

Report of Examination of

Family Heritage Life Insurance Company of America
Cleveland, Ohio

As of December 31, 2011

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Columbus, Ohio
May 21, 2013

Honorable Mary Taylor
Lt. Governor/Director
State of Ohio
Department of Insurance
50 West Town Street
3rd Floor – Suite 300
Columbus, Ohio 43215

Dear Lt. Governor/Director:

In accordance with Section 3901.07 of the Ohio Revised Code (“ORC”), the Ohio Department of Insurance (“Department”) conducted an examination of

Family Heritage Life Insurance Company of America

an Ohio domiciled, stock, life insurance company, hereinafter referred to as the “Company.”

Scope of Examination

The Department last examined the Company as of December 31, 2006. The Department’s current examination covers the period of January 1, 2007 through December 31, 2011.

The examination was conducted in accordance with the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook (“Handbook”). The Handbook requires that the Department plan and perform the examination to evaluate the Company’s financial condition and identify prospective risks including corporate governance, identify and assess inherent risks and evaluate system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management’s compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

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

For all years under examination, the Certified Public Accounting firm of Ernst & Young LLP provided an unqualified opinion on the Company’s financial statements based on Statutory Accounting Principles. The audited financial reports were reviewed during the examination.

Management and Control

Board of Directors

Management of the Company is vested in its Board of Directors, which was comprised of the following members as of the examination date:

Name	Principal Occupation
Henry E. Bedford	Chairman and Chief Executive Officer, Southwestern/Great American, Inc.
Cynthia D. Johnstone	Vice President and Treasurer, Southwestern/Great American, Inc.
Howard L. Lewis	President and Chief Executive Officer, Family Heritage Life Insurance Company of America
Jeffrey S. Morris	Senior Vice President and Chief Actuary, Family Heritage Life Insurance Company of America
Edward J. Rocheck	Senior Vice President, Administration and Secretary, Family Heritage Life Insurance Company of America

Officers

As of the examination date, the following principal executive officers were elected and serving in accordance with the Company's Bylaws:

Name	Title
Howard L. Lewis	President and Chief Executive Officer
Jeffrey S. Morris	Senior Vice President and Chief Actuary
Edward J. Rocheck	Senior Vice President, Administration and Secretary
Henry G. Grendell	Vice President and General Counsel
Douglas B. Kelly	Vice President, Marketing
Ronald L. Sarosy	Vice President, Chief Financial Officer and Treasurer

Insurance Holding Company System

The Company is a member of a holding company system as defined in Section 3901.32 of the ORC. The Company is a majority owned subsidiary of Southwestern American Financial Corporation (“SAFC”), in turn, a majority owned subsidiary of Southwestern/Great American, Inc. (“S/GA”), the ultimate controlling person in the holding company system. SAFC and S/GA provide certain management and administrative services to the Company under the terms of an inter-company services agreement. The Company paid management fees of \$13,253,309 in 2011 for services provided under the agreement.

Territory and Plan of Operation

The Company is licensed in forty-nine states, the District of Columbia and Puerto Rico. The Company’s primary business is the sale of individual, guaranteed renewable, supplemental accident and health insurance products. Cancer products represented 80% of the Company’s total premiums in 2011. The products are primarily marketed through an independent sales force. The Company also partners with independent companies who sell, administer and reinsure a limited amount of individual whole life insurance and ordinary life insurance for the Company.

During 2011, the top states in terms of premium written were Texas (\$33.2 million, 20.6%); Ohio (\$15.8 million, 9.8%); and Illinois (\$10.1 million, 6.2%). The following schedule illustrates the premium written by line of business during 2011, reported in thousands:

Line of Business	Direct	Ceded	Net
Individual accident and health	\$ 159,455	\$ 617	\$ 158,838
Group accident and health	1,591	16	1,575
Ordinary life insurance	<u>606</u>	<u>29</u>	<u>577</u>
Total	<u>\$ 161,652</u>	<u>\$ 662</u>	<u>\$ 160,990</u>

Reinsurance

The Company’s reinsurance transactions are not significant.

Financial Statements

The Company's financial condition and the results of its operations for the five-year period under examination as reported and filed by the Company with the Department and audited by its external auditors are reflected in the following:

Statement of Assets, Liabilities, Capital and Surplus

Summary of Operations

Statement of Changes in the Capital and Surplus Account

**Statement of Assets, Liabilities, Capital and Surplus
December 31, 2011**

Assets

Bonds	\$ 460,236,713
Cash and short-term investments	20,815,779
Other invested assets	<u>565,477</u>
Subtotal, cash and invested assets	481,617,969
Investment income due and accrued	1,211,000
Uncollected premiums in course of collection	1,721,342
Deferred premiums and installments booked, but not yet due	169,224
Amounts recoverable from reinsurers	74,787
Current federal income tax recoverable	292,825
Net deferred tax asset	3,228,000
Electronic data processing equipment	<u>144,344</u>
Total assets	<u>\$ 488,459,491</u>

Statement of Assets, Liabilities, Capital and Surplus (Continued)
December 31, 2011

Liabilities

Aggregate reserve for life contracts	\$ 1,107,560
Aggregate reserve for accident and health contracts	411,996,287
Contract claims:	
Life	26,520
Accident and health	11,793,199
Amounts payable on reinsurance	21,142
Interest maintenance reserve	132,764
Commissions to agents	360,000
General expenses due or accrued	4,526,594
Taxes, licenses and fees due or accrued	1,302,000
Remittances and items not allocated	500,652
Asset valuation reserve	333,000
Payable for securities	505,950
Unclaimed property	<u>545,641</u>
Total liabilities	<u>433,151,309</u>

Capital and Surplus

Common capital stock	2,556,950
Gross paid in and contributed surplus	32,646,050
Unassigned funds	<u>20,105,182</u>
Total capital and surplus	<u>55,308,182</u>
Total liabilities, capital and surplus	<u>\$ 488,459,491</u>

Summary of Operations
For the Year Ended December 31, 2011

Premiums for life and accident and health contracts	\$ 160,990,164
Net investment income	23,679,225
Amortization of interest maintenance reserve	13,612
Commissions and expense allowances on reinsurance ceded	<u>556,188</u>
Total	<u>185,239,189</u>
Death benefits	61,733
Disability benefits and benefits under accident and health contracts	41,505,940
Surrender benefits and withdrawals for life contracts	18,050
Interest and adjustments on contract or deposit-type funds	288
Increase in aggregate reserves for life, accident and health contracts	<u>52,915,427</u>
Total	94,501,438
Commissions on premiums life and accident and health contracts	39,686,235
General insurance expenses	20,101,228
Insurance taxes, licenses and fees	3,920,931
Increase in loading on deferred and uncollected premiums	<u>9,393</u>
Total	<u>158,219,225</u>
Net gain from operations before federal income taxes	27,019,964
Federal income taxes incurred	<u>11,439,129</u>
Net income	<u>\$ 15,580,835</u>

Statement of Changes in the Capital and Surplus Account
(In thousands)

	2011	2010	2009	2008	2007
Capital and surplus, prior year end	<u>\$ 48,331</u>	<u>\$ 41,694</u>	<u>\$ 34,025</u>	<u>\$ 27,090</u>	<u>\$ 24,383</u>
Net income	15,581	14,042	13,334	12,716	7,149
Change in net unreal. capital gain (loss)	(63)	83	73	70	55
Change in net deferred income tax	1,845	14,896	825	200	200
Change in non-admitted assets	(3,373)	(14,293)	190	(727)	(651)
Change in asset valuation reserve	(13)	(90)	(15)	(25)	(47)
Capital changes	1	0	0	0	0
Surplus adjustments	94,999	0	0	0	0
Dividends to stockholders	(102,000)	(8,000)	(6,350)	(5,300)	(4,000)
Other gains (losses) in surplus	<u>0</u>	<u>0</u>	<u>(388)</u>	<u>0</u>	<u>0</u>
Net change in capital and surplus	<u>6,977</u>	<u>6,637</u>	<u>7,669</u>	<u>6,935</u>	<u>2,707</u>
Capital and surplus, current year end	<u>\$ 55,308</u>	<u>\$ 48,331</u>	<u>\$ 41,694</u>	<u>\$ 34,025</u>	<u>\$ 27,090</u>

Note: failure of the columns to properly add is due to rounding

Notes to Financial Statements

Investments

The Company's investments were in compliance with ORC Section 3907.14 and valued in accordance with the relevant Statements of Statutory Accounting Principles and the NAIC Securities Valuation Office.

Aggregate Reserve for Life and Accident and Health Contracts

The Company's Board of Directors appointed Jeffrey Morris, FSA, MAAA, Senior Vice President, to render the Company's Statement of Actuarial Opinion ("Opinion"). Mr. Morris prepared an Actuarial Memorandum supporting the Opinion in connection with the preparation of the Company's December 31, 2011, Annual Statement.

Daniel Moore, ASA, MAAA, the Department's Chief Health Actuary, reviewed the Actuarial Memorandum and performed other procedures as considered necessary to evaluate the Company's reserves. On the basis of his analysis, Mr. Moore determined that the reserves presented in the December 2011 Annual Statement are consistent with requirements in Ohio law, and furthermore, that the reserves and related items held by the Company are adequate and appropriate.

Subsequent Events

On August 21, 2012, Torchmark Corporation ("Torchmark") filed an application with the Department for approval to acquire control of the Company pursuant to a Stock Purchase Agreement. The Department approved the acquisition on October 30, 2012. Following the closing, Torchmark, as sole shareholder of the Company, elected a new Board of Directors consisting of Howard Lewis, Jeffrey Morris, Frank Svoboda, R. Brian Mitchell Edward Rocheck and Ben Lutek.

Conclusion

The balance sheet contained in this Report of Examination reflects the financial condition of the Company as of December 31, 2011, and is summarized as follows:

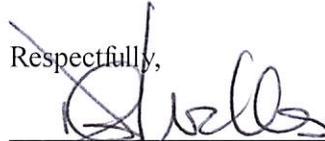
Total Admitted Assets	<u>\$488,459,491</u>
Liabilities	\$433,151,309
Capital and Surplus	<u>55,308,182</u>
Total Liabilities, Capital and Surplus	<u>\$488,459,491</u>

Acknowledgement

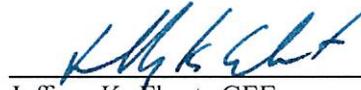
Appreciation is expressed for the assistance extended by the officers and employees of the Company during the course of this examination.

In addition to the aforementioned and undersigned, the following representatives of the Department participated in this examination: Mohammad A. Arif, AES, CFE, CISA, CIDM, CISSP; Daniel Moore, ASA; MAAA, Jyotika Patel, CPA; Larry G. Rice, AES, CFE, CISA, CPA; Patricia Severs, CPA.

Respectfully,



Donnie G. Wells, CFE
Examiner-in-Charge
Ohio Department of Insurance



Jeffrey K. Ebert, CFE
Assistant Chief Examiner
Ohio Department of Insurance

Verification

As required by Section 3901.07 of the Ohio Revised Code, the undersigned hereby attest to the best of their knowledge and belief that the attached is a true Report of Examination as of December 31, 2011.

[Signature]
Examiner-in-Charge

5/29/13
Date

[Signature]
Assistant Chief Examiner

5/28/13
Date

State of Ohio
County of Franklin

Personally appeared before me the above named, Donnie G. Wells, personally known to me, who executed the above instrument and that the statements and answers contained therein are true and correct to the best of his knowledge and belief.

Subscribed and sworn to before me this 28 day of May, 2013.

Elizabeth Chase
(Notary Public)
ELIZABETH CHASE
NOTARY PUBLIC, STATE OF OHIO
MY COMMISSION EXPIRES MAY 22, 2017
My Commission Expires

State of Ohio
County of Franklin

Personally appeared before me the above named Jeffrey K. Ebert, personally known to me, who executed the above instrument and that the statements and answers contained therein are true and correct to the best of his knowledge and belief.

Subscribed and sworn to before me this 28 day of May, 2013.

Elizabeth Chase
(Notary Public)
ELIZABETH CHASE
NOTARY PUBLIC, STATE OF OHIO
MY COMMISSION EXPIRES MAY 22, 2017
My Commission Expires