2,169	\$ 246,836

Investments: As of December 31, 2017, Torchmark is committed to purchase \$210 million of commercial mortgage loan participations from a third party.

Guarantees: At December 31, 2017, Torchmark had in place four 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, 2017, 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 Torchmark Parent Company would be liable to the extent that TMK Re, Ltd. does not pay the reinsured party. Letters of credit outstanding were \$177 million at December 31, 2017 and 2016.

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

Note 15—Commitments and Contingencies (continued)

Equipment leases: Torchmark has guaranteed performance of certain subsidiaries as lessees under three leasing arrangements which include two for aviation equipment and one for computer software, furniture, and equipment. One aviation lease expires in August 2022 and the second expires in September 2024. The office equipment lease expired in December 2017. At December 31, 2017, total remaining undiscounted payments under the leases were approximately \$10 million. The Torchmark 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 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.

On February 1, 2018, a putative class action litigation was filed against American Income Life Insurance Company in U.S. District Court for the Northern District of Texas, Dallas Division (*Bruce v. American Income Life Insurance Company, et al.*, Case No. 3:18-cv-00258-G). The plaintiff, a former insurance sales agent of American Income who is suing on behalf of all current and former American Income sales agents contracted through State General Agent Stephen Jubrey's agency office at any time since January 31, 2015 through the final disposition of this matter, asserts that such agents are employees rather than independent contractors as they are classified by American Income. He alleges failure to pay minimum wages, overtime wages and other applicable monies in accordance with the Fair Labor Standards Act. The plaintiff seeks, in a jury trial, actual and punitive damages, pre- and post-judgment interest, attorney fees, costs and other relief, including injunctive relief.

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. The total estimated assessment for Torchmark's subsidiaries is approximately \$9.6 million of which \$7.8 million is estimated to be recoverable through state premium tax credit offsets. We anticipate the remaining \$1.8 million will be unrecoverable.

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

Note 16—Selected Quarterly Data (Unaudited) (continued)

The following is an unaudited summary of quarterly results for the two years ended December 31, 2017. 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,
2017:				
Premium income	\$ 820,631	\$ 816,614	\$ 819,217	\$ 826,473
Net investment income	208,282	212,776	213,872	212,955
Realized investment 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

	Three Months Ended			
	March 31,	June 30,	September 30,	December 31,
2016:				
Premium income	\$ 779,860	\$ 785,855	\$ 783,411	\$ 787,908
Net investment income	197,053	201,642	202,720	205,488
Realized investment gains (losses)	293	4,005	3,482	(18,463)
Total revenue	977,627	991,884	989,773	975,345
Policyholder benefits	524,973	531,485	532,152	540,138
Amortization of deferred acquisition costs	118,806	117,245	116,821	116,191
Pretax income from continuing operations	195,448	199,344	201,461	175,982
Income from continuing operations	133,574	139,294	141,910	124,812
Income from discontinued operations	(9,541)	(865)	9,959	10,636
Net income	124,033	138,429	151,869	135,448
Basic net income per common share:				
Continuing operations	1.10	1.16	1.19	1.05
Discontinued operations	(0.08)	(0.01)	0.08	0.09
Total basic net income per common share	1.02	1.15	1.27	1.14
Diluted net income per common share:				
Continuing operations	1.08	1.13	1.16	1.03
Discontinued operations	(0.07)	—	0.09	0.09
Total diluted net income per common share	1.01	1.13	1.25	1.12

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

No disagreements with accountants on any matter of accounting principles or practices or financial statement disclosure have been reported on a Form 8-K within the twenty-four months prior to the date of the most recent financial statements.

Item 9A. 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, 2017, 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.

As of the quarter ended December 31, 2017, 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. No material weaknesses in such internal controls were identified in the evaluation and as a consequence, no corrective action was required to be taken.

Item 9B. Other Information

There were no items required.

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, 2017. 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 26, 2018

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, 2017, based on criteria established in *Internal Control - Integrated Framework* 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, 2017, based on criteria established in *Internal Control - Integrated Framework* 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, 2017 of Torchmark and our report dated February 26, 2018 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 26, 2018

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 26, 2018 (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,” “2017 Grants of Plan-based Awards,” “Outstanding Equity Awards at Fiscal Year End 2017,” “Option Exercises and Stock Vested during Fiscal Year Ended December 31, 2017,” “Pension Benefits at December 31, 2017,” “Potential Payments upon Termination or Change in Control,” “2017 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

(a) **Equity Compensation Plan Information as of December 31, 2017**

<u>Plan Category</u>	<u>Number of securities to be issued upon exercise of outstanding options, warrants, and rights</u>	<u>Weighted-average exercise price of outstanding options, warrants, and rights</u>	<u>Number of securities remaining available for future issuance under equity compensation plans</u>
Equity compensation plans approved by security holders	6,753,801	\$ 53.59	2,964,320
Equity compensation plans not approved by security holders	—	—	—
Total	6,753,801	\$ 53.59	2,964,320

(b) 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.

(c) 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.

(d) 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:

	<u>Page of this report</u>
Financial Statements:	
Torchmark Corporation and Subsidiaries:	
Report of Independent Registered Public Accounting Firm	51
Consolidated Balance Sheets at December 31, 2017 and 2016	52
Consolidated Statements of Operations for each of the three years in the period ended December 31, 2017	53
Consolidated Statements of Comprehensive Income for each of the three years in the period ended December 31, 2017	54
Consolidated Statements of Shareholders' Equity for each of the three years in the period ended December 31, 2017	55
Consolidated Statements of Cash Flows for each of the three years in the period ended December 31, 2017	56
Notes to Consolidated Financial Statements	57
Schedules Supporting Financial Statements for each of the three years in the period ended December 31, 2017:	
II. Condensed Financial Information of Registrant (Parent Company)	123
IV. Reinsurance (Consolidated)	127
Schedules not referred to have been omitted as inapplicable or not required by Regulation S-X.	

EXHIBITS

		Page of this 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)	1
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)	2
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(b) to Form S-3 for \$300,000,000 of Torchmark Corporation Debt Securities and Warrants (Registration No. 33-11816))	3
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
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)	5
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)	6
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)	7
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, 2011 (incorporated by reference from Exhibit 4.3 to Form 8-K dated April 5, 2016)	8
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, 2011 (incorporated by reference from Exhibit 4.4 to Form 8-K dated November 17, 2017)	9
4.8	Certificate and Declaration of Trust of SAFC Statutory Trust I dated February 16, 2006 (incorporated by reference from Exhibit 4.9 to Form 10-K for the fiscal year ended December 31, 2012)	10
4.9	Amended and Restated Declaration of Trust of SAFC Statutory Trust I dated March 1, 2006 (incorporated by reference from Exhibit 4.10 to Form 10-K for the fiscal year ended December 31, 2012)	11
4.10	Indenture dated as of March 1, 2006 for Fixed/Floating Rate Junior Subordinated Deferrable Interest Debentures due 2036 between Southwestern American Financial Corporation and Wilmington Trust Company (incorporated by reference from Exhibit 4.11 to Form 10-K for the fiscal year ended December 31, 2012)	12
10.1	Torchmark Corporation Restated Deferred Compensation Plan for Directors, Advisory Directors, Directors Emeritus and Officers, as amended (incorporated by reference from Exhibit 10(e) to Form 10-K for the fiscal year ended December 31, 1992)*	13
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)*	14

- 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 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)*
- 10.12 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)*
- 10.13 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)*
- 10.14 Receivables Purchase Agreement dated as of December 31, 2008 among AILIC 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)
- 10.15 Amendment No.1 to Receivables Purchase Agreement dated as of December 31, 2008 among AILIC 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)
- 10.16 Torchmark Corporation 2011 Incentive Plan (incorporated by reference from Exhibit 10.1 to Form 8-K dated May 4, 2011)*
- 10.17 First Amendment to Torchmark Corporation 2011 Incentive Plan (incorporated by reference from Exhibit 10.1 to Form 8-K dated April 29, 2014)*
- 10.18 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)*
- 10.19 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)*
- 10.20 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)*

- 10.21 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)*
- 10.22 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)*
- 10.23 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)*
- 10.24 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)*
- 10.25 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)*
- 10.26 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) *
- 10.27 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)
- 10.28 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)*
- 10.29 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)*
- 10.30 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)*
- 10.31 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)*
- 10.32 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)
- 10.33 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)*
- 10.34 The Torchmark Corporation Savings and Investment Plan (amended and restated as of January 1, 2014)* (incorporated by reference from Exhibit 10.16 to From 10-K for the fiscal year ended December 31, 2015)
- 10.35 Torchmark Corporation Savings and Investment Plan 2016 Amendment Number One* (incorporated by reference from Exhibit 10.2 to Form 8-K dated May 17, 2016)
- 10.36 2016 Amendment to the Torchmark Corporation Savings and Investment Plan (effective December 31, 2016) (incorporated by reference from Exhibit 10-79 to Form 10-K for the fiscal year ended December 31, 2016)*
- 10.37 Payments to Directors (incorporated by reference from Exhibit 10.23 to Form 10-K for the fiscal year ended December 31, 2016)*

10.38	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)	
12	Statement re computation of ratios	
20	Proxy Statement for Annual Meeting of Stockholders to be held April 27, 2017**	
21	Subsidiaries of the registrant	122
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, 2017.

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:

Company	State of Incorporation	Name Under Which Company Does Business
American Income Life Insurance Company	Indiana	American Income Life Insurance Company
Globe Life And Accident Insurance Company	Nebraska	Globe Life And Accident Insurance Company
Liberty National Life Insurance Company	Nebraska	Liberty National Life Insurance Company

While United American Life Insurance Company and Family Heritage Life Insurance Company of America do not qualify as significant subsidiaries in accordance with Regulation S-X, management views these subsidiaries 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)

	December 31,	
	2017	2016
Assets:		
Investments:		
Long-term investments	\$ 35,562	\$ 33,586
Short-term investments	5,624	—
Total investments	41,186	33,586
Cash	1,008	—
Investment in affiliates	7,763,704	6,004,429
Due from affiliates	95,920	96,005
Taxes receivable from affiliates	63,099	88,406
Other assets	135,616	119,801
Total assets	<u>\$ 8,100,533</u>	<u>\$ 6,342,227</u>
Liabilities and shareholders' equity:		
Liabilities:		
Short-term debt	\$ 328,067	\$ 264,475
Long-term debt	1,281,971	1,282,891
Due to affiliates	8,002	—
Other liabilities	251,072	228,000
Total liabilities	1,869,112	1,775,366
Shareholders' equity:		
Preferred stock	351	351
Common stock	124,218	127,218
Additional paid-in capital	858,987	840,932
Accumulated other comprehensive income	1,424,274	577,574
Retained earnings	4,806,208	3,890,798
Treasury stock	(982,617)	(870,012)
Total shareholders' equity	6,231,421	4,566,861
Total liabilities and shareholders' equity	<u>\$ 8,100,533</u>	<u>\$ 6,342,227</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 STATEMENTS OF OPERATIONS
(Dollar amounts in thousands)

	Year Ended December 31,		
	2017	2016	2015
Net investment income	\$ 26,130	\$ 25,352	\$ 23,715
Realized investment gains (losses)	(2,791)	—	8
Total revenue	23,339	25,352	23,723
General operating expenses	61,447	52,613	54,100
Reimbursements from affiliates	(52,776)	(54,288)	(53,436)
Interest expense	88,474	86,853	79,677
Total expenses	97,145	85,178	80,341
Operating income (loss) before income taxes and equity in earnings of affiliates	(73,806)	(59,826)	(56,618)
Income taxes	(9,874)	23,479	15,542
Net operating loss before equity in earnings of affiliates	(83,680)	(36,347)	(41,076)
Equity in earnings of affiliates	1,538,174	586,126	568,176
Net income	1,454,494	549,779	527,100
Other comprehensive income (loss):			
Attributable to Parent Company	(8,409)	(11,314)	(3,539)
Attributable to affiliates	602,709	356,941	(761,966)
Comprehensive income (loss)	<u>\$ 2,048,794</u>	<u>\$ 895,406</u>	<u>\$ (238,405)</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 STATEMENTS OF CASH FLOWS
(Dollar amounts in thousands)

	Year Ended December 31,		
	2017	2016	2015
Net income	\$ 1,454,494	\$ 549,779	\$ 527,100
Equity in earnings of affiliates	(1,538,174)	(586,126)	(568,176)
Cash dividends from subsidiaries	453,904	437,566	466,416
Other, net	52,957	(6,718)	20,371
Cash provided from operations	423,181	394,501	445,711
Cash provided from (used for) investing activities:			
Net decrease (increase) in short-term investments	(5,624)	(3,466)	17,338
Investment in subsidiaries	(31,000)	(35,000)	(2)
Additions to properties	(7,230)	(21,965)	(468)
Loaned money to affiliates	(180,000)	(363,056)	(282,508)
Repayments from affiliates	180,000	318,056	282,508
Cash provided from (used for) investing activities	(43,854)	(105,431)	16,868
Cash provided from (used for) financing activities:			
Repayment of debt	(126,875)	(250,000)	—
Proceeds from issuance of debt	125,000	400,000	—
Payment for debt issuance costs	(1,661)	(9,638)	—
Net issuance (repayment) of commercial paper	61,092	22,224	1,978
Issuance of stock	61,215	61,329	35,958
Acquisitions of treasury stock	(412,989)	(404,784)	(418,526)
Borrowed money from affiliate	278,500	60,000	15,000
Repayments to affiliates	(270,500)	(78,000)	(15,000)
Excess tax benefit on stock option exercises	—	—	8,180
Payment of dividends	(92,101)	(90,201)	(90,169)
Cash provided from (used for) financing activities	(378,319)	(289,070)	(462,579)
Net increase (decrease) in cash	1,008	—	—
Cash balance at beginning of period	—	—	—
Cash balance at end of period	<u>\$ 1,008</u>	<u>\$ —</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,		
	2017	2016	2015
Dividends from subsidiaries	\$ 453,904	\$ 437,566	\$ 466,416

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,		
	2017	2016	2015
Stock-based compensation not involving cash	\$ 37,034	\$ 26,326	\$ 28,664
Borrowed money from affiliate	—	—	56,503
Investment in subsidiaries	317,027	—	39,206
Purchase of agent debit balances	—	—	17,297

The following table summarizes certain amounts paid (received) during the period:

	Year Ended December 31,		
	2017	2016	2015
Interest paid	\$ 86,606	\$ 84,952	\$ 77,920
Income taxes paid (received)	(19,961)	(20,838)	(22,009)

Note C—Preferred Stock

As of December 31, 2017, 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)

	Gross Amount	Ceded to Other Companies⁽¹⁾	Assumed from Other Companies	Net Amount	Percentage of Amount Assumed to Net
For the Year Ended December 31, 2017					
Life insurance in force	\$ 179,902,605	\$ 705,152	\$ 3,211,423	\$ 182,408,876	1.8
Premiums: ⁽²⁾					
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
For the Year Ended December 31, 2016					
Life insurance in force	\$ 174,314,897	\$ 725,867	\$ 3,352,113	\$ 176,941,143	1.9
Premiums: ⁽²⁾					
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
For the Year Ended December 31, 2015					
Life insurance in force	\$ 167,677,206	\$ 729,739	\$ 3,498,826	\$ 170,446,293	2.1
Premiums: ⁽²⁾					
Life insurance	\$ 2,034,373	\$ 4,484	\$ 24,007	\$ 2,053,896	1.2
Health insurance	928,659	3,139	—	925,520	—
Total premium	\$ 2,963,032	\$ 7,623	\$ 24,007	\$ 2,979,416	0.8

(1) No amounts have been netted against ceded premium.

(2) Excludes policy charges of \$17.0 million, \$18.3 million, and \$19.3 million in each of the years 2017, 2016, and 2015, 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
(Principal Accounting Officer)

Date: February 26, 2018

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/ LLOYD W. NEWTON *
Lloyd W. Newton
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

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Date: February 26, 2018

*By: /s/ FRANK M. SVOBODA
 Frank M. Svoboda
 Attorney-in-fact

TORCHMARK CORPORATION

TO

MORGAN GUARANTY TRUST COMPANY
OF NEW YORK
Trustee

Indenture

Dated as of February 1, 1987

Debt Securities

Torchmark Corporation

To Morgan Guaranty Trust Company of New York, as Trustee
Reconciliation and tie between Trust Indenture Act of 1939 and
Indenture, dated as of February 1, 1987

Trust Indenture

Act Section	Indenture Section
§ 310(a)(1)	609
(a)(2)	609
(a)(3)	Not Applicable
(a)(4)	Not Applicable
(b)	608
§ 311(a)	613(a)
(b)	613(b)
(b)(2)	703(a)(2)
§ 312(a)	701
(b)	702(b)

610

703(b)

702(a)

(c)	702(b)	
§ 313(a)	703(a)	
(a)	703(b)	
(a)	703(a),703(b)	
(a)		703(c)
§ 314(a)	704	
(b)	Not Applicable	
(c)(1)	102	
(c)(2)	102	
(c)(3)	Not Applicable	
(d)	Not Applicable	
(e)	102	
§ 315(a)	601(a)	
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(b)		703(a)(6)
(b)		601(b)
(c)		601(c)
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(a)(2)	Not Applicable	
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NOTE: This reconciliation and tie shall not, for any purpose, be deemed to be a part of the Indenture.

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INDENTURE, dated as of February 1, 1987, between TORCHMARK CORPORATION, a corporation duly organized and existing under the laws of the State of Delaware (herein called the "Company"), having its principal office at 2001 Third Avenue South, Birmingham, Alabama 35233, and MORGAN GUARANTY TRUST COMPANY OF NEW YORK, a corporation organized and existing under the laws of the State of New York, as Trustee hereunder (herein called the "Trustee").

RECITALS OF THE COMPANY

The Company has duly authorized the execution and delivery of this Indenture to provide for the issuance from time to time of its unsecured debentures, notes or other evidences of indebtedness (herein called the "Securities"), to be issued in one or more series as in this Indenture provided.

All things necessary to make this Indenture a valid agreement of the Company, in accordance with its terms, have been done.

Now, THEREFORE, THIS INDENTURE

For and in consideration of the premises and the purchase of the Securities by the Holders thereof, it is mutually covenanted and agreed, for the equal and proportionate benefit of all Holders of the Securities of each series, as follows:

ARTICLE ONE

DEFINITIONS AND OTHER PROVISIONS OF GENERAL APPLICATION SECTION 101. *Definitions.*

For all purposes of this Indenture, except as otherwise expressly provided or unless the context otherwise requires:

- (1) the terms defined in this Article have the meanings assigned to them in this Article and include the plural as well as the singular;
- (2) all other terms used herein which are defined in the Trust Indenture Act, either directly or by reference therein, have the meanings assigned to them therein;
- (3) all accounting terms not otherwise defined herein have the meanings assigned to them in accordance with generally accounting principles; and
- (4) the words "herein", "hereof" and "hereunder" and other words of similar import refer to this Indenture as a whole and not to any particular Article, Section or other subdivision.

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Certain terms, used principally in Article Six, are defined in that Article.

"Act" when used with respect to any Holder has the meaning specified in Section 104.

"Affiliate" of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For the purposes of this definition, "control" when used with respect to any specified Person means the to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

"Authenticating Agent" means any Person authorized by the Trustee to act on behalf of the Trustee to authenticate Securities.

"Authorized Newspaper" means a newspaper (which, in the case of The City of New York, will, if practicable, be The Wall Street Journal (Eastern Edition), in the case of the United Kingdom, will, if practicable, be the Financial Times (London Edition) and, in the case of Luxembourg, will, if practicable, be the Luxembourg Wort) published in an official language of the country of publication customarily published at least once a day for at least five days in each calendar week and of general circulation in The City of New York, the United Kingdom or in Luxembourg, as applicable. If it shall be impractical in the opinion of the Trustee to make any publication of any

notice required hereby in an Authorized Newspaper, any publication or other notice in lieu thereof which is made or given with the approval of the Trustee shall constitute a sufficient publication of such notice.

"Board of Directors" means either the board of directors of the Company or any committee of that board duly authorized to act for it hereunder.

"Board Resolution" means a copy of a resolution certified by the Secretary or an Assistant Secretary of the Company to have been duly adopted by the Board of Directors and to be in full force and effect on the date of such certification, and delivered to the Trustee.

"Business Day" means each Monday, Tuesday, Wednesday, Thurs-day and Friday which is not a day on which banking institutions in any

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place of payment are authorized or obligated by law or executive order to close.

"Commission" means the Securities and Exchange Commission, as from time to time constituted, created under the Securities Exchange Act of 1934, or, if at any time after the execution of this instrument such Commission is not existing and performing the duties now assigned to it under the Trust Indenture Act, then the body performing such duties at such time.

"Company" means the Person named as the "Company" in the first paragraph of this instrument until a successor corporation shall have become such pursuant to the applicable provisions of this Indenture, and thereafter "Company" shall mean such successor corporation.

"Company Request" or "Company Order" means a written request or order signed in the name of the Company by its Chairman of the Board, its President or a Vice President, and by its Treasurer, an Assistant Treasurer, its Secretary or an Assistant Secretary, and delivered to a Responsible Officer of the Trustee.

"Corporate Trust Office" means the principal office of the Trustee at which at any particular time its corporate trust business shall be administered, which office at the date of the original execution of this Indenture is located at 30 West Broadway, New York, New York 10015.

"Corporation" includes corporations, associations, companies and business trusts.

"Coupon" means any interest coupon appertaining to a Security.

"Debt" means any indebtedness for money borrowed.

"Defaulted Interest" has the meaning specified in Section 307.

"Designated Subsidiary" has the meaning specified in Section 1007.

"Dollar" means the coin or currency of the United States of America as at the time of payment is legal tender for the payment of public and private debts.

"ECU" means the European Currency Unit as defined and revised from time to time by the Council of European Communities.

"Event of Default" has the meaning specified in Section 501.

"Foreign Currency" means a currency issued by the government of a country other than the United States.

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"Holder" means (a) in the case of any Registered Security, the person in whose name such Security is registered in the security register kept by the Company for that purpose in accordance with the terms hereof, and (b) in the case of any Unregistered Security, the bearer of such Security, or any Coupon appertaining thereto, as the case may be.

"Indenture" means this instrument as originally executed or as it may from time to time be supplemented or amended by one or more indentures supplemental hereto entered into pursuant to the applicable provisions hereof and shall include the terms of particular series of Securities established as contemplated by Section 301.

"interest", when used with respect to an Original Issue Discount Security which by its terms bears interest only after Maturity, means interest payable after Maturity.

"Interest Payment Date" when used with respect to any Security, means the Stated Maturity of an instalment of interest on such Security.

"Maturity" when used with respect to any Security means the date on which the principal of such Security becomes due and payable as therein or herein provided, whether at the Stated Maturity or by declaration of acceleration, call for redemption or otherwise.

"Mortgage" means any mortgage, pledge, lien, security interest or other encumbrance.

"Officers' Certificate" means a certificate signed by the Chairman of the Board, the President or a Vice President, and by the Treasurer, an Assistant Treasurer, the Controller, the Secretary or an Assistant Secretary of the Company, and delivered to the Trustee.

"Opinion of Counsel" means a written opinion of counsel, who may be an employee of or counsel for or to the Company, or other counsel acceptable to the Trustee.

"Original Issue Discount Securities" means any Security which provides for an amount less than the principal amount thereof to be due and payable upon a declaration of acceleration of the Maturity thereof pursuant to Section 502.

"Outstanding" when used with respect to Securities means, as of the date of determination, all Securities theretofore authenticated and delivered under this Indenture, *except*:

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- (i) Securities theretofore cancelled by the Trustee or delivered to the Trustee for cancellation;
- (ii) Securities for whose payment or redemption money in the necessary amount has been theretofore deposited with the Trustee or any Paying Agent (other than the Company) in trust or set aside and segregated in trust by the Company (if the Company shall act as its own Paying Agent) for the Holders of such Securities; *provided* that, if such Securities are to be redeemed, notice of such redemption has been duly given pursuant to this Indenture or provision therefor satisfactory to the Trustee has been made; and
- (iii) Securities in exchange for or in lieu of which other Securities have been authenticated and delivered pursuant to this Indenture other than any such Securities in respect of which there shall have been presented to the Trustee proof satisfactory to it that such Securities are held by a bona fide purchaser in whose hands such Securities are valid obligations of the Company;

provided, however, that in determining whether the Holders of the requisite principal amount of the Outstanding Securities have given any request, demand, authorization, direction, notice, consent or waiver here-under, Securities owned by the Company or any other obligor upon the Securities or any Affiliate of the Company or of such other obligor shall be disregarded and deemed not to be Outstanding, except that, in determining whether the Trustee shall be protected in relying upon any such request, demand, authorization, direction, notice, consent or waiver, only Securities which the Trustee knows to be so owned shall be so disregarded. Securities so owned which have been pledged in good faith may be regarded as Outstanding if the pledgee establishes to the satisfaction of the Trustee the pledgee's right so to act with respect to such Securities and that the pledgee is not the Company or any other obligor upon the Securities or any Affiliate of the Company or of such other obligor.

"Paying Agent" means any Person authorized by the Company to pay the principal of (and premium, if any) or interest on any Securities on behalf of the Company.

"Person" means any individual, corporation, partnership, joint venture, association, joint-stock company, trust, unincorporated organization or government or any agency or political subdivision thereof.

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"Place of Payment" when used with respect to Securities of any series, means the place or places where the principal of (and premium, if any) and interest on, the Securities of that series are payable as specified or contemplated by Section 301.

"Predecessor Securities" of any particular Security means every pre-vious Security evidencing all or a portion of the same debt as that evidenced by such particular Security; and, for the purposes of this definition, any Security authenticated and delivered under Section 306 in exchange for or in lieu of a mutilated, destroyed, lost or stolen Security shall be deemed to evidence the same debt as the mutilated, destroyed, lost or stolen Security.

"Redemption Date" when used with respect to any Security to be redeemed, means the date fixed for such redemption by or pursuant to this Indenture.

"Redemption Price" when used with respect to any Security to be redeemed, means the price at which it is to be redeemed pursuant to this Indenture.

"Registered Security" means any Security registered on the Security Register of the Company.

"Regular Record Date" for the interest payable on any Interest Payment Date means the date specified for that purpose as contemplated by Section 301.

"Responsible Officer" when used with respect to the Trustee, means any officer assigned by the Trustee to administer corporate trust matters.

"Securities" has the meaning stated in the first recital of this Indenture and more particularly means any Securities authenticated and delivered under this Indenture.

"Security Register" and "Security Registrar" have the respective meanings specified in Section 305.

"Special Record Date" for the payment of any Defaulted Interest means a date fixed by the Trustee pursuant to Section 307.

"Stated Maturity" when used with respect to any Security or any instalment of interest thereon, means the date specified in such Security as the fixed date on which the principal of such Security or such instalment of interest is due and payable.

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"Subsidiary" means a corporation more than 50% of the outstanding voting stock of which is owned, directly or indirectly, by the Company or by one or more other Subsidiaries, or by the Company and one or more other Subsidiaries. For the purposes of this definition, "voting stock" means stock which ordinarily has voting power for the election of directors, whether at all times or only so long as no senior class of stock has such voting power by reason of any contingency.

"Trustee" means the Person named as the "Trustee" in the first paragraph of this instrument until a successor Trustee shall have become such pursuant to the applicable provisions of this Indenture, and thereafter "Trustee" shall mean such successor Trustee.

"Trust Indenture Act" means the Trust Indenture Act of 1939 as in force at the date as of which this instrument was executed, except as provided in Section 905.

"Unregistered Security" means any Security other than a Registered Security.

"U.S. Government Obligations" has the meaning specified in Section 1304.

"Vice President" when used with respect to the Company or the Trustee, means any vice president, whether or not designated by a number or a word or words added before or after the title "vice president".

SECTION 102. *Compliance Certificates and Opinions.*

Upon any application or request by the Company to the Trustee to take any action under any provision of this Indenture, the Company shall furnish to the Trustee an Officers' Certificate stating that all conditions precedent, if any, provided for in this Indenture relating to the proposed action have been complied with and an Opinion of Counsel stating that in the opinion of such counsel all such conditions precedent, if any, have been complied with, except that

in the case of any such application or request as to which the furnishing of such documents is specifically required by any provision of this Indenture relating to such particular application or request, no additional certificate or opinion need be furnished.

Every certificate or opinion with respect to compliance with a condition or covenant provided for in this Indenture shall include

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(1) a statement that each individual signing such certificate or opinion has read such covenant or condition and the definitions herein relating thereto;

(2) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such certificate or opinion are based;

(3) a statement that, in the opinion of each such individual, he has made such examination or investigation as is necessary to enable him to express an informed opinion as to whether or not such covenant or condition has been complied with; and

(4) a statement as to whether, in the opinion of each such individual, such condition or covenant has been complied with.

SECTION 103. *Form of Documents Delivered to Trustee.*

In any case where several matters are required to be certified by, or covered by an opinion of, any specified Person, it is not necessary that all such matters be certified by, or covered by the opinion of, only one such Person, or that they be so certified or covered by only one document, but one such Person may certify or give an opinion with respect to some matters and one or more other such Persons as to other matters, and any such Persons may certify or give an opinion as to such matters in one or several documents.

Any certificate or opinion of an officer of the Company may be based, insofar as it relates to legal matters, upon a certificate or opinion of, or representations by, counsel, unless such officer knows, or in the exercise of reasonable care should know, that the certificate or opinion or representations with respect to the matters upon which his certificate or opinion is based are erroneous. Any such certificate or Opinion of Counsel may be based, insofar as it relates to factual matters, upon a certificate or opinion of, or representations by, an officer or officers of the Company stating that the information with respect to such factual matters is in the possession of the Company, unless such counsel knows, or in the exercise of reasonable care should know, that the certificate or opinion or representations with respect to such matters are erroneous.

Where any Person is required to make, give or execute two or more applications, requests, consents, certificates, statements, opinions or other instruments under this Indenture, they may, but need not, be consolidated and form one instrument.

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SECTION 104. *Acts of Holders.*

(a) Any request, demand, authorization, direction, notice, consent, waiver or other action provided by this Indenture to be given or taken by Holders may be embodied in and evidenced by one or more instruments of substantially similar tenor signed by such Holders in person or by an agent duly appointed in writing; and, except as herein otherwise expressly provided, such action shall become effective when such instrument or instruments are delivered to the Trustee and, where it is hereby expressly required, to the Company. Such instrument or instruments (and the action embodied therein and evidenced thereby) are herein sometimes referred to as the "Act" of the Holders signing such instrument or instruments. Proof of execution of any such instrument or of a writing appointing any such agent shall be sufficient for any purpose of this Indenture and (subject to Section 601) conclusive in favor of the Trustee and the Company, if made in the manner provided in this Section.

(b) The fact and date of the execution by any Person of any such instrument or writing may be proved in any reasonable manner which the Trustee deems sufficient.

(c) The ownership of Registered Securities shall be proved by the Security Register. The fact of the holding by any Holder of an Unregistered Security of any series, and the identifying number of such Security and the date of his holding the same, may be proved by the production of such Security or by a certificate executed by any trust company, bank, banker or recognized securities dealer wherever situated satisfactory to the Trustee, if such certificate shall be deemed by the Trustee to be satisfactory. Each such certificate shall be dated and shall state that on the date

thereof a Security of such series bearing a specified identifying number was deposited with or exhibited to such trust company, bank, banker or recognized securities dealer by the person named in such certificate. Any such certificate may be issued in respect of one or more Unregistered Securities of one or more series specified therein. The holding by the person named in any such certificate of any Unregistered Securities of any series specified therein shall be presumed to continue for a period of one year from the date of such certificate unless at the time of any determination of such holding (1) another certificate bearing a later date issued in respect of the same Securities shall be produced, or (2) the Security of such series specified in such certificate shall be produced by some other person, or (3) the Security of such series specified in such certificate shall

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have ceased to be Outstanding. Subject to Sections 601 and 603, the fact and date of the execution of any such instrument and the amount and numbers of Securities of any series held by the Person named in such instrument and the amount and numbers of any Security or Securities for such series may also be proven in accordance with such reasonable rules and regulations as may be prescribed by the Trustee or in any other manner which the Trustee may deem sufficient.

(d) Any request, demand, authorization, direction, notice, consent, waiver or other Act of the Holder of any Security shall bind every future Holder of the same Security and the Holder of every Security issued upon the registration of transfer thereof or in exchange therefor or in lieu thereof in respect of anything done, omitted or suffered to be done by the Trustee or the Company in reliance thereon, whether or not notation of such action is made upon such Security.

SECTION 105. *Notices. Etc., to Trustee and Company.*

Any request, demand, authorization, direction, notice, consent, waiver or Act of Holders or other document provided or permitted by this Indenture to be made upon, given or furnished to, or filed with,

(1) the Trustee by any Holder or by the Company shall be sufficient for every purpose hereunder if made, given, furnished or filed in writing to or with the Trustee at its Corporate Trust Office, Attention: Corporate Trust Administration, or

(2) the Company by the Trustee or by any Holder shall be sufficient for every purpose hereunder (unless otherwise herein expressly provided) if in writing and mailed, first-class postage prepaid, to the Company addressed to it at 2001 Third Avenue South, Birmingham, Alabama 35233, Attention: Corporate Secretary or at any other address previously furnished in writing to the Trustee by the Company.

SECTION 106. *Notice to Holders; Waiver.*

Where this Indenture provides for notice of any event to Holders, such notice shall be sufficiently given (unless otherwise herein expressly provided) (i) in the case of Holders of Registered Securities, and Holders of Unregistered Securities who have filed their names and addresses with the Trustee pursuant to Section 703(b), if in writing and mailed, first-class postage prepaid, to each Holder affected by such event at his last address

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as it appears in the Security Register; and (ii) in the case of Holders of Unregistered Securities who have not filed their names and addresses with the Trustee, by publication in accordance with the requirements of the provision hereof requiring such notice, in both cases not later than the latest date, and not earlier than the earliest date, prescribed for the giving of such notice. In any case where notice to Holders is given by mail, neither the failure to mail such notice, nor any defect in any notice so mailed, to any particular Holder shall affect the sufficiency of such notice with respect to other Holders. Where this Indenture provides for notice in any manner, such notice may be waived in writing by the Person entitled to receive such notice, either before or after the event, and such waiver shall be the equivalent of such notice. Waivers of notice by Holders shall be filed with the Trustee, but such filing shall not be a condition precedent to the validity of any action taken in reliance upon such waiver.

In case by reason of the suspension of regular mail service or by reason of any other cause it shall be impracticable to give such notice by mail, then such notification as shall be made with the approval of the Trustee shall constitute a sufficient notification for every purpose hereunder.

SECTION 107. *Conflict with Trust Indenture Act.*

If any provision hereof limits, qualifies or conflicts with another provision hereof which is required to be included in this Indenture by any of the provisions of the Trust Indenture Act, such required provisions shall control.

SECTION 108. *Effect of Headings and Table of Contents.*

The Article and Section headings herein and the Table of Contents are for convenience only and shall not affect the construction hereof.

SECTION 109. *Successors and Assigns.*

All covenants and agreements in this Indenture by the Company shall bind its successors and assigns, whether so expressed or not.

SECTION 110. *Separability Clause.*

In case any provision in this Indenture or in the Securities shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

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SECTION 111. *Benefits of Indenture.*

Nothing in this Indenture or in the Securities, express or implied, shall give to any Person, other than the parties hereto and their successors hereunder, the Security Registrar, any Paying Agent and any other agent of the Company or the Trustee appointed hereunder and the Holders of Securities and Coupons, any benefit or any legal or equitable right, remedy or claim under this Indenture.

SECTION 112. *Governing Law.*

This Indenture and the Securities and Coupons shall be governed by and construed in accordance with the laws of the State of New York.

SECTION 113. *Legal Holidays.*

In any case where any Interest Payment Date, Redemption Date or Stated Maturity of any Security shall not be a Business Day, then (notwithstanding any other provisions of this Indenture or of the Securities) payment of interest or principal (and premium, if any) need not be made on such date, but may be made on the next succeeding Business Day with the same force and effect as if made on the Interest Payment Date or Redemption Date, or at the Stated Maturity, provided that no interest shall accrue for the period from and after such Interest Payment Date, Redemption Date or Stated Maturity, as the case may be.

SECTION 114. *Securities in a Foreign Currency or in ECU.*

Unless otherwise specified in an Officers' Certificate delivered pursuant to Section 301 of this Indenture with respect to a particular series of Securities, whenever for purposes of this Indenture any action may be taken by the Holders of a specified percentage in aggregate principal amount of Securities of all series or all series affected by a particular action at the time Outstanding and, at such time, there are Outstanding Securities of any series which are denominated in a coin or currency other than Dollars (including ECUs), then the principal amount of Securities of such series which shall be deemed to be Outstanding for the purpose of taking such action shall be that amount of Dollars that could be obtained for the stated Foreign Currency (or ECU) principal amount of such Outstanding Securities at the Market Exchange Rate. For purposes of this Section 114, "Market Exchange Rate" shall mean the noon Dollar buying rate for that currency for cable transfers quoted in The City of New York as certified for customs purposes by the Federal Reserve Bank of New

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York; *provided, however*, in the case of ECUs, Market Exchange Rate shall mean the rate of exchange determined by the Commission of the European Communities (or any successor thereto) as published in the Official Journal of the European Communities (such publication or any successor publication, the "Journal"). If such Market Exchange Rate is not available for any reason with respect to such currency, the Trustee shall use, in its sole discretion and without liability on its part, such quotation of the Federal Reserve Bank of New York or, in the case of ECUs, the rate of exchange as published in the Journal,

as of the most recent available date, or quotations or, in the case of ECUs, rates of exchange from one or more major banks in The City of New York or in the country of issue of the currency in question which for purposes of the ECU shall be Brussels, Belgium, or such other quotations or, in the case of ECU, rates of exchange as the Trustee shall deem appropriate.

All decisions and determinations of the Trustee regarding the Market Exchange Rate or any alternative determination provided for in the preceding paragraph shall be in its sole discretion and shall, in the absence of manifest error, be conclusive for all purposes and irrevocably binding upon the Company and all Holders.

SECTION 115. *Judgment Currency.*

The Company agrees, to the fullest extent that it may effectively do so under applicable law, that (a) if for the purpose of obtaining judgment in any court it is necessary to convert the sum due in respect of the principal of or interest on the Securities of any series (the "Required Currency") into a currency in which a judgment will be rendered (the "Judgment Currency"), the rate of exchange used shall be the rate at which in accordance with normal banking procedures the Trustee could purchase in The City of New York the Required Currency with the Judgment Currency on the New York Banking Day preceding that on which final unappealable judgment is given and (b) its obligations under this Indenture to make payments in the Required Currency (i) shall not be discharged or satisfied by any tender, or any recovery pursuant to any judgment (whether or not entered in accordance with subsection (a)), in any currency other than the Required Currency, except to the extent that such tender or recovery shall result in the actual receipt, by the payee, of the full amount of the Required Currency expressed to be payable in respect of such payments, (ii) shall be enforceable as an alternative or additional cause of action for the purpose of recovering in the Required

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Currency the amount, if any, by which such actual receipt shall fall short of the full amount of the Required Currency so expressed to be payable and (iii) shall not be affected by judgment being obtained for any other sum due under this Indenture. For purposes of the foregoing, "New York Banking Day" means any day except a Saturday, Sunday or a legal holiday in The City of New York or a day on which banking institutions in The City of New York are authorized or required by law or executive order to close.

ARTICLE TWO

SECURITY FORMS

SECTION 201. *Forms Generally.*

The Securities of each series shall be in substantially the form set forth in this Article, or in such other form as shall be established by or pursuant to a Board Resolution or in one or more indentures supplemental hereto, in each case with such appropriate insertions, omissions, substitutions and other variations as are required or permitted by this Indenture and may have such letters, numbers or other marks of identification and such legends or endorsements placed thereon as may be required to comply with the rules of any securities exchange or as may, consistently herewith, be determined by the officers executing such Securities, as evidenced by their execution of the Securities. If the form of Securities of any series is established by action taken pursuant to a Board Resolution, a copy of an appropriate record of such action shall be certified by the Secretary or an Assistant Secretary of the Company and delivered to the Trustee at or prior to the delivery of the Company Order contemplated by Section 303 for authentication and delivery of such Securities.

The Trustee's certificates of authentication shall be in substantially the form set forth in this Article.

The definitive Securities shall be printed, lithographed or engraved or produced by any combination of these methods on steel engraved borders or may be produced in any other manner permitted by the rules of any securities exchange on which the Securities may be listed, all as determined by the officers executing such Securities, as evidenced by their execution of such Securities.

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SECTION 202. *Form of Face of Security.*

[If the Security is an Original Issue Discount Security, insert-FOR PURPOSES OF SECTION 1232 OF THE UNITED STATES INTERNAL REVENUE CODE OF 1986, AS AMENDED, THE ISSUE PRICE OF THIS SECURITY IS...% ITS PRINCIPAL AMOUNT AND THE ISSUE DATE....., 19 ..]

TORCHMARK CORPORATION

No. \$

TORCHMARK CORPORATION, a corporation duly organized and exist-ing under the laws of the State of Delaware (herein called the "Company", which term includes any successor corporation under the Indenture hereinafter referred to), for value received, hereby promises to pay to

, or registered assigns, the principal

sum of Dollars

on [If the Security

is to bear interest prior to Maturity, insert-, and to pay interest thereon

from or from the most recent Interest Payment Date to which

interest has been paid or duly provided for, semi-annually and

in each year, commencing , at the rate of ...% per annum,

until the principal hereof is paid or made available for payment [If appli-cable insert-, and (to the extent that the payment of such interest shall be legally enforceable) at the rate of ..% per annum on any overdue principal and premium and on any overdue instalment of interest]. The interest so payable, and punctually paid or duly provided for, on any Interest Payment Date will, as provided in such Indenture, be paid to the Person in whose name this Security (or one or more Predecessor Securities) is registered at the close of business on the Regular Record Date for such interest, which shall be the .. or .. (whether or not a Business Day), as the case may be, next preceding such Interest Payment Date. Any such interest not so punctually paid or duly provided for will forthwith cease to be payable to the Holder on such Regular Record Date and may either be paid to the Person in whose name this Security (or one or more Predecessor Securities) is registered at the close of business on a Special Record Date for the payment of such Defaulted Interest to be fixed by the Trustee, notice whereof shall be given to Holders of Securities of this series not less than 10 days prior to such Special Record Date, or be paid at any time in any other lawful manner not inconsistent with the requirements of any securities exchange on which the Securities of this series may be

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listed, and upon such notice as may be required by such exchange, all as more fully provided in said Indenture].

[If the Security is not to bear interest prior to Maturity, insert-The principal of this Security shall not bear interest except in the case of a default in payment of principal upon acceleration, upon redemption or at Stated Maturity and in such case the overdue principal of this Security shall bear interest at the rate of . .% per annum (to the extent that the payment of such interest shall be legally enforceable), which shall accrue from the date of such default in payment to the date payment of such principal has been made or duly provided for. Interest on any overdue principal shall be payable on demand. Any such interest on any overdue principal that is not so paid on demand shall bear interest at the rate of ..% per annum (to the extent that the payment of such interest shall be legally enforceable), which shall accrue from the date of such demand for payment to the date payment of such interest has been made or duly provided for, and such interest shall also be payable on demand].

Payment of the principal of (and premium, if any) and [if applicable, insert-any such] interest on this Security will be made at the office or agency of the Company maintained for that purpose in , in such coin or currency of the United States of America as at the time of payment is legal tender for payment of public and private debts [if applicable, insert-; provided, however, that at the option of the Company payment of interest may be made by check mailed to the address of the Person entitled thereto as such address shall appear in the Security Register].

Reference is hereby made to the further provisions of this Security set forth on the reverse hereof, which further provisions shall for all purposes have the same effect as if set forth at this place.

Unless the certificate of authentication hereon has been executed by the Trustee referred to on the reverse hereof by manual signature, this Security shall not be entitled to any benefit under the Indenture or be valid or obligatory for any purpose.

IN WITNESS WHEREOF, the Company has caused this instrument to be duly executed under its corporate seal.

TORCHMARK CORPORATION

By

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Attest:

SECTION 203. *Form of Reverse of Security.*

This Security is one of a duly authorized issue of securities of the Company *(herein called the "Securities"), issued and to be issued in one or more series under an Indenture, dated as of February 1, 1987 (herein called the "Indenture"), between the Company and Morgan Guaranty Trust Company of New York, as Trustee (herein called the "Trustee", which term includes any successor trustee under the Indenture), to which Indenture and all indentures supplemental thereto reference is hereby made for a statement of the respective rights, limitations of rights, duties and immunities thereunder of the Company, the Trustee and the Holders of the Securities and the terms upon which the Securities are, and are to be, authenticated and delivered. This Security is one of the series designated on the face hereof [, limited in aggregate principal amount to \$].

[*If applicable, insert -*The Securities of this series are subject to redemption upon not less than 30 days' notice by mail, [*if applicable, insert-(1)* on in any year commencing with the year and ending with the year through operation of the sinking fund for this series at a Redemption Price equal to 100% of the principal amount, and (2)] at any time [on or after , 19...], as a whole or in part, at the election of the Company, at the following Redemption Prices (expressed as percentages of the principal amount): If redeemed [on or before , %, and if redeemed] during the 12-month period beginning of the years indicated,

Year	Price	Year	Redemption Price	Redemption
------	-------	------	------------------	------------

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and thereafter at a Redemption Price equal to % of the principal amount, together in the case of any such redemption [*if applicable, insert-(whether through the operation of the sinking fund or otherwise)*] with accrued interest to the Redemption Date, but interest instalments whose Stated Maturity is on or prior to such Redemption Date will be payable to the Holders of such Securities, or one or more Predecessor Securities, of record at the close of business on the relevant Record Dates referred to on the face hereof, all as provided in the Indenture.]

[*If applicable, insert -*The Securities of this series are subject to redemption upon not less than 30 days' notice by mail, (1) on ... in any year commencing with the year and ending with the year through operation of the sinking fund for this series at the Redemption Prices for redemption through operation of the sinking fund (expressed as percentages of the principal amount) set forth in the table below, and (2) at any time [on or after _____], as a whole or in part, at the election of the Company, at the Redemption Prices for redemption otherwise than through operation of the

sinking fund (expressed as percentages of the principal amount) set forth in the table below: If redeemed during the 12-month period beginning of the years indicated,

Year	Sinking Fund	Redemption Price	
		Redemption Price	Redemption Price
		For Redemption	For Redemption
		Otherwise	Otherwise
		Through Operation	Than Through
		of the	Operation of the
		<u>Sinking Fund</u>	

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and thereafter at a Redemption Price equal to % of the principal amount, together in the case of any such redemption (whether through operation of the sinking fund or otherwise) with accrued interest to the Redemption Date, but interest instalments whose Stated Maturity is on or prior to such Redemption Date will be payable to the Holders of such Securities, or one or more Predecessor Securities, of record at the close of business on the relevant Record Dates referred to on the face hereof, all as provided in the Indenture.]

[Notwithstanding the foregoing, the Company may not, prior to

, redeem any Securities of this series as contemplated by

[Clause (2) of] the preceding paragraph as a part of, or in anticipation of, any refunding operation by the application, directly or indirectly, of moneys borrowed having an interest cost to the Company (calculated in accordance with generally accepted financial practice) of less than % per annum.]

[The sinking fund for this series provides for the redemption on in each year beginning with the year and ending with the year of [not less than] \$ [("mandatory sinking fund") and not more than \$] aggregate principal amount of Securities of this series. Securities of this series acquired or redeemed by the Company otherwise than through [mandatory] sinking fund payments may be credited against subsequent [mandatory] sinking fund payments otherwise required to be made-in the inverse order in which they become due].

[In the event of redemption of this Security in part only, a new Security or Securities of this series for the unredeemed portion hereof will be issued in the name of the Holder hereof upon the cancellation hereof.]

[If the Security is not an Original Issue Discount Security, -If an Event of Default with respect to Securities of this series shall occur and be continuing, the principal of the Securities of this series may be declared due and payable in the manner and with the effect provided in the Indenture.]

[If the Security is an Original Issue Discount Security, --If an Event of Default with respect to Securities of this series shall occur and be continuing, an amount of principal of the Securities of this series may be declared due and payable in the manner and with the effect provided in the Indenture. Such amount shall be equal to-insert formula for determining the amount. Upon payment (i) of the amount of principal so declared due and payable and (ii) of interest on any overdue principal and

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overdue interest (in each case to the extent that the payment of such interest shall be legally enforceable), all of the Company's obligations in respect of the payment of the principal of and interest, if any, on the Securities of this series shall terminate.]

The Indenture permits, with certain exceptions as therein provided, the amendment thereof and the modification of the rights and obligations of the Company and the rights of the Holders of the Securities of each series to be affected under the Indenture at any time by the Company and the Trustee with the consent of the Holders of 66 ^{2/3}% in principal amount of the Securities at the time Outstanding of each series to be affected. The Indenture also contains provisions permitting the Holders of specified percentages in principal amount of the Securities of each series at the time Outstanding, on behalf of the Holders of all Securities of such series, to waive compliance by the Company with certain provisions of the Indenture and certain past defaults under the Indenture and their consequences. Any

such consent or waiver by the Holder of this Security shall be conclusive and binding upon such Holder and upon all future Holders of this Security and of any Security issued upon the registration of transfer hereof or in exchange herefor or in lieu hereof, whether or not notation of such consent or waiver is made upon this Security.

No reference herein to the Indenture and no provision of this Security or of the Indenture shall alter or impair the obligation of the Company, which is absolute and unconditional, to pay the principal of (and premium, if any) and interest on this Security at the times, place and rate, and in the coin or currency, herein prescribed.

As provided in the Indenture and subject to certain limitations therein set forth, the transfer of this Security is registrable in the Security Register, upon surrender of this Security for registration of transfer at the office or agency of the Company in any place where the principal of (and premium, if any) and interest on this Security are payable, duly endorsed by, or accompanied by a written instrument of transfer in form satisfactory to the Company and the Security Registrar duly executed by, the Holder hereof or his attorney duly authorized in writing, and thereupon one or more new Securities of this series, of authorized denominations and for the same aggregate principal amount, will be issued to the designated transferee or transferees.

The Securities of this series are issuable only in registered form without coupons in denominations of \$ and any integral multiple

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thereof. As provided in the Indenture and subject to certain limitations therein set forth, Securities of this series are exchangeable for a like aggregate principal amount of Securities of this series of a different authorized denomination, as requested by the Holder surrendering the same.

No service charge shall be made for any such registration of transfer or exchange, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

The Company, the Trustee and any agent of the Company or the Trustee may treat the Person in whose name this Security is registered as the owner hereof for all purposes, whether or not this Security be overdue, and neither the Company, the Trustee nor any such agent shall be affected by notice to the contrary.

All terms used in this Security which are defined in the Indenture shall have the meanings assigned to them in the Indenture.

SECTION 204. *Form of Trustee's Certificate of Authentication.*

This is one of the Securities of the series designated herein referred to in the within-mentioned Indenture.

MORGAN GUARANTY TRUST COMPANY
OF NEW YORK
as Trustee

By

Authorized Officer

ARTICLE THREE THE SECURITIES

SECTION 301. *Amount Unlimited; Issuable in Series.*

The aggregate principal amount of Securities which may be authenticated and delivered under this Indenture is unlimited.

The Securities may be issued in one or more series. There shall be established in or pursuant to a Board Resolution, and set forth in

Officers' Certificate, or established in one or more indentures supplemental hereto, prior to the issuance of Securities of any series,

- 1) the title of the Securities of the series (which shall distinguish the Securities of the series from all other Securities);
- 2) any limit upon the aggregate principal amount of the Securities of the series which may be authenticated and delivered under this Indenture (except for Securities authenticated and delivered upon registration of transfer of, or in exchange for, or in lieu of, other Securities of the series pursuant to Sections 304, 305, 306, 906 or 1107);
- 3) the date or dates on which the principal of the Securities of the series is payable;
- 4) the rate or rates at which the Securities of the series shall bear interest, if any, the date or dates from which such interest shall accrue, the Interest Payment Dates on which such interest shall be payable and the Regular Record Date for the interest payable on any Interest Payment Date;
- 5) the place or places where the principal of (and premium, if any) and interest on Securities of the series shall be payable;
- 6) the period or periods within which, the price or prices at which and the terms and conditions upon which Securities of the series may be redeemed, in whole or in part, at the option of the Company;
- 7) the obligation, if any, of the Company to redeem or purchase Securities of the series pursuant to any sinking fund or analogous provisions or at the option of a Holder thereof and the period or periods within which, the price or prices at which and the terms and conditions upon which Securities of the series shall be redeemed or purchased, in whole or in part, pursuant to such obligation;
- 8) if other than denominations of \$1,000 and any integral multiple thereof, in the case of Registered Securities, or denominations of \$1,000 and \$5,000, in the case of Unregistered Securities, the denominations in which Securities of the series shall be issuable;
- 9) if other than the principal amount thereof, the portion of the principal amount of Securities of the series which shall be payable

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upon declaration of acceleration of the Maturity thereof pursuant to Section 502;

(1) if other than Dollars, the coin or currency in which the Securities of that series are denominated (including, but not limited to, any Foreign Currency or ECU);

(1) whether the Securities of the series will be issuable as Registered Securities or Unregistered Securities (with or without Coupons), or both, any restrictions applicable to the offer, sale or delivery of Unregistered Securities and, if other than as provided in Section 305, the terms upon which Unregistered Securities of any series may be exchanged for Registered Securities of such series and vice versa;

(2) whether and under what circumstances the Company will pay additional amounts on the Securities of the series held by a Person who is not a U.S. Person in respect of any tax, assessment or governmental charge withheld or deducted and, if so, whether the Company will have the option to redeem such Securities rather than pay such additional amounts; and

(3) any other terms of the series (which terms shall not be inconsistent with the provisions of this Indenture).

All Securities of any one series shall be substantially identical except as to denomination and except as may otherwise be provided in or pursuant to such Board Resolution and set forth in such Officers' Certificate or in any such indenture supplemental hereto.

If any of the terms of the series are established by action taken pursuant to a Board Resolution, a copy of an appropriate record of such action shall be certified by the Secretary or an Assistant Secretary of the Company and delivered to the Trustee at or prior to the delivery of the Officers' Certificate setting forth the terms of the series.

SECTION 302. *Denominations.*

The Securities of each series shall be issuable as Registered Securities or Unregistered Securities in denominations as shall be specified as contemplated by Section 301 or, with respect to the Registered Securities

of any series, if not so established, in denominations of \$1,000 and any integral multiple thereof. If denominations of Unregistered Securities of any series are not so established,

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such Securities shall be issuable in denominations of \$1,000 and \$5,000. SECTION 303. *Execution, Authentication, Delivery and Dating.*

The Securities shall be executed on behalf of the Company by its Chairman of the Board, its President or one of its Vice Presidents, under its corporate seal reproduced thereon attested by its Secretary or one of its Assistant Secretaries. The signature of any of these officers on the Securities may be manual or facsimile.

Securities bearing the manual or facsimile signatures of individuals who were at any time the proper officers of the Company shall bind the Company, notwithstanding that such individuals or any of them have ceased to hold such offices prior to the authentication and delivery of such Securities or did not hold such offices at the date of such Securities.

At any time and from time to time after the execution and delivery of this Indenture, the Company may deliver Securities of any series executed by the Company to the Trustee for authentication, together with a Company Order for the authentication and delivery of such Securities, and the Trustee in accordance with the Company Order shall authenticate and deliver such Securities. In authenticating such Securities, and accepting the additional responsibilities under this Indenture in relation to such Securities, the Trustee shall be entitled to receive, and (subject to Section 601) shall be fully protected in relying upon (i) an Officers' Certificate, setting forth the form and terms of the Securities and Coupons, if any, as required pursuant to Section 301, and (ii) an Opinion of Counsel stating:

(a) if the form of such Securities and Coupons, if any, has been established by or pursuant to Board Resolution as permitted by Section 201, that such forms have been established in conformity with the provisions of this Indenture;

(b) if the terms of such Securities and Coupons, if any, have been established by or pursuant to Board Resolution as permitted by Section 301, that such terms have been established in conformity with the provisions of this Indenture;

(c) that such Securities, when authenticated and delivered by the Trustee and issued by the Company in the manner and subject to any conditions specified in such Opinion of Counsel, will constitute valid and legally binding obligations of the Company, enforceable in

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accordance with their terms, subject to bankruptcy, insolvency, reorganization and other laws of general applicability relating to or affecting the enforcement of creditors' rights and to general equity principles; and

(d) such other matters as the Trustee may reasonably request.

If such form or terms have been so established, the Trustee shall not be required to authenticate such Securities if the issue of such Securities pursuant to this Indenture will affect the Trustee's own rights, duties or immunities under the Securities and this Indenture or otherwise in a manner which is not reasonably acceptable to the Trustee, or if the Trustee determines that such authentication may not lawfully be made or if the Trustee reasonably determines that such authentication would involve the Trustee in personal liability.

Each Registered Security shall be dated the date of its authentication. Each Unregistered Security shall be dated as provided in the resolution or resolutions of the Board of Directors of the Company referred to in Section 301.

No Security shall be entitled to any benefit under this Indenture or be valid or obligatory for any purpose unless there appears on such Security a certificate of authentication substantially in the form provided for herein executed by the Trustee by manual signature, and such certificate upon any Security shall be conclusive evidence, and the only evidence, that such Security has been duly authenticated and delivered hereunder and is entitled to the benefits of this Indenture.

SECTION 304. *Temporary Securities.*

Pending the preparation of definitive Securities for any series, the Company may execute and upon Company Order the Trustee shall authenticate and deliver temporary Securities for such series which are printed, lithographed, typewritten, mimeographed, or otherwise repro-duced. Temporary Securities of any series shall be issuable as Registered Securities without coupons, or as Unregistered Securities with or without coupons attached thereto, of any authorized denomination, and substantially of the tenor of the definitive Securities in lieu of which they are issued but with such omissions, insertions, substitutions and other variations as may be determined by the officers executing such Securities, as evidenced by the execution thereof.

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Temporary Securities may contain such reference to any provisions of this indenture as may be appropriate. Every temporary Security shall be executed by the Company and be authenticated by the Trustee upon the same conditions and in substantially the same manner, and with like effect, as the definitive Securities. Without unreasonable delay the Company shall execute and shall furnish definitive Securities of such series and thereupon temporary Registered Securities of such series may be surrendered in exchange therefor without charge to the Holder at each office or agency to be maintained by the Company pursuant to Section 1002 and in the case of Unregistered Securities, at any agency maintained by the Company for such purpose as specified pursuant to Section 1002, and the Trustee shall authenticate and deliver in exchange for such temporary Securities of such series a like aggregate principal amount of definitive Securities of the same series of authorized denominations and, in the case of Unregistered Securities, having attached thereto any appropriate Coupons. Until so exchanged, the temporary Securities of any series shall in all respects be entitled to the same benefits under this Indenture as definitive Securities of such series. The provisions of this Section are subject to any restrictions or limitations on the issue and delivery of temporary Unregistered Securities of any series that may be established pursuant to Sections 301 or 1002 (including any provision that Unregistered Securities of such series initially be issued in the form of a single global Unregistered Security to be delivered to a depositary or agency of the Company located outside the United States and the procedures pursuant to which definitive Unregistered Securities of such series would be issued in exchange for such temporary global Unregistered Security).

SECTION 305. *Registration, Registration of Transfer and Exchange.*

The Company shall cause to be kept at one of its offices or agencies maintained pursuant to Section 1002 a register (the register maintained in such office being referred to as the "Security Register") in which, subject to such reasonable regulations as it may prescribe, the Company shall provide for the registration of Securities and of transfers of Registered Securities. Said office or agency is hereby appointed "Security Registrar" for the purpose of registering Securities and transfers of Securities as herein provided.

Upon surrender for registration of transfer of any Registered Security at the office or agency of the Company designated pursuant to Section 1002 for such purpose, the Company shall execute, and the Trustee shall authenticate

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and deliver, in the name of the designated transferee or transferees, one or more new Securities of the same series, of any authorized denominations, of a like aggregate principal amount.

Unregistered Securities (except for any temporary Unregistered Securities) and Coupons (except for Coupons attached to any temporary Unregistered Securities) shall be transferable by delivery.

At the option of the Holder thereof, Registered Securities of any series may be exchanged for Registered Security or Registered Securities of such series, maturity date, interest rate and original issue date of other authorized denominations and of a like aggregate principal amount, upon surrender of such Registered Securities to be exchanged at the agency of the Company that shall be maintained for such purpose in accordance with Section 1002 and upon payment, if the Company shall so require, of the charges hereinafter "provided. If the Securities of any series are issued in both registered and unregistered form, except as otherwise specified pursuant to Section 301, at the option of the Holder thereof, Unregistered Securities of any series may be exchanged for Registered Securities of such series, maturity date, interest rate and original issue date of any authorized denominations and of a like aggregate principal amount, upon surrender of such Unregistered Securities to be exchanged at the agency of the Company that shall be maintained for such purpose in accordance with Section 1002, with, in the case of Unregistered Securities that have Coupons attached, all unmatured Coupons and all matured Coupons in default thereto appertaining, and upon payment,

if the Company shall so require, of the charges hereinafter provided. At the option of the Holder thereof, if Unregistered Securities of any series, maturity date, interest rate and original issue date are issued in more than one authorized denomination, except as otherwise specified pursuant to Section 301, such Unregistered Securities may be exchanged for Unregistered Securities of such series, maturity date, interest rate and original issue date of other authorized denominations and of a like aggregate principal amount, upon surrender of such Unregistered Securities to be exchanged at the agency of the Company that shall be maintained for such purpose in accordance with Section 1002 or as specified pursuant to Section 301, with, in the case of Unregistered Securities that have Coupons attached, all unmatured coupons and all matured coupons in default thereto appertaining, and upon payment, if the Company shall so require, of the charges hereinafter provided. Unless otherwise specified pursuant to Section 301, Registered Securities of any series may not be exchanged for Unregistered Securities

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of such series. Whenever any Securities are so surrendered for exchange, the Company shall execute, and the Trustee shall authenticate and deliver, the Securities which the Holder making the exchange is entitled to receive. All Securities and Coupons surrendered upon any exchange or transfer provided for in this Indenture shall be promptly cancelled and disposed of by the Trustee and the Trustee will deliver a certificate of disposition thereof to the Company.

All Securities issued upon any registration of transfer or exchange of Securities shall be valid obligations of the Company, evidencing the same debt, and entitled to the same benefits under this Indenture, as the Securities surrendered upon such registration of transfer or exchange.

Every Registered Security presented or surrendered for registration of transfer or for exchange shall (if so required by the Company or the Security Registrar) be duly endorsed, or be accompanied by a written instrument of transfer in form satisfactory to the Company and the Security Registrar duly executed, by the Holder thereof or his attorney duly authorized in writing.

No service charge shall be made for any registration of transfer or exchange of Securities, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with any registration of transfer or exchange of Securities, other than exchanges pursuant to Section 304, 906, or 1107 not involving any transfer.

The Company shall not be required (i) to issue, register the transfer of or exchange Securities of any series during a period beginning at the opening of business 15 days before the day of the mailing of a notice of redemption of Securities of that series selected for redemption under Section 1104 and ending at the close of business on the day of such mailing, or (ii) to register the transfer of or exchange any Security so selected for redemption in whole or in part, except the unredeemed portion of any Security being redeemed in part.

SECTION 306. *Mutilated. Destroyed. Lost and Stolen Securities.*

If any mutilated Security or Coupon appertaining thereto is surrendered to the Trustee, the Company shall execute and the Trustee shall authenticate and deliver in exchange therefor a new Security of the same series of like tenor and principal amount and bearing a number not contemporaneously outstanding, with Coupons corresponding to the Coupons appertaining to

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the Securities so mutilated, or in exchange or substitution for the Security to which such mutilated Coupon appertained, with Coupons appertaining thereto corresponding to the Coupons so mutilated.

If there shall be delivered to the Company and the Trustee (i) evidence to their satisfaction of the destruction, loss or theft of any Security or Coupon appertaining thereto and (ii) such security or indemnity as maybe required by them to save each of them and any agent of either of them harmless, then, in the absence of notice to the Company or the Trustee that such Security or Coupon appertaining thereto has been acquired by a bona fide purchaser, the Company shall execute and upon its request the Trustee shall authenticate and deliver, in lieu of any such destroyed, lost or stolen Security, a new Security of the same series and of like tenor and principal amount and bearing a number not contemporaneously outstanding, with Coupons corresponding to the Coupons appertaining to the Securities so destroyed, lost or stolen, or in exchange or substitution for the Security to which such destroyed, lost or stolen Coupon appertained, with Coupons appertaining thereto Coupons so destroyed, lost or stolen.

In case any such mutilated, destroyed, lost or stolen Security or Coupons appertaining thereto has become or is about to become due and payable, the Company in its discretion may, instead of issuing a Security, pay such Security and such Coupons.

Upon the issuance of any new Security under this Section, the Company may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other expenses (including the fees and expenses of the Trustee) connected therewith.

Every new Security or Coupon of any series issued pursuant to this Section in lieu of any destroyed, lost or stolen Security or Coupon shall constitute an original additional contractual obligation of the Company, whether or not the destroyed, lost or stolen Security or Coupon shall be at any time enforceable by anyone, and shall be entitled to all the benefits of this Indenture equally and proportionately with any and all other Securities or Coupons of that series duly issued hereunder.

The provisions of this Section are exclusive and shall preclude (to the extent lawful) all other rights and remedies with respect to the replacement or payment of mutilated, destroyed, lost or stolen Securities or Coupons.

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SECTION 307. Payment of Interest: Interest Rights Preserved.

The interest on Securities with Coupons attached (together with any additional amounts payable pursuant to the terms of such Securities) shall be payable only upon presentation and surrender of the several Coupons for such interest installments as are evidenced thereby as they severally mature. The interest on any temporary Unregistered Securities (together with any additional amounts payable pursuant to the terms of such Securities) shall be paid, as to the installments of interest evidenced by Coupons attached thereto, if any, only upon presentation and surrender thereof, and, as to the other installments of interest, if any, only upon presentation of such Securities for notation thereon of the payment of such interest. The interest on Registered Securities (together with any additional amounts payable pursuant to the terms of such Securities) shall be payable only to or upon the written order of the Holders thereof and at the option of the Company may be paid by mailing checks for such interest payable to or upon the written order of such Holders at their last addresses as they appear in the Security Register.

Any interest on any Registered Security which is payable, but is not punctually paid or duly provided for, on any Interest Payment Date (herein called "Defaulted Interest") shall forthwith cease to be payable to the Holder on the relevant Regular Record Date by virtue of having been such Holder, and such Defaulted Interest may be paid by the Company, at its election in each case, as provided in Clause (1) or (2) below:

(1) The Company may elect to make payment of any Defaulted Interest to the Persons in whose names the Registered Securities of such series (or their respective Predecessor Securities) are registered at the close of business on a Special Record Date for the payment of such Defaulted Interest, which shall be fixed in the following manner. The Company shall notify the Trustee in writing of the amount of Defaulted Interest proposed to be paid on each Registered Security of such series and the date of the proposed payment, which shall accord with the provisions of this Section, and at the same time the Company shall deposit with the Trustee an amount of money equal to the aggregate amount proposed to be paid in respect of such Defaulted Interest or shall make arrangements satisfactory to the Trustee for such deposit prior to the date of the proposed payment, such money when deposited to be held in trust for the benefit of the Persons entitled to such Defaulted Interest

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as in this Clause provided. Thereupon the Trustee shall fix a Special Record Date for the payment of such Defaulted Interest which shall be not more than 15 days and not less than 10 days prior to the date of the proposed payment date, and not less than 10 days after the receipt by the Trustee of the notice of the proposed payment. The Trustee shall promptly notify the Company of such Special Record Date and, in the name and at the expense of the Company, shall cause notice of the proposed payment of such Defaulted Interest and the Special Record Date therefor to be mailed, first-class postage prepaid, to each Holder of Registered Securities of such series at his address as it appears in the Security Register, not less than 10 days prior to such Special Record Date. Notice of the proposed payment of such Defaulted Interest and the Special Record Date therefor having been so mailed, such Defaulted Interest shall be paid to the persons in whose names the Registered

Securities of such series (or their respective Predecessor Securities) are registered at the close of business on such Special Record Date and shall no longer be payable pursuant to the following Clause (2).

(2) The Company may make payment of any Defaulted Interest on the Securities of any series in any other lawful manner not inconsistent with the requirements of any securities exchange on which such Securities may be listed, and upon such notice as may be required by such exchange, if, after notice given by the Company to the Trustee of the proposed payment pursuant to this Clause, such manner of payment shall be deemed practicable by the Trustee.

Subject to the foregoing provisions of this Section, each Security delivered under this Indenture upon registration of transfer of or in exchange for or in lieu of any other Security shall carry the rights to interest accrued and unpaid, and to accrue, which were carried by such other Security.

SECTION 308. *Persons Deemed Owners.*

The Company, the Trustee and any agent of the Company or the Trustee may treat the Person in whose name any Registered Security is registered upon the Security Register for such series as the owner of such Security (whether or not such Security shall be overdue) for the purpose of receiving payment of principal of (and premium, if any) and, subject to

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Section 307, interest on such Security and for all other purposes whatsoever: and neither the Company, the Trustee nor any agent of the Company or the Trustee shall be affected by any notice to the contrary. The Company, the Trustee and any agent of the Company or the Trustee may treat the Holder of any Unregistered Security and the Holder of any Coupon as the owner of such Unregistered Security or Coupon (whether or not such Unregistered Security or Coupon shall be overdue) for the purpose of receiving payment thereof and for all other purposes and neither the Company, the Trustee, nor any agent of the Company or the Trustee shall be affected by any notice to the contrary. All such payments so made to any such person, or upon his order, shall be valid, and, to the extent of the sum or sums so paid, effectual to satisfy and discharge the liability for moneys payable upon any such Security or Coupon.

SECTION 309. *Cancellation.*

All Securities and Coupons surrendered for payment, redemption, registration of transfer or exchange or for credit against any sinking fund payment shall, if surrendered to any Person other than the Trustee, be delivered to the Trustee and shall be promptly cancelled by it. The Company may at any time deliver to the Trustee for cancellation any Securities and Coupons previously authenticated and delivered hereunder which the Company may have acquired in any manner whatsoever, and all Securities and Coupons so delivered shall be promptly cancelled by the Trustee. No Securities or Coupons shall be authenticated in lieu of or in exchange for any Securities or Coupons cancelled as provided in this Section, except as expressly permitted by this Indenture. All cancelled Securities and Coupons held by the Trustee shall be destroyed by the Trustee and a certificate of such destruction shall be delivered to the Company, unless by Company Order the Company shall direct that cancelled Securities and Coupons be returned to it.

SECTION 310. *Computation of Interest.*

Except as otherwise specified as contemplated by Section 301 for Securities of any series, interest on the Securities of each series shall be computed on the basis of twelve 30-day months.

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ARTICLE FOUR

SATISFACTION AND DISCHARGE

SECTION 401. *Satisfaction and Discharge of Indenture.*

This Indenture shall cease to be of further effect (except as to any surviving rights of Securities herein expressly provided for), and the Trustee, on demand of and at the expense of the Company, shall execute proper instruments acknowledging satisfaction and discharge of this Indenture, when

(1) either

(A) all Securities theretofore authenticated and delivered and all unmatured Coupons appertaining thereto (other than (i) Securities and Coupons appertaining thereto that have been destroyed, lost or stolen and that have been replaced or paid as provided in Section 306 and (ii) Securities and Coupons appertaining thereto for the payment of which money has theretofore been deposited in trust or segregated and held in trust by the Company and thereafter repaid to the Company or discharged from such trust, as provided in Section 1003) have been delivered to the Trustee for cancellation; or

(B) all such Securities and all unmatured Coupons appertaining thereto not theretofore delivered to the Trustee for cancellation

(i) have become due and payable, or

(ii) will become due and payable at their Stated Maturity within one year, or

(i) are to be called for redemption within one year under arrangements satisfactory to the Trustee for the giving of notice of redemption by the Trustee in the name, and at the expense, of the Company,

and the Company, in the case of (i), (ii) or (iii) above, has deposited or caused to be deposited with the Trustee as trust funds in trust for the purpose an amount sufficient to pay and discharge the entire indebtedness on such Securities and such unmatured Coupons appertaining thereto that will mature on or before the Stated Maturity or the Redemption Date, as the case may be, not theretofore delivered to the Trustee for cancellation, for principal (and premium, if any) and interest to the date of such deposit (in the case of Securities which

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have become due and payable) or to the Stated Maturity or Redemption Date, as the case may be;

(1) the Company has paid or caused to be paid all other sums payable hereunder by the Company; and

(2) the Company has delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that all conditions precedent herein provided for relating to the satisfaction and discharge of this Indenture have been complied with.

Notwithstanding the satisfaction and discharge of this Indenture, the obligations of the Company to the Trustee under Section 607, the obligations of the Trustee to any Authenticating Agent under Section 614 and, if money shall have been deposited with the Trustee pursuant to sub-clause (B) of clause (1) of this Section, the obligations of the Trustee under Section 402 and the last paragraph of Section 1003 shall survive.

SECTION 402. *Application of Trust Money.*

Subject to the provisions of the last paragraph of Section 1003, all money deposited with the Trustee pursuant to Section 401 shall be held in trust and applied by it, in accordance with the provisions of the Securities and this Indenture, to the payment, either directly or through any Paying Agent (including the Company acting as its own Paying Agent) as the Trustee may determine to the Persons entitled thereto, of the principal (and premium, if any) and interest for whose payment such money has been deposited with the Trustee.

ARTICLE FIVE

REMEDIES

SECTION 501. *Events of Default.*

"Event of Default", wherever used herein with respect to Securities of any series, means any one of the following events (whatever the reason for such Event of Default and whether it shall be voluntary or involuntary or be effected by operation of law or pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body):

- 1) default in the payment of any interest upon any Security of that series when it becomes due and payable, and continuance of such
- 2) default for a period of 30 days; or

default (other than a default described in clause (3) of this Section) in the payment of the principal of (or premium, if any, on) any Security of that series at its Maturity; or

- 3) default in the deposit of any sinking fund payment, when and as due by the terms of a Security of that series and continuance of such default for a period of 10 days; or
- 4) default in the performance, or breach, of any covenant or warranty of the Company in this Indenture applicable to the Securities of that Series (other than a covenant or warranty a default in whose performance or whose breach is elsewhere in this Section specifically dealt with), and continuance of such default or breach for a period of 60 days after there has been given, by registered or certified mail, to the Company by the Trustee or to the Company and the Trustee by the Holders of at least 10% in principal amount of the Outstanding Securities of that series a written notice specifying such default or breach and requiring it to be remedied and stating that such notice is a "Notice of Default" hereunder; or
- 5) a default under any bond, debenture, note or other evidence of the Debt of the Company (including a default with respect to Securities of any series other than that series) or under any mortgage, indenture or instrument under which there may be issued or by which there may be secured or evidenced any Debt of the Company (including this Indenture), whether such Debt now exists or shall hereafter be created, which default shall constitute a failure to pay such Debt in a principal amount in excess of \$10,000,000 when due and payable after the expiration of any applicable grace period with respect thereto or shall have resulted in such Debt in a principal amount in excess of \$10,000,000 becoming or being declared due and payable prior to the date on which it would otherwise have become due and payable, without such Debt having been discharged, or such acceleration having been rescinded or annulled, within a period of 15 days after there shall have been given, by overnight mail or other same day or overnight delivery service which can provide evidence of delivery, to the Company by the Trustee or to the Company and the Trustee by the Holders of at least 25% in principal amount of the Outstanding Securities of that series a written notice specifying such default and requiring the Company to cause such Debt to be discharged or

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cause such acceleration to be rescinded or annulled and stating that such notice is a "Notice of Default" hereunder; or

- 6) the entry of a decree or order by a court having jurisdiction in the premises adjudging the Company a bankrupt or insolvent, or approving as properly filed a petition seeking reorganization, arrangement, adjustment or composition of or in respect of the Company under Federal bankruptcy law or any other applicable Federal or State law, or appointing a receiver, liquidator, assignee, trustee, sequestrator or other similar official of the Company or of any substantial part of its property, or ordering the winding up or liquidation of its affairs, and the continuance of any such decree or order unstayed and in effect for a period of 90 consecutive days; or
- 7) the institution by the Company of proceedings to be adjudicated a bankrupt or insolvent, or the consent by it to the institution of bankruptcy or insolvency proceedings against it, or the filing by it of a petition or answer or consent seeking reorganization or relief under Federal bankruptcy law or any other applicable Federal or State law, or the consent by it to the filing of such petition or to the appointment of a receiver, liquidator, assignee, trustee, sequestrator or similar official of the Company or of any substantial part of its property, or the making by it of an assignment for the benefit of creditors, or the admission by it in writing of its inability to pay its debts generally as they become due, or the taking of corporate action by the Company in furtherance of any such action; or
- 8) any other Event of Default provided in the supplemental indenture or resolution of the Board of Directors under which such series of Securities is issued or in the form of Security for such series.

SECTION 502. *Acceleration of Maturity; Rescission and Annulment.*

If an Event of Default with respect to Securities of any series at the time Outstanding occurs and is continuing, then and in every such case the Trustee or the Holders of not less than 25% in principal amount of the Outstanding Securities of that series may declare the principal amount (or, if the Securities of that series are Original Issue Discount

Securities, such portion of the principal amount as may be specified in the terms of that series) of all the Securities of that series to be due and payable immediately, by a notice in writing to the Company (and to the Trustee if

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given by Holders), and upon any such declaration such principal amount (or specified amount) shall become immediately due and payable.

At any time after such a declaration of acceleration with respect to Securities of any series has been made and before a judgment or decree for payment of the money due has been obtained by the Trustee as hereinafter in this Article provided, the Holders of a majority in principal amount of the Outstanding Securities of that series, by written notice to the Company and the Trustee, may rescind and annul such declaration and its consequences if

- (1) the Company has paid or deposited with the Trustee a sum sufficient to pay
 - (A) all overdue instalments of interest on all Securities of that series;
 - (B) the principal of (and premium, if any, on) any Securities of that series which have become due otherwise than by such declaration of acceleration and interest thereon at the rate or rates prescribed therefor in such Securities;
 - (C) to the extent that payment of such interest is lawful, interest upon overdue instalments of interest at the rate or rates prescribed therefor in such Securities, and
 - (D) all sums paid or advanced by the Trustee or any predecessor Trustee hereunder and the reasonable compensation, expenses, disbursements and advances of the Trustee or any predecessor Trustee, their agents and counsel;

and

- (2) all Events of Default with respect to Securities of that series, other than the non-payment of the principal of Securities of that series which have become due solely by such declaration of acceleration, have been cured or waived as provided in Section 513.

No such rescission shall affect any subsequent default or impair any right consequent thereon.

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SECTION 503. *Collection of Indebtedness and Suits for Enforcement by Trustee.*

The Company covenants that if

- (1) default is made in the payment of any instalment of interest on any Security when such interest becomes due and payable and such default continues for a period of 30 days, or
- (2) default is made in the payment of the principal of (or premium, if any, on) any Security at the Maturity thereof,

the Company will, upon demand of the Trustee, pay to it, for the benefit of the Holders of such Securities, the whole amount then due and payable on such Securities for principal (and premium, if any) and interest, with interest upon the overdue principal (and premium, if any) and, to the extent that payment of such interest shall be legally enforceable, upon overdue instalments of interest, at the rate or rates prescribed therefor in such Securities; and, in addition thereto, such further amount as shall be sufficient to cover the costs and expenses of collection, including the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel.

If the Company fails to pay such amounts forthwith upon such demand, the Trustee, in its own name and as trustee of an express trust, may institute a judicial proceeding for the collection of the sums so due and unpaid, may prosecute such proceeding to judgment or final decree and may enforce the same against the Company or any other obligor upon such Securities and any Coupons appertaining thereto and collect the moneys adjudged or decreed to be payable in the manner provided by law out of the property of the Company or any other obligor upon such Securities and any Coupons appertaining thereto, wherever situated.

If an Event of Default with respect to Securities of any series occurs and is continuing, the Trustee may in its discretion proceed to protect and enforce its rights and the rights of the Holders of Securities of such series by such appropriate judicial proceedings as the Trustee shall deem most effectual to protect and enforce any such rights, whether for the specific enforcement of any covenant or agreement in this Indenture or in aid of the exercise of any power granted herein, or to enforce any other proper remedy.

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SECTION 504. *Trustee May File Proofs of Claim.*

In case of the pendency of any receivership, insolvency, liquidation, bankruptcy, reorganization, arrangement, adjustment, composition or other judicial proceeding relative to the Company or any other obligor upon the Securities or the property of the Company or of such other obligor or their creditors, the Trustee (irrespective of whether the principal of the Securities shall then be due and payable as therein expressed or by declaration or otherwise and irrespective of whether the Trustee shall have made any demand on the Company for the payment of overdue principal or interest) shall be entitled and empowered, by intervention in such proceeding or otherwise,

- (i) to file and prove a claim for the whole amount of principal (and premium, if any) and interest owing and unpaid in respect of the Securities and to file such other papers or documents as may be necessary or advisable in order to have the claims of the Trustee and any predecessor Trustee (including any claim for the reasonable compensation, expenses, disbursements and advances of the Trustee and any predecessor Trustee, their agents and counsel) and of the Holders allowed in such judicial proceeding,

- (i) to collect and receive any moneys or other property payable or deliverable on any such claims and to distribute the same, and

- (i) unless prohibited by law or regulation, to vote on behalf of the Holders of the Securities of any series in any election of a receiver, assignee, trustee in bankruptcy or reorganization, liquidator, sequestrator, custodian or other person performing similar functions in respect of any such proceedings;

and any receiver, assignee, trustee, liquidator, sequestrator, custodian or other similar official in any such judicial proceeding is hereby authorized by each Holder to make such payments to the Trustee and, in the event that the Trustee shall consent to the making of such payments directly to the Holders, to pay to the Trustee any amount due it for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, and any other amounts due the Trustee or any predecessor Trustee under Section 607.

Nothing herein contained shall be deemed to authorize the Trustee to authorize or consent to or accept or adopt on behalf of any Holder any plan of reorganization, arrangement, adjustment or composition affecting the

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Securities or the rights of any Holder thereof or to authorize the Trustee to vote in respect of the claim of any Holder in any such proceeding.

SECTION 505. *Trustee May Enforce Claims without Possession of Securities or Coupons.*

All rights of action and claims under this Indenture or the Securities may be prosecuted and enforced by the Trustee without the possession of any of the Securities or Coupons appertaining to such Securities or the production thereof in any proceeding relating thereto, and any such proceeding instituted by the Trustee shall be brought in its own name as trustee of an express trust, and any recovery of judgment shall, after provision for the payment of the reasonable compensation, expenses, disbursements and advances of the Trustee and any predecessor Trustee, their agents and counsel, be for the ratable benefit of the Holders of the Securities or Coupons appertaining to such Securities in respect of which such judgment has been recovered.

SECTION 506. *Application of Money Collected.*

Any money collected by the Trustee pursuant to this Article shall be applied in the following order, at the date or dates fixed by the Trustee and, in case of the distribution of such money on account of principal (or premium, if any) or interest, upon presentation of the Securities or the Coupons, as the case may be, and the notation thereon of the payment if only partially paid and upon surrender thereof if fully paid:

FIRST: To the payment of all amounts due the Trustee or any predecessor Trustee under Section 607; and

SECOND: To the payment of the amounts then due and unpaid for principal of (and premium, if any) and interest on the Securities in respect of which or for the benefit of which such money has been collected, ratably, without preference or priority of any kind, according to the amounts due and payable on such Securities for principal (and premium, if any) and interest, respectively; and

THIRD: To the Company.

SECTION 507. *Limitation on Suits.*

No Holder of any Security of any series or of any Coupon appertaining thereto shall have any right to institute any proceeding, judicial or

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otherwise, with respect to this Indenture, or for the appointment of a receiver or trustee, or for any other remedy hereunder, unless

(1) such Holder has previously given written notice to the Trustee of a continuing Event of Default with respect to the Securities of that series;

(2) the Holders of not less than 25% in principal amount of the Outstanding Securities of that series shall have made written request to the Trustee to institute proceedings in respect of such Event of Default in its own name as Trustee hereunder; *provided, however,* that no contrary written request shall have been given to the Trustee by Holders of Securities of that series of a greater percentage;

(3) such Holder or Holders have offered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request;

(4) the Trustee for 60 days after its receipt of such notice, request and offer of indemnity has failed to institute any such proceeding; and

(5) no direction inconsistent with such written request has been given to the Trustee during such 60-day period by the Holders of a majority in principal amount of the Outstanding Securities of that series;

it being understood and intended that no one or more Holders of Securities of any Series shall have any right in any manner whatever by virtue of, or by availing of, any provision of this Indenture to affect, disturb or prejudice the rights of any other such Holders, or to obtain or to seek to obtain priority or preference over any other such Holders or to enforce any right under this Indenture, except in the manner herein provided and for the equal and ratable benefit of all such Holders.

SECTION 508. *Unconditional Right of Holders to Receive Principal, Premium and Interest.*

Notwithstanding any other provision in this Indenture, the Holder of any Security and any Coupon appertaining thereto shall have the right, which is absolute and unconditional, to receive payment of the principal of (and premium, if any) and (subject to Section 307) interest on such Security on the respective Stated Maturity or Maturities expressed in such Security and any Coupon

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appertaining thereto (or, in the case of redemption, on the Redemption Date) and to institute suit for the enforcement of any such payment, and such rights shall not be impaired without the consent of such Holder.

SECTION 509. *Restoration of Rights and Remedies.*

If the Trustee or any Holder has instituted any proceeding to enforce any right or remedy under this Indenture and such proceeding has been discontinued or abandoned for any reason, or has been determined adversely to the Trustee or to such Holder, then and in every such case, subject to any determination in such proceeding, the Company, the Trustee and the Holders shall be restored severally and respectively to their former positions hereunder and thereafter all rights and remedies of the Trustee and the Holders shall continue as though no such proceeding had been instituted.

SECTION 510. *Rights and Remedies Cumulative.*

Subject to the provisions of Section 306, no right or remedy herein conferred upon or reserved to the Trustee or to the Holders is intended to be exclusive of any other right or remedy, and every right and remedy shall, to the extent permitted by law, be cumulative and in addition to every other right and remedy given hereunder or now or hereafter existing at law or in equity or otherwise. The assertion or employment of any right or remedy hereunder, or otherwise, shall not prevent the concurrent assertion or employment of any other appropriate right or remedy.

SECTION 511. *Delay or Omission Not Waiver.*

No delay or omission of the Trustee or of any Holder of any Securities to exercise any right or remedy accruing upon any Event of Default shall impair any such right or remedy or constitute a waiver of any such Event of Default or an acquiescence therein. Every right and remedy given by this Article or by law to the Trustee or to the Holders may be exercised from time to time, and as often as may be deemed expedient, by the Trustee or by the Holders, as the case may be.

SECTION 512. *Control by Holders.*

The Holders of a majority in principal amount of the Outstanding Securities of any series shall have the right to direct the time, method

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and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee with respect to Securities of such series, *provided that*

- (1) such direction shall not be in conflict with any rule of law or with this Indenture, expose the Trustee to personal liability or be unduly prejudicial to the rights of Holders not joining therein, and
- (2) the Trustee may take any other action deemed proper by the Trustee which is not inconsistent with such direction.

SECTION 513. *Waiver of Past Defaults.*

The Holders of not less than a majority in principal amount of the Outstanding Securities of any series may on behalf of the Holders of all the Securities of such series waive any past default hereunder and its consequences, except a default

- (1) in the payment of the principal of (or premium, if any) or interest on any Security of such series, or
- (2) in respect of a covenant or provision hereof which under Article Nine cannot be modified or amended without the consent of the Holder of each Outstanding Security of such series affected.

Upon any such waiver, such default shall cease to exist, and any Event of Default arising therefrom shall be deemed to have been cured, for every purpose of this Indenture; but no such waiver shall extend to any subsequent or other default or impair any right consequent thereon.

SECTION 514. *Undertaking for Costs.*

All parties to this Indenture agree, and each Holder of any Security or Coupon by his acceptance thereof shall be deemed to have agreed, that any court may in its discretion require, in any suit for the enforcement of any right or remedy under this Indenture, or in any suit against the Trustee for any action taken, suffered or omitted by it as Trustee, the filing by any party litigant in such suit of an undertaking to pay the costs of such suit, and that such court may in its discretion assess reasonable costs, including reasonable attorneys' fees, against any party litigant in such suit, having due regard to the merits and good faith of the claims or defenses made by such party litigant; but the provisions of this Section shall not apply to any suit instituted by the Trustee, to any suit instituted by any Holder, or group of Holders, holding in the aggregate more than 10% in principal amount of the Outstanding Securities of any series, or to

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any suit instituted by any Holder for the enforcement of the payment of the principal of (or premium, if any) or interest on any Security on or after the respective Stated Maturity or Maturities expressed in such Security (or, in the case of redemption, on or after the Redemption Date).

SECTION 515. *Waiver of Stay or Extension Laws.*

The Company covenants (to the extent that it may lawfully do so) that it will not at any time insist upon, or plead, or in any manner whatsoever claim or take the benefit or advantage of, any stay or extension law wherever enacted, now or at any time hereafter in force, which may affect the covenants or the performance of this Indenture; and the Company (to the extent that it may lawfully do so) hereby expressly waives all benefit or advantage of any such law and covenants that it will not hinder, delay or impede the execution of any power herein granted to the Trustee, but will suffer and permit the execution of every such power as though no such law had been enacted.

ARTICLE SIX THE TRUSTEE

SECTION 601. *Certain Duties and Responsibilities.*

- (a) Except during the continuance of an Event of Default,
 - (1) the Trustee undertakes to perform such duties and only such duties as are specifically set forth in this Indenture, and no implied covenants or obligations shall be read into this Indenture against the Trustee; and
 - (2) in the absence of bad faith on its part, the Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the Trustee and conforming to the requirements of this Indenture; but in the case of any such certificates or opinions which by any provision hereof are specifically required to be furnished to the Trustee, the Trustee shall be under a duty to examine the same to determine whether or not they conform to the requirements of this Indenture.
- (b) In case an Event of Default has occurred and is continuing, the Trustee shall exercise such of the rights and powers vested in it by this Indenture, and use the same degree of care and skill in their exercise, as a

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prudent man would exercise or use under the circumstances in the conduct of his own affairs.

(c) No provision of this Indenture shall be construed to relieve the Trustee from liability for its own negligent action, its own negligent failure to act, or its own wilful misconduct, *except* that

- (1) this Subsection shall not be construed to limit the effect of Subsection (a) of this Section;
- (2) the Trustee shall not be liable for any error of judgment made in good faith by a Responsible Officer, unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts;
- (3) the Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Holders of a majority in principal amount of the Outstanding Securities of any series determined as provided in Section 512, relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee, under this Indenture with respect to the Securities of such series; and
- (4) no provision of this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

(d) Whether or not therein expressly so provided, every provision of this Indenture relating to the conduct or affecting the liability of or affording protection to the Trustee shall be subject to the provisions of this Section.

SECTION 602. *Notice of Defaults.*

The Trustee shall, within 90 days after the occurrence of a default hereunder with respect to the Securities of any series, give notice of such default hereunder known to the Trustee unless such default shall have been cured or waived (i) if any Unregistered Securities of that series are then Outstanding, to the Holders thereof, by publication at least once in an Authorized Newspaper in the Borough of Manhattan, The City of New York and at least once in an Authorized Newspaper in London (and, if required by Section 1010, at least once

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in an Authorized Newspaper in Luxembourg). (ii) if any Unregistered Securities of that series are then Outstanding, to all Holders thereof who have filed their names and addresses with the Trustee pursuant to Section 703(b), by mailing such notice to such Holders at such addresses and (iii) to all Holders of Registered Securities of that series, by mailing

such notice to such Holders at their addresses as they shall appear in the Security Register, *provided, however*, that, except in the case of a default in the payment of the principal of (or premium, if any) or interest on any Security of such series or in the payment of any sinking fund instalment with respect to Securities of such series, the Trustee shall be protected in withholding such notice if and so long as the board of directors, the executive committee or a trust committee of directors of the Trustee and/or Responsible Officers in good faith determines that the withholding of such notice is in the interest of the Holders of Securities of such series; and *provided, further*, that in the case of any default of the character specified in Section 501(4) with respect to Securities of such series, no such notice to Holders shall be given until at least 30 days after the occurrence thereof. For the purpose of this Section, the term "default" means any event which is, or after notice or lapse of time or both would become, an Event of Default with respect to holders of Securities of such series.

SECTION 603. *Certain Rights of Trustee.*

Subject to Section 601:

(a) the Trustee may rely and shall be protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, note or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties;

(b) any request or direction of the Company mentioned herein shall be sufficiently evidenced by a Company Request or Company Order and any resolution of the Board of Directors may be sufficiently evidenced by a Board Resolution;

(c) whenever in the administration of this Indenture the Trustee shall deem it desirable that a matter be proved or established prior to taking, suffering or omitting any action hereunder, the Trustee (unless

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other evidence be herein specifically prescribed) may, in the absence of bad faith on its part, rely upon an Officers' Certificate;

(a) the Trustee may consult with counsel and the written advice of such counsel or any Opinion of Counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by it hereunder in good faith and in reliance thereon;

(e) the Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Indenture at the request or direction of any of the Holders pursuant to this Indenture, unless such Holders shall have offered to the Trustee reasonable security or indemnity against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction;

(f) the Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, note or other paper or document, but the Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit, and, if the Trustee shall determine to make such further inquiry or investigation, it shall be entitled to examine the books, records and premises of the Company, personally or by agent or attorney;

(g) the Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through agents or attorneys and the Trustee shall not be responsible for any misconduct or negligence on the part of any agent or attorney appointed with due care by it hereunder; and

(h) the Trustee shall not be liable for any action taken or omitted by it in good faith and believed by it to be authorized or within the discretion, rights or powers conferred upon it by this Indenture.

SECTION 604. *Not Responsible for Recitals or Issuance of Securities.*

The recitals contained herein and in the Securities, except the Trustee's certificates of authentication, shall be taken as the statements of the Company, and the Trustee assumes no responsibility for their correctness. The Trustee makes no representations as to the validity or sufficiency of this Indenture or of the Securities or Coupons. The Trustee shall not be accountable for the use or application by the Company of Securities or the proceeds thereof.

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SECTION 605. *May Hold Securities.*

The Trustee, any Authenticating Agent, any Paying Agent, any Security Registrar or any other agent of the Company or the Trustee, in its individual or any other capacity, may become the owner or pledgee of Securities and Coupons and, subject to Sections 608 and 613, may other-wise deal with the Company with the same rights it would have if it were not Trustee, Authenticating Agent, Paying Agent, Security Registrar or such other agent.

SECTION 606. Money Held in Trust.

Money held by the Trustee in trust hereunder need not be segregated from other funds except to the extent required by law. The Trustee shall be under no liability for interest on any money received by it hereunder except as otherwise agreed with the Company.

SECTION 607. Compensation and Reimbursement.

The Company agrees

- (1) to pay to the Trustee from time to time reasonable compensation for all services rendered by it hereunder (which compensation shall not be limited by any provision of law in regard to the compensation of a trustee of an express trust);
- (2) except as otherwise expressly provided herein, to reimburse the Trustee upon its request for all reasonable expenses, disbursements and advances incurred or made by the Trustee or any predecessor Trustee in accordance with any provision of this Indenture (including the reasonable compensation and the expenses and disbursements of its agents and counsel), except any such expense, disbursement or advance as may be attributable to its negligence or bad faith; and
- (3) to indemnify each of the Trustee and any predecessor Trustee for, and to hold it harmless against, any loss, liability or expense arising out of or in connection with the acceptance or administration of the trust or trusts or the performance of its duties hereunder, including the costs and expenses of defending itself against any claim or liability in connection with the exercise or performance of any of its powers or duties hereunder, except to the extent such loss, liability or expense is due to its own negligence or bad faith.

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The obligations of the Company under this Section 607 to compensate and indemnify the Trustee and any predecessor Trustee and to pay or reimburse the Trustee and any predecessor Trustee for expenses, disbursements and advances shall constitute additional indebtedness hereunder and shall survive the satisfaction and discharge of this Indenture. Such additional indebtedness shall be a senior claim to that of the Securities and upon all property and funds held or collected by the Trustee as such, except funds held in trust for the benefit of the Holders of particular Securities, and the Securities are hereby subordinated to such senior claim.

SECTION 608. Disqualification; Conflicting Interests.

- (a) If the Trustee has or shall acquire any conflicting interest, as defined in this Section, with respect to the Securities of any series, it shall, within 90 days after ascertaining that it has such conflicting interest, either eliminate such conflicting interest or resign with respect to the Securities of that series in the manner and with the effect hereinafter specified in this Article.
- (b) In the event that the Trustee shall fail to comply with the provisions of Subsection (a) of this Section with respect to the Securities of any series, the Trustee shall, within 10 days after the expiration of such 90-day period, transmit by mail to all Holders of Securities of that series, as their names and addresses appear in the Security Register, notice of such failure.
- (c) For the purposes of this Section, the Trustee shall be deemed to have a conflicting interest with respect to the Securities of any series if

(1) the Trustee is trustee under this Indenture with respect to the Outstanding Securities of any series, other than that series or is Trustee under another indenture under which any other securities, or certificates of interest or participation in any other securities, of the Company are outstanding, unless such other indenture is a collateral trust indenture under which the only collateral consists of Securities issued under this Indenture, *provided* that there shall be excluded from the operation of this paragraph this Indenture with respect to Securities of any series other than that series or any indenture or indentures under which other securities, or certificates of interest or participation in other securities, of the Company are outstanding, if

(i) this Indenture and such other indenture or indentures are wholly unsecured and such other indenture or indentures are hereafter qualified under the Trust Indenture Act, unless the Commission shall have found and declared by order pursuant to Section 305(b) or Section 307(c) of the Trust Indenture Act that differences exist between the provisions of this Indenture with respect to Securities of that series and one or more other series or the provisions of such other indenture or indentures which are so likely to involve a material conflict of interest as to make it necessary in the public interest or for the protection of investors to disqualify the Trustee from acting as such under this Indenture with respect to the Securities of that series and such other series or under such other indenture or indentures, or

(ii) the Company shall have sustained the burden of, proving, on application to the Commission and after opportunity for hearing thereon, that trusteeship under this Indenture with respect to the Securities of that series and such other series or such other indenture or indentures is not so likely to involve a material conflict of interest as to make it necessary in the public interest or for the protection of investors to disqualify the Trustee from acting as such under this Indenture with respect to the Securities of that series and such other series or under such other indenture or indentures;

(1) the Trustee or any of its directors or executive officers is an obligor upon the Securities or an underwriter for the Company;

(3) the Trustee directly or indirectly controls or is directly or indirectly controlled by or is under direct or indirect common control with the Company or an underwriter for the Company;

(4) the Trustee or any of its directors or executive officers is a director, officer, partner, employee, appointee or representative of the Company, or of an underwriter (other than the Trustee itself) for the Company who is currently engaged in the business of underwriting, except that (i) one individual may be a director or an executive officer, or both, of the Trustee and a director or an executive officer, or both, of the Company but may not be at the same time an executive officer of both the Trustee and the Company; (ii) if and so long as the number of directors of the Trustee in office is more than nine, one additional individual may be a director or an executive officer, or both of the Trustee and a

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director of the Company; and (iii) the Trustee may be designated by the Company or by any underwriter for the Company to act in the capacity of transfer agent, registrar, custodian, paying agent, fiscal agent, escrow agent or depositary, or in any other similar capacity, or, subject to the provisions of paragraph (1) of this Subsection, to act as trustee, whether under an indenture or otherwise;

(1) 10% or more of the voting securities of the Trustee is beneficially owned either by the Company or by any director, partner or executive officer thereof, or 20% or more of such voting securities is beneficially owned, collectively, by any two or more of such persons; or 10% or more of the voting securities of the Trustee is beneficially owned either by an underwriter for the Company or by any director, partner or executive officer thereof, or is beneficially owned, collectively, by any two or more such persons;

(6) the Trustee is the beneficial owner of, or holds as collateral security for an obligation which is in default (as hereinafter in this Subsection defined), (i) 5% or more of the voting securities, or 10% or more of any other class of security, of the Company not including the Securities issued under this Indenture and securities issued under any other indenture under which the Trustee is also trustee, or (ii) 10% or more of any class of security of an underwriter for the Company;

(7) the Trustee is the beneficial owner of, or holds as collateral security for an obligation which is in default (as hereinafter in this Subsection defined), 5% or more of the voting securities of any person who, to the knowledge of the Trustee, owns 10% or more of the voting securities of, or controls directly or indirectly or is under direct or indirect common control with, the Company;

(8) the Trustee is the beneficial owner of, or holds as collateral security for an obligation that is in default (as hereinafter in this Subsection defined), 10% or more of any class of security of any person who, to the knowledge of the Trustee, owns 50% or more of the voting securities of the Company; or

(9) the Trustee owns, on May 15 in any calendar year, in the capacity of executor, administrator, testamentary or inter vivos trustee, guardian, committee or conservator, or in any other similar capacity, an aggregate of 25% or more of the voting securities, or of any class of security, of any person, the beneficial ownership of a

specified percentage of which would have constituted a conflicting interest under paragraph (6), (7) or (8) of this Subsection. As to any such securities of which the Trustee acquired ownership through becoming executor, administrator or testamentary trustee of an estate which included them, the provisions of the preceding sentence shall not apply, for a period of two years from the date of such acquisition, to the extent that such securities included in such estate do not exceed 25% of such voting securities or 25% of any such class of security. Promptly after May 15 in each calendar year, the Trustee shall make a check of its holdings of such securities in any of the above-mentioned capacities as of such May 15. If the Company fails to make payment in full of the principal of (or premium, if any) or interest on any of the Securities when and as the same becomes due and payable, and such failure continues for 30 days thereafter, the Trustee shall make a prompt check of its holdings of such securities in any of the above-mentioned capacities as of the date of the expiration of such 30-day period, and after such date, notwithstanding the foregoing provisions of this paragraph, all such securities so held by the Trustee, with sole or joint control over such securities vested in it, shall, but only so long as such failure shall continue, be considered as though beneficially owned by the Trustee for the purposes of paragraphs (6), (7) and (8) of this Subsection.

The specification of percentages in paragraphs (5) to (9), inclusive, of this Subsection shall not be construed as indicating that the ownership of such percentages of the securities of a person is or is not necessary or sufficient to constitute direct or indirect control for the purposes of paragraph (3) or (7) of this Subsection.

For the purposes of paragraphs (6), (7), (8) and (9) of this Subsection only, (i) the terms "security" and "securities" shall include only such securities as are generally known as corporate securities, but shall not include any note or other evidence of indebtedness issued to evidence an obligation to repay moneys lent to a person by one or more banks, trust companies or banking firms, or any certificate of interest or participation in any such note or evidence of indebtedness; (ii) an obligation shall be deemed to be "in default" when a default in payment of principal shall have continued for 30 days or more and shall not have been cured; and (iii) the Trustee shall not be deemed to be the owner or holder of (A) any security which it holds as collateral security, as trustee or otherwise, for an obligation which is not in default as defined in clause (ii) above, or (B)

any security which it holds as collateral security under this Indenture. irrespective of any default hereunder, or (C) any security which it holds as agent for collection, or as custodian, escrow agent or depository, or in any similar representative capacity.

(d) For the purposes of this Section:

(1) "The term "underwriter", when used with reference to the Company, means every person who, within three years prior to the time as of which the determination is made, has purchased from the Company with a view to, or has offered or sold for the Company in connection with, the distribution of any security of the Company outstanding at such time, or has participated or has had a direct or indirect participation in any such undertaking, or has participated or has had a participation in the direct or indirect underwriting of any such undertaking, but such term shall not include a person whose interest was limited to a commission from an underwriter or dealer not in excess of the usual and customary distributors' or sellers' commission.

(2) The term "director" means any director of a corporation or any individual performing similar functions with respect to any organization, whether incorporated or unincorporated.

(3) The term "person" means an individual, a corporation, a partnership, an association, a joint-stock company, a trust, an unincorporated organization or a government or political subdivision thereof. As used in this paragraph, the term "trust" shall include only a trust where the interest or interests of the beneficiary or beneficiaries are evidenced by a security.

(4) The term "voting security" means any security presently entitling the owner or holder thereof to vote in the direction or management of the affairs of a person, or any security issued under or pursuant to any trust, agreement or arrangement whereby a trustee or trustees or agent or agents for the owner or holder of such security are presently entitled to vote in the direction or management of the affairs of a person.

(5) The term "Company" means any obligor under the Securities.

(6) The term "executive officer" means the president, every vice president, every trust officer, the cashier, the secretary and the treasurer of a corporation. and any individual customarily performing similar functions with respect to any organization whether incorporated or unincorporated, but shall not include the chairman of the board of directors, as such.

(e) The percentages of voting securities and other securities specified in this Section shall be calculated in accordance with the following provisions:

(1) A specified percentage of the voting securities of the Trustee, the Company or any other person referred to in this Section (each of whom is referred to as a "person" in this paragraph) means such amount of the outstanding voting securities of such person as entitles the holder or holders thereof to cast such specified percentage of the aggregate votes which the holders of all the outstanding voting securities of such person are entitled to cast in the direction or management of the affairs of such person.

(2) A specified percentage of a class of securities of a person means such percentage of the aggregate amount of securities of the class outstanding.

(3) The term "amount", when used in regard to securities, means the principal amount if relating to evidences of indebtedness, the number of shares if relating to capital shares and the number of units if relating to any other kind of security.

(4) The term "outstanding" means issued and not held by or for the account of the issuer. The following securities shall not be deemed outstanding within the meaning of this definition:

(i) securities of an issuer held in a sinking fund relating to securities of the issuer of the same class;

(ii) securities of an issuer held in a sinking fund relating to another class of securities of the issuer, if the obligation evidenced by such other class of securities is not in default as to principal or interest or otherwise;

(iii) securities pledged by the issuer thereof as security for an obligation of the issuer not in default as to principal or interest or otherwise; and

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(iv) securities held in escrow if placed in escrow by the issuer thereof;

provided, however, that any voting securities of an issuer shall be deemed outstanding if any person other than the issuer is entitled to exercise the voting rights thereof.

(5) A security shall be deemed to be of the same class as another security if both securities confer upon the holder or holders thereof substantially the same rights and privileges; *provided, however,* that, in the case of secured evidences of indebtedness, all of which are issued under a single indenture, differences in the interest rates or maturity dates of various series thereof shall not be deemed sufficient to constitute such series different classes and *provided, further,* that, in the case of unsecured evidences of indebtedness, differences in the interest rates or maturity dates thereof shall not be deemed sufficient to constitute them securities of different classes, whether or not they are issued under a single indenture.

SECTION 609. *Corporate Trustee Required; Eligibility.*

There shall at all times be a Trustee hereunder that shall be a corporation organized and doing business under the laws of the United States of America, any State thereof or the District of Columbia, authorized under such laws to exercise corporate trust powers, having a combined capital and surplus of at least \$50,000,000 and subject to supervision or examination by Federal or State authority. If such corporation publishes reports of condition at least annually, pursuant to law or to the requirements of said supervising or examining authority, then for the purposes of this Section, the combined capital and surplus of such corporation shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. If at any time the Trustee shall cease to be eligible in accordance with the provisions of this Section, it shall resign immediately in the manner and with the effect hereinafter specified in this Article.

SECTION 610. *Resignation and Removal; Appointment of Successor.*

(a) No resignation or removal of the Trustee and no appointment of a successor Trustee pursuant to this Article shall become effective until the acceptance of appointment by the successor Trustee under Section 611.

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(b) The Trustee may resign at any time with respect to the Securities of one or more series by giving written notice thereof to the Company. If an instrument of acceptance by a successor Trustee shall not have been delivered to the Trustee within 30 days after the giving of such notice of resignation, the resigning Trustee may petition any court of competent jurisdiction for the appointment of a successor Trustee with respect to the Securities of such series.

(c) The Trustee may be removed at any time with respect to the Securities of any series by the Act of the Holders of a majority in principal amount of the Outstanding Securities of such series, delivered to the Trustee and to the Company.

(d) If at any time:

(1) the Trustee shall fail to comply with Section 608(a) after written request therefor by the Company or by any Holder who has been a bona fide Holder of a Security for at least six months, or

(2) the Trustee shall cease to be eligible under Section 609 and shall fail to resign after written request therefor by the Company or by any such Holder, or

(3) the Trustee shall become incapable of acting or shall be adjudged a bankrupt or insolvent or a receiver of the Trustee or of its property shall be appointed or any public officer shall take charge or control of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation,

then, in any such case, (i) the Company by a Board Resolution may remove the Trustee with respect to all Securities, or (ii) subject to Section 514, any Holder who has been a bona fide Holder of a Security for at least six months may, on behalf of himself and all others similarly situated, petition any court of competent jurisdiction for the removal of the Trustee with respect to all Securities and the appointment of a successor Trustee or Trustees.

(e) If the Trustee shall resign, be removed or become incapable of acting, or if a vacancy shall occur in the office of Trustee for any cause with respect to the Securities of one or more series, the Company, by a Board Resolution, shall promptly appoint a successor Trustee or Trustees with respect to the Securities of that or those series (it being understood that any such Successor Trustee may be

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appointed with respect to the Securities of one or more or all of such series and that at any time there shall be only one Trustee with respect to the Securities of any particular series). If, within one year after such resignation, removal or incapability, or the occurrence of such vacancy, a successor Trustee with respect to Securities of any series shall be appointed by the Act of the Holders of a majority in principal amount of the Outstanding Securities of such series delivered to the Company and the retiring Trustee, the successor Trustee so appointed shall, forthwith upon its acceptance of such appointment, become the successor Trustee with respect to the Securities of such series and to that extent supersede the successor Trustee appointed by the Company. If no successor Trustee with respect to the Securities of any series shall have been so appointed by the Company or the Holders and accepted appointment in the manner hereinafter provided, any Holder who has been a bona fide Holder of a Security of such series for at least six months may, on behalf of himself and all others similarly situated, petition any court of competent jurisdiction for the appointment of a successor Trustee with respect to the Securities of such series.

(f) The Company shall give notice of each resignation and each removal of the Trustee with respect to the Securities of any series and each appointment of a successor Trustee with respect to the Securities of any series (a) if any Unregistered Securities of a series affected are then Outstanding, to the Holders thereof, by publication of such notice at least once in an Authorized Newspaper in the Borough of Manhattan, The City of New York and at least once in an Authorized Newspaper in London (and, if required by Section 1010, at least once in an Authorized Newspaper in Luxembourg, (b) if any Unregistered Securities of a series affected are then Outstanding, to the Holders thereof who have filed their names and addresses with the Trustee pursuant to Section 703(b), by mailing such notice to such Holders at such addresses as were so furnished to the Company (and the Trustee shall make such information available to the Company for such purpose) and (c) to the Holders of Registered Securities of each series affected then Outstanding, by mailing such notice by first-class mail, postage prepaid, to such Holders at their addresses as they shall appear in the Security Register. Each notice shall include the name of the successor Trustee and the address of its Corporate Trust Office.

SECTION 611. *Acceptance of Appointment by Successor.*

(a) In case of the appointment hereunder of a successor Trustee with respect to all Securities, every such successor Trustee so appointed shall execute, acknowledge and deliver to the Company and to the retiring

Trustee an instrument accepting such appointment, and thereupon the resignation or removal of the retiring Trustee shall become effective and such successor Trustee, without any further act, deed or conveyance, shall become vested with all the rights, powers, trusts and duties of the retiring Trustee; but, on the request of the Company or the successor Trustee, such retiring Trustee shall, upon payment of its charges, execute and deliver an instrument transferring to such successor Trustee all the rights, powers and trusts of the retiring Trustee and shall duly assign, transfer and deliver to such successor Trustee all property and money held by such retiring Trustee hereunder.

(b) In case of the appointment hereunder of a successor Trustee with respect to the Securities of one or more (but not all) series, the Company, the retiring Trustee and each successor Trustee with respect to the Securities of one or more series shall execute and deliver an indenture supplemental hereto wherein each successor Trustee shall accept such appointment and which (1) shall contain such provisions as shall be necessary or desirable to transfer and confirm to, and to vest in, each successor Trustee all the rights, powers, trusts and duties of the retiring Trustee with respect to the Securities of that or those series to which the appointment of such successor Trustee relates, (2) if the retiring Trustee is not retiring with respect to all Securities, shall contain such provisions as shall be deemed necessary or desirable to confirm that all the rights, powers, trusts and duties of the retiring Trustee with respect to the Securities of that or those series as to which the retiring Trustee is not retiring shall continue to be vested in the retiring Trustee, and (3) shall add to or change any of the provisions of this Indenture as shall be necessary to provide for or facilitate the administration of the trusts hereunder by more than one Trustee, it being understood that nothing herein or in such supplemental indenture shall constitute such Trustees co-trustees of the same trust and that each such Trustee shall be trustee of a trust or trusts hereunder separate and apart from any trust or trusts hereunder administered by any other such Trustee; and upon the execution and delivery of such supplemental indenture the resignation or removal of the retiring Trustee shall become effective to the extent provided therein and each such successor Trustee, without any further act, deed or conveyance, shall become vested with all the rights, powers, trusts and duties of the retiring Trustee with respect to the Securities of that or those series to which the appointment of such successor Trustee relates; but, on request of the Company or any successor Trustee, such retiring Trustee shall duly assign, transfer and deliver to such successor Trustee all property 59

and money held by such retiring Trustee hereunder with respect to the Securities of that or those series to which the appointment of such successor Trustee relates.

(c) Upon request of any such successor Trustee, the Company shall execute any and all instruments for more fully and certainly vesting in and confirming to such successor Trustee all such rights, powers and trusts referred to in paragraph (a) or (b) of this Section, as the case may be.

(d) No successor Trustee shall accept its appointment unless at the time of such acceptance such successor Trustee shall be qualified and eligible under this Article.

SECTION 612. *Merger, Conversion, Consolidation or Succession to Business.*

Any corporation into which the Trustee may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, conversion or consolidation to which the Trustee shall be a party, or any corporation succeeding to all or substantially all the corporate trust business of the Trustee, shall be the successor of the Trustee hereunder, provided such corporation shall be otherwise qualified and eligible under this Article, without the execution or filing of any paper or any further act on the part of any of the parties hereto. In case any Securities shall have been authenticated, but not delivered, by the Trustee then in office, any successor by merger, conversion or consolidation to such authenticating Trustee may adopt such authentication and deliver the Securities so authenticated with the same effect as if such successor Trustee had itself authenticated such Securities.

SECTION 613. *Preferential Collection of Claims against Company.*

(a) Subject to Subsection (b) of this Section, if the Trustee shall be or shall become a creditor, directly or indirectly, secured or unsecured, of the Company within four months prior to a default, as defined in Subsection (c) of this Section, or subsequent to such a default, then, unless and until such default shall be cured, the Trustee shall set apart and hold in a special account for the benefit of the Trustee individually, the Holders of the Securities and the holders of other indenture securities, as defined in Subsection (c) of this Section:

(1) an amount equal to any and all reductions in the amount due and owing upon any claim as such creditor in respect of 60

principal or interest, effected after the beginning of such four months' period and valid as against the Company and its other creditors, except any such reduction resulting from the receipt or disposition of any property described in paragraph (2) of this Subsection, or from the exercise of any right of set-off which the Trustee could have exercised if a petition in bankruptcy had been filed by or against the Company upon the date of such default; and

(2) all property received by the Trustee in respect of any claims as such creditor, either as security therefor, or in satisfaction or composition thereof, or otherwise, after the beginning of such four months' period, or an amount equal to the proceeds of any such property, if disposed of, *subject, however*, to the rights, if any, of the Company and its other creditors in such property or such proceeds.

Nothing herein contained, however, shall affect the right of the Trustee:

(A) to retain for its own account (i) payments made on account of any such claim by any Person (other than the Company) who is liable thereon, and (ii) the proceeds of the bona fide sale of any such claim by the Trustee to a third Person, and (iii) distributions made in cash, securities or other property in respect of claims filed against the Company in bankruptcy or receivership or in proceedings for reorganization pursuant to the Federal Bankruptcy Act or applicable State law;

(B) to realize, for its own account, upon any property held by it as security for any such claim, if such property was so held prior to the beginning of such four months' period;

(C) to realize, for its own account, but only to the extent of the claim hereinafter mentioned, upon any property held by it as security for any such claim, if such claim was created after the beginning of such four months' period and such property was received as security therefor simultaneously with the creation thereof, and if the Trustee shall sustain the burden of proving that at the time such property was so received the Trustee had no reasonable cause to believe that a default, as defined in Subsection (c) of this Section, would occur within four months; or to receive payment on any claim referred to in paragraph (B) or (C), against the release of any property held as security⁶¹

for such claim as provided in paragraph (B) or (C), as the case may be, to the extent of the fair value of such property.

For the purposes of paragraphs (B), (C) and (D), property substituted after the beginning of such four months' period for property held as security as of the time of such substitution shall, to the extent of the fair value of the property released, have the same status as the property released. and, to the extent that any claim referred to in any of such paragraphs is created in renewal of or in substitution for or for the purpose of repaying or refunding any pre-existing claim of the Trustee as such creditor, such claim shall have the same status as such pre-existing claim.

If the Trustee shall be required to account, the funds and property held in such special account and the proceeds thereof shall be apportioned among the Trustee, the Holders and the holders of other indenture securities in such manner that the Trustee, the Holders and the holders of other indenture securities realize, as a result of payments

from such special account and payments of dividends on claims filed against the Company in bankruptcy or receivership or in proceedings for reorganization pursuant to the Federal Bankruptcy Act or applicable State law, the same percentage of their respective claims, figured before crediting to the claim of the Trustee anything on account of the receipt by it from the Company of the funds and property in such special account and before crediting to the respective claims of the Trustee and the Holders and the holders of other indenture securities dividends on claims filed against the Company in bankruptcy or receivership or in proceedings for reorganization pursuant to the Federal Bankruptcy Act or applicable State law, but after crediting thereon receipts on account of the indebtedness represented by their respective claims from all sources other than from such dividends and from the funds and property so held in such special account. As used in this paragraph, with respect to any claim, the term "dividends"

shall include any distribution with respect to such claim, in bankruptcy or receivership or proceedings for reorganization pursuant to the Federal Bankruptcy Act or applicable State law, whether such distribution is made in cash, securities or other property, but shall not include any such distribution with respect to the secured portion, if any, of such claim. The court in which such bankruptcy, receivership or proceedings for reorganization is pending shall have jurisdiction (i) to apportion among the Trustee, the Holders and the holders of other indenture securities, in accordance with the provisions of this paragraph, the funds and property held in such special 62

account and proceeds thereof, or (ii) in lieu of such apportionment, in whole or in part, to give to the provisions of this paragraph due consideration in determining the fairness of the distributions to be made to the Trustee and the Holders and the holders of other indenture securities with respect to their respective claims, in which event it shall not be necessary to liquidate or to appraise the value of any securities or other property held in such special account or as security for any such claim, or to make a specific allocation of such distributions as between the secured and unsecured portions of such claims, or otherwise to apply the provisions of this paragraph as a mathematical formula.

Any Trustee which has resigned or been removed after the beginning of such four months' period shall subject to the provisions of this Subsection as though such resignation or removal had not occurred. Warty Trustee has resigned or been removed prior to the beginning of such four months' period, it shall be subject to the provisions of this Subsection if and only if the following conditions exist:

- (i) the receipt of property or reduction of claim, which would have given rise to the obligation to account, if such Trustee had continued as Trustee, occurred after the beginning of such four months' period; and
- (ii) such receipt of property or reduction of claim occurred within four months after such resignation or removal.

(b) There shall be excluded from the operation of Subsection (a) of this Section a creditor relationship arising from:

- (1) the ownership or acquisition of securities issued under any indenture, or any security or securities having a maturity of one year or more at the time of acquisition by the Trustee;
- (2) advances authorized by a receivership or bankruptcy court of competent jurisdiction or by this Indenture, for the purpose of preserving any property which shall at any time be subject to the lien of this Indenture or of discharging tax liens or other prior liens or encumbrances thereon, if notice of such advances and of the circumstances surrounding the making thereof is given to the Holders at the time and in the manner provided in this Indenture;

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- (1) disbursements made in the ordinary course of business in the capacity of trustee under an indenture, transfer agent, registrar, custodian, paying agent, fiscal agent or depository, or other similar capacity;
- (4) an indebtedness created as a result of services rendered or premises rented; or an indebtedness created as a result of goods or securities sold in a cash transaction, as defined in Subsection (c) of this Section;
- (5) the ownership of stock or of other securities of a corporation organized under the provisions of Section 25(a) of the Federal Reserve Act, as amended, which is directly or indirectly a creditor of the Company; and
- (6) the acquisition, ownership, acceptance or negotiation of any drafts, bills of exchange, acceptances or obligations which fall within the classification of self-liquidating paper, as defined in Subsection (c) of this Section.

(c) For the purposes of this Section only:

(1) The term "default" means any failure to make payment in full of the principal of or interest on any of the Securities or upon the other indenture securities when as such principal or interest becomes due and payable;

(2) the term "other indenture securities" means securities upon which the Company is an obligor outstanding under any other indenture (i) under which the Trustee is also trustee, (ii) which contains provisions substantially similar to the provisions of this Section, and (iii) under which a default exists at the time of the apportionment of the funds and property held in such special account;

(3) the term "cash transaction" means any transaction in which full payment for goods or securities sold is made within seven days after delivery of the goods or securities in currency or in checks or other orders drawn upon banks or bankers and payable upon demand;

(4) the term "self-liquidating paper" means any draft, bill of exchange, acceptance of obligation which is made, drawn, negotiated or incurred by the Company for the purpose of financing the purchase, processing, manufacturing, shipment, storage or sale of goods, wares or merchandise and which is secured by documents evidencing title to, possession of, or a lien upon, the goods, wares or merchandise or the 64

receivables or proceeds arising from the sale of the goods, wares or merchandise previously constituting the security, provided the security is received by the Trustee simultaneously with the creation of the creditor

relationship with the Company arising from the making, drawing, negotiating or incurring of the draft, bill of exchange, acceptance or obligation;

(5) the term "Company" means any obligor upon the Securities; and

(6) the term "Federal Bankruptcy Act" means the Bankruptcy Act or Title 11 of the United States Code.

SECTION 614. *Appointment of Authenticating Agent.*

At any time when any of the Securities remain Outstanding the Trustee may appoint an Authenticating Agent or Agents with respect to one or more series of Securities which shall be authorized to act on behalf of the Trustee to authenticate Securities of such series issued upon exchange, registration of transfer or partial redemption thereof or pursuant to Section 306, and Securities so authenticated shall be entitled to the benefits of this indenture and shall be valid and obligatory for all purposes as if authenticated by the Trustee hereunder. Wherever reference is made in this Indenture to the authentication and delivery of Securities by the Trustee or the Trustee's certificate of authentication, such reference shall be deemed to include authentication and delivery on behalf of the Trustee by an Authenticating Agent and a certificate of authentication executed on behalf of the Trustee by an Authenticating Agent. Each Authenticating Agent shall be acceptable to the Company and shall at all times be a corporation organized and doing business under the laws of the United States of America, any State thereof or the District of Columbia, authorized under such laws to act as Authenticating Agent, having a combined capital and surplus of not less than \$50,000,000 and subject to supervision or examination by Federal or State authority. If such Authenticating Agent publishes reports of condition at least annually, pursuant to law or to the requirements of said supervising or examining authority, then for the purposes of this Section, the combined capital and surplus of such Authenticating Agent shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. If at any time an Authenticating Agent shall cease to be eligible in accordance with the provisions of this Section, such Authenticating Agent shall resign immediately in the manner and with the effect specified in this 65

Section.

Any corporation into which an Authenticating Agent may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, conversion or consolidation to which such Authenticating Agent shall be a party, or any corporation succeeding to the corporate agency or corporate trust business of an Authenticating Agent, shall continue to be an Authenticating Agent, provided such corporation shall be otherwise eligible under this Section, without the execution or filing of any paper or any further act on the part of the Trustee or the Authenticating Agent.

An Authenticating Agent may resign at any time by giving written notice thereof to the Trustee and to the Company. The Trustee may at any time terminate the agency of an Authenticating Agent by giving written notice thereof to such Authenticating Agent and to the Company. Upon receiving such a notice of resignation or upon such a termination, or in case at any time such Authenticating Agent shall cease to be eligible in accordance with the provisions of this Section, the Trustee may appoint a successor Authenticating Agent which shall be acceptable to the Company and shall mail written notice of such appointment by first-class mail, postage prepaid, to all Holders of Securities of the series with respect to which such Authenticating Agent will serve, as their names and addresses appear in the Security Register. Any successor Authenticating Agent upon acceptance of its appointment hereunder shall become vested with all the rights, powers and duties of its predecessor hereunder, with like effect as if originally named as an Authenticating Agent. No successor Authenticating Agent shall be appointed unless eligible under the provisions of this Section.

The Trustee agrees to pay to each Authenticating Agent from time to time reasonable compensation for its services under this Section, and the Trustee shall be entitled to be reimbursed for such payments, pursuant to the provisions of Section 607.

If an appointment with respect to one or more series is made pursuant to this Section, the Securities of such series may have endorsed thereon, in addition to the Trustee's certificate of authentication, an alternate certificate of authentication substantially in the following form:

MORGAN GUARANTY TRUST COMPANY OF NEW YORK, AS
TRUSTEE

By
Authorized Officer

By
Authorized Officer

ARTICLE SEVEN

HOLDERS' LISTS AND REPORTS BY TRUSTEE AND COMPANY

SECTION 701. *Company to Furnish Trustee Names and Addresses of Holders.*

The Company will furnish or cause to be furnished to the Trustee

(a) semi-annually, not later than January 1 and July 1 in each year, a list, in such form as the Trustee may reasonably require, of the names and addresses of the Holders as of the preceding December 15 and June 15, respectively, and

(b) at such other times as the Trustee may request in writing, within 30 days after the receipt by the Company of any such request, a list of similar form and content as of a date not more than 15 days prior to the time such list is furnished;

provided, no such list need be furnished if the Trustee shall be the Security Registrar.

SECTION 702. *Preservation of Information; Communications to Holders.*

(a) The Trustee shall preserve, in as current a form as is reasonably practicable, the names and addresses of Holders contained in the most recent list furnished to the Trustee as provided in Section 701 and the names and addresses of Holders received by the Trustee in its capacity as Security Registrar. The Trustee may destroy any list furnished to it as provided in Section 701 upon receipt of a new list so furnished.

(b) If three or more Holders (herein referred to as "applicants") apply in writing to the Trustee, and furnish to the Trustee reasonable proof that

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each such applicant has owned a Security for a period of at least six months preceding the date of such application, and such application states that the applicants desire to communicate with other Holders with respect to their rights under this Indenture or under the Securities and is accompanied by a copy of the form of proxy or other communication which such applicants propose to transmit, then the Trustee shall, within five business days after the receipt of such application, at its election, either:

(i) afford such applicants access to the information preserved at the time by the Trustee in accordance with Section 702(a), or

(ii) inform such applicants as to the approximate number of Holders whose names and addresses appear in the information preserved at the time by the Trustee in accordance with Section 702(a), and as to the approximate cost of mailing to such Holders the form of proxy or other communication, if any, specified in such application.

If the Trustee shall elect not to afford such applicants access to such information, the Trustee shall, upon the written request of such applicants, mail to each Holder whose name and address appears in the information preserved at the time by the Trustee in accordance with Section 702(a) a copy of the form of proxy or other communication that is specified in such request, with reasonable promptness after a tender to the Trustee of the material to be mailed and of payment, or provision for the payment, of the reasonable expenses of mailing, unless within five days after such tender the Trustee shall mail to such applicants and file with the Commission, together with a copy of the material to be mailed, a written statement to the effect that, in the opinion of the Trustee, such mailing would be contrary to the best interests of the Holders or would be in violation of applicable law. Such written statement shall specify the basis of such opinion. If the Commission, after opportunity for a hearing upon the objections specified in the written statement so filed, shall enter an order refusing to sustain any of such objections or if, after the entry

of an order sustaining one or more of such objections, the Commission shall find, after notice and opportunity for hearing, that all the objections so sustained have been met and shall enter an order so declaring, the Trustee shall mail copies of such material to all such Holders with reasonable promptness after the entry of such order and the renewal of such tender; otherwise the Trustee shall be relieved of any obligation or duty to such applicants respecting their application.

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(c) Every Holder of Securities, by receiving and holding the same, agrees with the Company and the Trustee that neither the Company nor the Trustee nor any agent of either of them shall be held accountable by reason of the disclosure of any such information as to the names and addresses of the Holders in accordance with Section 702(b), regardless of the source from which such information was derived, and that the Trustee shall not be held accountable by reason of mailing any material pursuant to a request made under Section 702(b).

SECTION 703. *Reports by Trustee.*

(a) Within 60 days after January 15 of each year commencing with the year 1988, the Trustee shall transmit by mail to Holders of Registered Securities, as their names and addresses appear in the Security Register, and to Holders of Unregistered Securities who have filed their names and addresses with the Trustee pursuant to subsection (b) of this Section 703, a brief report dated as of such January 15 with respect to:

(1) its eligibility under Section 609 and its qualifications under Section 608, or in lieu thereof, if to the best of its knowledge it has continued to be eligible and qualified under said Sections, a written statement to such effect;

(2) the character and amount of any advances (and if the Trustee elects so to state, the circumstances surrounding the making thereof) made by the Trustee (as such) that remain unpaid on the date of such report, and for the reimbursement of which it claims or may claim a lien or charge, prior to that of the Securities, on any property or funds held or collected by it as Trustee, except that the Trustee shall not be required (but may elect) to report such advances if such advances so remaining unpaid aggregate not more than $\frac{1}{2}$ of 1% of the principal amount of the Securities Outstanding on the date of such report;

(3) the amount, interest rate and maturity date of all other indebtedness owing by the Company (or by any other obligor on the Securities) to the Trustee in its individual capacity, on the date of such report, with a brief description of any property held as collateral security therefor, except an indebtedness based upon a creditor relationship arising in any manner described in Section 613(b) (2), (3), (4) or (6);

(4) the property and funds, if any, physically in the possession of the Trustee as such on the date of such report;

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(1) any additional issue of Securities which the Trustee has not previously, reported: and

(6) any action taken by the Trustee in the performance of its duties hereunder which it has not previously reported and which in its opinion materially affects the Securities, except action in respect of a default. notice of which has been or is to be withheld by the Trustee in accordance with Section 602.

(a) The Trustee shall transmit by mail to (i) Holders of Registered Securities, as their names and addresses appear in the Security Register, and (ii) to such other Holders of Securities who have, within two years preceding such transmission, filed their names and addresses with the Trustee for that purpose, a brief report with respect to the character and amount of any advances (and if the Trustee elects so to state, the circumstances surrounding the making thereof) made by the Trustee (as such) since the date of the last report transmitted pursuant to Subsection (a) of this Section (or if no such report has yet been so transmitted, since the date of execution of this instrument) for the reimbursement of which it claims or may claim a lien or charge, prior to that of the Securities, on property or funds held or collected by it as Trustee and which it has not previously reported pursuant to this Subsection, except that the Trustee shall not be required (but may elect) to report such advances if such advances remaining unpaid at any time aggregate 10% or less of the principal amount of the Securities Outstanding at such time, such report to be transmitted within 90 days after such time.

(c) A copy of each such report shall, at the time of such transmission to Holders, be filed by the Trustee with each stock exchange upon which any Securities are listed, with the Commission and with the Company. The Company will notify the Trustee when any Securities are listed on any stock exchange.

SECTION 704. *Reports by Company.*

The Company shall:

- (1) file with the Trustee, within 15 days after the Company is required to file the same with the Commission, copies of the annual reports and of the information, documents and other reports (or copies of such portions of any of the foregoing as the Commission may from time to time by rules and regulations prescribe) which 70

the Company may be required to file with the Commission pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934; or, if the Company is not required to file information, documents or reports pursuant to either of said Sections, then it shall file with the Trustee and the Commission, in accordance with rules and regulations prescribed from time to time by the Commission, such of the supplementary and periodic information, documents and reports which may be required pursuant to Section 13 of the Securities Exchange Act of 1934 in respect of a security listed and registered on a national securities exchange as may be prescribed from time to time in such rules and regulations:

- (1) file with the Trustee and the Commission, in accordance with rules and regulations prescribed from time to time by the Commission such additional information, documents and reports with respect to compliance by the Company with the conditions and covenants of this Indenture as may be required from time to time by such rules and regulations; and

- (3) transmit by mail, within 30 days after the filing thereof with the Trustee, to Holders of Registered Securities, as their names and addresses appear in the Security Register, and to Holders of Unregistered Securities who have filed their names and addresses with the Trustee pursuant to Section 703(b), such summaries of any information, documents and reports required to be filed by the Company pursuant to paragraphs (1) and (2) of this Section as may be required by rules and regulations prescribed from time to time by the Commission.

ARTICLE EIGHT

CONSOLIDATION, MERGER, CONVEYANCE, TRANSFER OR LEASE

SECTION 801. *Company May Consolidate, etc., Only on Certain Terms.*

The Company shall not consolidate with or merge into any other corporation or convey, transfer or lease its properties and assets substantially as an entirety to any Person, unless:

- (1) the corporation formed by such consolidation or into which the Company is merged or the Person which acquires by conveyance or transfer, or which leases the properties and assets of the Company substantially as an entirety, shall be a corporation organized and existing under the laws of the

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United States of America, any State thereof or the District of Columbia and shall expressly assume, by an indenture supplemental hereto, executed and delivered to the Trustee, in form satisfactory to the Trustee, the due and punctual payment of the principal of (and premium, if any) and interest on all the Securities and the performance of every covenant of this Indenture on the part of the Company to be performed or observed;

- (2) immediately after giving effect to such transaction, no Event of Default, and no event which, after notice or lapse of time or both, would become an Event of Default, shall have happened and be continuing; and

- (3) the Company has delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that such consolidation, merger, conveyance, transfer or lease and such supplemental indenture comply with this Article and that all conditions precedent herein provided for relating to such transaction have been complied with.

SECTION 802. *Successor Corporation Substituted.*

Upon any consolidation or merger by the Company with or into any other corporation or any conveyance, transfer or lease of the properties and assets of the Company substantially as an entirety in accordance with Section 801, the successor corporation formed by such consolidation or into which the Company is merged or to which such conveyance, transfer or lease is made shall succeed to, and be substituted for, and may exercise every right and power of, the Company under this Indenture with the same effect as if such successor corporation had been

named as the Company herein, and thereafter, except in the case of a lease, the predecessor corporation shall be relieved of all obligations and covenants under this Indenture and the Securities.

ARTICLE NINE SUPPLEMENTAL INDENTURES

SECTION 901. *Supplemental Indentures without Consent of Holders.*

Without the consent of any Holders, the Company, when authorized by a Board Resolution, and the Trustee, at any time and from time to time may

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enter into one or more indentures supplemental hereto, in form satisfactory to the Trustee, for any of the following purposes:

- (1) to evidence the succession of another corporation to the Company and the assumption by any such successor of the covenants of the Company herein and in the Securities; or
- (2) to add to the covenants of the Company for the benefit of the Holders of all or any series of Securities (and if such covenants are to be for the benefit of less than all series of Securities, stating that such covenants are expressly being included solely for the benefit of such series), or to surrender any right or power herein conferred upon the Company; or
- (3) to add any additional Events of Default; or
- (4) to change or eliminate any of the provisions of this Indenture, provided that any such change or elimination shall become effective only when there is no Security Outstanding of any series created prior to the execution of such supplemental indenture which is entitled to the benefit of such provisions; or
- (5) to establish the form or terms of Securities of any series as permitted by Sections 201 and 301; or
- (6) to evidence and provide for the acceptance of appointment hereunder by a successor Trustee with respect to the Securities of one or more series and to add to or change any of the provisions of this Indenture as shall be necessary to provide for or facilitate the administration of the trusts hereunder by more than one Trustee, pursuant to the requirements of Section 611(b); or
- (7) to cure any ambiguity, to correct or supplement any provision herein, or to make any other provisions with respect to matters or questions arising under this Indenture, *provided* such other provisions shall not adversely affect the interests of the Holders of Securities of any series in any material respect.

SECTION 902. *Supplemental Indentures with Consent of Holders.*

With the consent of the Holders of not less than $66\frac{2}{3}\%$ in principal amount of the Outstanding Securities of each series affected by such supplemental indenture, by the Act of said Holders delivered to the Company and the Trustee at its Corporate Trust Office, the Company, when authorized by a Board Resolution, and the Trustee may enter into an indenture or indentures supplemental hereto for the purpose of adding any

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provisions to or changing in any manner or eliminating any of the provisions of this Indenture or of modifying in any manner the rights of the Holders of Securities of such series under this Indenture; *provided, however*, that no such supplemental indenture shall, without the consent of the Holder of each Outstanding Security affected thereby,

- (1) change the Stated Maturity of the principal of, or any instalment of interest on, any Security, or reduce the principal amount thereof or the rate of interest thereon or any premium payable upon the redemption thereof, or reduce the amount of the principal of an Original Issue Discount Security that would be due and payable upon a declaration of acceleration of Maturity thereof pursuant to Section 502, or change any Place of Payment where, or the coin or currency in which, any Security or Coupon or any premium or the interest thereon is payable, or alter the provisions of Section 114, or impair the right to institute suit for the enforcement of any such payment on or after the Stated Maturity thereof (or, in the case of redemption, on or after the Redemption Date), or
- (2) reduce the percentage in principal amount of the Outstanding Securities of any series, the consent of whose Holders is required for any such supplemental indenture, or the consent of whose Holders is required

for any waiver (of compliance with certain provisions of this Indenture or certain defaults hereunder and their consequences) provided for in this Indenture, or

(3) modify any of the provisions of this Section or Section 513, except to increase any such percentage or to provide that certain other provisions of this Indenture cannot be modified or waived without the consent of the Holder of each Outstanding Security affected thereby, provided, however, that this clause shall not be deemed to require the consent of any Holder with respect to changes in the references to the "Trustee" and concomitant changes in this Section, or the deletion of this proviso, in accordance with the requirements of Sections 611(b) and 901(7).

A supplemental indenture which changes or eliminates any covenant or other provision of this Indenture that has expressly been included solely for the benefit of one or more particular series of Securities, or which modifies the rights of the Holders of Securities of such series with respect to such

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covenant or other provision, shall be deemed not to affect the rights under this Indenture of the Holders of Securities of any other series.

It shall not be necessary for any Act of Holders under this Section to approve the particular form of any proposed supplemental indenture, but it shall be sufficient if such Act shall approve the substance thereof.

SECTION 903. *Execution of Supplemental Indentures.*

In executing, or accepting the additional trusts created by, any supplemental indenture permitted by this Article or the modifications thereby of the trusts created by this Indenture, the Trustee shall be entitled to receive, and (subject to Section 601) shall be fully protected in relying upon an Opinion of Counsel stating that the execution of such supplemental indenture is authorized or permitted by this Indenture. The Trustee may, but shall not be obligated to, enter into any such supplemental indenture which affects the Trustee's own rights, duties or immunities under this Indenture or otherwise.

SECTION 904. *Effect of Supplemental Indentures.*

Upon the execution of any supplemental indenture under this Article, this Indenture shall be modified in accordance therewith, and such supplemental indenture shall form a part of this Indenture for all purposes; and every Holder of Securities theretofore or thereafter authenticated and delivered hereunder shall be bound thereby.

SECTION 905. *Conformity with Trust Indenture Act.*

Every supplemental indenture executed pursuant to this Article shall conform to the requirements of the Trust Indenture Act as then in effect.

SECTION 906. *Reference in Securities to Supplemental Indentures.*

Securities of any series authenticated and delivered after the execution of any supplemental indenture pursuant to this Article may, and shall if required by the Trustee, bear a notation in form approved by the Trustee as to any matter provided for in such supplemental indenture. If the Company shall so determine, new Securities of any series so modified as to conform, in the opinion of the Trustee and the Board of Directors, to any such supplemental indenture may be prepared and executed by the Company and authenticated and delivered by the Trustee in exchange for Outstanding Securities of such series.

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ARTICLE TEN

COVENANTS

SECTION 1001. *Payment of Principal, Premium and Interest.*

The Company covenants and agrees for the benefit of each series of Securities and Coupons, if any, appertaining thereto that it will duly and punctually pay the principal of (and premium, if any) and interest on the Securities of that series in accordance with the terms of the Securities, the Coupons and this Indenture. The interest on Securities with Coupons attached (together with any additional amounts payable pursuant to the terms of such Securities)

shall be payable only upon presentation and surrender of the several Coupons for such interest installments as are evidenced thereby as they severally mature. The interest on any temporary Unregistered Securities (together with any additional amounts payable pursuant to the terms of such Securities) shall be paid, as to the installments of interest evidenced by Coupons attached thereto, if any, only upon presentation and surrender thereof, and, as to the other installments of interest, if any, only upon presentation of such Securities for notation thereon of the payment of such interest. The interest on Registered Securities (together with any additional amounts payable pursuant to the terms of such Securities) shall be payable only to or upon the written order of the Holders thereof and at the option of the Company may be paid by mailing checks for such interest payable to or upon the written order of such Holders at their last addresses as they appear in the Security Register.

SECTION 1002. *Maintenance of Office or Agency.*

The Company will maintain in the Borough of Manhattan, The City of New York an office or agency where Registered Securities of each series may be presented or surrendered for payment, an office or agency where Registered Securities of each series may be surrendered for registration of transfer, an office or agency where the Securities of each series may be presented for exchange as provided in this Indenture, and an office or agency where notices and demands to or upon the Company in respect of the Securities of that series, the Coupons appertaining thereto and this Indenture may be served. The Company hereby initially appoints the Trustee at its Corporate Trust Office as the Company's office or agency for each of said purposes. The Company will give prompt written notice to the Trustee of any change in such office or agency. If at any time the Company

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shall fail to maintain any such required office or agency or shall fail to furnish the Trustee with the address thereof, such presentations, surrenders, notices and demands may be made or served at the Corporate Trust Office of the Trustee, and the Company hereby appoints the Trustee as its agent to receive all such presentations, surrenders, notices and demands.

The Company will maintain one or more agencies in a city or cities located outside the United States (including any city in which such an agency is required to be maintained under the rules of any stock exchange on which the Securities of such series are listed) where the Unregistered Securities, if any, of each series and Coupons, if any, appertaining thereto may be presented for payment. No payment on any Unregistered Security or Coupon will be made upon presentation of such Unregistered Security or Coupon at an agency of the Company within the United States nor will any payment be made by transfer to an account in, or by mail to an address in, the United States unless pursuant to applicable United States laws and regulations then in effect such payment can be made without adverse tax consequences to the Company. Notwithstanding the foregoing, payments in Dollars of Unregistered Securities of any series and Coupons appertaining thereto which are payable in Dollars may be made at an agency of the Company maintained in the Borough of Manhattan, The City of New York if such payment in Dollars at each agency maintained by the Company outside the United States for payment on such Unregistered Securities is illegal or effectively precluded by exchange controls or other similar restrictions.

The Company may also from time to time designate one or more other offices or agencies where the Securities of one or more series and Coupons appertaining thereto may be presented or surrendered for payment, where the Securities of such series may be presented for exchange as provided in this Indenture and pursuant to Section 305 and where the Registered Securities of that series may be presented for registration of transfer as in this Indenture provided, and the Company may from time to time rescind such designations; *provided, however*, that no such designation or rescission shall in any manner relieve the Company of its obligation to maintain an office or agency provided for in this Section. The Company will give prompt written notice to the Trustee of any such designation or rescission and of any change in the location of any such other office or agency.

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SECTION 1003. *Money for Securities Payments to Be Held in Trust.*

If the Company shall at any time act as its own Paying Agent, it will, on or before each due date of the principal of (and premium, if any) or interest on any series of the Securities, segregate and hold in trust for the benefit of the Persons entitled thereto a sum sufficient to pay the principal (and premium, if any) or interest so becoming due

until such sums shall be paid to such Persons or otherwise disposed of as herein provided and will promptly notify the Trustee of the Company's action or failure so to act.

Whenever the Company shall have one or more Paying Agents for any series of Securities, it will, on or prior to each due date of the principal of (and premium, if any) or interest on any Securities of that series, deposit with a Paying Agent a sum sufficient to pay the principal (and premium, if any) or interest so becoming due, such sum to be held in trust for the benefit of the Persons entitled to such principal, premium or interest, and (unless such Paying Agent is the Trustee) the Company will promptly notify the Trustee of the Company's failure so to act.

The Company will cause each Paying Agent other than the Trustee to execute and deliver to the Trustee an instrument in which such Paying Agent shall agree with the Trustee, subject to the provisions of this Section, that such Paying Agent will:

- (1) hold all sums held by it for the payment of the principal of (and premium, if any) or interest on Securities of that series in trust for the benefit of the Persons entitled thereto until such sums shall be paid to such Persons or otherwise disposed of as herein provided;
- (2) give the Trustee notice of any default by the Company (or any other obligor upon the Securities of that series) in the making of any payment of principal (and premium, if any) or interest on the Securities of that series; and
- (3) at any time during the continuance of any such default, upon the written request of the Trustee, forthwith pay to the Trustee all sums so held in trust by such Paying Agent.

The Company may at any time, for the purpose of obtaining the satisfaction and discharge of this Indenture or for any purpose, pay, or by Company Order direct any Paying Agent to pay, to the Trustee all sums held in trust by the Company or such Paying Agent, such sums to be held by the Trustee upon the same trusts as those upon which such sums were held by the Company or such Paying Agent; and upon such

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Payment by any Paying Agent to the Trustee, such Paying Agent shall be released from all further liability with respect to such money.

Any money deposited with the Trustee or any Paying Agent, or then held by the Company, in trust for the payment of the principal of (and premium, if any) or interest on any Security of any series and remaining unclaimed for two years after such principal (and premium, if any) or interest has become due and payable shall be paid to the Company on Company Request, or (if then held by the Company) shall be discharged from such trust; and the Holder of such Security shall thereafter, as an unsecured general creditor, look only to the Company for payment thereof, and all liability of the Trustee or such Paying Agent with respect to such trust money, and all liability of the Company as trustee thereof, shall thereupon cease.

SECTION 1004. *Corporate Existence.*

Subject to Article Eight, the Company will do or cause to be done all things necessary to preserve and keep in full force and effect its corporate existence.

SECTION 1005. *Maintenance of Properties.*

The Company will cause all properties, licenses and permits used or useful in the conduct of its business or the business of any Subsidiary to be maintained in such manner as is appropriate in the judgment of the Company so that the business of the Company and its Subsidiaries may be properly and advantageously conducted at all times; *provided, however*, that nothing in this Section shall prevent the Company from taking any action with respect to, or disposing of, any of such properties, licenses and permits if such action or disposition is, in the judgment of the Company, desirable in the conduct of its business or the business of any Subsidiary.

SECTION 1006. *Statement by Officers as to Default; Notice of Certain Events.*

The Company will deliver to the Trustee, within 120 days after the end of each fiscal year of the Company ending after the date hereof, an Officers' Certificate, stating (i) that a review of the activities of the Company during such year and of performance under this Indenture has been made under their supervision, and (ii) whether or not to the best knowledge of the signers thereof the Company is in default in the performance and observance of any of the terms, provisions and

conditions hereof, and if the Company shall be in default, specifying all such defaults and the nature and status thereof of which they may have knowledge. The Officers' Certificate required by this Section need not comply with the requirements of Section 102.

SECTION 1007. *Limitations on Liens.*

(a) The Company will not, and will not permit any Subsidiary, directly or indirectly, to create, issue, assume, incur or guarantee any Debt which is secured by a Mortgage of any nature on any of the present or future common stock of a Designated Subsidiary (or any company, other than the Company, having direct or indirect control of any Designated Subsidiary) unless the Securities and, if the Company so elects, any other indebtedness of the Company ranking at least *pari passu* with the Securities, shall be secured equally and ratably with, or prior to, such other secured Debt so long as it is outstanding.

The term "Designated Subsidiary" means each of Liberty National Life Insurance Company, United American Insurance Company and Globe Life And Accident Insurance Company, so long as it remains a Subsidiary, or any Subsidiary that is a successor of such Designated Subsidiary.

(b) The provisions of paragraph (a) of this Section shall not, however, apply to any Debt secured by any one or more of the following:

(1) Mortgages securing Debt of a Designated Subsidiary owing to the Company or to a wholly owned Designated Subsidiary; or any extension, renewal or replacement (or successive extensions, renewals or replacements) in whole or in part thereof;

(2) pledges or deposits under workers' compensation laws or similar legislation and liens of judgments thereunder which are not currently dischargeable, or good faith deposits in connection with leases to which the Company or any Designated Subsidiary is a party, or deposits to secure public or statutory obligations of the Company or any Designated Subsidiary, or deposits in connection with obtaining or maintaining self-insurance or to obtain the benefits of any law, regulation or arrangement pertaining to unemployment insurance, old age pensions, social security or similar matters, or deposits in litigation or other proceedings such as, but not limited to, interpleader proceedings;

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(1) Mortgages created by or resulting from any litigation or other proceeding which is being contested in good faith by appropriate proceedings, including Mortgages arising out of judgments or awards against the Company or any Designated Subsidiary with respect to which the Company or such Designated Subsidiary is in good faith prosecuting an appeal or proceedings for review; or Mortgages incurred by the Company or any Designated Subsidiary for the purpose of obtaining a stay or discharge in the course of any litigation or other proceeding to which the Company or such Designated Subsidiary is a party; or

(4) Mortgages for taxes or assessments or governmental charges or levies not yet due or delinquent, or which can thereafter be paid without penalty, or which are being contested in good faith by appropriate proceedings.

SECTION 1008. *Limitation Upon Sales of Capital Stock of Designated Subsidiaries.*

The Company will not sell, transfer or otherwise dispose of (except to a Designated Subsidiary), and it will not permit any Designated Subsidiary to issue, sell, transfer or otherwise dispose of (except to the Company or to a Designated Subsidiary), any shares of capital stock of a Designated Subsidiary, unless the entire capital stock of such Designated Subsidiary at the time owned by the Company and its Subsidiaries shall be disposed of at the same time for a consideration consisting of cash or other property, which, in the opinion of the Board of Directors, is at least equal to the fair value thereof.

SECTION 1009. *Waiver of Certain Covenants.*

The Company may omit in any particular instance to comply with any term, provision or condition set forth in Sections 1007 and 1008, inclusive, with respect to the Securities of any series if the Holders of more than 50% in principal amount of the Outstanding Securities of such series shall, by the Act of such Holders, either waive such compliance in such instance or generally waive compliance with such term, provision or condition, but no such waiver shall extend to or affect such term, provision or condition except to the extent so expressly waived, and,

until such waiver shall become effective, the obligations of the Company and the duties of the Trustee in respect of any such term, provision or condition shall remain in full force and effect.

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SECTION 1010. *Luxembourg Publications.*

In the event of the publication of any notice pursuant to Section 602, 610(f), 1104 or 1203, the party making such publication in the Borough of Manhattan, The City of New York and London shall also, to the extent that notice is required to be given to Holders of Securities of any series by applicable Luxembourg law or stock exchange regulation, as evidenced by an Officers' Certificate delivered to such party, make a similar publication in Luxembourg.

ARTICLE ELEVEN

REDEMPTION OF SECURITIES

SECTION 1101. *Applicability of Article.*

Securities of any series which are redeemable before their Stated Maturity shall be redeemable in accordance with their terms (except as otherwise specified as contemplated by Section 301 for Securities of any series) in accordance with this Article.

SECTION 1102. *Election to Redeem; Notice to Trustee.*

The election of the Company to redeem any Securities pursuant to Section 1101 shall be evidenced by a Board Resolution. In case of any redemption at the election of the Company of any Securities of any series, the Company shall, at least 60 days prior to the Redemption Date fixed by the Company (unless a shorter notice shall be satisfactory to the Trustee), notify the Trustee of such Redemption Date and of the principal amount of Securities of such series to be redeemed. In the case of any redemption of Securities prior to the expiration of any restriction on such redemption provided for in the terms of such Securities or elsewhere in this Indenture, the Company shall furnish the Trustee with an Officers' Certificate evidencing compliance with such restrictions.

SECTION 1103. *Selection by Trustee of Securities to Be Redeemed.*

If less than all the Securities of any series are to be redeemed, the particular Securities to be redeemed shall be selected by the Trustee not more than 60 days prior to the Redemption Date, from the Outstanding Securities of such series not previously called for redemption, in such manner as the Trustee shall deem fair and reasonable and which may provide for the selection for redemption of portions (equal to \$1,000 or such other authorized denomination or any integral multiple thereof) of the principal amount of Securities

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of such series of denominations larger than \$1,000 or such other authorized denomination.

The Trustee shall promptly notify the Company and the Security Registrar in writing of the Securities selected for redemption and, in the case of any Securities selected for partial redemption, the principal amount thereof to be redeemed.

For all purposes of this Indenture, unless the context otherwise requires, all provisions relating to the redemption of Securities shall relate, in the case of any Securities redeemed or to be redeemed only in part, to the portion of the principal amount of such Security which has been or is to be redeemed.

SECTION 1104. *Notice of Redemption.*

Notice of redemption to the Holders of Registered Securities shall be given by mailing notice of such redemption by first-class mail, postage prepaid, mailed not less than 30 days and not more than 60 days prior to the Redemption Date to each Holder of Securities to be redeemed at his address appearing in the Security Register. Notice of redemption to the Holders of Unregistered Securities who have filed their names and addresses with the Trustee pursuant to Section 703(b), shall be given by mailing notice of such redemption, by first-class mail, postage prepaid, not less than 30 days and not more than 60 days prior to the date fixed for redemption, to such Holders at such addresses as were so furnished to the Trustee (and, in the case of any such notice given by the Company, the Trustee

shall make such information available to the Company for such purpose). Notice of redemption to all other holders of Unregistered Securities shall be published in an Authorized Newspaper in the Borough of Manhattan, The City of New York and in an Authorized Newspaper in London (and, if required by Section 1010, in an Authorized Newspaper in Luxembourg), in each case, once in each of three successive calendar weeks, the first publication to be not less than 30 nor more than 60 days prior to the date fixed for redemption. Any notice which is mailed in the manner herein provided shall be conclusively presumed to have been duly given, whether or not the Holder receives the notice. Failure to give notice by mail, or any defect in the notice to the Holder of any Security of a series designated for redemption as a whole or in part shall not affect the validity of the proceedings for the redemption of any other Security of such series.

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All notices of redemption shall state:

- (1) the Redemption Date,
- (2) the Redemption Price and accrued interest, if any,
- (3) if less than all the Outstanding Securities of any series are to be redeemed, the identification (and, in the case of partial redemption, the principal amounts) of the particular Securities to be redeemed,
- (4) that on the Redemption Date the Redemption Price and accrued interest, if any, will become due and payable upon each such Security to be redeemed and that interest thereon will cease to accrue on and after said date,
- (5) the place or places where such Securities and, in the case of Securities with Coupons attached thereto, all Coupons appertaining thereto maturing after the Redemption Date, are to be surrendered for payment of the Redemption Price and accrued interest, if any, and
- (6) that the redemption is for the sinking fund, if such is the case.

Notice of redemption of Securities to be redeemed at the election of the Company shall be given by the Company or, at the Company's request, by the Trustee in the name and at the expense of the Company.

SECTION 1105. *Deposit of Redemption Price.*

On or prior to any Redemption Date, the Company shall deposit with the Trustee or with a Paying Agent (or, if the Company is acting as its own Paying Agent, segregate and hold in trust as provided in Section 1003) an amount of money sufficient to pay the Redemption Price of, and (except if the Redemption Date shall be an Interest Payment Date) accrued interest on, all the Securities that are to be redeemed on that date.

SECTION 1106. *Securities Payable on Redemption Date.*

Notice of redemption having been given as aforesaid, the Securities so to be redeemed shall, on the Redemption Date, become due and payable at the Redemption Price therein specified, and from and after such date (unless the Company shall default in the payment of the Redemption Price and accrued interest) such Securities shall cease to bear interest and the unmatured Coupons, if any, appertaining thereto

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shall be void. Upon surrender of any such Security together with all Coupons, if any, appertaining thereto maturing after the Redemption Date, for redemption in accordance with said notice, such Security shall be paid by the Company at the Redemption Price, together with accrued interest to the Redemption Date; *provided, however,* that instalments of interest on Securities whose Stated Maturity is on or prior to the Redemption Date shall be payable, in the case of Securities with Coupons attached thereto, to the bearers of the Coupons for such interest upon surrender thereof, and in the case of Registered Securities, to the Holders of such Registered Securities. or one or more Predecessor Securities, registered as such at the close of business on the relevant Regular or Special Record Dates according to their terms and the provisions of Section 307.

If any Security called for redemption shall not be so paid upon surrender thereof for redemption, the principal (and premium, if any) shall, until paid, bear interest from the Redemption Date at the rate prescribed therefor in the Security.

If any Security with Coupons attached thereto is surrendered for redemption and is not accompanied by all appurtenant Coupons maturing after the date fixed for redemption, the surrender of such missing Coupon or Coupons

may be waived by the Company and the Trustee (unless otherwise specified in the terms of the Securities of any series), if there be furnished to each of them such security or indemnity as they may require to save each of them harmless.

SECTION 1107. *Securities Redeemed in Part.*

Any Security which is to be redeemed only in part shall be surrendered at a Place of Payment therefor (with, if the Company or the Trustee so requires, due endorsement by, or a written instrument of transfer in form satisfactory to the Company and the Trustee duly executed by, the Holder thereof or his attorney duly authorized in writing), and the Company shall execute, and the Trustee shall authenticate and deliver to the Holder of such Security without service charge, a new Security or Securities of the same series, of any authorized denomination as requested by such Holder, in aggregate principal amount equal to and in exchange for the unredeemed portion of the principal of the Security so surrendered.

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ARTICLE TWELVE

SINKING FUNDS

SECTION 1201. *Applicability of Article.*

The provisions of this Article shall be applicable to any sinking fund for the retirement of Securities of a series except as otherwise specified as contemplated by Section 301 for Securities of such series.

The minimum amount of any sinking fund payment provided for by the terms of Securities of any series is herein referred to as a "mandatory sinking fund payment", and any payment in excess of such minimum amount provided for by the terms of Securities of any series is herein referred to as an "optional sinking fund payment". If provided for by the terms of Securities of any series, the cash amount of any sinking fund payment may be subject to reduction as provided in Section 1202. Each sinking fund payment shall be applied to the redemption of Securities of any series as provided for by the terms of the Securities of such series.

SECTION 1202. *Satisfaction of Sinking Fund Payments with Securities.*

The Company (1) may deliver Outstanding Securities of a series (other than any previously called for redemption) and (2) may apply as a credit Securities of a series which have been redeemed either at the election of the Company pursuant to the terms of such Securities or through the application of permitted optional sinking fund payments pursuant to the terms of such Securities, in each case in satisfaction of all or any part of any sinking fund payment with respect to the Securities of such series required to be made pursuant to the terms of such Securities; *provided* that such Securities have not been previously so credited. Such Securities shall be received and credited for such purpose by the Trustee at the Redemption Price specified in such Securities for redemption through operation of the sinking fund and the amount of such sinking fund payment shall be reduced accordingly.

SECTION 1203. *Redemption of Securities for Sinking Fund.*

Not less than 60 days prior to each sinking fund payment date for any series of Securities, the Company will deliver to the Trustee an Officers' Certificate specifying the amount of the next ensuing sinking fund payment for that series pursuant to the terms of the Securities of that series, the portion thereof, if any, which is to be satisfied by payment⁸⁶

of cash and the portion thereof, if any, which is to be satisfied by delivering and crediting Securities of that series pursuant to Section 1202, and will also deliver to the Trustee any Securities to be so credited. Not less than 30 days before each such sinking fund payment date the Trustee shall select the Securities to be redeemed upon such sinking fund payment date in the manner specified in Section 1103 and cause notice of the redemption thereof to be given in the name of and at the expense of the Company in the manner provided in Section 1104. Such notice having been duly given, the redemption of such Securities shall be made upon the terms and in the manner stated in Sections 1106 and 1107.

ARTICLE THIRTEEN
DEFEASANCE AND COVENANT DEFEASANCE

SECTION 1301. *Applicability of Article; Company's Option to Effect De-feasance or Covenant Defeasance.*

If, pursuant to Section 301, provision is made for either or both of (a) defeasance of the Securities of a series under Section 1302 or (b) covenant defeasance of the Securities of a series under Section 1303, and if the Securities of such series are Registered Securities and denominated and payable only in Dollars, then the provisions of such Section or Sections, as the case may be, together with the other provisions of this Article Thirteen, shall be applicable to the Securities of such series, and the Company may at its option by Board Resolution, at any time, with respect to the Securities of such series, elect to have either Section 1302 (if applicable) or Section 1303 (if applicable) be applied to the Outstanding Securities of such series upon compliance with the conditions set forth below in this Article Thirteen.

Defeasance provisions, if any, for Securities denominated in a For-eign Currency or for Unregistered Securities may be specified pursuant to Section 301.

SECTION 1302. *Defeasance and Discharge.*

Upon the Company's exercise of the above option applicable to this Section, the Company shall be deemed to have been discharged from its obligations with respect to the Outstanding Securities of such series on the date the conditions set forth below are satisfied (hereinafter, "defeasance"). For this purpose, such defeasance means that the Company shall be deemed to have paid and discharged the⁸⁷

entire indebtedness represented by the Outstanding Securities of such series and to have satisfied all its other obligations under such Securities and this Indenture insofar as such Securities are concerned (and the Trustee, at the expense of the Company, shall execute proper instruments acknowledging the same), except for the following which shall survive until otherwise terminated or discharged hereunder: (A) the rights of Holders of Outstanding Securities of such series to receive, solely from the trust fund described in Section 1304 and as more fully set forth in such Section, payments in respect of the principal of (and premium, if any) and interest on such Securities when such payments are due, (B) the Company's obligations with respect to such Securities under Sections 305, 306, 1002 and 1003, (C) the rights, powers, trusts, duties, and immunities of the Trustee hereunder and (D) this Article Thirteen. Subject to compliance with this Article Thirteen, the Company may exercise its option under this Section 1302 notwithstanding the prior exercise of its option under Section 1303 with respect to the Securities of such series.

SECTION 1303. *Covenant Defeasance.*

Upon the Company's exercise of the above option applicable to this Section, the Company shall be released from its obligations under Section 1007 and 1008 with respect to the Outstanding Securities of such series on and after the date the conditions set forth below are satisfied (hereinafter, "covenant defeasance"). For this purpose, such covenant defeasance means that, with respect to the Outstanding Securities of such series, the Company may omit to comply with and shall have no liability in respect of any term, condition or limitation set forth in any such Section, whether directly or indirectly by reason of any reference elsewhere herein to any such Section or by reason of any reference in any such Section to any other provision herein or in any other document and such omission to comply shall not constitute an Event of Default under Section 501(4), but the remainder of this Indenture and such Securities shall be unaffected thereby.

SECTION 1304. *Conditions to Defeasance or Covenant Defeasance.*

The following shall be the conditions to application of either Section 1302 or Section 1303 to the Outstanding Securities of such series:

- (1) the Company shall irrevocably have deposited or caused to be deposited with the Trustee (or another trustee satisfying the

requirements of Section 609 who shall agree to comply with the provisions of this Article Thirteen applicable to it) as trust funds in trust for the purpose of making the following payments, specifically pledged as security for, and dedicated

solely to, the benefit of the Holders of such Securities, (A) money in an amount, or (B) U.S. Government Obligations which through the scheduled payment of principal and interest in respect thereof in accordance with their terms will provide, not later than one day before the due date of any payment, money in an amount, or (C) a combination thereof, sufficient, in the opinion of a nationally recognized firm of independent public accountants expressed in a written certification thereof delivered to the Trustee, to pay and discharge, and which shall be applied by the Trustee (or other qualifying trustee) to pay and discharge, (i) the principal of (and premium, if any, on) and each instalment of principal of (and premium, if any) and interest on the Outstanding Securities of such series on the Stated Maturity of such principal or instalment of principal or interest and (ii) any mandatory sinking fund payments or analogous payments applicable to the Outstanding Securities of such series on the day on which such payments are due and payable in accordance with the terms of this Indenture and of such Securities. For this purpose, "U.S. Government Obligations" means securities that are (x) direct obligations of the United States of America for the payment of which its full faith and credit is pledged or (y) obligations of a Person controlled or supervised by and acting as an agency or instrumentality of the United States of America the payment of which is unconditionally guaranteed as a full faith and credit obligation by the United States of America, which, in either case; are not callable or redeemable at the option of the issuer thereof, and shall also include a depository receipt issued by a bank (as defined in Section 3(a)(2) of the Securities Act of 1933, as amended) as custodian with respect to any such U.S. Government Obligation or a specific payment of principal of or interest on any such U.S. Government Obligation held by such custodian for the account of the holder of such depository receipt, provided that (except as required by law) such custodian is not authorized to make any deduction from the amount payable to the holder of such depository receipt from any amount received by the custodian in respect of the U.S. Government Obligation or the specific payment of principal of or interest on the U.S.

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Government Obligation evidenced by such receipt.

(2) No Event of Default or event which with notice or lapse of time or both would become an Event of Default with respect to the Securities of such series shall have occurred and be continuing on the date of such deposit or, insofar as subsections 501(5) and (6) are concerned, at any time during the period ending on the 91st day after the date of such deposit (it being understood that this condition shall not be deemed satisfied until the expiration of such period).

(3) Such defeasance or covenant defeasance shall not cause the Trustee for the Securities of such series to have a conflicting interest as defined in Section 608 and for purposes of the Trust Indenture Act with respect to any securities of the Company.

(4) Such defeasance or covenant defeasance shall not result in a breach or violation of, or constitute a default under, this Indenture or any other agreement or instrument to which the Company is a party or by which it is bound.

(5) Such defeasance or covenant defeasance shall not cause any Securities of such series then listed on any registered national securities exchange under the Securities Exchange Act of 1934, as amended, to be delisted.

(6) In the case of an election under Section 1302, the Company shall have delivered to the Trustee an Opinion of Counsel stating that (x) the Company has received from, or there has been published by, the Internal Revenue Service a ruling, or (y) since the date of this Indenture there has been a change in the applicable Federal income tax law, in either case to the effect that, and based thereon such opinion shall confirm that, the Holders of the Outstanding Securities of such series will not recognize income, gain or loss for Federal income tax purposes as a result of such defeasance and will be subject to Federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such defeasance had not occurred.

(7) In the case of an election under Section 1303, the Company shall have delivered to the Trustee an opinion of Counsel to the effect that the Holders of the Outstanding Securities of such series will not recognize income, gain or loss for Federal income tax purposes as a result of such covenant defeasance and will be subject

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to Federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such covenant defeasance had not occurred.

(1) Such defeasance or covenant defeasance shall be effected in compliance with any additional terms, conditions or limitations which may be imposed on the Company in connection therewith pursuant to Section 301.

(9) The Company shall have delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that all conditions precedent provided for relating to either the defeasance under Section 1302 or the covenant defeasance under Section 1303 (as the case may be) have been complied with.

SECTION 1305. Deposited Money and U.S. Government Obligations to be Held in Trust: Other Miscellaneous Provisions.

Subject to the provisions of the last paragraph of Section 1003, all money and U.S. Government Obligations (including the proceeds thereof) deposited with the Trustee (or other qualifying trustee-collectively for purposes of this Section 1305, the "Trustee") pursuant to Section 1304 in respect of the Outstanding Securities of such series shall be held in trust and applied by the Trustee, in accordance with the provisions of such Securities and this Indenture, to the payment, either directly or through any Paying Agent (including the Company acting as its own Paying Agent) as the Trustee may determine, to the Holders of such Securities of all sums due and to become due thereon in respect of principal (and premium, if any) and interest, but such money need not be segregated from any other funds except to the extent required by law.

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This instrument may be executed in any number of counterparts, each of which so executed shall be deemed to be an original, but all such counterparts shall together constitute but one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have caused this Indenture to be duly executed, and their respective corporate seals to be hereunto affixed and attested, all as of the day and year first above written.

TORCHMARK CORPORATION

By: /s/ SAMUEL E. UPCHURCH, JR.

Attest:

/s/ CAROL A. MCCOY

MORGAN GUARANTY TRUST COMPANY OF NEW YORK

By: /s/ M. P. KOWALEWSKI

Attest:

/s/ W. A. SPOONER

92

STATE OF COUNTY OF } ss.:

BEFORE ME, a Notary Public in and for said County and State, on this day personally appeared SAMUEL E. UPCHURCH, JR., known to me to be the person whose name is subscribed to the foregoing instrument, and known to me to be Vice President and General Counsel of TORCHMARK CORPORATION, a Delaware corporation, and acknowledged to me that the executed the same for the purposes and consideration therein expressed, in the capacity therein stated, and as the act and deed of said corporation.

GIVEN under my hand and seal of office this the 4th day of February, 1987.

/s/ Camilla A. Harper
Notary Public

My Commission Expires June 24, 1989

STATE OF NEW YORK } ss.:

COUNTY OF NEW YORK

BEFORE ME, a Notary Public in and for said County and State, on this day personally appeared M. P. KOWALEWSKI, known to me to be the person whose name is subscribed to the foregoing instrument, and known to me to be Trust Officer of MORGAN GUARANTY TRUST COMPANY OF NEW YORK, a New York corporation, and acknowledged to me that he executed the same for the purposes and consideration therein expressed, in the capacity therein stated, and as the act and deed of said corporation.

GIVEN under my hand and seal of office this the 4th day of February, 1987.

/s/ Margaret E. Roy

Notary Public

Margaret E. Roy

Notary Public, State of New York

No. 03-4509720

Qualified in Bronx County

Commission Expires March 30, 1987

TORCHMARK CORPORATION
RESTATED
DEFERRED COMPENSATION PLAN FOR
DIRECTORS, ADVISORY DIRECTORS, DIRECTORS EMERITUS
AND OFFICERS

ARTICLE I
ELIGIBILITY

Each Member of the Board of Directors of Torchmark Corporation (the “Company”), and each advisory director, director emeritus or senior officer of the Company (an “eligible Participant”), is eligible to participate in this Deferred Compensation Plan (the “Plan”) by filing the election to participate described in Section 2.2 hereof. Eligible Participants who elect to participate are hereinafter collectively called “Participants” and singularly called “a Participant”.

ARTICLE II
PARTICIPATION

2.1. Prior to the beginning of any period for which compensation would otherwise have been payable currently for services, an eligible Participant may elect to participate in the Plan by directing that all or any part of such compensation shall, until the election is terminated in accordance with Section 2.2, be credited to a memorandum deferred compensation account established with respect to such Participant pursuant to Article III hereof.

2.2. An election to participate in the Plan shall be in the form of a document executed by the eligible Participant and filed with the Secretary of the Company and shall continue until the Participant ceases to serve as a director, advisory director, director emeritus or officer, reaches his 72nd birthday or terminates the election so made by written notice, whichever occurs first. Such election shall state the commencement date for payment of amounts deferred under the Plan and whether the payment of amounts due shall be made in a lump sum or in installments and shall designate a beneficiary to receive payment of an amount due at the death of the Participant. Any termination of election shall become effective as of the date of the notice to terminate the election or as of any later date specified in the notice to terminate. The termination of the election shall be effective only with respect to compensation and fees payable for services after the effective date of the termination.

2.3. An eligible Participant who has filed a termination of election may thereafter again file an election to participate for any period subsequent to the filing of the new election.

ARTICLE III
DEFERRED COMPENSATION ACCOUNTS

3.1. The Company shall establish a memorandum bookkeeping account (collectively the “deferred compensation account” and singularly, “a deferred compensation account”) for each Participant hereunder. All amounts deferred under this Plan shall be credited to the appropriate deferred compensation accounts. Interest on the amounts accrued in the various deferred compensation accounts will be credited at the end of each calendar quarter at the rate set from time to time by the Company for all deferred amounts held pursuant to this Plan on behalf of Participants. Notwithstanding the foregoing, in the event a senior officer’s employment with the Company terminates for any reason other than death, disability or retirement, effective on the date of termination of employment, interest shall be credited to the amounts deferred by such Participant at the rate equal to 75% of the rate credited to other Plan Participants.

3.2. Within a reasonable time after the end of each calendar year, the Company shall report in writing to each Participant the amount held in his account at the end of the year.

3.3. The amounts credited to the deferred compensation accounts will not be treated as earnings or other compensation, either when earned or when paid, for the purpose of computing benefits payable under any other plan maintained by the Company or any other arrangement of the Company for the benefit of its employees unless explicitly included therein.

ARTICLE IV
DISTRIBUTION

4.1. When a eligible Participant elects to participate in the Plan, he shall also elect the date or dates the payment will commence and the method of distribution of the amounts deferred under the Plan under including accumulated interest thereon. A Participant may elect to receive such amounts in one payment or in some other number of equal monthly installments (not exceeding 120).

(a) The first installment (or the single payment, if the Participant has so elected) shall be paid on the first day of the calendar month (up to the month immediately following his 72nd birthday) specified by the Participant in his election, and subsequent installments shall be paid on the first day of each succeeding month until the amount credited to such Participant’s account shall have been paid.

(b) If a Participant's election does not specify a date for the commencement of payments under this Plan, the first installment (or the single payment if the Participant has so elected) shall be paid on the first day of the calendar month immediately following the later of the month in which the Participant ceases to be either a director, advisory director or senior officer of the Company or if a director emeritus attains his 72nd birthday. Any subsequent installments shall be paid on the first day of each succeeding month until the amount credited to such account shall have been paid.

(c) Amounts held pending distribution pursuant to this Section shall continue to accrue interest at the rate stated in Article III.

4.2. This election with respect to the distribution of amounts deferred under the Plan, including accrued interest, shall be contained in the document referred to in Section 2.2 executed by the Participant and filed with the Secretary of the Company.

4.3. Notwithstanding an election pursuant to Section 4.1, the entire balance of a Participant's deferred account under this Plan, including interest, shall be paid immediately to him in a single sum in the event the Participant ceases to be a director, advisory director, director emeritus or officer of the Company and becomes a proprietor, officer, partner, employee or otherwise becomes affiliated with any business that is in competition with the Company or an affiliated company, or becomes employed by any governmental agency having jurisdiction over the activities of the Company or an affiliated company.

4.4. If a Participant dies before full payment of all amounts credited to his account, the balance of his account, including interest, shall be paid promptly in a lump sum to the beneficiary designated by the Participant in the document referred to in Section 2.2. If no such beneficiary is designated or if the beneficiary does not survive the Participant, the payment shall be made to the estate of the Participant.

ARTICLE V EFFECT OF ADVERSE DETERMINATION

Notwithstanding any provision set forth herein, if the Internal Revenue Service determines, for any reason, that all or any portion of the amounts credited under this Plan is currently includible in the taxable income of

any Participant, then the amounts so determined to be includible in income shall be distributed in a lump sum to such Participant as soon as practicable.

ARTICLE VI RESTRICTION ON ASSIGNMENT

The interest of a Participant hereunder may not be sold, transferred, assigned, or encumbered in any manner, either voluntarily or involuntarily, and any attempt so to anticipate, alienate, sell, transfer, assign, pledge, encumber, or charge the same shall be null and void; neither shall the benefits hereunder be liable for or subject to the debts, contracts, liabilities, engagements, or torts of any person to whom such benefits or funds are payable, nor shall they be subject to garnishment, attachment, or other legal or equitable process nor shall they be an asset in bankruptcy, except that no amount shall be payable hereunder until and unless any and all amounts representing debts or other obligations owed to the Company or any affiliate of the Company by the Participant with respect to whom such amount would otherwise be payable shall have been fully paid and satisfied.

ARTICLE VII NATURE OF PLAN

The adoption of this Plan and the setting aside of any amounts by the Company with which to discharge obligations hereunder shall not be deemed to create a trust; legal and equitable title to any funds so set aside shall remain in the Company, and no Participant hereunder shall have a security or other interest in such funds. Any and all funds so set aside shall remain subject to the claims of the general creditors of the Company, as the case may be, present and future, and no payment shall be made under this Supplemental Thrift Plan unless the Company is then solvent. This provision shall neither require nor prohibit the setting aside of any funds.

ARTICLE VIII CONTINUED EMPLOYMENT

Nothing set forth herein shall be construed as conferring upon any Participant the right to continue in the employ of the Company in any capacity.

ARTICLE IX MISCELLANEOUS

9.1. The right of a Participant to any deferred fees and compensation, and interest thereon, shall not be subject to assignment by the Participant.

9.2. The Company shall not reserve or otherwise set aside funds for the payment of its obligations hereunder.

9.3. Copies of the Plan and any and all agreements thereto shall be made available at all reasonable times at the office of the Secretary of the Company to all Participants.

9.4. The Company has full power and authority to interpret, construe, and administer this Plan. The Company's interpretations and construction hereof, and actions hereunder, including any determinations regarding the amount or recipient of any payments will be binding and conclusive on all persons for all purposes. The Company will not liable any person for any action taken or omitted in connection with the interpretation and administration of this Plan unless attributable to willful misconduct or lack of good faith.

9.5. If a claim for benefits hereunder is denied either in whole or in part, the Company will provide the claimant with written notice setting forth the specific reasons for the denial. The Company will also afford a reasonable opportunity to any such person for a full and fair review by the Company of the decisions denying the claim.

9.6. If the Company finds that any person who is entitled to any payment hereunder is a minor or is unable to care for his or her affairs because of disability or incompetency, payment of the account balance may be made to anyone found by the Company to have incurred expenses on behalf of such person, or to be otherwise entitled to such payment, in the manner and under the conditions that the Company determines. Such payment will be a complete discharge of the liabilities of the Company hereunder with respect to the amount so paid.

9.7. The books and records of the Company will be controlling in the event a question arises hereunder concerning the amount of compensation, deferred amounts, or interest, the account balance, elections as to payment date or the number of installments, the designation of a beneficiary, or any similar matters.

9.8. The Company may deduct or withhold from any payment to be made hereunder any federal, state or local taxes required by law to be withheld or the Company may require the participant or his or her beneficiary hereunder to pay any amount, or the balance of any amount, required to be withheld.

9.9. If any provision of this Plan shall for any reason be invalid or unenforceable, such provision shall be limited only to the extent necessary under the circumstances to make it valid and enforceable. In any event, the remaining provisions of the Plan will continue in full force and effect.

9.10. The descriptive headings of the several Articles and sections set forth herein are for convenience only and do not constitute a part of this Plan.

9.11. The Board of Directors of the Company may modify, amend, or terminate the Plan at any time. No modification, amendments, or termination of the Plan shall adversely affect the rights of any Participant under an election previously made by such Participant without the consent of such Participant.

9.12. This Plan shall be binding upon and inure to the benefit of the Company, its successors and assigns and each Participant and its heirs, executors, administrators and legal representatives.

9.13. This Plan, as amended and restated, does hereby supersede any and all prior plans or arrangements of the Company dealing with the subject matter hereof.

Exhibit 12. Statement re computation of ratios

TORCHMARK CORPORATION
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

(Dollar amounts in thousands)

	Year Ended December 31,				
	2017	2016	2015	2014	2013
Earnings:					
Pre-tax earnings	\$ 830,648	\$ 772,235	\$ 766,187	\$ 784,677	\$ 755,315
Fixed charges	86,659	85,497	78,860	77,515	81,807
Earnings before fixed charges	<u>\$ 917,307</u>	<u>\$ 857,732</u>	<u>\$ 845,047</u>	<u>\$ 862,192</u>	<u>\$ 837,122</u>
Fixed charges:					
Interest expense ⁽¹⁾	\$ 83,501	\$ 82,153	\$ 75,286	\$ 74,862	\$ 79,187
Amortization of bond issue costs	1,031	1,192	1,356	1,264	1,274
Estimated interest factor of rental expense	2,127	2,152	2,218	1,389	1,346
Total fixed charges	<u>\$ 86,659</u>	<u>\$ 85,497</u>	<u>\$ 78,860</u>	<u>\$ 77,515</u>	<u>\$ 81,807</u>
Ratio of earnings to fixed charges	10.6	10.0	10.7	11.1	10.2
Earnings before fixed charges	\$ 917,307	\$ 857,732	\$ 845,047	\$ 862,192	\$ 837,122
Interest credited for deposit products	61,039	62,503	65,172	68,718	70,555
Adjusted earnings before fixed charges	<u>\$ 978,346</u>	<u>\$ 920,235</u>	<u>\$ 910,219</u>	<u>\$ 930,910</u>	<u>\$ 907,677</u>
Fixed charges	\$ 86,659	\$ 85,497	\$ 78,860	\$ 77,515	\$ 81,807
Interest credited for deposit products	61,039	62,503	65,172	68,718	70,555
Adjusted fixed charges	<u>\$ 147,698</u>	<u>\$ 148,000</u>	<u>\$ 144,032</u>	<u>\$ 146,233</u>	<u>\$ 152,362</u>
Ratio of earnings to fixed charges including interest credited on deposit products as a fixed charge	6.6	6.2	6.3	6.4	6.0
Rental expense	\$ 6,446	\$ 6,520	\$ 6,722	\$ 4,210	\$ 4,079
Estimated interest factor of rental expense (33%)	2,127	2,152	2,218	1,389	1,346

(1) There was no interest capitalized in any period indicated.

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement Nos. 333-182473, 333-207130 on Form S-3 and Registration Statement Nos. 2-76378, 333-40604, 333-175185, 333-195314, 333-208999 on Form S-8 of our reports dated February 26, 2018, relating to the consolidated financial statements and financial statement schedules of Torchmark Corporation and subsidiaries (Torchmark Corporation), and the effectiveness of Torchmark Corporation's internal control over financial reporting, appearing in the Annual Report on Form 10-K of Torchmark Corporation for the year ended December 31, 2017.

/s/ DELOITTE & TOUCHE LLP

Dallas, Texas
February 26, 2018

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS:

That the undersigned Director of Torchmark Corporation does hereby constitute and appoint Frank M. Svoboda, R. Brian Mitchell and Carol A. McCoy, and each of them severally, his lawful attorneys and agents, for him and in his name and in the capacity indicated below, with full power and authority to do any and all acts and things and to execute any and all instruments which said attorneys and agents determine may be necessary, advisable, or required to enable the said Corporation to comply with the Securities Exchange Act of 1934, as amended, and any rules, regulations, or requirements of the Securities and Exchange Commission in connection with the Form 10-K for the fiscal year ended December 31, 2017. Without limiting the generality of the foregoing, the powers granted include the power and authority to execute and file the Form 10-K, any and all amendments to the Form 10-K and any and all instruments or documents submitted as a part of or in conjunction with the Form 10-K. The undersigned hereby ratifies and confirms his signature as it may be signed by said attorneys and all that said attorneys and agents shall do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has executed this Power of Attorney as of the date indicated below his name.

/s/ Charles E. Adair

Charles E. Adair, Director

Date: February 26, 2018

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS:

That the undersigned Director of Torchmark Corporation does hereby constitute and appoint Frank M. Svoboda, R. Brian Mitchell and Carol A. McCoy, and each of them severally, his lawful attorneys and agents, for him and in his name and in the capacity indicated below, with full power and authority to do any and all acts and things and to execute any and all instruments which said attorneys and agents determine may be necessary, advisable, or required to enable the said Corporation to comply with the Securities Exchange Act of 1934, as amended, and any rules, regulations, or requirements of the Securities and Exchange Commission in connection with the Form 10-K for the fiscal year ended December 31, 2017. Without limiting the generality of the foregoing, the powers granted include the power and authority to execute and file the Form 10-K, any and all amendments to the Form 10-K and any and all instruments or documents submitted as a part of or in conjunction with the Form 10-K. The undersigned hereby ratifies and confirms his signature as it may be signed by said attorneys and all that said attorneys and agents shall do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has executed this Power of Attorney as of the date indicated below his name.

/s/ Linda L. Addison

Linda L. Addison, Director

Date: February 26, 2018

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS:

That the undersigned Director of Torchmark Corporation does hereby constitute and appoint Frank M. Svoboda, R. Brian Mitchell and Carol A. McCoy, and each of them severally, his lawful attorneys and agents, for him and in his name and in the capacity indicated below, with full power and authority to do any and all acts and things and to execute any and all instruments which said attorneys and agents determine may be necessary, advisable, or required to enable the said Corporation to comply with the Securities Exchange Act of 1934, as amended, and any rules, regulations, or requirements of the Securities and Exchange Commission in connection with the Form 10-K for the fiscal year ended December 31, 2017. Without limiting the generality of the foregoing, the powers granted include the power and authority to execute and file the Form 10-K, any and all amendments to the Form 10-K and any and all instruments or documents submitted as a part of or in conjunction with the Form 10-K. The undersigned hereby ratifies and confirms his signature as it may be signed by said attorneys and all that said attorneys and agents shall do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has executed this Power of Attorney as of the date indicated below his name.

/s/ Marilyn A. Alexander

Marilyn A. Alexander, Director

Date: February 26, 2018

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS:

That the undersigned Director of Torchmark Corporation does hereby constitute and appoint Frank M. Svoboda, R. Brian Mitchell and Carol A. McCoy, and each of them severally, his lawful attorneys and agents, for him and in his name and in the capacity indicated below, with full power and authority to do any and all acts and things and to execute any and all instruments which said attorneys and agents determine may be necessary, advisable, or required to enable the said Corporation to comply with the Securities Exchange Act of 1934, as amended, and any rules, regulations, or requirements of the Securities and Exchange Commission in connection with the Form 10-K for the fiscal year ended December 31, 2017. Without limiting the generality of the foregoing, the powers granted include the power and authority to execute and file the Form 10-K, any and all amendments to the Form 10-K and any and all instruments or documents submitted as a part of or in conjunction with the Form 10-K. The undersigned hereby ratifies and confirms his signature as it may be signed by said attorneys and all that said attorneys and agents shall do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has executed this Power of Attorney as of the date indicated below his name.

/s/ Cheryl D. Alston

Cheryl D. Alston, Director

Date: February 26, 2018

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS:

That the undersigned Director of Torchmark Corporation does hereby constitute and appoint Frank M. Svoboda, R. Brian Mitchell and Carol A. McCoy, and each of them severally, his lawful attorneys and agents, for him and in his name and in the capacity indicated below, with full power and authority to do any and all acts and things and to execute any and all instruments which said attorneys and agents determine may be necessary, advisable, or required to enable the said Corporation to comply with the Securities Exchange Act of 1934, as amended, and any rules, regulations, or requirements of the Securities and Exchange Commission in connection with the Form 10-K for the fiscal year ended December 31, 2017. Without limiting the generality of the foregoing, the powers granted include the power and authority to execute and file the Form 10-K, any and all amendments to the Form 10-K and any and all instruments or documents submitted as a part of or in conjunction with the Form 10-K. The undersigned hereby ratifies and confirms his signature as it may be signed by said attorneys and all that said attorneys and agents shall do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has executed this Power of Attorney as of the date indicated below his name.

/s/ David L. Boren

David L. Boren, Director

Date: February 26, 2018

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS:

That the undersigned Director of Torchmark Corporation does hereby constitute and appoint Frank M. Svoboda, R. Brian Mitchell and Carol A. McCoy, and each of them severally, his lawful attorneys and agents, for her and in her name and in the capacity indicated below, with full power and authority to do any and all acts and things and to execute any and all instruments which said attorneys and agents determine may be necessary, advisable, or required to enable the said Corporation to comply with the Securities Exchange Act of 1934, as amended, and any rules, regulations, or requirements of the Securities and Exchange Commission in connection with the Form 10-K for the fiscal year ended December 31, 2017. Without limiting the generality of the foregoing, the powers granted include the power and authority to execute and file the Form 10-K, any and all amendments to the Form 10-K and any and all instruments or documents submitted as a part of or in conjunction with the Form 10-K. The undersigned hereby ratifies and confirms her signature as it may be signed by said attorneys and all that said attorneys and agents shall do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has executed this Power of Attorney as of the date indicated below her name.

/s/ Jane M. Buchan

Jane M. Buchan, Director

Date: February 26, 2018

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS:

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IN WITNESS WHEREOF, the undersigned has executed this Power of Attorney as of the date indicated below his name.

/s/ Robert W. Ingram

Robert W. Ingram, Director

Date: February 26, 2018

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS:

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IN WITNESS WHEREOF, the undersigned has executed this Power of Attorney as of the date indicated below his name.

/s/ Steven P. Johnson

Steven P. Johnson, Director

Date: February 26, 2018

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS:

That the undersigned Director of Torchmark Corporation does hereby constitute and appoint Frank M. Svoboda, R. Brian Mitchell and Carol A. McCoy, and each of them severally, his lawful attorneys and agents, for him and in his name and in the capacity indicated below, with full power and authority to do any and all acts and things and to execute any and all instruments which said attorneys and agents determine may be necessary, advisable, or required to enable the said Corporation to comply with the Securities Exchange Act of 1934, as amended, and any rules, regulations, or requirements of the Securities and Exchange Commission in connection with the Form 10-K for the fiscal year ended December 31, 2017. Without limiting the generality of the foregoing, the powers granted include the power and authority to execute and file the Form 10-K, any and all amendments to the Form 10-K and any and all instruments or documents submitted as a part of or in conjunction with the Form 10-K. The undersigned hereby ratifies and confirms his signature as it may be signed by said attorneys and all that said attorneys and agents shall do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has executed this Power of Attorney as of the date indicated below his name.

/s/ Lloyd W. Newton

Lloyd W. Newton, Director

Date: February 26, 2018

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS:

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IN WITNESS WHEREOF, the undersigned has executed this Power of Attorney as of the date indicated below his name.

/s/ Darren M. Rebelez

Darren M. Rebelez, Director

Date: February 26, 2018

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS:

That the undersigned Director of Torchmark Corporation does hereby constitute and appoint Frank M. Svoboda, R. Brian Mitchell and Carol A. McCoy, and each of them severally, his lawful attorneys and agents, for him and in his name and in the capacities indicated below, with full power and authority to do any and all acts and things and to execute any and all instruments which said attorneys and agents determine may be necessary, advisable, or required to enable the said Corporation to comply with the Securities Exchange Act of 1934, as amended, and any rules, regulations, or requirements of the Securities and Exchange Commission in connection with the Form 10-K for the fiscal year ended December 31, 2017. Without limiting the generality of the foregoing, the powers granted include the power and authority to execute and file the Form 10-K, any and all amendments to the Form 10-K and any and all instruments or documents submitted as a part of or in conjunction with the Form 10-K. The undersigned hereby ratifies and confirms his signature as it may be signed by said attorneys and all that said attorneys and agents shall do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has executed this Power of Attorney as of the date indicated below his name.

/s/ Lamar C. Smith

Lamar C. Smith, Director

Date: February 26, 2018

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS:

That the undersigned Director of Torchmark Corporation does hereby constitute and appoint Frank M. Svoboda, R. Brian Mitchell and Carol A. McCoy, and each of them severally, his lawful attorneys and agents, for him and in his name and in the capacity indicated below, with full power and authority to do any and all acts and things and to execute any and all instruments which said attorneys and agents determine may be necessary, advisable, or required to enable the said Corporation to comply with the Securities Exchange Act of 1934, as amended, and any rules, regulations, or requirements of the Securities and Exchange Commission in connection with the Form 10-K for the fiscal year ended December 31, 2017. Without limiting the generality of the foregoing, the powers granted include the power and authority to execute and file the Form 10-K, any and all amendments to the Form 10-K and any and all instruments or documents submitted as a part of or in conjunction with the Form 10-K. The undersigned hereby ratifies and confirms his signature as it may be signed by said attorneys and all that said attorneys and agents shall do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has executed this Power of Attorney as of the date indicated below his name.

/s/ Mary E. Thigpen

Mary E. Thigpen, Director

Date: February 26, 2018

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS:

That the undersigned Director of Torchmark Corporation does hereby constitute and appoint Frank M. Svoboda, R. Brian Mitchell and Carol A. McCoy, and each of them severally, his lawful attorneys and agents, for him and in his name and in the capacity indicated below, with full power and authority to do any and all acts and things and to execute any and all instruments which said attorneys and agents determine may be necessary, advisable, or required to enable the said Corporation to comply with the Securities Exchange Act of 1934, as amended, and any rules, regulations, or requirements of the Securities and Exchange Commission in connection with the Form 10-K for the fiscal year ended December 31, 2017. Without limiting the generality of the foregoing, the powers granted include the power and authority to execute and file the Form 10-K, any and all amendments to the Form 10-K and any and all instruments or documents submitted as a part of or in conjunction with the Form 10-K. The undersigned hereby ratifies and confirms his signature as it may be signed by said attorneys and all that said attorneys and agents shall do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has executed this Power of Attorney as of the date indicated below his name.

/s/ Paul J. Zucconi

Paul J. Zucconi, Director

Date: February 26, 2018

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS:

That the undersigned Officer and Director of Torchmark Corporation does hereby constitute and appoint Frank M. Svoboda, R. Brian Mitchell and Carol A. McCoy, and each of them severally, his lawful attorneys and agents, for him and in his name and in the capacity indicated below, with full power and authority to do any and all acts and things and to execute any and all instruments which said attorneys and agents determine may be necessary, advisable, or required to enable the said Corporation to comply with the Securities Exchange Act of 1934, as amended, and any rules, regulations, or requirements of the Securities and Exchange Commission in connection with the Form 10-K for the fiscal year ended December 31, 2017. Without limiting the generality of the foregoing, the powers granted include the power and authority to execute and file the Form 10-K, any and all amendments to the Form 10-K and any and all instruments or documents submitted as a part of or in conjunction with the Form 10-K. The undersigned hereby ratifies and confirms his signature as it may be signed by said attorneys and all that said attorneys and agents shall do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has executed this Power of Attorney as of the date indicated below his name.

/s/ Gary L. Coleman

Gary L. Coleman

Co-Chairman and Chief Executive Officer and Director

Date: February 26, 2018

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS:

That the undersigned Officer of Torchmark Corporation does hereby constitute and appoint R. Brian Mitchell and Carol A. McCoy, and each of them severally, his lawful attorneys and agents, for him and in his name and in the capacity indicated below, with full power and authority to do any and all acts and things and to execute any and all instruments which said attorneys and agents determine may be necessary, advisable, or required to enable the said Corporation to comply with the Securities Exchange Act of 1934, as amended, and any rules, regulations, or requirements of the Securities and Exchange Commission in connection with the Form 10-K for the fiscal year ended December 31, 2017. Without limiting the generality of the foregoing, the powers granted include the power and authority to execute and file the Form 10-K, any and all amendments to the Form 10-K and any and all instruments or documents submitted as a part of or in conjunction with the Form 10-K. The undersigned hereby ratifies and confirms his signature as it may be signed by said attorneys and all that said attorneys and agents shall do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has executed this Power of Attorney as of the date indicated below his name.

/s/ Frank M. Svoboda

Executive Vice President and

Chief Financial Officer

(Chief Accounting Officer)

Date: February 26, 2018

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS:

That the undersigned Officer and Director of Torchmark Corporation does hereby constitute and appoint Frank M. Svoboda, R. Brian Mitchell and Carol A. McCoy, and each of them severally, his lawful attorneys and agents, for him and in his name and in the capacity indicated below, with full power and authority to do any and all acts and things and to execute any and all instruments which said attorneys and agents determine may be necessary, advisable, or required to enable the said Corporation to comply with the Securities Exchange Act of 1934, as amended, and any rules, regulations, or requirements of the Securities and Exchange Commission in connection with the Form 10-K for the fiscal year ended December 31, 2017. Without limiting the generality of the foregoing, the powers granted include the power and authority to execute and file the Form 10-K, any and all amendments to the Form 10-K and any and all instruments or documents submitted as a part of or in conjunction with the Form 10-K. The undersigned hereby ratifies and confirms his signature as it may be signed by said attorneys and all that said attorneys and agents shall do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has executed this Power of Attorney as of the date indicated below his name.

/s/ Larry M. Hutchison

Larry M. Hutchison,
Co-Chairman and Chief Executive
Officer and Director

Date: February 26, 2018

CERTIFICATIONS

I, Frank M. Svoboda, certify that:

I have reviewed this annual report on Form 10-K of Torchmark Corporation;

Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

- a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
- b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
- c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluations; and
- d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

- a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
- b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 26, 2018

/s/ Frank M. Svoboda

Frank M. Svoboda
Executive Vice President and
Chief Financial Officer

CERTIFICATIONS

I, Gary L. Coleman, certify that:

1. I have reviewed this annual report on Form 10-K of Torchmark Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 26, 2018

/s/ Gary L. Coleman

Gary L. Coleman
Co-Chairman and Chief Executive Officer

CERTIFICATIONS

I, Larry M. Hutchison, certify that:

I have reviewed this annual report on Form 10-K of Torchmark Corporation;

Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

- a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
- b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
- c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluations; and
- d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

- a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
- b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 26, 2018

/s/ Larry M. Hutchison

Larry M. Hutchison
Co-Chairman and Chief Executive Officer

CERTIFICATION OF PERIODIC REPORT

We, Gary L. Coleman, Co-Chairman and Chief Executive Officer, Larry M. Hutchison, Co-Chairman and Chief Executive Officer and Frank M. Svoboda, Executive Vice President and Chief Financial Officer of Torchmark Corporation, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that, to the best of our knowledge:

- (1) the Annual Report on Form 10-K of the Company for the period ended December 31, 2017 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 26, 2018

/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